

## Shivmani Exports Private Limited

April 04, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	0.10	CARE BB-; Stable	Revised from CARE BB+; Stable
Short Term Bank Facilities	15.00 (Enhanced from 14.00)	CARE A4	Revised from CARE A4+

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Shivmani Exports Private Limited (SEPL) take into account the significant deterioration in financial performance of the company in FY23 (refers to the period April 01 to March 31) and 9MFY24 along with moderation in debt protection metrics. The rating continues to be constrained by its small scale of operation, highly fragmented and regulated industry impacting profitability and business operations, susceptibility to volatility in raw material price and foreign exchange rates and moderate capital structure.

However, the aforesaid constraints are partially offset by its experienced promoters having long track record of operations, strategic location of the plant and reduced dependence on European market for its exports.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in scale of operation (turnover above Rs.75 crore) along with improvement in profitability margin (PBILDT margin above 4%) on sustained basis.
- Improvement in liquidity position and operating cycle below 60 days.
- Improvement in capital structure with overall gearing ratio improving to below 1.20x on a sustained basis.

#### Negative factors

- Any sizeable decline in scale of operation (turnover below Rs.35 crore) and deterioration in operating margin.
- Deterioration in overall gearing ratio beyond 1.60x on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects that CARE Ratings believes that the entity shall sustain its moderate financial risk profile over the medium term.

### Detailed description of the key rating drivers

#### Key weaknesses

##### Small scale of operation

The total operating income of the company has reduced from Rs.70 crore in FY22 to Rs.43 crore in FY23 leading to the scale of operation continuing to remain small. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress.

##### Deterioration in financial performance in FY23 and 9MFY24

The total operating income of the company has moderated by 38.45% on y-o-y basis from Rs.70.24 crore in FY22 to Rs.43.23 crore in FY23 mainly due to decline in demand from European market on account of Russia-Ukraine war. The operating margin also moderated to 2.37% in FY23 as against 5.11% in FY22 on account of rising cost of sales and lower sales realisation. However, the PAT margin has remained stable at 1.82% in FY23 as against 1.87% in FY22.

Also, the company has already achieved the turnover of Rs.29.70 crore with PAT of Rs.0.77 crore during 9MFY24. In FY24 also, the revenue and profitability are expected to remain impacted due to the Red Sea issue.

##### Moderate capital structure and debt protection metrics

Capital structure of the company remained moderate marked by overall gearing ratio at 1.27x as on March 31, 2023 (1.48x as on March 31, 2022). This apart, the debt service coverage indicators continued to remain moderate marked by deterioration in

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

TD/GCA from 7.97x as on March 31, 2022 to 9.43x as on March 31, 2023 mainly due to decline in GCA during FY23. Interest coverage ratio has also moderated to 1.02x in FY23 as against 3.13x in FY22 due to lower PBILDT.

### **Susceptibility to volatility in raw material price and foreign exchange rates**

SEPL does not have any tannery unit for manufacturing of finished leather, its basic raw material for manufacturing of leather goods like bags, wallet etc. Thus, in the absence of backward integration of its basic raw material, it has to depend upon local suppliers for purchase of finished leather. However, the company takes forward contracts against foreign exchange fluctuations to mitigate the forex risk.

### **Highly fragmented and regulated industry impacting profitability and business operations**

Leather industry is highly competitive in nature with presence of a large number of unorganized players in the market which shrinks the profitability margins. Furthermore, the Indian leather industry, to some extent, is impacted by Government policies which have been put in place for maintaining competitiveness of the domestic players. Some of the Government policies include import and export incentives by way of duty drawbacks.

### **Key strengths**

#### **Experienced promoters having long track record of operation**

SEPL has a long track record of operation of about 20 years in the leather business. Mr. Darshan Singh Sabharwal, Managing Director, have more than 30 years of experience in leather industry and Mrs. Tejender Singh Sabharwal have around 20 years of experience in the same business.

#### **Strategic location of the plant**

The manufacturing facility of SEPL is located at Picnic Garden, Kolkata which is in close proximity to the various tanneries situated at Calcutta Leather Complex for sourcing of finished leather, the main raw material for manufacturing of fashion leather products. Moreover, the company exports major part of its products to overseas market through vessels from Kolkata port. Thus, the company gets the benefit of its location.

#### **Reduced dependence on European countries**

The company's dependence for export on European countries like United Kingdom, Germany, France, Netherland, Spain, etc. has reduced from around 70% earlier to less than 50% in FY23 and 9MFY24 due to uncertainty associated with economic environment in European Union. The company has slowly started to diversify its exports business and has now included United States of America, which has also grown to be a significant source of its revenue.

#### **Liquidity: Stretched**

Liquidity is marked stretched due to high debt repayment obligations, high utilization of bank limits and modest cash balance. The average utilisation of the fund based working capital facility has been around 98% during the last 12 months period ended January 2024. The company had modest cash balance of Rs.0.07 crore as on March 31, 2023. The company earned GCA of Rs.2.05 crore against a debt repayment obligation of Rs.1.55 crore in FY23.

In FY24 the company has debt repayment obligation of Rs.1.02 crore against which the company is expected to generate sufficient cash accruals.

### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

### **About the company and industry**

#### **Industry classification**

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

Incorporated on February 2003, Kolkata based SEPL is promoted by Mr. Darshan Singh Sabharwal and Smt. Tejinder Kaur Sabharwal. Since inception, SEPL is engaged in the manufacturing of leather related products such as bags, wallet and other

leather accessories which is majorly exported to USA and to European countries viz. Germany, France, Netherland, Spain, Italy, Finland and United Kingdom (UK).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	70.24	43.23	29.70
PBILDT	3.59	1.03	NA
PAT	1.32	0.79	0.77
Overall gearing (times)	1.48	1.27	NA
Interest coverage (times)	3.13	1.02	NA

A: Audited UA: Unaudited; NA: Not Available; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-EPC/PSC		-	-	-	7.00	CARE A4
Fund-based - ST-EPC/PSC		-	-	-	8.00	CARE A4
Non-fund-based - LT-Bank Guarantee		-	-	-	0.10	CARE BB-; Stable

**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 - ST-EPC/PSC	ST	7.00	CARE A4	1)CARE A4+ (04-Apr-23)	-	1)CARE A4+ (31-Mar-22)	1)CARE A4 (31-Mar-21)
2	Fund-based - ST-EPC/PSC	ST	8.00	CARE A4	1)CARE A4+ (04-Apr-23)	-	1)CARE A4+ (31-Mar-22)	1)CARE A4 (31-Mar-21)
3	Non-fund-based - LT-Bank Guarantee	LT	0.10	CARE BB-; Stable	1)CARE BB+; Stable (04-Apr-23)	-	1)CARE BB+; Stable (31-Mar-22)	1)CARE BB; Stable (31-Mar-21)
4	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (31-Mar-22)	1)CARE A4 (31-Mar-21)

LT: Long term; ST: 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 - ST-EPC/PSC	Simple
2	Non-fund-based - LT-Bank Guarantee	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](mailto:care@careedge.in) for any clarifications.

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### About us:

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