

Press Release

Ejaz Tanning Company

August 31, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 31.30 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 31.30 crore bank facilities of Ejaz Tanning Company. The outlook is '**Stable**'.

Ejaz Tanning Company (ETC) a partnership firm established in 1986 is engaged in the manufacturing of leather garments (jackets, skirts, pants and coats) at Vaniyambadi (Tamil Nadu). The firm imports around 60 percent of its requirement of raw leather from Saudi Arabia while the rest is procured from Maharashtra and Tamil Nadu. ETC has production capacity of 5 million square feet for leather while the garment division (Chennai) has capacity of 72,000 garments pieces (garment division) per annum. The finished goods are exported to Europe, USA, Russia, Korea and China.

Key Rating Drivers

Strengths

- **Long track record of operations, experienced management**

Ejaz Tanning Company (ETC) established in 1986 is engaged in the manufacturing of finished leather and leather garments at Chennai. The firm was promoted by Mr. A R Ejaz Ahmed Mr. A R Imtiaz Ahmed Mr. A R Istiyaq Ahmed and Mr. A R Kashif Mohammad who possess experience of more than four decades in the leather industry.

- **Stable profit margin and moderate RoCE**

The operating margins have been stable at 5.42 percent in FY2016-17 (Provisional) against 5.46 percent in FY2015-16 and 5.20 percent in FY2015-14. The firm has moderate RoCE of 10.13 percent in FY2016-17 (Provisional), an improvement from 9.66 percent in FY2015-16. The net margins stood at 1.48 percent in FY2016-17 against 1.61 percent in FY2015-16.

Weaknesses

- **Moderate scale of operations**

The operating income has been stagnant for the past three years due to lower demand from European market. The firm operates on a moderate scale with operating income of Rs.70.38 crore in FY2016-17 (Provisional) compared to Rs.55.93 crore in FY2015-16 and Rs.71.26 crore in FY2014-15.

- **Average financial risk profile**

The financial risk profile is average marked by net worth of Rs.14.02 crore as on 31 March, 2017 (Provisional) against Rs.11.89 crore as on 31 March, 2016. The net worth registered an increase due to infusion of funds by partners. The gearing (debt-equity ratio) stood at 1.96 times as on 31 March, 2017 (Provisional) against 1.54 times as on 31 March, 2016. Further, the gearing is expected to remain high in future as the firm has undertaken capex to construct a building for the garment unit.

The total project cost of the same is Rs.4.20 crore to be funded by a term loan of Rs.3.00 crore and infusion of partners' capital of Rs.1.20 crore. The interest coverage ratio (ICR) stood at 1.93 times and debt coverage ratio (DSCR) at 1.69 times in FY2016-17 (Provisional). For FY2015-16 the ICR stood at 1.59 times. The total outside liabilities to tangible net worth (TOL/TNW) stood high at 4.06 times as on 31 March, 2017 (Provisional).

• **Operating margins are susceptible to fluctuations in raw material prices**

The operating margins are susceptible to fluctuations in raw material (leather) prices and forex rates. The firm exports ~76 per cent of its sales to Europe, USA and Russia. Also, semi-finished leather is imported from Saudi Arabia which constitutes around 60 percent of the total raw material consumption. However, the firm has gained Rs.0.01 crore of forex gain in FY2017 (Provisional) against forex loss of Rs.0.63 crore in FY2016.

• **Working capital intensive operations**

The operations are working capital intensive reflected in the high gross current assets (GCA) of 306 days as on 31 March, 2017 (Provisional). This was on account of high inventory of 209 days in FY2017 (PY: 205 days). The firm procures raw leather skin at the time of availability. The average stock holding days is around five months. The working capital facilities have been fully utilised.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of ETC to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on ETC will remain 'Stable' over the medium term on account of its extensive experience and long operational track record. The outlook may be revised to 'Positive' if the firm reports substantial growth in revenue while maintaining profitability and improvement in the financial risk profile. Conversely the outlook may be revised to 'Negative' in case of decline in operating margins or deterioration in the financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional) ETC reported net profit of Rs. 1.04 crore on operating income of Rs. 70.38 crore as against net profit of Rs. 0.90 crore on operating income of Rs. 55.93 crore in the previous year. The net worth stood at Rs.14.02 crore as on 31 March, 2017 (Provisional) compared to Rs.11.89 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	1.20	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.10	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	16.00	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4

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