

May 23, 2013

Proposed Facilities	Amount (Rs. crore)	Rating
Packing Credit	3.50	SMERA A4/Assigned
Foreign Bill Purchase/Bill Discounting	9.00	
Sub Limit: Clean Foreign Bill Purchase	(0.50)	

SMERA has assigned a rating of '**SMERA A4**' (**read as SMERA A four**) to Rs.12.50 crores short term facilities of Maliks Export Private Limited (MEPL). The rating is largely constrained by the declining revenue trend, small scale of operations, low profitability and export market risk. The rating also factors in the intense competition prevalent in a highly fragmented and competitive leather footwear industry and susceptibility of margins to volatility in raw material prices and foreign exchange fluctuations. However, the rating derives support from MEPL's long and established standing in the leather footwear industry and an average financial profile marked by moderate leverage.

MEPL manufactures and exports leather footwear for ladies, men and kids. Exports account for 100 per cent of the company's sales and its major markets include the USA, UK and other European nations. The company undertakes hedging through booking of forward contracts and is thus marginally safeguarded from foreign exchange fluctuation risk. On account of slowdown in the European economies, MEPL has already witnessed year-on-year decline in revenues since FY2009. Further, the revenues and margins of the company are largely supplemented by duty drawbacks and proceeds from license sale, which constitute around 11% of the total revenues. Thus, MEPL's revenues are also influenced by government policies. In order to drive sales, MEPL incurred significant marketing and selling expenses in FY2012 by way of increased commission payouts and expenditure on trade exhibitions and fairs. However, the incremental marketing expenses did not result in a corresponding increase in sales, thereby leading to low operating margins during FY2012 and operating loss during FY2013.

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MEPL's major raw material is leather, which is procured from the domestic market. Leather prices are highly volatile and any adverse movement in the same could affect the company's profitability. MEPL's operating margin declined considerably from 11.57 per cent in FY2009 to 5.01 per cent in FY2010. The company also incurred an operating loss in FY2011 due to increase in leather prices. MEPL's PAT margin and Return on Capital Employed (RoCE) are low at 1.50 per cent and 7.83 per cent respectively for FY2012. Further, as per provisional financials, MEPL has incurred operating loss in FY2013 on account of increase in raw material prices and marketing costs.

MEPL has an average financial profile with leverage of 1.04 times as on March 31, 2012. The company's debt majorly comprises short term working capital facilities and interest free unsecured loans of Rs.3.50 crores. The interest coverage ratio is moderate at 2.70 times for FY2012. The tangible net worth of the company got eroded from Rs.7.29 crores as on March 31, 2010 to Rs.3.58 crores as on March 31, 2011 due to business losses incurred in FY2011. In FY2012, the tangible net worth increased on account of infusion of capital to the tune of Rs.2.50 crores (equity and share premium) and retention of profits. However, net loss of Rs.1.37 crore incurred as per the provisional financials of FY2013 is likely to strain the financial profile of the company and erode its tangible net worth.

About the Company

MEPL was incorporated in 1973 by members of the Malik, Saigal and Vijk family. The Malik and Saigal family members exited the business in 2000 and the Vijk family took over the entire management of the company. MEPL is engaged in manufacturing of leather footwear. The company has its administrative office and factory in Mumbai.

The management team, headed by Mr. Ashish Vijk and Mrs. Veena Vijk, has over 13 years of experience in the leather industry.

In FY2012, MEPL reported net profit of Rs.0.51 crores on total income of Rs.33.93 crores as compared with net loss of Rs.3.70 crores on total income of Rs.36.65 crores in FY2011. As per provisional financials of FY2013, MEPL has incurred net loss of Rs.1.37 crores on total income of Rs.24.98 crores.

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