Delta Galil Industries Ltd.

Monitoring Report - March 2014

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A Subsidiary of Moody's

Delta Galil Industries Ltd.

Series Rating	A1	Outlook: Stable

Midroog announces that it is raising the rating of the bonds issued by Delta Galil Industries Ltd. ("**Delta**" or the "**Company**") from A2 to A1. The rating outlook is stable.

Following is a breakdown of the series of bonds in circulation issued by the Company and rated by Midroog:

Bond Series	Stock No.	Original Issue Date	Annual Coupon	Linkage	Book Value of Bonds Payable as of December 31, 2013, NIS M	Remainder of Bond Repayment Years
T	6270110	Jan-10	7.0*	None	123.5	2014-2016
E	6270136	Apr-12	7.6**	None	191.3	2014-2021
A	6270144	Aug-13	5.0***	None	197.4	2015-2028

* The Company hedges the bond balance through a cash flow swap with a banking corporation at 6.08% dollar interest.
** The Company hedges the bond balance through a cash flow swap with a banking corporation at 6.18% dollar interest.
*** The Company hedges about 90% of the bond balance through a cash flow swap with a banking corporation at 4.075% dollar interest and 4.41% dollar interest on the balance of the amount (10%).

Summary of Key Rating Rationale

The upgrade of the Company's rating is due to a sustained improvement in its business, reflected in significant organic growth of revenue turnover, for the second straight year, continued gradual improvement in profit, and wider diversification of profitability among the various operating segments. The company reported a large $1.0 billion revenue volume, substantial market shares, and a jump in the EBIT, which rose to about $67 million, up from $48 million in 2012. We believe this to be an essentially stable and permanent improvement. The improvement in operations in the past two years is attributable, among other things, to the acquisition of the Schiesser activity and an expansion of the Company's retail business in Israel and Germany, increased branded activity, and ongoing measures for streamlining production resources and the supply chain. Delta's volume of branded activity accounted for an estimated 50% of its revenue in 2013, compared with 40% in 2012. In our opinion, this figure will continue to increase in the coming year owing to the introduction of new brands. These measures have established Delta's business standing in the global apparel industry, thereby mitigating, to some extent, the business risk inherent in its exposure to dominant customers in the private brand segment and its limited price flexibility vis-à-vis those customers, a risk that remains significant in its business.

The Company's rating is supported by the wide diversification and variety of its business lines spread over different categories of the apparel industry, geographic markets, and various distribution channels. The Company's cutting-edge capabilities in product development and design and its global production network, which includes both outsourcing and in-house production, facilitate competitiveness and flexibility.

Delta's standing in the non-branded segment as a subcontractor for major US marketing chains and international brands impairs its price flexibility. Combined with its exposure to cotton prices, we believe that this factor constitutes a business risk, particularly when there is a significant economic recession.

The Company has a relatively highly concentrated customer base, and profitability is exposed to its business with Wal-mart and Nike. The Company has been successful in consolidating its competitive advantages by developing cutting-edge products through substantial investments in development and design and constant upgrading of its operating capabilities in order to maintain its status among its customers.

The Company rating is also supported by its strong financial profile, based on a moderate degree of leverage and quick coverage ratios. As of December 31, 2013, the Company's debt-to-EBITDAR and debt-to-FFOR coverage ratios were about 3.2x and 4.3x, respectively. We expect better coverage ratios in the coming year, due to a projected further improvement in profit. Even under a scenario of a certain downturn in operations, Midroog estimates that in the long term, the Company's debt-to-EBITDAR coverage ratio will be below 4.0x.

The Company's financial policy is conservative. It is successfully meeting the forecasts, and its policy is very transparent. All these factors support the rating. In our assessment, Delta is constantly exploring strategic mergers and acquisitions in the aim of becoming a dominant factor in the global apparel industry. The Company has large cash balances that we believe are earmarked primarily for this purpose.

In our opinion, the stable rating outlook is supported by stable medium term financial results, and even some improvement in the short term; strong liquidity and good financial flexibility.

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Delta Galil (Consolidated): Key Financial Figures, $M:

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Sales	975	818	679	620	573
Change in sales %	19.2%	20.5%	9.5%	8.3%	8.1%-
Gross profit	294	210	161	143	125
Gross profit (%)	30.2%	25.7%	23.7%	23.0%	21.9%
EBIT before one time	67	48	37	31	15
EBIT %	6.9%	5.9%	5.4%	5.0%	2.7%
Net profit*	43	57	28	21	8
EBITDA	86	63	49	42	28
FFO	66	45	39	32	23
CFO	46	73	36	14	41
CapEx	21	22	12	5	4
Other acquisitions	0	74	4	0	8
Liquidity balances	99	48	66	46	28
Financial Debt	160	135	120	119	112
Equity/total assets	49.4%	49.7%	49.0%	47.0%	47.4%
Debt/CAP	33.7%	33.2%	36.1%	38.3%	38.9%
Debt/EBITDAR	3.2	3.4	3.4	3.8	4.9
Debt/FFOR	4.3	4.8	4.4	5.0	6.3
EBIT/Gross Finance	5.3	4.9	4.7	3.9	2.4

* Net profit in 2012 includes, among other things, a capital gain of about $19.9 million from the sale of land in Nahariya, about $12.6 million in profit for an opportunistic acquisition attributed to the Schiesser transaction, and reorganization expenses of about $5.4 million.

Delta Galil (Consolidated) - Segment Results, $M:

	2013	2012	2011	2010	2009
			Sales		
Delta USA	403	340	312	299	268
Global upper market	275	292	276	243	229
Delta Israel	111	90	91	77	73
Schiesser *	194	177	NR	NR	NR
			EBIT before non-recurring items		
Delta USA	26	12	2	6	6
Global upper market	25	22	28	16	1
Delta Israel	8	6	13	13	10
Schiesser *	15	11	NR	NR	NR
			Percentage EBIT before non-recurring items		
Delta USA	6.5%	3.5%	0.6%	2.0%	2.2%
Global upper market	9.0%	7.7%	10.2%	6.6%	0.6%
Delta Israel	7.6%	6.9%	14.2%	17.0%	14.4%
Schiesser *	7.6%	6.4%	NR	NR	NR

*Schiesser results for 2012 are proforma annualized (the operation was first consolidated on July 1 2012), based on the company's assessment

Key Rating Factors

Sustained improvement in the Company's business standing, with emphasis on strengthening the branded sales

Delta is a leading manufacturer of underwear and hosiery for international retail chains and high-end brands. The Company has a global distribution chain, and it operates in a number of target markets in Europe, the U.S. and Israel. In the last few years, the Company constantly strives to improve its production and distribution capacities, and in our opinion has carved a strong position for itself among its major customers.

The Company has a long-term strategy to expand its own-brand activity and to create differentiation and comparative advantages, as reflected in its acquisition of the German operations of Schiesser and the obtaining of licensing agreements for the sale of apparel products under the Marc O'Polo and Lacoste brands. The Company is also taking steps to reduce the risks in its production system and global supply chain by transferring production to East Asia, investing in joint ventures (JV), consolidating plants, and reducing its business operations in Egypt. The Company invests resources in design and development, with its finger on the pulse of local and global developments in the intimate apparel industry and identifying the tastes of its customers, as well as in the development and design of fashionable collections.

The company reported a large revenue turnover of about \$1.0 billion in 2013, coupled with substantial growth in its EBITDA base, which totaled about \$86 million, up from \$63 million in 2012 and \$49 million in 2011. Sales grew by about 19% in 2013 and about 20% in 2012. Excluding the effect of the Schiesser acquisition in the second half of 2012, organic growth was about 9% in 2013 and 6% in 2012. Growth in 2013 derived from all Geographic markets, apart from the European market, which was stagnant. Moody's forecasts a return to positive sales growth in the European apparel industry.

The Company opened dozens of new retail stores in Israel and in Germany in 2012-2013, and its activity in the existing stores showed same store sales (SSS) growth. We expect further substantial growth in the 2014 results, due among other things, to the maturing of business in the new stores, the new licensing agreements obtained, and expansion of existing business with large customers, such as sales of the Avia brand to Wal-mart.

The gradual improvement in operating profitability in recent years is mainly a result of the acquisition of Schiesser's activity and an improvement in profitability in Delta USA segment, given the streamlining processes in the Company's supply chain, major growth in sales, a more diversified mix of brand sales, and relatively low cotton prices. Schiesser is characterized by high profitability and very seasonable business; most of the EBIT is traditionally concentrated in the second half of the year. On the other hand, Delta Israel's erosion in the EBIT margin stems, among other things, from the rapid pace of new store openings, the increase in the proportion of stores in shopping malls, and stiffer competition in the Israeli market. In our assessment, the accelerated development of the Delta chain in Israel in central locations is liable to impair profitability if Israel experiences a significant economic slowdown.

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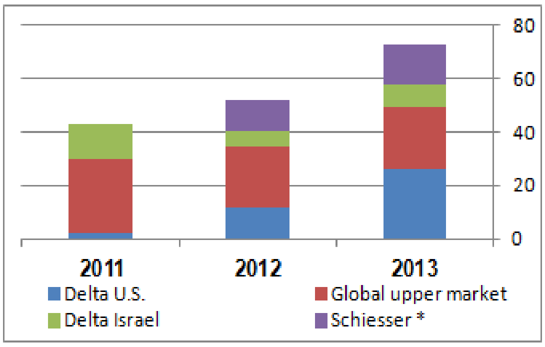
Wide business and geographic spread, although a high percentage of the EBIT is generated by a handful of major customers

Over 40% of revenue in 2013 was derived from the Delta USA segment (about 38% of the total EBIT), including sales to giant U.S. retail concerns. About 27% of revenue was from the global upper market segment (about 34% of the EBIT), which operates in the U.S. and Europe. Another approximately 11% of sales came from activity in Israel, and about 20% from Schiesser (the proportion of total EBIT accounted for by these segments was about the same as their proportion of total revenue).

Distribution of EBIT among the Segments of Activity, before Other expense, $M[1]:



Improvement in diversification among the various segments of activity continues for the second straight year, supported primarily by stepped-up activity vis-à-vis retailers in the U.S., as described above, and by full annualization of Schiesser's activity.

During the last years, the Company has high exposure to a number of major customers: Nike in the socks activity, Victoria's Secret in the bra and sleepwear activity (both under global upper market segment) and the Wal-Mart, Marmaxx and Target discount chains (Delta USA segment).

The exposure to the two largest customers, Wal-mart and Nike, which account for approximately 20% of total revenue, has a major impact on the Company's profitability, but still the Company has a good track record of diversifying its customers and reducing its dependency on major profitable customers past, such as Victoria's Secret.

Competitive business environment, low entry barriers, and large dominant customers

The inherent risks to which the Company is exposed in the apparel industry include relatively low entry barriers, a large number of strong high-quality competitors, dependence on subcontractors, exposure to prices of goods and work wages and their effect on profitability, and exposure to customer credit risks. Notable among the main industry trends in recent years are the transition to smart production, based on development of new and sophisticated fabrics and products, at the expense of traditional production; and the transfer of production to subcontractors in the Far East (China, Thailand, Sri Lanka, India, Bangladesh, etc.), coupled with higher wages in those countries, particularly in China.

During 2010-2011 the industry suffered from a sharp rise in prices of cotton yarns, the Company's main raw material. This increase was caused, among other reasons, by smaller harvests worldwide, natural disasters, a rise in world consumption, and activity by speculators. The rise in

[1] Schiesser results for 2012 are proforma annualized (the operation was first consolidated on July 1 2012), based on the company's assessment

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the raw material price cut into the Company's profitability in 2011, mainly in the Delta USA segment, where the Company did not manage to raise the prices it charged the large retail chains fast enough. Today, the Company’s exposure to this raw material dropped significantly following a reduction in the proportion of its activity with the large retail chains and the increase in branded activity. According to Moody’s 2014 forecast, the operating profitability of this sector is expected to rise due the expected stabilizing of cotton prices at a relatively low level, cost-cutting by companies, and the trend towards mergers and acquisitions.

Moderate leverage and quick coverage ratios

As of December 31, 2013, the equity-to-total assets ratio was about 49.4%. As of the same date, the Company had intangible assets totaling about $ 118 million, consisting mainly of goodwill. Tangible equity-to-total assets about 38.2%, and the debt-to-CAP ratio is about 33.7%. It should be noted that as of December 31, 2013, the Company had large liquidity balances, and a net debt-to-net CAP ratio of only 16.3%, which is a substantial drop compared to 24.2%, as of December 31, 2012. Most of the debt consists of long-term bonds.

The gross debt-to-EBITDA ratio, adjusted according to the lease capitalization methodology, was 3.2x as of December 31, 2013, compared to 3.4x as of December 31, 2012. The gross debt-to-FFO ratio, adjusted to lease capitalization, was 4.3x as of December 31, 2013 compared to 4.8x as of December 31, 2012. The gross debt, not adjusted to lease capitalization, was particularly low at about 0.7x as of December 31, 2013, compared to about 1.4x as of December 31, 2012.

Under our basic scenario, we expect the Company to report some improvement in its coverage ratios in 2014, as a result of relatively low growth and a similar profit margin, combined with a decrease in debt. In our opinion, even under a scenario of a certain decline in profitability from major customers or an erosion of revenue from the various markets, the Company will not deviate from a 4.0x debt-to-EBITDAR ratio.

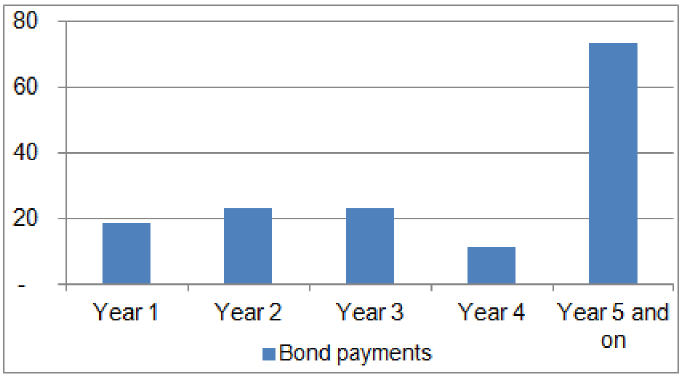
The EBIT to gross finance ratio has been improving in recent years; as of December 31, 2013, it was about 5.3. This ratio is high and commensurate with the Company’s strong rating.

Good liquidity and reasonable financial flexibility

The Company has a good liquidity ratio, mainly reliant on its good cash-generating ability. Revenue growth in recent years coupled by the improvement in the EBIT rate translated into an improvement in funds from operations (FFO). Cash flow from operations in 2013 totaled about $66 million, compared with a cash flow of $45 million in 2012. The Company's average operating working capital needs (trade and inventory less suppliers) are relatively low and account for about 21% of sales. Customer credit days shortened to 40 days following the acquisition of Schiesser’s activity. An increase in days in inventory can be seen in 2013 compared to 2012, owing to growth in activity in the Delta USA and in Delta Israel segments, which are characterized by a higher level of inventory.

No substantial investments in fixed assets by the Company are expected in the next year or two, beyond the annual level of depreciation of around $20 million. That said, we believe that in the medium and long terms, the Company will conduct additional mergers and acquisitions, possibly involving substantial sums.
Delta has underwritten credit facilities from a large number of banks totaling about $232 million. As of December 31, 2013, the Company had used only 20% of the credit facilities available to it.
The Company does not have a defined dividend distribution policy. In the past year, the Company distributed a quarterly dividend ranging from $2.5 million to $3.0 million. In recent years, the Company has distributed an average of 22% of its net profit.

Amortization Schedule of the Long-term Debt Principal as of December 31, 2013, in US $M*:



* The amortization schedule does not include short-term bank credit of about $26 million as of December 31, 2013. The above principal payments relate to the payments due to the bond holders for the upcoming years.

Rating Outlook

Factors that can improve the rating:

- Significant improvement in the volume and diversification of revenues while maintaining high profitability
- Long-term gross debt-to-EBITDAR coverage ratio (adjusted to lease capitalization) below 2.0x.

Factors that can lower the rating:

- Long-term deviation from the gross debt-to-EBITDAR ratio (adjusted to lease capitalization) of 4.0x
- Significant decline in activity with leading customers to an extent that will materially impact revenues and profit over time
- Mergers and acquisitions which could raise the Company's business risk level and/or leverage

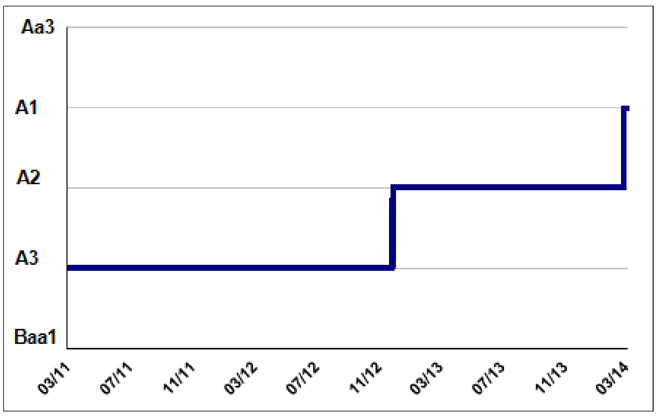
About the Company

Delta designs, develops, manufactures, markets and sells intimate apparel and hosiery, children's and sports apparel. The Group markets its products through three marketing channels: manufacturing for leading international private labels, such as Nike, Hugo Boss, Calvin Klein, Tommy Hilfiger, Triumph, Under Armour, Spanx, Maidenform and for the home brands of leading chain stores, such as Wal-Mart, Target, Marks & Spencer, Victoria's Secret, Kohl's, Marmaxx, Odlo, Ross Stores, Lane Bryant, LuLulemon, Kaufhof, Karstadt, etc.; manufacturing and marketing under licensing agreements granted to the Company such as Converse, Tommy Hilfiger, Maidenform, Wilson, Kenneth Cole, MLB, Karen Neuberger, etc; marketing in Israel under brand names licensed to it which include, among others, Power Rangers, Paul Frank, Fox, Disney, NICI, Keds, Puma, Nike, etc. as well as under Delta's own brands which include Matchtonim, Yodfat, Touch, Punch, Comfort and Delta. In Germany the Company sells its products under its own brand names - Schiesser Revival, Schiesser and Uncover as well as under a brand name licensed to it - Siedensticker. In Germany and Western Europe Schiesser operates in the retail field through Schiesser's chain of stores, as well as in the wholesale field.

The Company designs and develops its products primarily in Israel, Germany and the U.S., while production is mostly carried out by the Group's subcontractors and manufacturing facilities in the Middle East, Eastern Europe and the Far East.

The Company's controlling shareholder is Mr. Isaac Dabah, who is CEO of the Company. Mr. Dabah holds a 56.3% stake in the share capital and voting rights of the Company, taking into account the 6.4% stake of Sterling Macro, a fund managed by Mr. Dabah. In addition, the Bequest of late Mr. Dov Lautman holds a stake of about 10.2% of the share capital and voting rights.

Rating History



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Related Reports

Delta Galil Industries Ltd. - Rating Action, July 2013

Rating of Industrial and Trading Companies - Methodology Report, October 2013

Methodology for Adjusting Financial Ratios, November 2010

The reports are published on Midroog's website: www.midroog.co.il.

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KEY FINANCIAL TERMS

Interest	Net financing expenses from Income Statement
Cash Interest	Financing expenses from income statement after adjustments for non-cash flow expenditures from statement of cash flows
Operating profit (EBIT)	Profit before tax, financing and onetime expenses/profits
Operating profit before amortization (EBITA)	EBIT + amortization of intangible assets.
Operating profit before depreciation and amortization (EBITDA)	EBIT + depreciation + amortization of intangible assets.
Operating profit before depreciation, amortization and rent/leasing (EBITDAR)	EBIT + depreciation + amortization of intangible assets + rent + operational leasing.
Assets	Company's total balance sheet assets.
Debt	Short term debt + current maturities of long-term loans + long-term debt + liabilities on operational leasing
Net debt	Debt - cash and cash equivalent – long-term investments
Capitalization (CAP)	Debt + total shareholders' equity (including minority interest) + long-term deferred taxes in balance sheet
Capital investments Capital Expenditures (CAPEX)	Gross investments in equipment, machinery and intangible assets
Funds From Operations (FFO)*	Cash flow from operations before changes in working capital and before changes in other asset and liabilities
Cash Flow from Current Operations (CFO)*	Cash flow from operating activity according to consolidated cash flow statements
Retained Cash Flow (RCF)*	Funds from operations (FFO) less dividend paid to shareholders
Free Cash Flow (FCF)*	Cash flow from operating activity (CFO) - CAPEX - dividends

* It should be noted that in IFRS reports, interest payments and receipts, tax and dividends from investees will be included in the calculation of the operating cash flows, even if they are not entered in cash flow from operating activity.

Obligations Rating Scale

Investment grade	**Aaa**	Obligations rated Aaa are those that, in Midroog's judgment, are of the highest quality and involve minimal credit risk.
	Aa	Obligations rated Aa are those that, in Midroog's judgment, are of high quality and involve very low credit risk.
	A	Obligations rated A are considered by Midroog to be in the upper-end of the middle rating, and involve low credit risk.
	Baa	Obligations rated Baa are those that, in Midroog's judgment, involve moderate credit risk. They are considered medium grade obligations, and could have certain speculative characteristics.
Speculative Investment	**Ba**	Obligations rated Ba are those that, in Midroog's judgment, contain speculative elements, and involve a significant degree of credit risk.
	B	Obligations rated B are those that, in Midroog's judgment, are speculative and involve a high credit risk.
	Caa	Obligations rated Caa are those that, in Midroog's judgment, have weak standing and involve a very high credit risk.
	Ca	Obligations rated Ca are very speculative investments, and are likely to be in, or very near to, a situation of insolvency, with some prospect of recovery of principal and interest.
	C	Obligations rated C are assigned the lowest rating, and are generally in a situation of insolvency, with poor prospects of repayment of principal and interest.

Midroog applies numerical modifiers 1, 2 and 3 in each of the rating categories from Aa to Caa. Modifier 1 indicates that the bond ranks in the higher end of the letter-rating category. Modifier 2 indicates that the bonds are in the middle of the letter-rating category; and modifier 3 indicates that the bonds are in the lower end of the letter-rating category.

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For further information on the rating procedures of Midroog or of its rating committee, please refer to the relevant pages on Midroog's website.