Super Tannery Limited

January 08, 2025

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

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 ratings also factor in locational advantage, 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 also take into consideration the improvement in operational performance during H1FY25 (refers to the period from April 01 to September 30) marked by growth in scale of operations with better profitability supported by focus on value added products. The ratings are, however, constrained by presence of large organized and unorganized players in the leather and footwear manufacturing industry, its elongated operating cycle and susceptibility of foreign currency price fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in capacity utilization with Return on capital employed (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 on sustained basis.
- Reduction in Total operating income (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 key rating drivers:

Key strengths

Experienced promoters:

Mr. Iftikharul Amin, (aged 66 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 35 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 same contributed around 81% of the total income in FY24 (refers to period April 1 to March 31). STL has a diversified customer and supplier base with top 5 customers constituted to ~44% of total sales during FY24 (PY: ~30%).

Stable operational performance with improvement visible during H1FY25: The scale of operations of the company remains stable with marginal Y-o-Y growth of around 1% during FY24 on account of improved contribution from Leather, fashion shoes & component segment. During FY24, sale of finished leather contributed ~42% (PY: ~52%) and leather, fashion shoes and component contributed ~54% (PY: ~44%) of total sales amount. The moderation in finished leather (tannery) segment was

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

primarily due to a downturn in orders, which was influenced by some challenges with vendors in Italy. However, the scenario has improved during the current year and the company has expanded its reach to other countries as well, which is expected to help maintain the sales momentum of the tannery division in line with past trends. Further, the company is now placing more focus on the more profitable footwear division, that positions it well for sustainable growth in the coming years. The company has also made capital investments in machinery for both the footwear and accessories divisions to facilitate growth. 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 greater contribution from shoes & component segment, PBILDT Margin of the company improved to 7.84% as against 7.37% during FY24. Although, the PAT margin moderated marginally to 2.60% in FY24 from 2.70% during FY23 on account of slightly higher interest & depreciation expense.
During H1FY25, the company has achieved TOI of Rs. 142.51 crores with Y-o-Y growth of ~30% with PBILDT margin of 7.45%. CARE Ratings' expects operational performance of the company to improve over the medium term with increasing focus on footwear and value added products like saddlery and accessories. However, the company's ability to effectively capture and expand its customer base would remain a crucial factor in driving operational growth.

Moderate financial risk profile:
The company's overall gearing ratio slightly deteriorated, standing at 0.78x as of March 31, 2024, compared to 0.72x in the previous year. This was primarily driven by a higher outstanding balance of working capital limits as of March 31, 2024. The company has made some investments and extended some loans & advances to its subsidiaries & associates adjusting which overall gearing of the company stood at 0.83x as on March 31, 2024 (PY: 0.76x). Additionally, the total debt to Gross Cash Accruals (GCA) ratio worsened from 5.29x on March 31, 2023, to 5.97x on March 31, 2024, due to the aforementioned increase in working capital borrowings. However, the company's interest coverage ratio showed a modest improvement, rising from 3.71x for FY23 to 3.85x for FY24, mainly attributed to an increase in operational profit. Any incremental exposure towards subsidiaries and associate companies, impacting liquidity of the company will remain a key monitorable.
As of September 30, 2024, the company's overall gearing and interest coverage ratios stood at 0.65x and 4.63x, respectively. CARE Ratings expects the company's capital structure to remain stable, supported by the continued accretion of profits to reserves, which will contribute to strengthening its capital base.

Key weaknesses

Elongated operating cycle:
The operating cycle of the company has improved, but still remained elongated at 142 days in FY24 (PY: 145 days) on account of high inventory days of ~107 days as on March 31, 2024 (PY: 116 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, 2024. 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. The company's average receivable days remain around 90 days. Receivables aged over 6 months rose to approximately Rs. 11 crore as of March 31, 2024, due to requests from some customers in Russia and Italy for extended credit periods last year. However, most of these receivables have been collected in the current year, and the outstanding debtors over 6 months now stand at around Rs. 5 crore as of September 30, 2024.
Going forward, company's ability to effectively manage its operating cycle & working capital requirements while keeping the capital structure at current levels, will remain a key monitorable.

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:
In FY24, exports accounted for approximately 81% of the company's total sales, consistent with the previous year. Given that a significant portion of sales revenue is realized in foreign currency, the company is exposed to fluctuations in exchange rates. To mitigate this risk, the company partially hedges its foreign currency exposure, covering around 45-50% of its total exports through

forward contracts. Additionally, it reduces exposure by making shipments and receiving payments in Indian currency for a portion of its exports, while about 10% is naturally hedged. The company imports lining and leather for shoe components based on customer specifications. However, in the absence of a formal hedging policy, the company remains vulnerable to the volatility of exchange rate movements for the unhedged portion of its foreign exchange exposure. In FY24, the company recorded a foreign exchange fluctuation loss of Rs 0.45 crore, compared to a foreign exchange loss of Rs 0.57 crore in FY23.

Liquidity: Adequate

The company has adequate liquidity marked by gross cash accruals of ~Rs 14 crore vis-à-vis minimal repayment obligations of Rs.0.21 crore during FY25. Though, current ratio of the company remains moderate and stood at 1.09x for the year ending FY24 (PY: 1.13x) with moderate cash and bank balance of Rs 4.74 crore as on September 30, 2024. Further, company's average utilization levels have remained moderate ~80% for last trailing twelve months ending November 2024, primarily to fund the elongated operating cycle.

The company would incur capex of around Rs. 5-6 crores for procurement of machineries for leather footwear division which shall be majorly funded through internal accruals.

Assumptions/Covenants: Not applicable

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

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

STL 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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	224.59	226.90	142.51
PBILDT	16.54	17.80	10.61
PAT	6.06	5.91	3.90
Overall gearing (times)	0.72	0.78	0.65
Interest coverage (times)	3.71	3.85	4.63

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

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-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 last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Out-standing (₹ 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-Term Loan	LT	-	-	-	1)Withdrawn (08-Jan-24)	1)CARE BBB-; Stable (06-Jan-23)	1)CARE BBB-; Stable (06-Jan-22)
2	Fund-based - LT-Working Capital Limits	LT	83.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Jan-24)	1)CARE BBB-; Stable (06-Jan-23)	1)CARE BBB-; Stable (06-Jan-22)
3	Non-fund-based - ST-Working Capital Limits	ST	18.30	CARE A3	-	1)CARE A3 (08-Jan-24)	1)CARE A3 (06-Jan-23)	1)CARE A3 (06-Jan-22)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	7.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (08-Jan-24)	1)CARE BBB-; Stable / CARE A3 (06-Jan-23)	1)CARE BBB-; Stable / CARE A3 (06-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/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-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	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 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:
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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