

Press Release

AJB Leathers

October 04, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr (Enhancement of Rs.7.00 Cr)
Long Term Rating	ACUITE BB / Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on Rs. 9.00 crore bank facilities and assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 7.00 crore bank facilities of AJB Leathers (AJBL). The outlook is '**Stable**'.

The rating reaffirmation is based on sustained growth in its revenues and profitability, while improving its capital structure. The rating also factors in experienced management. However, it is partly constrained by modest scale of operations, working capital intensive operations and below-average financial risk profile.

AJB Leathers, a proprietorship firm established in the year 2000, manufactures wet blue, finished leathers and East India (EI) leather. The concern has tannery in Dindigul, Tamil Nadu with installed capacity of 54 lac square feet per annum. The daily operations are managed by Mr. A. J. Balasubramanian.

About the Group

Tamil Nadu-based, Mukesh Impex (MI) is a proprietorship concern established in the year 2008 by Mrs. Balasubramaniam Sasikala. The firm is engaged in trading of leather. The firm procures the semi-finished leather from its suppliers and gives it for job work for further processing and the processed leather is sold to its customers. The daily operations of the firm are managed by Mrs. Balasubramaniam Sasikala along with her spouse Mr A.J. Balasubramanian.

Analytical Approach

Acuite has not consolidated the financial and business risk profiles of AJB Leathers (AJBL) with other group entity (Mukesh Impex (MI)), as there are no significant operational or financial linkages or investments among the entities. Extent of Consolidation: Nil

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management:**

The firm, established in 2000, is involved in leather processing industry for nearly two decades. The promoter is a veteran in the industry with long-standing experience, which leads to steady revenues. AJBL has well-established relationships with these customers, which helped the firm in winning repeat orders. The firm's revenues have improved at a compound annual growth rate (CAGR) of about 20 per cent over the last three years through FY2019 at Rs. 46.60 crore in FY2019 (provisional). Acuite believes that the promoter's experiences, vintage of operations, are expected to support in improvement of its business risk profile over the medium term.

Weaknesses

- **Moderate financial risk profile:**

The financial risk profile moderate is marked by high gearing (debt-to-equity), high total outside liabilities to tangible network (TOL/TNW) and below-average debt protection metrics. Its gearing and TOL/TNW are high at 2.18 and 3.34 times as of March 31, 2019 (provisional). Its network is modest at Rs. 4.52 crore. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are below-average at 1.47 and 0.79 times in FY2019. Acuite believes that with modest accruals and working capital intensive, the financial risk profile is expected to be at similar levels over the medium term.

• Working capital intensive nature of operations

AJBL's operations are working capital intensive marked by Gross Current Assets Days (GCA) of 134 days in FY19 (prov.) as compared to 161 days in FY18 and 155 days in FY17. The high GCA days is dominated by high inventory days of 64 days in FY19 (prov.) as compared to 79 days in FY18 and 75 days in FY17. The debtor days and creditor days stood at 72 and 13 respectively in FY19 (prov.). This lead to high utilisation of its working capital limits at about 98 per cent over the past six months through August 2019. Acuite believes that the operations continue to be working capital intensive basis the industry and business cycle.

Rating Sensitivity Factor

- Growth in revenues, with improving profitability and stabilized operations
- Stretch in working capital management leading to deterioration of its financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Stretched

MI's liquidity is stretched marked by modest net cash accruals and working capital intensive. The Firm generated cash accruals of Rs. 0.78 to 0.79 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs. 0.74 crore over the same period. The cash accruals of the firm are estimated to remain around Rs. 0.92 crore against its maturing debt obligations of Rs.0.74 crore. The firm's operations are highly working capital intensive as marked by gross current asset (GCA) days of 134 in FY2019, leading to higher reliance on working capital borrowings at about 98 per cent over the past six months through August 2019. The firm's current ratio stood at 1.58 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of modest accruals and working capital intensive operations.

Outlook: Stable

Acuite believes that the outlook on AJBL will remain 'Stable' over the medium term on the back of experience of management. The outlook maybe revised to 'Positive' in case of sustained increase in operating income and profitability, while improving its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of any further stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	44.60	39.79	30.97
EBITDA	Rs. Cr.	2.40	1.59	1.53
PAT	Rs. Cr.	0.52	0.40	0.49
EBITDA Margin	(%)	5.37	3.99	4.93
PAT Margin	(%)	1.17	1.00	1.59
ROCE	(%)	13.18	10.07	11.89
Total Debt/Tangible Net Worth	Times	3.00	3.16	1.64
PBDIT/Interest	Times	1.47	1.63	1.85
Total Debt/PBDIT	Times	5.44	6.73	5.01
Gross Current Assets (Days)	Days	134	161	155

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-March-2019	Cash Credit	Long Term	9.00	ACUITE BB/Stable (Indicative)
29-Dec-2017	Cash Credit	Long Term	9.00	ACUITE BB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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