



## Rating Rationale

Euro Leder Fashion Limited

19Feb2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹18.00 Crores of Euro Leder Fashion Limited (ELFL or 'the Company')

### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*		
	Previous	Present		Previous to previous (Sep 2017)	Previous (Dec 2018)	Present
Fund Based	18.96	18.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed	Rating Not Reviewed	BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed
<b>Total</b>	<b>18.96</b>	<b>18.00</b>	<b>INR Eighteen Crores Only</b>			

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings  
Complete details of Bank facilities are provided in Annexure-I

### Ratings: Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY18, projected financials of FY19 & FY20 publicly available information and clarifications as provided by the Company's management.

The rating factors in the promoters' business experience, the operational track record of the Company, established relationship with export clientele, increasing revenue, and moderate gearing. The rating, however, is constrained by the low profit margins, weak interest coverage indicator, stressed liquidity and Company's exposure to foreign exchange risk, volatility in raw material prices and intense competition in the garment export market.



### Description of Key Rating Drivers

- **Credit Strengths:**

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. With the years of existence in the industry, the Company has an established clientele base comprising reputed international brands such as Diesel S.p.A, Carbon2Cobalt, Luisa Spagnoli, Minoronzoni etc. and the maintained relationship has resulted in repeat orders year on year. The net sales of the company have increased from ₹ 72.68 Crs in FY17 to ₹ 75.12 Crs in FY18 due to improved capacity utilization during FY18 business operations. Debt profile of the Company comprises mainly working capital loan, and thereby the gearing stands at 1.28 times in FY18.

- **Credit Risks:**

Operating profit margin, though improved from 0.33% in FY17 to 1.25% in FY18, remain low due to rising input cost particularly the price of leather, which is the primary raw material of the Company. Average price realization per garment has reduced from ₹ 5637 in FY17 to ₹ 4534 in FY18 on account of limited bargaining power due to intense competition in the industry. The low net profit margin achieved in FY18 has resulted in low cash accruals and thereby, interest service capacity stands at 0.71 times in FY18. With increasing trade payables, the liquidity of the Company is stressed at a current ratio of 0.93 times in FY18.

### Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### Rating Outlook: Stable

BWR believes the **Euro Leder Fashion Limited** business risk profile will be maintained over the medium term. 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 profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### About the Company

Euro Leder Fashion Limited, located in Chennai, was incorporated in 1992 as a private limited company. It was reconstituted as a public limited company 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. It has utilized 89% of the installed capacity during FY18 business operations. The clientele of the Company majorly constitutes companies from the European market. The Company's equity shares are listed in BSE Ltd. The Company was established by Mr. A. R. Ramanathan, who has four decades of experience in the similar line of business. He resigned from the Company with effect from July 31st, 2017. Currently, his



son, Mr. R M. Lakshmanan - the whole-time director, handles the day-to-day affairs of the Company. Mr. R M. Lakshmanan has 25 years of experience in this business.

### Company Financial Performance

As per audited financials of FY18, the Company has achieved a total operating income of ₹ 82.59 Cr with an operating profit of ₹ 1.04 Cr and a net profit of ₹ 0.71 Cr.

### Rating History for the last three years

Facility	Current Rating (2019)			Rating History		
	Type	Amount (₹ Crs)	Rating	26.12.2018	25.9.2017	8.8.2016
<b>Fund Based</b>	Short Term	18.00	<b>BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed</b>	<b>Rating Not Reviewed</b>	<b>BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed</b>	<b>BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed</b>
<b>Total</b>		<b>18.00</b>	<b>₹ Eighteen Crores Only</b>			

*Initial rating was done on 27.10.2014 and assigned rating of BWR A4+*

**Status of non-cooperation with previous CRA - Not to our knowledge, Any other information - Nil**

### Key Financial Indicators

Key Parameters	Units	FY18	FY17
Result Type		Audited	Audited
Operating Revenue	₹ Cr	82.59	80.29
EBITDA	₹ Cr	1.04	0.26
PAT	₹ Cr	0.71	0.62
Tangible Net worth	₹ Cr	12.31	11.59
Total Debt/Tangible Net worth	Times	1.28	1.45
Current Ratio	Times	0.93	0.94



## Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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### For print and digital media

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### Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



**DISCLAIMER**

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**Annexure I**

₹ Cr

Name of the Bank	Name of Facility	Tenure	Previous Amount	Present Amount
Canara Bank	PC/PCFC/FDB/FBE/BRD	Short Term	13.00	18.00
	Sublimit - PC/PCFC		(3.00)	(6.00)
	Proposed FDB/FBE		5.96	0.00
Total			18.96	18.00