

K.A.R. Leathers Private Limited: Reaffirmed

Name of the Instrument	Amount (Rs Crore)	Rating/Outlook
Cash Credit	8.50	SMERA BB+/Stable (Reaffirmed)
Cash Credit (Proposed)	1.50	SMERA BB+/Stable (Reaffirmed)

SMERA has reaffirmed the long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) on the Rs.10.00 crore bank facilities of K.A.R. Leathers Private Limited (KLPL). The outlook is '**Stable**'.

The rating continues to draw comfort from the company's established operations, experienced management and moderate financial risk profile. However, the rating is constrained by the declining revenue trend, susceptibility of profit margins to volatility in raw material prices and intense competition.

Update

Revenues of KLPL have declined from Rs.44.13 crore in FY2013-14 to Rs.40.92 crore in FY2014-15 and further to Rs.39.08 crore in FY2015-16 (provisional) on account of slowdown in the industry. KLPL has moderate financial risk profile as reflected in the gearing of 0.88 times as on March 31, 2015. The interest coverage ratio stands at 1.71 times in FY2014-15.

KLPL's margins are susceptible to fluctuations in raw material prices viz. raw leather. However, the company has been able to maintain stable margins during the period under study.

KLPL has more than two decades of track record and benefits from the extensive experience of its management.

Rating Sensitivity Factors

- Deterioration in revenue profile or profitability
- Larger than expected debt-funded working capital requirements

Outlook-Stable

SMERA believes that KLPL will maintain a stable outlook over the medium term owing to the company's established track record of operations and experienced management. The outlook may be revised to 'Positive' if the company registers substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the projected scalability in revenues amidst intensifying competition in its area of operation. Deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements may also entail a 'Negative' outlook.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

The Chennai-based KLPL was incorporated in 1988 by Mr. A Mohideen. The company manufactures semi finished goat leather at Dindigul (South Tamil Nadu) with soaking capacity of 5000 pieces per day. The day-to-day operations are handled by Mr. Y Faizul Rahman.

For FY2014-15, KLPL reported profit after tax (PAT) of Rs.0.58 crore on operating income of Rs.40.92 crore as compared with PAT of Rs.0.81 crore on operating income of Rs.44.13 crore for FY2013-14.

Rating History

Date	Name of the Instruments	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
02 June, 2015	Cash Credit	8.50	SMERA BB+ (Assigned)	-	Stable
	Cash Credit (proposed)	1.50	SMERA BB+ (Assigned)	-	Stable

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ABOUT SMERA

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