

Balaji Leather Creation

January 14, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities	5.10	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	5.10 (Rs. Five Crore and Ten Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from **Balaji Leather Creation (BLC)** to monitor the ratings vide e-mail communications/letters dated September 02, 2020, 16 October 2020, 04 November 2020 and November 25, 2020 and January 11, 2021, and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on BLC's bank facilities will now be denoted as **CARE A4; ISSUER NOT COOPERATING***.

Users of these ratings (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

Detailed description of the key rating drivers

At the time of last rating in February 19, 2020 the following were the rating weaknesses and strengths

Key Rating Weaknesses

Constitution as proprietorship entity: BLC, being a proprietorship entity, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the proprietor. Furthermore, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Small scale of operations with moderate profit margins: The overall scale of operations of the entity remained small marked by total operating income of Rs.10.59 crore (FY18: Rs.11.98 crore) with a PAT of Rs.0.38 crore (FY18: Rs.0.25 crore) during FY19. Further, the total operating income has declined marginally during FY19 due to lower demand of its products from its clients. Furthermore, the total capital employed of the entity also remained low at Rs.6.86 crore as on March 31, 2019. The small size restricts the financial flexibility of the company in times of stress and it suffers on account of economies of scale. The profitability margins of the entity also remained moderate marked by PBILDT margin of 10.41% (FY18:9.43%) and PAT margin of 3.57% (FY18: 2.10%) during FY19.

Exposure to volatility in raw material prices and foreign exchange fluctuation risk: During the financial year 2019, the raw material costs remained the major cost driver for BLC at 65.33% of the total cost of sales. Accordingly, any adverse movement in prices of raw materials with no corresponding change in final goods prices can have an adverse impact on the profit margins of the entity. BLC's gross purchases of accessories are mostly imports from China and all sales are exports hence, it is exposed to foreign exchange risk. Further BCL has no hedging policy in place to mitigate the foreign exchange risk.

Working capital intensive nature of operations: The business of BLC is working capital intensive in nature marked by its high average collection period. The average collection period was on the higher side during last three years as the entity received payments only after the receipt of shipments by its foreign customers. Further the entity maintains inventory of raw materials for smooth running of its production process and finished goods for timely supply to its customers. However, the entity avails credit of around five months from its suppliers due to long association with them. The average utilization of fund based limits was 95% during last twelve months ended in January 31, 2020.

Leveraged capital structure and moderate debt coverage indicators: The capital structure improved as on March 31, 2019 on account of scheduled repayment of term loans. However, the same remained leveraged marked by overall gearing ratio of 1.91x (2.36x as on March 31, 2018) as on March 31, 2019. The debt coverage indicators also remained moderate marked by interest coverage of 2.87x and total debt to GCA of 2.37x in FY19. The improvement in interest coverage ratio was on account of low interest expenses during FY19.

Intensely competitive industry: The industry is essentially dominated by small scale firms with a few medium and large sized firms. The industry is concentrated in several leather clusters in 4-5 distinct locations in the country. Though government policies towards the industry have been supportive both for small-scale sector development as well as export promotion, the industry is caught up with socio political issues relating to slaughtering of animals. With the production

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

clustered in 4-5 locations, distribution network becomes the key to success. Many companies in the leather products have a strong distribution network and enter into brand building exercise to improve the sales and market share.

Key Rating Strengths

Experienced promoter and long track record of operations: Balaji Leather creation (BCL) started its operations in 2003 and thus has a long track record of operation of about 17 years. Mr. Amitabh Singh has around 17 years of experience in the same line of business. He looks after the overall management of the entity supported by a team of experienced professionals.

Strategic location of the plant with proximity to source of raw materials and cheap labour: The manufacturing facility of BCL has close proximity to the tannery situated at Kolkata Leather Complex for sourcing of finished leather, the main raw material for manufacturing of leather goods. Accordingly, the availability of raw materials is not an issue. Further the manufacturing plant has ample supply of cheap labour.

Analytical approach: Standalone.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch](#)

[Rating Methodology-Manufacturing Companies](#)

[CARE's Policy on Default Recognition](#)

[CARE's Policy on Liquidity Analysis](#)

[Financial ratios – Non-Financial Sector](#)

[CRAE's Policy on Short Term Instrument](#)

About the Company

Balaji Leather Creation (BLC) was set up as a proprietorship entity in May 2003 by Mr. Amitabh Singh. Since its inception, the entity has been engaged in manufacturing of leather goods like purse, wallets, hand bags, folio bags, luggage bags, belts etc. BCL's plant is located at 3, Pagladanga Road, Udayan Industrial Estate, Kolkata, West Bengal. The entity procures its basic raw material (i.e. leather) from the domestic market whereas the other accessories are procured from China. BCL is a 100% export house and the major export destinations of the entity are Denmark, Norway, Sweden, France and United Kingdom. Moreover the entity has not availed any moratorium

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	11.77	10.59
PBILDT	1.11	1.07
PAT	0.25	0.38
Overall gearing (times)	2.36	1.91
Interest coverage (times)	1.94	2.87

A: Audited

Status of non-cooperation with previous CRA: CRISIL has placed the rating under non-cooperation vide PR dated September 14, 2020

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	2.80	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-EPC/PSC	-	-	-	2.30	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (25-Feb-19) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (12-Sep-18)	1)CARE B+; Stable (04-Jul-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2.80	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (19-Feb-20)	1)CARE A4 (25-Feb-19) 2)CARE A4; ISSUER NOT COOPERATING* (12-Sep-18)	1)CARE A4 (04-Jul-17)
3.	Fund-based - ST-EPC/PSC	ST	2.30	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (19-Feb-20)	1)CARE A4 (25-Feb-19) 2)CARE A4; ISSUER NOT COOPERATING* (12-Sep-18)	1)CARE A4 (04-Jul-17)

*Issuer did not cooperate; Based on best available information

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
2.	Fund-based - ST-EPC/PSC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us**Media Contact**

Mradul Mishra

Contact no. : +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact:

Name: Rajesh Shaw

Contact no. : +91-033-40581911

Email: rajesh.shaw@careratings.com**Relationship Contact**

Name: Sambit Das

Contact no. : +91-033 4058 1904

Email ID: sambit.das@careratings.com**About CARE Ratings:**

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