

## A.V. Thomas Leather and Allied Products Private Limited

January 07, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	105.20	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	18.00	CARE A2+ (A Two Plus)	Assigned
<b>Total Bank Facilities</b>	<b>123.20</b> <b>(Rs. One hundred twenty three crore and twenty lakh only)</b>		

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of A V Thomas Leather and Allied Products Private Limited (AVTL) take into account the strong promoter group with long track record of operations, long-standing client relationship with premium brands, internationally accredited manufacturing facilities with in-house design team, comfortable capital structure and coverage indicators.

The ratings are, however, constrained by stagnant revenue profile with high client concentration and modest profitability margins which are exposed to volatility in raw material prices.

#### Rating Sensitivities:

##### **Positive Factors:**

- Increase in the scale of operations above Rs.500 crore while maintaining profitability margins at 10% and above on a consistent basis.
- Reduction in client concentration risk.

##### **Negative Factors:**

- Any major debt-funded capex, resulting in deterioration of capital structure.
- Elongation of working capital cycle with collections extending beyond 120 days.

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

##### **Strong promoter group with long track record of operations**

The AV Thomas group, founded in 1925, is family-owned business group in south India, with the third generation at the helm of affairs. The group has diversified business interests across agricultural commodities, tea, solvent extraction, leather, rubber and spices. Some of the key entities belonging to the group include AV Thomas and Co. Limited, AVT McCormick Ingredients Private Limited and AVT Natural Products Limited. AVTL, established in 1977, is engaged in the manufacturing and export of leather goods and accessories such as wallets, belts, bags and footwear to leading brands in the United States and United Kingdom. The day-to-day operations of the company are managed by CEO, Mr Habib Hussain.

##### **Internationally accredited manufacturing facilities with in-house design team**

AVTL has eighteen manufacturing units in and around Chennai for manufacturing of the leather products. Each of these manufacturing units adhere to international manufacturing standards as required by their clients and are inspected by their clients on a periodic basis. AVTL also has in-house Research & Development team, equipped with qualified technicians, to develop innovative designs, which are then shortlisted by client representatives. AVT also has tie up with Alina Private Limited which has seven tanneries in and around Chennai.

##### **Long-standing relationship with premium brands**

AVTL is the largest supplier of wallets, belts and other products to Randa Accessories Leather Goods LLC (erstwhile Swank Inc) for more than 36 years. Randa Accessories was founded in 1910 and is one of the world's largest accessories companies with a portfolio of fifty brands spanning across eleven countries.

Walmart Inc. is one other major client of AVTL with relationship over 20 years. Walmart sells leather accessories under the brand 'George' earlier known as 'Faded Glory'. A V T Leather Inc.(AVTLI), USA was formed to own warehouses in USA for quick replenishment of stocks in Walmart stores.

Geox S.p.a is an Italian footwear company which manufactures and sells casual footwear and apparels in more than 110 countries. AVTL has been supplying footwear and other leather related products to Geox for about 18 years.

**Comfortable capital structure and coverage indicators**

The company's capital structure has remained comfortable over the years backed by a strong networth base and low debt. The overall gearing of the company stood comfortable at 0.13x as on March 31, 2020 (PY: 0.31x as on March 31, 2019). The debt largely consists of working capital debt and virtually no long-term debt. On the back of low debt levels and a fairly stable profits, the interest coverage ratio stood comfortable at 8.76x (PY: 7.42x), whereas, total debt to gross cash accruals remained low at 0.75 years in FY20 (refers to the period April 1 to March 31).

**Key Rating Weaknesses****High Client concentration**

While CARE notes the longstanding relationship with Randa and Walmart, it is also pertinent to note that the two together account for about 70% of the total sales of AVTL. Any slowdown in orders from these clients can impact the operations of AVTL. Going forward, ability of the company to further diversify its client base and geographical presence would be key to its prospects.

**Stagnant revenue profile**

Long-standing relationship with its customers enables it to obtain repeat orders year on year. However, the total operating income of the company has remained stagnant around Rs.400-Rs.420 crore for the past five years. The income profile consists of two major components namely wallets and belts which accounts for about 85% of the total sales, while foot wear accounts for about 15% of the total sales. Albeit addition of new customers in the footwear segment, AVTL is yet to receive significant uptick in orders from these clients.

**Exposure to volatility in raw material price and forex fluctuation**

AVTL imports calf, cow, and goat skins from USA, European and African countries based on client's needs. 100% of sheep skin is sourced from India. The suppliers are approved by the customers of AVTL and AVTL has arrangement for procuring wet blues or processed leather based on the orders received from their customers. However, the prices of the raw materials remain volatile due to the limited availability of raw materials.

As 95% of the revenue of AVTL is from export sales, the company is also exposed to foreign exchange fluctuation risk. This is partially mitigated as 30%-40% raw materials are imported acting as natural hedging. Furthermore, the company has a hedging policy to cover atleast 50%-60% of foreign currency exposure through forward contracts to mitigate forex fluctuations.

**Impact of covid lockdown**

The company has suspended its operations for about three months due to nationwide lockdown on account of Covid-19. Subsequently, the operations were restored with 50% capacity and gradually increased to 75%. Due to its labor-intensive nature of operations, social distancing norms limit the company from operating at its full capacity. The company has reported a total operating income of Rs.125 crore for the period H1FY21. Furthermore, the company has also seen an elongation in the collections cycle. Nevertheless, given the comfortable financial profile of the company, the ability to withstand this stress is higher and with expected improvement in operating environment the company is expected to scale up operations gradually and restore normal operations in the near term

**Liquidity-Adequate**

The liquidity of AVTL is marked by sufficient cash accruals against negligible repayment obligations and high cash balance. Current ratio stood comfortable at 3.07 as on March 31, 2020 (PY: 2.42 as on March 31, 2019) as current assets are mostly funded by long-term funds by way of networth. The collection period has improved from 92 days in FY17 to 63 days in FY20. The utilization of working capital limits for the past 12 months ended November 2020 stood comfortable at 15%. The cash balance as on March 31, 2020 was Rs.13.98 crore and liquid investments of Rs.0.83 crore. The company had a cash balance of Rs.13.33 crore as on September 30, 2020.

The company has not availed moratorium for its bank facilities.

**Analytical approach: Standalone****Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short term instruments](#)

[CARE's Methodology for manufacturing companies](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity analysis - Non-Financial sector](#)

**About the Company**

A V Thomas Leather & Allied Products Private Limited (AVTL), established in 1977, is engaged in the manufacturing and exporting of leather goods and accessories such as wallets, handbags, belts, and footwear to leading brands such as Randa,

Walmart, Geox, and Wolverine. The company is a part of the AVT group which has presence in varied sectors such as plantation, leather, spices, logistics, and biotechnology. AVTL with eighteen manufacturing units and around 5,000 employees, is one of the leading manufacturer of leather accessories in India. The day-to-day operations of the company are managed by CEO Mr Habib Hussain.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	398.65	401.22
PBILDT	42.75	32.23
PAT	20.53	18.90
Overall gearing (times)	0.31	0.13
Interest coverage (times)	7.42	8.76

A: Audited

**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:** Not Applicable

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

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-EPC/PSC	-	-	-	66.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	Sept 2022	2.20	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A2+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	37.00	CARE A-; Stable

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-EPC/PSC	LT	66.00	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	2.20	CARE A-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A2+	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2+	-	-	-	-
5.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	37.00	CARE A-; Stable	-	-	-	-

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bills discounting/ Bills purchasing	Simple
2.	Fund-based - LT-EPC/PSC	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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.

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