

Mayur Leather Products Limited

July 26, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	0.66	CARE C (Single C)	Assigned
Long term/Short term Bank Facilities	8.00	CARE C/CARE A4 (Single C/A Four)	Assigned
Short term Bank Facilities	1.05	CARE A4 (A Four)	Assigned
Total facilities	9.71 (Rupees Nine Crore Seventy One Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

The ratings assigned to the bank facilities of Mayur Leather Products Limited (MLPL) are primarily constrained on account of continuous decline in scale of operations along with continuous operating and net loss as well as cash loss, weak solvency position and poor liquidity position. The ratings, further, constrained on account of vulnerability of margins to fluctuation in the raw material prices as well as foreign exchange rates and its presence in the highly fragmented and competitive leather industry.

The ratings, however, favourably take into account experienced management.

The ability of the company to increase its scale of operations with registering of profit and better management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Continuous decline in scale of operations along with operating and net losses

The scale of operations of the company as indicated by Total Operating Income (TOI) has shown a declining trend in the last three financial years ended FY18 owing to lower demand from export markets. Due to decline in TOI and higher fixed cost, the company registered operating as well as net loss in last two financial years ended FY18. Further, it has registered cash loss in last two financial years ended FY18.

As per provisional result of 9MFY19, it has registered TOI of Rs.10.14 crore with operating and net loss of Rs.0.20 crore and Rs. 1.08 crore respectively.

Weak solvency position and poor liquidity position

The capital structure of the company stood moderate with overall gearing of 0.81 times as on March 31, 2018. However, debt service coverage indicators of the company stood weak owing to continuous operating loss and cash loss.

Further, the liquidity position of the company stood poor owing to continuous cash loss and almost full utilization of its working capital bank borrowings. The operating cycle of the company stood elongated at 108 days in FY18 owing to high collection and inventory holding period. Due to high inventory and debtors as on balance sheet date, the current ratio stood at 1.30 times as on March 31, 2018 and quick ratio stood at 1.06 times as on March 31, 2018. It has modest cash & bank balance of Rs 0.14 crore as on March 31, 2018.

Vulnerability of margins to fluctuation in raw material prices and foreign exchange rates

The profitability of the company is vulnerable to any adverse movement in raw material prices as the company will not be immediately able to pass on the increased price to its customers. Further, MLPL is generating around 52.71% of net sales through exports, thereby exposing the company to foreign exchange rate fluctuations risk.

Presence in highly regulated fragmented and competitive leather industry

With increasing concerns for animals, the regulations are increasing which affects the leather industry in India in current scenario time. Further, with increasing awareness for the polluting effluents, many environmental regulations have been

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

imposed in the tanning industry. Thus, MLPL operates in the regulated, fragmented and competitive industry which affects the overall affairs of the company.

Key Rating Strengths

Experienced management

Mr. Rajender Kumar Poddar, graduate by qualification, has more than three decades of experience in the industry. He looks after overall function of the company and is supported by other family members who also have relevant experience in the industry.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Firm

Jaipur (Rajasthan) based MLPL was formed in 1987 by Mr. Rajender Singh Poddar. The company is engaged in manufacturing and export of leather shoe and shoe uppers. The company has its manufacturing facility located at Jaipur, Rajasthan and exports its products to Europe, Middle East and Canada.

Brief Financials (Rs. crore)	FY17A)	FY18(A)
Total operating income	25.56	20.30
PBILDT	-1.37	-1.32
PAT	-2.17	-2.84
Overall gearing (times)	0.44	0.81
Interest coverage (times)	-2.61	-1.57

*A=Audited

Status of non-cooperation with previous CRA: None.

Any other information: None

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-Term Loan	-	-	February 2022	0.66	CARE C
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	8.00	CARE C / CARE A4
Fund-based - ST-Standby Line of Credit	-	-	-	0.80	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	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	LT	0.66	CARE C	-	-	-	-

	Loan							
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	8.00	CARE C / CARE A4	-	-	-	-
3.	Fund-based - ST-Standby Line of Credit	ST	0.80	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	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.

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About CARE Ratings:

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