Alina Private Limited

December 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	36.57 (Reduced from 37.31)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	13.80	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Alina Private Limited (APL) factors in satisfactory scale of operations albeit moderation in revenue in FY24, long-standing customer relationship with premium brands and merchandisers. The revenue reported slight moderation in FY24, however, remains better than pre-COVID-19 level. In FY24, profit before interest, depreciation, lease and tax (PBILDT) margin declined to 5.23% (PY: 8.09%), considering increase in raw materials price and repair & maintenance activity undertaken in FY24, reduction in footwear sales, which contributes better margins, and reduction in export sales from 70% to 60% among others. However, the same has witnessed a recovery and stood at 6.52% in H1FY25 and is expected to improve on the back of addition of customers in the export market. The capital structure continues to remain satisfactory and is expected to remain the same despite ongoing capex.

The company is undertaking a capex with a total estimated cost of ₹52.30 crore for adding another tannery unit and modernisation of its existing tannery plant and purchase new machineries with a project commercial operations date (COD) of March 2025 against previously estimated projected cost of ₹40 crore with project COD of March 2024. Moreover, against its earlier plan of funding the project with suppliers' credit, term loan and internal accruals, now the company has repaid the term loan which was taken from SBI (₹10 crore of the sanctioned term loan of ₹15 crore) has been repaid in full as it plans to fund the same from internal accruals. As on date, the company has no term loan except for supplier's credit. However, the company is exposed to project execution, operationalisation and stabilisation risk, hence timely operationalisation of the said unit and the company's ability to ramp-up its operations as envisaged will be a key rating monitorable.

Ratings continue to factor in the experienced promoter, Habib Hussain, with long vintage and industry expertise, and the company's internationally accredited manufacturing facilities with an in-house design team.

However, these ratings strengths are constrained by the high client concentration and the competition from organised and unorganised players. These rating strengths are also partially offset by margins susceptible to raw material price volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the total turnover to over ₹400 crore.
- Return on capital employed (ROCE) above 20% and total outside liabilities (TOL)/tangible net worth (TNW) of less than 1x on a sustained basis.

Negative factors

- Deterioration in capital structure with TOL/TNW over 2x.
- Decrease in revenue below ₹200 crore.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that the company will continue to maintain its satisfactory scale of operations backed by long-standing customer relationship with premium brands and merchandisers and long track record of promoters in the industry.

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

Detailed description of key rating drivers:

Key strengths

Satisfactory scale of operations albeit moderation in revenue
In FY23, the company had healthy footwear orders as the Chinese orders had shifted to Indian markets because of COVID-19 disruptions in China. On account of this incident, the FY23 was an exceptional year for the company in terms of sales and also contributed to a better margin as footwear has better margins in export sales. Increased sales primarily came from footwear sales which doubled in FY23. Gradually, with situation getting to normal and due to slowdown in the export markets, company's sales have normalised to earlier levels. The company has achieved turnover of ₹307 crore in FY24 against ₹369 crore in FY23. Nevertheless, majority income being earned from export markets which are undergoing slowdown, and the company's revenue has been normalised, however, remained higher than pre-COVID-19 levels. The company expects similar turnover in FY25 nonetheless, expected to benefit from the ongoing capacity addition from FY26 onwards. Its new tannery unit would be dedicated to manufacturing of leather for premium footwear and high-end leather products.

Satisfactory capital structure despite ongoing capex
The capital structure of the company remains satisfactory on a sustained basis marked by overall gearing 0.12x (PY: 0.10x) and TOL/TNW below unity at 0.60x (PY:0.76x) as on March 31, 2024. Moreover, despite availing suppliers' credit in view of ongoing capex for its tannery division, the capital structure is expected to remain satisfactory marked by TOL/TNW below unity for the projected years. Moreover, against its earlier plan of funding the project with suppliers' credit, term loan and internal accruals, now the company has repaid the term loan which was taken from SBI (₹10 crore of the sanctioned term loan of ₹15 crore) has been repaid in full as it plans to fund the same from internal accruals. As on date, the company has no term loan except for Supplier's credit.

Experienced promoter with long vintage and industry expertise
The business has a vintage of over three decades and exports leather goods and footwear to leading brands such as Tommy Hilfiger, Guess, and Fossil, among others. The company has eight factories in total and one designing centre, which houses about 2,200 employees. The day-to day operations of the company are managed by Habib Hussain, Chairman and Managing Director. Hussain also held the position of CEO in A V Thomas Leather & Allied Products Private Limited (AVTL; rated 'CARE A-; Stable/CARE A2+'). He is the former chairman of the Council for Leather Exports. Currently, he is director of the National Skill Development Corporation and Central Leather Research Chennai. He also holds the position of southern region chairman of federation of Indian export organisation.

Integrated factory operations with in-house design centre and experienced personnel
APL has three leather goods manufacturing factories, two footwear factories, and three leather finishing factories run by experienced leather technologists. Thus, the company has presence across the value chain, from tannery to processing finished leather. In FY21 and FY22, the company further backward integrated its operations by entering raw hide processing to convert into wet blue leather. The company also has a design centre where-in design and development of new leather and silhouettes are undertaken. The constant updation in the product design in line with the latest fashion trends is a major value add to the clients of APL. These selected designs are then approved for production with details including number of units, type of leather to be used, colour of product, among others. Client representatives perform the final quality check of products and clears them for shipping. Currently, APL is carrying out capacity expansion in its tannery division by adding another unit and modernisation of its existing tannery plant and purchase new machineries to increase its scale of operations.

Internationally accredited manufacturing facilities
APL has eight manufacturing units in and around Chennai. Each of these manufacturing units adhere to international manufacturing standards as required by their clients. The manufacturing units conform to the international standards of social and ethical norms for leather industry. APL has been recognised as a three-star export House by the Ministry of Commerce, Government of India. The leather goods division is ISO 9001:2008 certified. The tannery has a gold certificate from Leather Working Group, United Kingdom. The tanning facility of APL is certified as LWG Gold rated United Kingdom; the tannery also holds ISO 14001: 2015 certification for its environmental management systems. The factories are inspected by the client team on a regular interval for quality and social compliances. Client representatives are appointed by Geox (major customer for Alina) on the shop floor for clearing the finished products before shipping.

Long standing customer relationship with premium brands and merchandisers
APL manufactures leather goods for Tommy Hilfiger, Guess, and Fossil among others per the design of the client. These exports are based to United Kingdom, New Zealand, Australia, France, the US, Canada, and Latin American nations. The footwear sales

are primarily to Geox and is exported to Italy, the US, and Hong Kong. The company has also started exporting to Japan and China. Geox S.p.a is an Italian footwear company which manufactures and sells casual footwear and apparels in over 110 countries.

Key weaknesses

Project execution and stabilisation risk
The company had initiated an expansion plan, where it was putting up a tannery capacity intended for export markets for export of leather with latest machines. The total cost of the project was initially estimated at ₹40 crore, now the company is at its advance stages for adding of new joint venture (JV) partner/customers for sale of its products, hence the total cost of the project is estimated at ₹52.30 crore for additional capacity of 10 lakh sq.ft per month (Expandable up to 30 lakh sq.ft per month) and purchase of new machineries. Capex for plant is funded by suppliers' credit (SACE Scheme) to the extent of ₹21.20 crore and rest from internal accruals/promoter's infusion. Earlier, the company had estimated project cost at ₹40 crore funded by ₹15 crore term loan from the bank. Accordingly, the company had taken sanction of ₹15 crore from SBI and had taken disbursement of ₹10 crore, however, the company does not intend to take the balance disbursement and also has repaid the loan disbursed on November 27, 2024.

Previously, project COD was March 31, 2024. However, there has been delay in project due to unavailability of machines and equipment as same is imported from the European markets. It is a lengthy process requiring plenty verification and audit process. Also, the company is in the final stage of adding the customers for the proposed capacity. Accordingly, the project COD has been changed to March 31, 2025. As a current progress, the company has already incurred total cost of ₹29.02 crore towards the ongoing capex. Balance amount is expected to be incurred by FY25, and the unit is expected to commence its operations post FY25. Post completion the tannery capacity would increase from 10 lakh sqft per month to 20 lakhs per sqft per month expandable up to 30 lakh per month. The company would have revenue benefits from additional capacity from FY26 onwards. However, the company is exposed to project execution, operationalisation and profit risk, hence timely operationalisation of the said unit and the company's ability to ramp up its operations as envisaged will be a key rating monitorable.

Margins susceptible to raw material price volatility
APL's main raw material is leather which is volatile in nature and thus profitability depends largely on the movement in raw material prices. Also, company imports 30-35% of its leather requirement and thus is exposed to volatility in leather import prices. Although being into premium segment, the company is able to pass on increase in raw material prices to its customers through price correction. However, leather being a commodity is volatile and thus in case of frequent change in prices of leather, company may not be able to pass on the increase.

Subsequently, operating margins have impacted due to multiple reasons such as increase in raw materials price and repair & maintenance activity undertaken, reduction in footwear sales which contributes better margins, reduction in export sales from 70% to 60% etc, resulting in decline in PBILDT margin to 5.23% in FY24 (PY:8.09%). However, the PBILDT margins have shown recovery and stood at 6.52% in H1FY25. The PBILDT margins are further expected to improve on the back of addition of export customers. Also, with operationalisation of expansion from end of FY25 on the new capacity which is primarily targeted for specific and export customers to yield much high margins of over 10% in medium-to-long term.

Competition from organised and unorganised players
The footwear industry is highly competitive in nature considering low entry barriers, considering the low capital investment required to set up a new facility. Also, operations are labour-intensive resulting in presence of many unorganised players. However, APL produces footwear for premium segment – marked by their modern design and premium quality – designed by in-house designers and produced by low-cost labourers, which gives an edge to the company over its competitors. However, tannery business does not have much competition, and acts as a backward integration to fulfil its raw material requirements as 65-70% of domestic leather is used as raw material.

Liquidity: Adequate

The liquidity of APL remains adequate marked by adequate gross cash accruals (GCA) projected against nominal supplier credit repayment. The company is projected to generate a GCA of ₹25 crore against repayment of suppliers' credit of ₹5 crore in FY25. Current ratio has remained over 1.5x for past few years and stood comfortable at 1.57x as on March 31, 2024 (PY: 1.67x) as current assets are mostly funded by long-term funds by way of net worth. The cash balance as on September 30, 2024, was ₹0.59 crore. Average utilisation of fund-based limits in the last 12 months ending September 2024 is satisfactory at 27.10%. Working capital cycle remained satisfactory at 73 days as on March 31, 2024.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Leather And Leather Products

Started as a proprietary firm in 1991 by HMA Hussain and then converted into a private limited company in 2005, is engaged in manufacturing and exporting leather goods and footwear to leading brands such as Tommy Hilfiger, Guess, Fossil, and Geox, among others. The company has eight factories in total and one designing centre. APL has presence across the value chain, from tannery to processing finished leather. The day-to-day operations of the company are managed by its Managing Director, Habib Hussain.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	369.06	307.22	175.49
PBILDT	40.68	16.06	11.44
*Adjusted PBILDT	29.85	16.06	11.44
PAT	24.20	14.61	5.76
Overall gearing (times)	0.10	0.12	NA
Interest coverage (times)	9.61	3.55	4.83

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results
*PBILDT has been adjusted as cost of materials were shown as net off inventory cost to the tune of ₹10.83 crore, which was provisioned in FY23

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of the best available information and has classified the APL as 'Not cooperating' vide its press release dated November 24, 2023, considering non-availability of adequate information.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-EPC/PSC		-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Stand by Limits		-	-	-	6.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	#	0.57	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	3.80	CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	10.00	CARE A2

#The company has fully repaid the loan as per the bank loan account statement; however, the company is yet to share the closure letter.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-EPC/PSC	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-23)	1)CARE BBB+; Positive (21-Dec-22)	1)CARE BBB+; Stable (20-Jan-22) 2)CARE BBB+; Stable (01-Apr-21)
2	Fund-based - LT-Stand by Limits	LT	6.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-23)	1)CARE BBB+; Positive (21-Dec-22)	1)CARE BBB+; Stable (20-Jan-22) 2)CARE BBB+; Stable (01-Apr-21)

3	Fund-based - LT-Term Loan	LT	0.57	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-23)	1)CARE BBB+; Positive (21-Dec-22)	1)CARE BBB+; Stable (20-Jan-22) 2)CARE BBB+; Stable (01-Apr-21)
4	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A2	-	1)CARE A2 (22-Dec-23)	1)CARE A2 (21-Dec-22)	1)CARE A3+ (20-Jan-22) 2)CARE A3+ (01-Apr-21)
5	Non-fund-based - ST-Credit Exposure Limit	ST	3.80	CARE A2	-	1)CARE A2 (22-Dec-23)	1)CARE A2 (21-Dec-22)	1)CARE A3+ (20-Jan-22) 2)CARE A3+ (01-Apr-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-EPC/PSC	Simple
2	Fund-based - LT-Stand by Limits	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

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

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About us:
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