

J.C. Fenasia Exports Pvt. Ltd.
October 11, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating¹	Rating Action
Long-term Bank Facilities	7.00	CARE B; Stable (Single B; Outlook: Stable)	Assigned
Short-term Bank Facilities	0.50	CARE A4 (A Four)	Assigned
Total facilities	7.50 (Rs. Seven Crore and Fifty Lakh Only)		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of J.C. Fenasia Exports Pvt. Ltd. (JCFE) are primarily constrained by its small scale of operations with net loss from operation, exposure to volatility in raw material prices, revenue concentration from European countries with intensely competitive industry and leveraged capital structure and weak debt coverage indicators. The rating, however, derives strength from its experienced promoters and long track record of operations and strategic location of the plant. Going forward, the ability of the company to improve its scale of operation along with profitability margins and efficient management of working capital are the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Small scale of operations with net loss from operation: The scale of operations of the company remained small marked by total operating income of Rs. 34.66 crore (Rs. 37.94 crore in FY18) and net loss of Rs.0.02 crore (loss of Rs.0.17 crore in FY18) in FY19 (Prov.). Further the total capital employed was also moderate at Rs.10.24 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 lack of economies of scale.

Exposure to volatility in raw material prices: During FY19, raw material cost remained the major cost driver for JCFEPL of the total cost sales. JCFEPL does not have any tannery unit for manufacturing of finished leather, its basic raw material for manufacturing of leather goods like bags, wallet etc. Thus, in the absence of backward integration of its basic raw material, it has to depend upon local suppliers for purchase of finished leather. 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.

Revenue concentration from European countries with intensely competitive industry: Exports are made to various countries like Spain, Egypt, UAE, Hong Kong etc., the major being to the European countries. Uncertainty associated with economic environment in European Union will impact the financial risk profile of its key customers which will in turn affect the business of JCFEPL. The leather industry is highly fragmented with a large number of small to medium scale organized and unorganized players owing to low entry barriers with no visible differentiators in product profile. High competition in the operating spectrum and small size of the entity limits the scope for margin expansion. Though government policies towards the industry have been supportive both for small-scale sector development as well 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. Hence the players in the industry do not have pricing power and are exposed to competition induced pressures on profitability.

Leveraged capital structure and weak debt coverage indicators: Capital structure of the company remained leveraged owing to its working capital intensive nature of operations resulting in higher dependence on bank borrowings marked by overall gearing ratio of 2.07x as on March 31, 2019. Moreover, the debt coverage indicators remained weak marked by interest coverage of 1.57x in FY19 and total debt to gross cash accrual ratio of 40.38x in FY19 (provisional).

Key Rating Strengths

Experienced promoters and long track record of operations: JCFEPL is into manufacturing and exporting of leather goods and trading of finished leathers and leather chemicals since 2005 and thus has long track record of operations. Mr. Naresh Kumar Juneja (aged, 65 years) has around two decades of experience in the same line of business looks after the day to day operations of the company. He is supported by his wife Mrs. Minnie Juneja, son Mr. Nirvik Juneja and a team of experienced professional.

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

Strategic location of the plant: The manufacturing facility of JCFEPL is located at Kasba Industrial Estate which is in close proximity to the various tanneries situated at Calcutta Leather Complex for sourcing of finished leather, the main raw material for manufacturing of fashion leather products. Accordingly, the availability of raw materials is not an issue. Further the manufacturing plant has ample supply of cheap labour. Moreover, the company exports major part of its products to overseas market through vessels from Kolkata port. Thus, the company gets the benefit of its location.

Liquidity

The liquidity position of the company was moderate as on March 31, 2019. Cash and Bank Balance was Rs. 0.05 crore and current ratio of the company was at 1.64x as on March 31, 2019. This apart, quick ratio was at 1.41x as on March 31, 2019. During FY19, GCA was Rs.0.17 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology - Wholesale Trading](#)

[Criteria for Short Term Instruments](#)

About the Company

West Bengal based J.C. Fenasia Exports Pvt. Ltd. (JCFEPL) incorporated in February 2005, was promoted by Mr. Naresh Kumar Juneja, Mrs. Minnie Juneja and Mr. Nirvik Juneja. Since its inception, JCFEPL has been engaged in manufacturing and exporting of leather goods and trading of finished leathers and leather chemicals. The manufacturing facility of the company is located at Kasba, West Bengal with an installed capacity of 10000 pieces per month (leather bags) and 25000 pieces per month (wallets). The company earns major revenue from trading activities accounting for around 70% of total operating income in FY19 (prov.) and remaining from manufacturing and license sales. The manufacturing facility of the company has an ISO 9001:2008 certification which enables wide acceptance of its products in the market. The company procures its entire raw materials from domestic market whereas it sells its products both in the domestic as well as international market. The major export destinations of the company are various European Countries and gulf countries. J.C. Fenasia Exports Pvt. Ltd. has an associate concern 'Fenasia Limited.' which is engaged in manufacturing of leather chemicals.

Mr. Naresh Kumar Juneja has more than two decades of experience in the same line of business, looks after the day to day operations of the company supported by his wife Mrs. Minnie Juneja, son Mr. Nirvik Juneja and a team of experienced professional.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	37.94	34.66
PBILD	1.01	0.96
PAT	-0.17	-0.02
Overall gearing (times)	1.99	2.07
Interest coverage (times)	1.67	1.57

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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 - LT-Cash Credit	-	-	-	3.50	CARE B; Stable
Fund-based - LT-EPC/PSC	-	-	-	3.50	CARE B; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	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-Cash Credit	LT	3.50	CARE B; Stable	-	-	-	-
2.	Fund-based - LT-EPC/PSC	LT	3.50	CARE B; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4	-	-	-	-

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: Soumen Das

Contact No.: 033-40581907

Email: soumen.das@careratings.com**Relationship Contact**

Name: Sambit Das

Contact no. : 033 4058 1904

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

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