Press Release

Rajda Industries & Exports Private Limited

February 25, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	5.12	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed
2	Short Term Bank Facilities	43.00	IVR A4+ (IVR A Four Plus)	Reaffirmed
	Total	**48.12 (Rupee forty-eight crore and twelve lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of aforesaid ratings assigned to the bank facilities of Rajda Industries & Exports Private Limited (RIEPL) derives comfort from its long track record of operation under an experienced promoter, strategic location of its plant, eligibility to receive various export related government incentives as an accredited export house and moderate financial risk profile marked by moderate capital structure along with satisfactory debt protection metrics. Infomerics also factor in gradual shifting of its focus towards high margin bag segment which is expected to drive earnings going forward. However, these rating strengths remain constrained due to its small scale of operation, susceptibility of its profitability to volatility in raw material prices, dependency on export policies, exposure to foreign currency exchange fluctuation risk, intense competition and working capital intensive nature of its 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 and/or profitability impacting the debt coverage indicators on a sustained basis deterioration in working capital management and moderation in overall gearing to more than 2 times.

Detailed Description of Key Rating Drivers

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**

RIEPL 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 are to be improved going forward. As per 9MFY21, bag segment constitutes ~34% of total sales.

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

The financial risk profile of the company continues to remain comfortable with minimal long-term debt in its capital structure. The long-term debt equity ratio continues to remain comfortable at 0.26x as on March 31, 2020. Moreover, the overall gearing ratio and TOL/TNW also remained moderate at 1.79x and 2.58x respectively as on March 31, 2020. The interest coverage ratio stood satisfactory at 1.98 times in FY 2020 vis- a- vis 1.57 times in FY 2019. However, Total debt to GCA remained relatively high at 13.41 years in FY2020 though improved from 14.05 years in FY19 driven by reduction in total debt in FY20. Going forward, Infomerics expects that the financial risk profile of RIEPL will continue 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. The small scale restricts the financial flexibility of the company in times of stress. During FY2020, the company achieved a marginal growth of ~6% and achieved a total operating income of Rs.86.51 crore. The growth was driven by higher international demand in gloves segment. Furthermore, the company has achieved a turnover of Rs.49.24 crore during 9MFY21. This apart, the company has an order book of about Rs.27.96 crore to be completed by March 31,2021 indicating a revenue visibility. Going forward, in FY21, Infomerics expects that the total operating income of the company will be moderated mainly due to impact of Covid pandemic.

- **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 ~53% to 65 % 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 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. However, as the export is much higher than import of the company, it enjoys a natural hedge for its foreign currency exposure. This apart, the company uses foreign bill discounting, forward contract etc for hedging purpose apart from collecting advance payments from new customers, using Export Credit Guarantee Corporation of India (ECGC) scheme, etc to safeguard its receivables. During FY20, the company made a profit of Rs.1.53 crore from foreign currency transaction against a profit of Rs.1.22 crore in FY19.

- **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 162 days during FY18 to FY20. The working capital requirements of the company are largely funded by bank borrowings and elongated credit period availed. The average Cash Credit utilisation is remained high at ~98% during the past 12 months ended on December, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

Liquidity: Adequate

RIEPL's liquidity profile is expected to remain stretched marked by its working capital-intensive nature of operation and higher dependence on working capital borrowings to fund its working capital requirements. The average cash credit utilisation of the company remained at ~98% during the past 12 months ended December, 2020 indicating a low liquidity cushion. However, the company is expected to earn adequate gross cash accruals in the range of ~Rs.3-4 crore as against its debt obligation of Rs.1-3 crore during FY21-23.

About the Company

RIEPL, incorporated in May 1992 in Kolkata by one Rajda family of Kolkata to initiate a leather 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	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	80.26	86.51
EBITDA	5.96	6.30
PAT	1.49	1.45
Total Debt	42.96	41.03
Adjusted Tangible Net worth	27.07	28.90

For the year ended* / As On	31-03-2019	31-03-2020
EBITDA Margin (%)	7.42	7.28
PAT Margin (%)	1.81	1.66
Overall Gearing Ratio (x)	1.96	1.79

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	2.16	IVR BB+ / Stable Outlook	IVR BB+ /Stable Outlook (February 10, 2020)	-	-
2.	FCDL	Long Term	2.96	IVR BB+ / Stable Outlook	IVR BB+ / Stable Outlook (February 10, 2020)	-	-
3.	Packing Credit	Short Term	26.00	IVR A4+	IVR A4+ (February 10, 2020)	-	-
4.	FBP	Short Term	14.00	IVR A4+	IVR A4+ (February 10, 2020)	-	-
5.	Letter of Credit	Short Term	3.00	IVR A4+	IVR A4+ (February 10, 2020)	-	-

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Reaffirmed/ Outlook
Long Term Fund Based Limits- Term Loan	-	-	2024	2.16	IVR BB+ / Stable Outlook
Long Term Fund Based Limits- FCDL	-	-	2024	2.96	IVR BB+ / Stable Outlook
Short Term Non-Fund Based Limits- Packing Credit	-	-	-	26.00	IVR A4+

Short Term Non-Fund Based Limits-FBP	-	-	-	14.00	IVR A4+
Short Term Non-Fund Based Limits-Letter of Credit	-	-	-	3.00	IVR A4+