

Press Release

AJB Leathers (AJB)

29 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.9.00 Cr.
Long Term Rating	SMERA BB/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB' (read as SMERA double B)** on the Rs.9.00 crore bank facilities of AJB Leathers (AJB). The outlook is '**Stable**'.

AJB Leathers, a proprietorship firm established by Mr. A J Balasubramanian in 2000 manufactures wet blue and finished leather at Dindigul, Tamil Nadu. The firm led by Mr. A J Balasubramanian has installed capacity of 54 lakh square feet per annum. It caters to exporters in Chennai and generated 57.09 per cent of sales from its top five customers in FY2017.

Key rating drivers

Strengths

Long track record of operations, experienced management: AJB Leathers was set up in 2000 by Mr. Balasubramanian A J, who possesses almost 25 years of experience in the leather industry.

Steady improvement in topline: The topline of the firm increased to Rs.30.97 crore in FY2017 from Rs.21.37 crore in FY2016 due to increase in sale of finished leather as per cent of total sales. The topline registered a two year CAGR of 45.64 per cent from FY2015 to FY2017. The firm generated operating income of Rs.17.58 crore (Provisional) as on October, 2017. The orders in hand are around Rs.19.05 crore as on October 2017.

Weaknesses

Average financial risk profile: The average financial risk profile is marked by low net worth, moderate gearing and debt protection measures. The net worth levels stood at Rs.5.21 crore as on 31 March, 2017 compared to Rs.4.23 crore in the previous year. The gearing levels of the firm increased to 1.64 times in FY2017 and 1.37 times in FY2016 due to increase in cash credit limits. The interest coverage levels declined to 1.85 times in FY2017 from 2.10 times in FY2016 due to increase in interest expenses. The net cash accruals to total debt (NCA/TD) stood at 0.09 times in FY2017 compared to 0.11 times in FY2016.

Working capital intensive operations: The operations are working capital intensive evident from the GCA days of 155 in FY2017 due to high debtor and inventory days. The firm provides credit period of 30 to 60 days to its customers and holds inventory for about three months. In FY2017 the inventory and debtor days stood at 75 and 84 respectively. The working capital limits have been fully utilised over the past six months ended October 2017.

Analytical approach:

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

Outlook – Stable

SMERA believes that AJB will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers growth in revenues while maintaining better profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	30.97	21.37	14.60
EBITDA	Rs. Cr.	1.53	1.01	0.75
PAT	Rs. Cr.	0.49	0.36	0.33
EBITDA Margin	(%)	4.93	4.71	5.13
PAT Margin	(%)	1.59	1.67	2.28
ROCE	(%)	11.89	10.63	20.41
Total Debt/Tangible Net Worth	Times	1.64	1.37	0.70
PBDIT/Interest	Times	1.85	2.10	2.26
Total Debt/PBDIT	Times	5.01	4.95	3.26
Gross Current Assets (Days)	Days	155	187	207

Any other information:

Not Applicable

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>

Status of non-cooperation with previous CRA (if applicable): CRISIL, vide release dated 20 July, 2017 has suspended the ratings of AJB on account of lack of adequate information required for monitoring of ratings.

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BB/ Stable (Assigned)

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ABOUT SMERA

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