

**March 11, 2016**

Facilities	Amount (Rs. Crore)	Ratings
Term Loans	2.42	<b>SMERA BB+/Stable</b> <b>(Downgraded from SMERA BBB-/Stable)</b>
Packing Credit#	9.00	<b>SMERA A4+</b> <b>(Downgraded from SMERA A3)</b>
Foreign Letter of Credit	1.50	<b>SMERA A4+</b> <b>(Downgraded from SMERA A3)</b>
Forward Contract	9.00	<b>SMERA A4+</b> <b>(Downgraded from SMERA A3)</b>

*#includes post shipment facility as sublimit to the extent of Rs.9.00 crore*

SMERA has downgraded the rating of the abovementioned Rs.2.42 crore long-term bank facilities to '**SMERA BB+**' (read as **SMERA double B plus**) from 'SMERA BBB-' and the Rs.19.50 crore short-term bank facilities to '**SMERA A4+**' (read as **SMERA A four plus**) from 'SMERA A3' (read as SMERA A three) of Edcons Exports Private Limited (EEPL). The outlook is '**Stable**'. The downgrade is on account of deterioration in the company's financial risk profile particularly profitability, gearing and coverage indicators.

The ratings remain supported by the company's long track record of operations, experienced management and moderate financial risk profile. The ratings are also supported by the sound liquidity, prudent working capital management and proximity of the manufacturing facilities to raw material sourcing units. However, the ratings remain constrained by the intense competition in the leather goods industry and geographic concentration of the revenues. The ratings also note that the company's profit margins are exposed to fluctuations in forex rates.

## Update

EEPL reported operating income of Rs.72.89 crore in FY2014-15 as against Rs.48.44 crore in FY2013-14 due to improvement in capacity utilisation and new customer additions. In 9MFY2015-16 (April 2015 to December 2016), the company achieved net sales (excluding export benefits) of Rs.43.00 crore.

EEPL's financial risk profile deteriorated in FY2014-15 over FY2013-14. The operating profit margin declined from 5.17 per cent in FY2014-15 as against 10.67 per cent in FY2013-14. The gearing (debt-to-equity ratio) stood at 1.67 times as on March 31, 2015 as against 1.01 times as on March 31, 2014. The interest coverage ratio (ICR) stood at 2.52 times in FY2014-15 as against 4.47 times in FY2013-14. Further, the debt service coverage ratio (DSCR) stood at 1.90 times in FY2014-15 as against 2.92 times in FY2013-14. The deterioration was due to lower sales realisations on account of currency fluctuations.

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### 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' if the financial profile deteriorates on account of decline in profit margins or increase in debt-funded working capital requirements.

### Rating Sensitivity Factors

- Geographical diversification
- Deterioration in revenue profile
- Improvement in profitability and coverage indicators
- Larger than expected debt-funded capex or working capital requirements

### About the Company

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

For FY2014–15, EEPL reported profit after tax (PAT) of Rs.0.62 crore on operating income of Rs.72.89 crore, as compared with PAT of Rs.2.25 crore on operating income of Rs.48.44 crore in FY2013–14. The company's net worth stood at Rs.9.02 crore as on March 31, 2015, as compared with Rs.8.40 crore a year earlier.

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