

May 23, 2014

Facilities	Amount (Rs. Crore)	Ratings
Packing Credit/ Foreign Bill Purchase/ Foreign Bill Negotiation	65.00*	SMERA A4+ (Assigned)
Ad-hoc Packing Credit	13.00	SMERA A4+ (Assigned)
Bank Guarantee	2.05	SMERA A4+ (Assigned)
Forward Cover	1.50	SMERA A4+ (Assigned)
Proposed Term Loan	14.00	SMERA BB-/Stable (Assigned)
Proposed Packing Credit/ Foreign Bill Purchase/ Foreign Bill Negotiation	10.00*	SMERA A4+ (Assigned)
Proposed Ad-hoc Packing Credit	2.00	SMERA A4+ (Assigned)
Proposed Bank Guarantee	2.45	SMERA A4+ (Assigned)

*Sublimit for Packing Credit/ Foreign Bill Purchase/ Foreign Bill Negotiation is Rs 67.00 crore

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.14.00 crore long-term bank facility and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.96.00 crore short-term bank facilities of Ram Fashion Exports Private Limited (RFEPL). The outlook is '**Stable**'. The ratings are constrained by the company's declining profitability, high leverage and low coverage indicators. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The ratings factor in the risks associated with the company's working capital-intensive operations and debt-funded capex. However, the ratings are supported by the company's experienced management and established associations with reputed customers. The ratings are also supported by the company's moderate scale of operations.

RFEPL is a Mumbai-based company engaged in manufacturing and export of leather footwear since 1994. RFEPL's operating profit margin has declined from 9.73 per cent in FY2011-12 (refers to financial year, April 01 to March 31) to 8.88 per cent in FY2012-13. The company's operating profit of Rs.12.34 crore (in FY2012-13) includes forex gain of Rs.0.75 crore. RFEPL's net profit margin declined from 1.49 per cent in FY2011-12 to 1.39 per cent in FY2012-13 on account of increase in power cost, employee cost and selling expenses (buyer's claim and commission). The company's net profit of Rs.1.94 crore (in FY2012-13) is largely supported by non-operating income (interest on fixed deposit) of Rs.0.60 crore.

RFEPL's leverage (debt-to-equity ratio) is high at 3.74 times as on March 31, 2013. The company has weak coverage indicators, as reflected in interest coverage ratio of 1.74 times and cash debt service coverage ratio (DSCR) of 1.00 in FY2012-13.

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RFEPL's profitability is susceptible to volatility in raw material (leather) prices and fluctuations in forex rates. The company derives ~96 per cent of its total revenues from exports to Italy, UK, France, UAE

and USA. RFEPL incurred forex losses during FY2008-09 to FY2011-12. Moreover, the company has incurred forex loss of Rs.7.00 crore (provisional) in FY2013-14. RFEPL's operations are working capital-intensive, as reflected in high inventory holding of 172 days as on March 31, 2013. The company maintains high inventory levels to ensure timely delivery of products. RFEPL's return on capital employed (RoCE) declined from 9.17 per cent in FY2011-12 to 8.04 per cent in FY2012-13.

RFEPL is setting up a unit for manufacturing ladies footwear. The total cost of the project is ~Rs.19.85 crore, which is proposed to be funded through term loan of Rs.14.00 crore and unsecured loans and internal accruals of Rs.5.85 crore. The company's leverage is thus likely to remain high (at over 3.00 times) in the medium term. However, RFEPL is likely to benefit from product diversification.

RFEPL benefits from its experienced management. Mr. Suresh S. Bhasin (Director of RFEPL) and Mr. Naresh S. Bhasin (Managing Director of RFEPL), have around four decades of experience in the leather industry. Mr. Rishi S. Bhasin (son of Mr. Suresh S. Bhasin) and Mr. Nitesh N. Bhasin (son of Mr. Naresh S. Bhasin) have around ten years of experience in the company's line of business.

RFEPL also benefits from its long-standing associations with several reputed customers, including Levis, Pavers, Marks & Spencer, Aldo and Bata. RFEPL has a moderate operating scale reflected in total operating income of Rs.139.01 crore in FY2012-13. The company's total operating income has grown at compound annual growth rate (CAGR) of 19.83 per cent during FY2008-09 to FY2012-13.

Outlook: Stable

SMERA believes RFEPL will continue to benefit over the medium term from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected revenues, profitability or net cash accruals, or in case of stretch in the company's liquidity position. The outlook may also be adversely affected by deterioration in the company's financial risk profile on account of higher-than-envisioned debt-funded capex.

About the company

RFEPL is a Mumbai-based company engaged in manufacturing and export of leather footwear since 1994. RFEPL is a government recognized export house. The company's major customers are based in France, Spain, Italy, UK, UAE, USA and Canada. RFEPL has two factory units in Mumbai, with total installed capacities of ~20,00,000 pairs of shoes per annum. The overall operations of the company are currently managed by Mr. Suresh Bhasin and Mr. Naresh Bhasin.

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For FY2012-13, RFEPL reported profit after tax (PAT) of Rs.1.94 crore on operating income of Rs.139.01 crore, as compared with PAT of Rs.1.75 crore on operating income of Rs.117.39 crore for FY2011-12. Further, the company registered PAT of Rs.4.00 crore (provisional) on operating income of Rs.169.84 crore (provisional) in FY2013-14. RFEPL's net worth stood at Rs.28.38 crore as on March 31, 2013, as compared with Rs.26.45 crore a year earlier.

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