

November 13, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	2.42	SMERA BBB-/Stable (Assigned)
Packing Credit#	9.00	SMERA A3 (Assigned)
Foreign Letter of Credit	1.50	SMERA A3 (Assigned)
Forward Contract	9.00	SMERA A3 (Assigned)

#Includes FDDPBF/FDUBDF as sublimit to the extent of Rs.9.00 crore

SMERA has assigned a rating of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs.2.42 crore long-term bank facility and '**SMERA A3**' (read as SMERA A three) to the Rs.19.50 crore short-term bank facilities of Edcons Exports Private Limited (EEPL). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations, experienced management and healthy financial risk profile. The ratings are also supported by the company's sound liquidity position and prudent working capital management. The ratings draw comfort from the proximity of the company's manufacturing facilities to raw material sourcing units. However, the ratings are constrained by the company's moderate-scale operations amidst intense competition in the leather goods industry. The ratings are also constrained by the geographic concentration of the company's revenues. The ratings note that the company's profit margins are exposed to volatility in raw material prices and fluctuations in foreign exchange rates.

EEPL, incorporated in 1995, is a Kolkata-based company engaged in manufacturing and export of leather products such as wallets, handbags, briefcases, files, folders and accessories. EEPL benefits from its experienced management. The promoters of the company have around two decades of experience in the leather goods industry.

EEPL's healthy financial risk profile is marked by low gearing (debt-to-owners' funds ratio) of 1.01 times as on March 31, 2014. The company's comfortable coverage indicators are reflected in interest coverage ratio (ICR) of 4.47 times and debt service coverage ratio (DSCR) of 2.92 times in FY2013-14 (refers to financial year, April 01 to March 31). EEPL has undertaken a debt-funded capex of ~Rs.5.56 crore for setting up a new manufacturing unit. The project is funded through a term loan of Rs.2.81 crore (sanctioned) and promoters' funds of Rs.2.75 crore. The company is likely to commission the project by April 2015. SMERA believes the aforementioned debt-funded capex will not have a material impact on the financial risk profile of the company.

EEPL has reported healthy operating profit margins (in the range of 10-11 per cent) during FY2011-12 to FY2013-14. The company's net profit margins have ranged between 4-5 per cent during the period under study. EEPL registered healthy return on capital employed (RoCE) of ~30 per cent over the past three years. The company's sound liquidity position is evidenced by net cash accruals to total debt (NCA/TD) ratio of 0.34 times as on March 31, 2014. EEPL's prudent working capital management is

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reflected in working capital cycle of ~50 days during the period under study. The company gets credit of around two months from its suppliers, while payments from customers are received in advance. EEPL's manufacturing facilities are in proximity to several raw material sourcing units.

EEPL has moderate-scale operations with operating income of Rs.48.44 crore in FY2013-14. The company faces geographic concentration risk arising from high dependence on orders received from customers based in Europe. EEPL's raw material cost accounts for ~75 per cent of the total cost of sales. The company's profit margins are thus highly susceptible to volatility in raw material prices. EEPL's profit margins are also exposed to forex fluctuation risk inherent in the unhedged portion of export sales. The company faces intense competition from several players in the leather goods industry.

Outlook: Stable

SMERA believes EEPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and profitability while reducing the geographical concentration of revenues. The outlook may be revised to 'Negative' in case of deterioration in the company's financial profile on account of decline in profit margins or increase in debt-funded working capital requirements.

About the company

EEPL, incorporated in 1995, is a Kolkata-based company promoted by Mr. Rajarshi Dey and Mr. Kunal Sen. EEPL is engaged in manufacturing and export of leather products such as wallets, purses and handbags. The company is a 'Star Export House' recognized by the Government of India. EEPL has three manufacturing facilities in Kolkata with total installed capacity of 7,44,000 units per annum. The company is setting up a new manufacturing unit in Kolkata with installed capacity of 64,000 units per annum.

For FY2013-14, EEPL reported profit after tax (PAT) of Rs.2.25 crore on operating income of Rs.48.44 crore, as compared with PAT of Rs.1.72 crore on operating income of Rs.42.09 crore in FY2012-13. The company's net worth stood at Rs.8.40 crore as on March 31, 2013, as compared with Rs.6.15 crore a year earlier.

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