Super Tannery Limited

January 06, 2022

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	85.50 (Reduced from 86.90)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.50	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	18.30	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**111.30 (Rs. One Hundred Eleven Crore and Thirty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Super Tannery Limited (STL) continues to drive strength from the experienced promoters in the leather and tannery industry along with company's long operational track record and diversified customer base. The rating also factors in locational advantage, stable operational performance and company's moderate financial risk profile marked by comfortable gearing level and debt coverage indicators. The ratings are, however, constrained by presence of large organized and unorganized players in the leather industry, its elongated operating cycle and susceptibility of profitability margins due to volatile raw material prices.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in capacity utilization with ROCE above 12.00% on sustained basis.
- Reduction in operating cycle below 150 days on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing above 1.50x.
- Reduction in TOI below Rs 150 crore leading to reduction in profitability margins.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Iftikharul Amin, (aged 62 years) post graduate, is the Managing Director of the company and is associated with the company since inception. He has over three decades of experience in leather industry. Mr. Imran Siddiqui, also Joint Managing Director is a chemical engineer and joined the board of the company in 1992. Mr. Mohd. Imran is a Chartered Accountant and looks after export, import, accounts, excise, customs and foreign trade matters.

Long track record of operations, locational advantage and diversified customer base

STL began its operations in 1953 as a partnership firm in Uttar Pradesh – one of the major leather producing states. In 1984, STL was converted into a closely held public limited company and made its initial public offering in 1993. STL exports to more than 40 countries and contributed 80% (PY: 78%) of the total income in FY21 (refers to period April 1 to March 31). STL has a diversified customer and supplier base with top 5 customers constituted to ~22% of total sales during FY21 (PY: 18.92%).

Stable operational performance

The scale of operations of the company remains moderate and has increased by 4.72% from Rs. 183.06 crore in FY20 to Rs. 191.71 crore in FY21. Sales were impacted during the H1FY21 (refers to period from April 01 to September 30) on account of lower sales realization from leather shoe and components reducing from Rs 79.01 crore in FY20 (~46% of TOI in FY20) to Rs 78.49 crore in FY21 (~43% of TOI in FY21). STL's end user segment includes Footwear industry and Saddlery industry (includes bells, harness and dock collars), contributing 40% and 60% respectively. Despite the increase in raw hide prices owing to reduction in supply, the EBIDTA margin improved marginally and stood at 8.89% in FY21 (PY: 8.63%) mainly due to reduction in employee cost and other manufacturing expenses. Company's interest cost reduced from Rs.6.70 crore in FY20 to Rs.5.33 crore in FY21, however, due to deferred tax asset amounting to Rs.63 Lakh in FY21 (PY: 1.83 crore), PAT margin moderated and stood at 2.41% in FY21 (PY: 2.45%).

H1FY22 Performance: The company has reported sales of Rs.113.41 crore with PBILDT of Rs.6.81 crore during H1FY22 as against Rs.74.96 crore with PBILDT of Rs.6.48 crore in H1FY21.

Comfortable capital structure
The overall gearing of the company deteriorated and stood at 0.96x as on March 31, 2021 (PY: 0.88x) on account of increase in working capital utilization by company from Rs 67.45 crore as on March 31, 2020 to Rs 78.95 crore as on March 31, 2021. Due to the increase in the utilisation of working capital limits, total debt to GCA declined and stood at 8.53x in FY21 (PY: 8.62x). However, being classified as MSME, company gets subvention scheme benefit resulting into lower interest cost thereby improving interest coverage ratio which stood at 3.20x in FY21 (PY: 2.36x).

Key Rating Weaknesses
Elongated operating cycle
The operating cycle of the company remained elongated at 194 days in FY21 (PY: 198 days) on account of high inventory days of ~182 days in FY21 (PY: 191 days). The prices of raw hide are highly volatile which is dependent on the demand-supply of raw meat. Company procures raw hide in bulk quantities during Q4 in order to benefit from the low prices thereby leading to high inventory build-up as on March 31, 2021. The company's majority of inventory is kept in form of work-in-progress, which after chemical treatment to the raw hides procured not only to elongate the shelf life of raw hide but it also results in an uninterrupted supply of raw material to its manufacturing unit throughout the year. Furthermore, sometimes due to government regulations wet work (the process which entails discharge of polluted water) remains closed for around 20-30 days, therefore the company needs to maintain inventory for 1-2 months so that manufacturing process can be carried on unhindered.

Competition from organized and unorganized players
As per the Council of Leather Exports, India is the second largest global producer of leather footwear after China. Footwear industry is highly competitive in nature due to the low entry barriers on account of low capital investment required for setting up of a new facility. Also, the operations of the industry are labour intensive resulting in presence of large number of unorganized players in the industry. The prospects of the company shall be governed by its ability to profitably scale up operations without any adverse impact on the capital structure of the company.

Foreign exchange fluctuation risk albeit hedged
Export contribution to total sales constituted ~80% in FY21 (PY: 78%). With significant chunk of sales realization in foreign currency, the company is exposed to the fluctuation in exchange rates. Company partly hedges its exports (for around 45% of total exports) by booking forward contracts, around 10% is natural hedge and the remaining payments are made by the company in CAD (Cash against Documents). Company imports lining and leather for the shoe component based on customer specifications. In absence of any formal policy of hedging, the company remains exposed to the volatility in forex movement for the unhedged forex portion. The company has made foreign exchange fluctuation gain of Rs 1.56 crore in FY21 reducing from Rs 3.70 crore in FY20.

Liquidity: Adequate
The company has adequate liquidity marked by gross cash accruals of Rs 10.42 crore vis-à-vis scheduled repayment obligations of Rs.1.26 crore during FY22. Though, current ratio of the company remains moderate and stood at 1.15x for the year ending FY21 (PY: 1.16x) with moderate cash and bank balance of Rs 1.83 crore as on March 31, 2021. Further, company's average utilization levels have remained high at ~84% for last trailing twelve months ending Nov, 2021, primarily to fund the elongated operating cycle. There is no major capex envisaged in the near to medium term.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's Criteria on Liquidity Analysis of Non-Financial Sector Entities
Manufacturing Companies
Short Term Instruments

About the Company
Super Tannery Limited (STL), incorporated in February 1984 to acquire business of partnership firm 'Super Tannery' (set up in 1953). STL came up with an initial public offering in May 1993 and got listed on BSE. It was promoted by Mr. Iftikharul Amin, (aged 61 years and post graduate) who is managing director of company and is associated with the company since its inception. He is having over three decades of experience in leather and leather product industry.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	183.06	191.71	113.41
PBILDT	15.80	17.04	6.81
PAT	4.49	4.61	2.34
Overall gearing (times)	0.88	0.96	-
Interest coverage (times)	2.36	3.20	-

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2024	2.00	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	83.50	CARE BBB-; Stable
Non-fund-based - ST-Working Capital Limits		-	-	-	18.30	CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	7.50	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	2.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Nov-20)	1)CARE BBB-; Stable (05-Dec-19)	1)CARE BBB-; Stable (26-Nov-18)
2	Fund-based - LT-Working Capital Limits	LT	83.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Nov-20)	1)CARE BBB-; Stable (05-Dec-19)	1)CARE BBB-; Stable (26-Nov-18)
3	Non-fund-based - ST-Working Capital Limits	ST	18.30	CARE A3	-	1)CARE A3 (11-Nov-20)	1)CARE A3 (05-Dec-19)	1)CARE A3 (26-Nov-18)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	7.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Nov-20)	1)CARE BBB-; Stable / CARE A3 (05-Dec-19)	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Working Capital Limits	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: S Raja Raman
Contact no.: 011- 4533 3206
Email ID: raja.raman@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**