Press Release

Rajda Industries & Exports Pvt Ltd

February 10, 2020

Ratings

Instrument / Facility	Amount (Rs. Cr)	Ratings	Rating Action
Long Term Bank Facilities	5.12	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	46.00	IVR A4+ (IVR A Four Plus)	Assigned
Total	**51.12**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Rajda Industries & Exports Private Limited (RIEPL) derives comfort from its experienced promoter with long track record, strategic location of its plant and moderate financial risk profile marked by moderate capital structure along with satisfactory debt protection metrics. Infomerics also positively notes gradual shifting of its focus towards high margin bag segment to drive earnings going forward. However, the rating strengths are constrained by its small scale of operation, susceptibility of profitability to volatility in raw material prices and finished goods, dependency on export policies and exposure to foreign currency exchange fluctuation risk, intense competition and working capital intensive nature of it operation.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.

Downward Factors

- Dip in operating income or profitability impacting the debt coverage indicators, subdued industry scenario, deterioration in working capital management and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter and long track record**

The promoters have over three decades of experience in the leather product manufacturing business. Mr. Gautam Rajda (Managing Director) is at the helm of affairs of the company with support from the other four directors and a team of experienced professionals. Furthermore, the company has started operation from 1992, thus having about three decades of operational track record.

- **Strategic location of plant**

The manufacturing facilities of RIEPL is located at Deulti in Howrah district and is at Bantala Leather Complex near Kolkata. Both the areas are known as leather processing hub in the state of Bengal and the manufacturing facilities of the company are in close proximity to raw material (processed leather) supply units and are well connected by road, rail and near to Kolkata and Haldia port which provides a competitive edge to RIEPL.

- **Accredited export house**

RIEPL has two manufacturing facilities in and around Kolkata for Gloves and Bag divisions and the facilities are SA 8000:2014 and ISO 9000:2015 Certified for the production and quality management. This apart, the company is also recognized as an "Export House" by the Ministry of Commerce & Industry, Government of India (GoI) and is certified as Two-Star marked export house from Director General of Foreign Trade. This helps the company entitled to various export incentive like Duty Drawback, Duty free import authorization license. Moreover, the industrial glove of the company is also certified CE (Conformite Europeenne) Standard Certification EN 420 facilitating acceptance of the product in major world market.

- **Gradual shifting of focus towards high margin bag segment to drive earnings**

RRIPL is gradually shifting its focus towards high margin bag segment from manufacturing of gloves due to high competition in the industrial gloves segment. The company has already added 6,00,000 pieces capacity of bag production in its Bantala unit in Kolkata. Thus profit margins are expected to improve driven by expected increase in high margin bag segment in the revenue profile. Based on healthy realisations from bag segment Infomerics expects that the earnings of the company is to be improved going forward.

- **Moderate financial risk profile marked by moderate capital structure, satisfactory debt protection metrics**

Financial risk profile of the company is moderate market by its moderate capital structure as on the past three account closing dates, adequate debt coverage indicators and minimal debt repayment obligations. With minimal long-term debt in the capital structure, the long term debt equity ratio remained comfortable at 0.30x as on March 31, 2019. Moreover, the overall gearing ratio and TOL/TNW also remained moderate at 1.39x and 2.15x respectively as on March 31, 2019. During FY18, the company incurred operating loss which resulted in below unity interest coverage ratio. However, on the back of non-operating incomes the company post net profit in FY18 and serve its interest obligations. The profit level improved in FY19 which supported the interest coverage ratio to remain adequate at 1.40 times. However, Total debt to GCA remained relatively high at 12.35 years in FY19 though improved from 14.97 years in FY18 driven by improvement in gross cash accruals in FY19. Going forward, Infomerics expects that the financial risk profile of RIEPL to remain moderate on account of its higher reliance on bank borrowings to fund its working capital requirements.

Key Rating Weaknesses

- **Small scale of operation**

RIEPL is relatively a small player in leather manufacturing sector which is largely driven by established large players. During FY19, the company achieved a total operating income of Rs.80.26 crore. The small scale restricts the financial flexibility of the company in times of stress. Furthermore, the company has achieved a turnover of Rs.62.00 crore during 9MFY20. Going forward, Infomerics expects that the total operating income of the company will continue to remain moderate.

- **Susceptibility of profitability to volatility in raw material prices and finished goods**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the leather industry. Major raw-materials required for the company are processed leather, specialised fabric and accessories. Raw-material cost accounted around ~60% of total cost of sales in the last three fiscals. The company lacks backward integration for its basic raw-materials and has to procure the same from the open market. RIEPL procured raw materials mainly from local manufactures and imports a portion (~6% during FY19) from foreign market. Since raw material cost remained the major cost driver for RIEPL any adverse movement in prices of raw materials with no corresponding change in final goods prices can have an adverse impact on the performance of the company.

- **Dependency on export policies and exposure to foreign currency exchange fluctuation risk**

The operation of RIEPL is sensitive to the export incentives policies of the Government of India as the entire revenue of the company is dependent on the export. This, in turn, makes the revenue susceptible to fluctuations in foreign currency exchange rates. During FY19, the company made a profit of Rs.1.22 crore from foreign currency transaction against Rs.1.60 crore in FY18.

- **Intense competition**

Leather products manufacturing and export is highly competitive business in India, as there are many organised and unorganised players throughout the country. The RIEPL mainly operates from Kolkata, which is a hub of leather processing units and comprise many leather products export players with limited product differentiation. Intense competition restricts the bargaining power of the companies and profitability.

- **Working capital intensive nature of operation**

The operation of RIEPL is highly working capital intensive due to its high inventory holding requirements. The operation cycle remained high and has been in a range of 148 to 174 days during FY17 to FY19. The working capital requirements of the company is largely funded by bank borrowings and elongated credit period availed. The average Cash Credit utilisation is remained high at ~95% during the past 12 months ended on December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity-Adequate

The liquidity profile of RIEPL is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.5.08 crore vis a- vis its low debt repayment obligations of ~1.43 crore in FY20. Further, the company has no planned capex or availment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to REIPL's working capital intensive nature of operations marked by elongated operating cycle. Further, the average bank borrowing utilisation of the company remained high at ~95% during the past 12 months ended December, 2019 indicating a limited liquidity cushion.

About the Company

RIEPL, incorporated in May 1992 in Kolkata by one Rajda family of Kolkata to initiate a lather product manufacturing business. The company manufactures leather product like-industrial and semi-fashioned gloves, bags & wallets and exports fully to the overseas markets. The major export destinations of the company are, Europe, America, Argentina, Australia etc. The company has two manufacturing facilities in and around Kolkata for its Gloves and Bag divisions. This apart, the company is certified as Two-Star marked export house from Director General of Foreign Trade. Currently, Mr. Gautam Rajda (Managing Director) is at the helm of operation along with other four directors, along with a group of experienced personnel.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	82.57	80.26
EBITDA	-0.57	5.31
PAT	0.97	1.49
Total Debt	37.68	37.76
Tangible Net worth	21.48	21.88
Adjusted Tangible Net worth	25.01	27.08
EBITDA Margin (%)	-0.69	6.61
PAT Margin (%)	1.07	1.81
Overall Gearing Ratio (x)	1.51	1.39

**as per Infomerics Standard*

Status of non-cooperation with previous CRA: Issuer non-cooperating from CARE Ratings as per press release dated November 11, 2019.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits	Long Term	5.12	IVR BB+/ Stable	-	-	-
2.	Fund Based & Non-Fund Based Limits	Short Term	46.00	IVR A4+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	-	-	July 2024	1.77	IVR BB+/Stable
Long Term Fund Based Limits – Foreign Currency Demand Loan	-	-	July 2024	3.35	IVR BB+/Stable
Short Term Fund Based Limits – Packing Credit	-	-	-	26.00	IVR A4+
Short Term Fund Based Limits – Foreign Bill Purchase	-	-	-	17.00	IVR A4+
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	3.00	IVR A4+