

## Balaji Leather Creation

February 25, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities	-	-	Withdrawn
Short term bank facilities	5.10	<b>CARE A4 (A Four )</b>	Reaffirmed; Removed from Non cooperation
<b>Total</b>	<b>5.10</b> <b>(Rupees Five crore and Ten lakh only)</b>		-

*\*Details of instruments/facilities in Annexure-1*

*In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Balaji Leather Creation (BLC) and in line with the extant SEBI guidelines, CARE revised the ratings of bank facilities of the firm to 'CARE B+; Stable; ISSUER NOT COOPERATING/CARE A4; ISSUER NOT COOPERATING'. However, the firm has now submitted the requisite information to CARE. CARE has carried out a full review of the rating and the rating stand at 'CARE A4'.*

### Detailed Rationale & Key Rating Drivers

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

Going forward, the ability of the firm to increase its scale of operations with improvement in profit margins and effective management of working capital will be the key ratings sensitivities.

### Detailed description of the key rating drivers

#### 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entity:** BLC, being a proprietorship entity, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the proprietor.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 total operating income witnessed continues decline during last two years due to lower demand of its product and the overall scale of operations remained small marked by total operating income of Rs.11.77 crore (FY17: Rs.11.98 crore) with a PAT of Rs.0.25 crore (FY17: Rs.0.21 crore) during FY18. The profitability margins of the entity also remained moderate marked by PBILDT margin of 9.43% (FY17:10.44%) and PAT margin of 2.10% (FY17: 1.75%) during FY18. Moreover, the PBILDT margin deteriorated during FY18 due to higher cost of operations. However, the PAT margin improved on account of lower capital charges during FY18.

**Exposure to volatility in raw material prices and foreign exchange fluctuation risk:** During FY17&18 raw material cost remained the major cost driver for BLC at 68.94% 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 three 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 January31,2019.

**Leveraged capital structure and moderate debt coverage indicators:** The capital structure improved as on March 31, 2018 on account of scheduled repayment of term loans. However, the same remained leveraged marked by overall gearing ratio of 2.36x (2.57x as on March 31, 2017) as on March 31, 2018. The debt coverage indicators also remained

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

moderate marked by interest coverage of 1.94x and total debt to GCA of 9.92x in FY18. The improvement in interest coverage ratio was on account of low interest expenses during FY18. Moreover, the total debt to GCA also improved in FY18 due to relatively lower debt levels as on balance sheet date.

**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 promoters 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 15 years. Mr. Amitabh Singh has around 15 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 BLC 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

[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 Firm

Balaji Leather Creation (BLC) was set up as a proprietorship entity in May 2003 by Mr. Amitabh Singh. Since its inception BLC has been engaged in manufacturing of leather goods like purse, wallets, hand bags, folio bags, luggage bags, belts. BCL's plant is located at 3, Pagladanga Road, Udayan Industrial Estate, Kolkata. 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. The major export destinations are Denmark, Norway, Sweden, France and United Kingdom.

Mr. Singh has around 15 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.

#### Liquidity position

The liquidity position of the firm was moderate marked by free cash and bank balance amounting to Rs.0.07 crore as on March 31, 2018 and gross cash accrual of Rs.0.54 crore in FY18. The average utilization of fund based limit was around 95% during last 12 month ended on December 31, 2018. Moreover, the current ratio was low at 0.76x as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	11.98	11.77
PBILDT	1.25	1.11
PAT	0.21	0.25
Overall gearing (times)	2.57	2.36
Interest coverage (times)	1.75	1.94

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of 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 - LT-Term Loan	-	-	-	0.00	Withdrawn
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	1)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; 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; ISSUER NOT COOPERATING* (12-Sep-18)	1)CARE A4 (04-Jul-17)	-	-

\* Issuer Not Cooperating; based on best available information

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