

Rating Rationale

17 March 2021

Euro Leder Fashion Limited

Brickwork Ratings migrates and reaffirms the rating for the Bank Loan Facilities of Rs. 18.00 Crores of Euro Leder Fashion Limited.

Particulars

Facility	Amount (Rs Cr)		Tenure	Rating#	
	Previous	Present		Previous^ (Apr 2020)	Present
Fund Based					
PC/PCFC/FDB/FBE/BRD	18.00	18.00	Short Term	BWR A4	BWR A4 Rating migrated and reaffirmed
PC/PCFC (sub-limit)	(8.00)	(8.00)		Downgraded and migrated to Issuer Not Cooperating category	
Total	18.00	18.00	Rupees Eighteen Crores Only		

Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Details of rated Bank facilities are provided in Annexure-I.

^ Ratings migrated to Rating not Reviewed category on 20Feb2020

Rating Action/Outlook

Brickwork Ratings has migrated and now reaffirmed its rating from BWR A4; Issuer not cooperating to 'BWR A4' for the bank facilities of ELFL, since the company has provided requisite information for rating review.

The rating factors in extensive experience of promoters and moderate financial profile. Ratings, are however constrained by weak operating performance and exposure to intense competition and delay in exports.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profits show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down or profit margins are lower than expected.

Key Rating Drivers

Credit Strengths:

Extensive experience of the promoters:

Mr. R M Lakshmanan, the promoter of the Company, has more than two decades of business experience in the industry. The Company was incorporated in the year 1992 as a manufacturer and exporter of garments with an operational track record of more than two decades. Extensive



experience of promoters has helped establish healthy business relations with customers and suppliers. Company has an established clientele base comprising reputed international brands such as Diesel S.p.A, Roy Rogers, Luisa Spagnoli, Minoronzoni etc. Promoter's son Mr. Ramanathan oversees the day to day operations.

Moderate financial profile:

Financial profile is supported by moderate networth of Rs.13.2 Crores as on March 31, 2020 and gearing was comfortable at 1.33 times. In the absence of any major capex plans, the financial profile will remain comfortable in Fy 2021-22. Debt profile of the Company comprises mainly working capital loan and does not have any term loan.

Credit Challenges:

Weak operating performance:

Leather industry has been facing weak export demand in the recent two fiscals. Revenue profile also weakened in the first two quarters due to impact of Covid-19. Company is estimated to report revenue of Rs 45-50 crores for Fy 2021. Also operating margin and PAT margin has been weak due to higher raw material prices and freight charges, in spite of better realisation. BWR expects operating performance to be weak over medium term and any improvement will be gradual.

Exposure to intense competition and slowness in exports:

Leather industry is highly fragmented and has several players due to low value addition and technical know-how. Intense competition results in thin operating margins and inability to ramp up revenue. Company's business profile is susceptible to economic slowdown which results in lower exports in a year. Entire exports are done to European market which also leads to high geographic concentration.

Analytical Approach and Applicable Rating Criteria

BWR has applied a standalone approach and applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the Company to increase revenues , profitability and strengthen its financial risk profile would remain the key rating sensitivities.

Positive:

- Improvement in scale of operations and profitability
- Improved working capital management.

Negative:

- Decline in profitability due to lower price realisations or increase in input costs.
- Stretch in the working capital cycle thereby affecting liquidity

Liquidity Position: Adequate

Liquidity is adequate as reflected by moderate utilisation of working capital facilities which was utilised at an average of 85% in the recent twelve months till December 2020. Cash accruals though small, are adequate as there are no repayment obligations. Cash conversion cycle was moderate at 51 days for FY 2020. Company also maintains healthy cash and cash equivalents of around Rs. 4.5 Cr as on March 31, 2020.

Company Profile

Euro Leder Fashion Limited, located in Chennai, was incorporated in 1992 as a private limited company and was reconstituted in 1994. The Company is an export unit and is engaged in the manufacturing of leather garments and finished leathers. With three manufacturing units located in Chennai, the Company has an installed capacity of manufacturing 1,50,000 leather garments per month. The Company's equity shares are listed on BSE.

Key Financial Indicators

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Operating Revenue	Rs. Cr.	79.08	61.67
EBITDA	Rs. Cr.	1.07	0.78
Net Profit	Rs. Cr.	0.42	0.48
Tangible Net Worth	Rs. Cr.	12.73	13.21
Total Debt : Tangible Net Worth	Times	1.46	1.33
Current Ratio	Times	0.92	0.93

On an unaudited basis, the Company has reported revenue of Rs. 28 Crs. for 9MFY21.

Status of non-cooperation with previous CRA - NA Rating History

Facilities	Current Rating (March 2021)			Rating History			
	Tenure	Amount (Rs Cr)	Rating	14 Apr 20	19Feb2019	2018^	25Sep2017
Fund Based							
PC/PCFC/FDB/FBE/BRD PC/PCFC (Sub-limit)	Short Term	18.00 (8.00)	BWR A4	BWR A4 Issuer Not Cooperating*	BWR A4+	-	BWR A4+

Total		18.00	Rupees Eighteen Crores Only
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^Rating migrated to the Rating not Reviewed category on 26Dec2018 and 20Feb2020.

Note: Rs. 14.50 Crs. of the bank loan facilities were assigned the rating of BWR A4+ on 27Oct2014.

Complexity levels of the instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

• General Criteria	• Services Sector
• Approach to Financial Ratios	• What Constitutes Non-cooperation

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ANNEXURE I

Euro Leder Fashion Limited

Details of Bank Facilities rated by BWR

Sl. No.	Type of Facility	Long Term [Rs Cr]	Short Term [Rs Cr]	Total [Rs Cr]
1	PC/PCFC/FDB/FBE/BRD	-	18.00	18.00
2	PC/PCFC (Sub-limit)	-	(8.00)	(8.00)
TOTAL - Rupees Eighteen Crores Only				18.00



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