Super Tannery Limited

January 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	83.50	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	7.00	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	18.30	CARE A3	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Super Tannery Limited (STL) continue 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 moderate debt coverage indicators. The ratings also take into cognizance the company's ability to sustain its operational performance despite sluggish demand scenarios in global markets. The ratings are, however, constrained by presence of large organized and unorganized players in the leather industry, its elongated operating cycle and susceptibility of foreign currency price fluctuations.

CARE Ratings Ltd. has withdrawn the rating assigned to the term loan rated by us with immediate effect as the company has repaid such loan in full and there is no amount outstanding under the loan as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the company is likely to maintain its operating & financial performance coupled with adequate liquidity, thereby maintaining its comfortable solvency profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters: Mr. Iftikharul Amin, (aged 65 years) postgraduate, is the Managing Director of the company and is associated with the company since inception. He has around four decades of experience in leather industry. Mr. Iqbal Ahsan, Joint Managing Director, has been closely associated with the company for over 34 years and is involved in the operations of the company. 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 81% (PY: 82%) of the total income in FY23 (refers to period April 1 to March31). STL has a diversified customer and supplier base with top 5 customers constituted to ~30% of total sales during FY23 (PY: ~19%).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Stable operational performance: The scale of operations of the company remains stable with Y-o-Y growth of around 2% from Rs. 221.18 crore for FY22 to Rs. 224.59 crore for FY23 on account of improvement in sales of finished leather. During FY23, sale of finished leather contributed ~54% (PY: ~51%) and leather shoes and component contributed ~46% (PY: ~49%) of total sales amount. Since, the company is majorly into safety shoes under the footwear segment , the impact of global recessionary trend is comparatively lesser on the company. Further, owing to slight reduction in the raw hide prices, PBILDT Margin of the company improved to 7.37% as against 7.00% during the previous year. Resultantly, the PAT margin also improved marginally to 2.70% in FY23 from 1.82% during FY22. During H1FY24 (refers to the period from April 1 to September 30), company has achieved TOI of Rs. 109.46 crores with PBILDT margin of 8.10%. CARE Ratings' expects operational performance of the company to remain stable with increasing focus on value added products like saddlery and accessories over the medium term.

Moderate financial risk profile:
The overall gearing of the company stood at 0.72x as on March 31, 2023 (PY: 0.87x) which improved due to scheduled repayment of the term loans, slightly lower utilisation of working capital limits as on March 31, 2023, coupled with accretion of profits to tangible net worth. The interest coverage ratio of company moderated slightly from 3.91x for FY22 to 3.71x for FY23 mainly due to increased interest expenses from Rs. 3.96 crore in FY22 to Rs. 4.46 crore for FY23 on account of upward revision in base interest rates during the year. Further, on account of increase in gross cash accruals during FY23 & lower debt levels on balance sheet date, total debt to GCA has improved from 6.22x as on March 31, 2022, to 5.29x as on March 31, 2023. Overall gearing & interest coverage ratio of the company stood at 0.61x & 4.77x as on September 30, 2023. CARE Ratings' expects capital structure to remain comfortable supported by accretion of profits to reserves, strengthening the capital structure of the company.

Locational advantages along with readily available skilled and cost-effective manpower:
India is endowed with 21% of the world cattle and buffalo and 11% of world sheep and goat population. With 55% of the workforce below the age of 35, the Indian leather industry has one of the youngest and most productive workforces. The largest centre of the industry is in Uttar Pradesh. The major leather producing states are Tamil Nadu, West Bengal, Uttar-Pradesh and Haryana. Thus, Super Tannery Limited is favourably located in one of largest leather producing region of the country which results in better availability of raw materials and skilled labour helping in optimization of products cost and quality.

Key weaknesses

Elongated operating cycle: The operating cycle of the company has improved, but still remained elongated at 145 days in FY23 (PY: 162 days) on account of high inventory days of ~116 days as on March 31, 2023 (PY: 135 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, 2023. 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 to ensure unhindered manufacturing process during all months of the year.

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 ~81% in FY23 (PY: 82%). 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 45-50% 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 booked foreign exchange fluctuation loss of Rs 0.57 crore in FY23 as against foreign exchange gain of Rs. 3.07 crore in FY22.

Liquidity: Adequate
The company has adequate liquidity marked by gross cash accruals of ~Rs 14 crore vis-à-vis minimal repayment obligations of Rs.0.25 crore during FY24. Though, current ratio of the company remains moderate and stood at 1.13x for the year ending FY23 (PY: 1.10x) with moderate cash and bank balance of Rs 6.03 crore as on September 30, 2023. Further, company's average

utilization levels have remained high at ~85% for last trailing twelve months ending November 2023, primarily to fund the elongated operating cycle. The company is not planning any major capital expenditure apart from routine capex pertaining to repair & maintenance of existing machineries which will be financed through internal accruals only.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Leather And Leather Products

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. The company is engaged in manufacturing of finished leather, leather shoes and components. The company has 5 manufacturing facilities located in UP. The company is promoted by Mr. Iftikharul Amin, who is managing director of company and is associated with the company since its inception. He is having around four decades of experience in leather and leather product industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	221.18	224.59	109.46
PBILDT	15.49	16.54	8.87
PAT	4.03	6.06	2.71
Overall gearing (times)	0.87	0.72	0.61
Interest coverage (times)	3.91	3.71	4.77

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	01/03/2026	0.00	Withdrawn
Fund-based - LT-Working Capital Limits	-	-	-	-	83.50	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	7.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Working Capital Limits	-	-	-	-	18.30	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument /Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (06-Jan-23)	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BBB-; Stable (11-Nov-20)
2	Fund-based - LT-Working Capital Limits	LT	83.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-23)	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BBB-; Stable (11-Nov-20)
3	Non-fund-based - ST-Working Capital Limits	ST	18.30	CARE A3	-	1)CARE A3 (06-Jan-23)	1)CARE A3 (06-Jan-22)	1)CARE A3 (11-Nov-20)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST *	7.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jan-23)	1)CARE BBB-; Stable / CARE A3 (06-Jan-22)	1)CARE BBB-; Stable / CARE A3 (11-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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