

Balaji Leather Creation
February 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term bank facilities	5.10	CARE A4 (A Four)	Reaffirmed
Total	5.10 (Rupees Five crore and Ten lakh only)	-	

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of **Balaji Leather Creation (BLC)** continues to remain constrained by its proprietorship nature of constitution, small scale of operation with moderate profit margins, exposure to volatility in raw material prices and foreign exchange fluctuation risk, working capital intensive nature of operations, leverage capital structure and moderate debt coverage indicators and intense competition in the industry. However, the rating continues to drive strength from experienced promoter with long track record of operation, strategic location of the plant with proximity to source of raw materials and cheap labour.

Key Rating Sensitivity**Positives factors:**

- Increase in scale of operation (turnover beyond Rs.15.00 crore) while sustaining its current profit margins on a sustained basis.
- Improvement in capital structure (overall gearing ratio below 1.50x) and improvement in gross current assets days below 120 days with reduced reliance on external borrowings to fund its working capital requirements on a sustained basis.

Negatives factors:

- Any sizable decline in scale of operation (turnover below Rs.9.00 crore) along with deterioration in operating margin below 8% on a sustained basis.
- Deterioration in capital structure (overall ratio above 2.50x) and deterioration in gross current assets days above 200 days with increased reliance on external borrowings to fund its working capital requirements on a sustained basis

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entity: BLC, being a proprietorship entity, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the proprietor.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

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

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 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.

Liquidity: Adequate – Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and low cash balance of Rs.0.02 crore as on March 31, 2019. Its bank limits are utilized to the extent of 95% during last 12 months ended on November 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Criteria for Short Term Instruments](#)

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

About the Entity

Balaji Leather Creation (BCL) 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.

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 its ratings under non-cooperation as per its press release dated June 06, 2019.

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
Fund-based - ST-EPC/PSC	-	-	-	2.30	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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	-	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	-	1)CARE A4 (25-Feb-19) 2)CARE A4; ISSUER NOT COOPERATING* (12-Sep-18)	1)CARE A4 (04-Jul-17)	-

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.

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