Azam Rubber Products Limited

September 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	51.98	**CARE D; ISSUER NOT COOPERATING* (Single D; Issuer not cooperating)**	Issuer not cooperating; Based on best available information
Short term Bank Facilities	30.80	**CARE D; ISSUER NOT COOPERATING* (Single D; Issuer not cooperating)**	
Total	**82.78 (Rupees Eighty two crore and seventy eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated July 31, 2019, continues to place the ratings of Azam Rubber Products Limited under the 'Issuer Not Cooperating' category as the company had failed to provide the requisite information required for monitoring of the ratings as agreed to in its rating agreement. Azam Rubber Products Limited continues to be non-cooperative despite repeated requests for submission of information through phone calls and a letter/email dated Sep 02, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available Information which however, in CARE'S opinion is not sufficient to arrive at a fair rating. The ratings on bank facilities of Azam Rubber Products Limited are denoted as **'CARE D; Issuer not cooperating'**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

CARE has not received any information from the company. At the time of last rating on July 31, 2019 the following were the rating strengths and weaknesses (updated for FY19 financials extracted from ROC):

Key Rating Weaknesses

Irregularities in debt servicing

There have been instances of over drawls in cash credit facility availed by the company during September 2016 to March 2017. The average working capital utilization remained high at 109.36% during the trailing 12 months period ending April 2017 reflecting the stressed liquidity position. The company reported losses in FY17 (refers to April 1 to March 31).

Decrease in operating income and reduction in margins

The operating income of ARPL decreased by 21.88% y-o-y to Rs.66.47 crore in FY19 (PY: Rs.85.09 crore) on account of lower sales realization due to low end products damaged in fire sold at discounts. The company suffered losses at the operating level as well as net level largely due to the fire at the company's premises.

Weak financial risk profile and elongated working capital cycle

The overall gearing stood at 1.57x as on March 31, 2019 (PY: 1.86x). The company's operating cycle also deteriorated on account of increase in collection period and inventory holding period.

Susceptible of margins to volatility in raw material prices

The major raw materials of ARPL are natural rubber, Ethylene Vinyl Acetate (EVA) and Polyvinyl Chloride (PVC) whose prices fluctuate with the fluctuations in crude oil prices. As the raw material cost comprises major cost out of the total cost of sales, the volatility in price of raw materials impacts the profitability margins of the company.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

**Issuer did not cooperate; Based on best available information*

Competition from organized and unorganized players
Footwear industry is highly competitive in nature due to low entry barriers on account of low capital investment required to set up a new facility. Also, operations are labor intensive resulting in presence of a large number of unorganized players. Driven by larger penetration into tier II, III cities and growing rural market, various footwear brands are foraying into Indian market which restricts the profitability margins of industry players like ARPL.

Key Rating Strengths

Experienced promoters with continued financial support
ARPL is a closely-held family-owned business which was incorporated in 1994 by Mohd. Azam Khan who has an experience of over three decades in the field of rubber footwear and related products. His long industry experience has led to established relationships with the customers and suppliers. In the past, company had received support from promoters in the form of capital infusion

Diverse product portfolio The company is primarily present in low/ medium value footwear with a diversified product range which includes hawai, fancy and leather slippers, sandals, sports and canvas shoes and other varieties of footwear. The diversified product portfolio mitigates the risk of decline in demand of a particular type of the product manufactured by the company.

Liquidity: Poo - Operating cycle days of the company had increased to 506 days in comparison to 341 days in FY18; with substantial increase in Average inventory period from 149 days in FY18 to 247 days in FY19.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by Issuer
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Rating Methodology-Manufacturing Companies
CARE's methodology for Short-term Instruments

About the Company
Incorporated in 1994, ARPL is promoted by Mr Mohd Azam Khan. The company is engaged in manufacturing of footwear including hawai slippers, sandals and sports shoes among others and has two manufacturing units located at GIDA (Gorukhpur Industrial Development Authority), Gorakhpur, Uttar Pradesh with a total installed capacity of 5.52 crore pairs as on March 31, 2017. In Unit 1, Hawaii footwear is produced and in Unit 2, Ethylene Vinyl Acetate/Polyvinyl chloride (EVA/PVC) footwear is produced. The main raw material used by the company is rubber, EVA and PVC which it procures domestically. The products of the company are marketed in U.P, Bihar, Jharkhand, Chhattisgarh and Madhya Pradesh under brand name 'ARP' through a network of around 250 dealers..

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	85.09	66.47
PBILDT	12.77	9.62
PAT	-1.85	-1.00
Overall gearing (times)	1.86	1.57
Interest coverage (times)	1.42	1.25

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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-Term Loan	-	-	-	29.48	CARE D; ISSUER NOT COOPERATING*
Non-fund-based-Short Term	-	-	-	30.80	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	22.50	CARE D; ISSUER NOT COOPERATING*

**Issuer not cooperating; Based on best available information*

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-Term Loan	LT	29.48	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D; ISSUER NOT COOPERATING* (31-Jul-19)	-	1)CARE D; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE D (12-Jul-17) 3)CARE B+; ISSUER NOT COOPERATING* (05-Apr-17)
2.	Non-fund-based-Short Term	ST	30.80	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D; ISSUER NOT COOPERATING* (31-Jul-19)	-	1)CARE D; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE D (12-Jul-17) 3)CARE A4; ISSUER NOT COOPERATING* (05-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	22.50	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D; ISSUER NOT COOPERATING* (31-Jul-19)	-	1)CARE D; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE D (12-Jul-17) 3)CARE B+; ISSUER NOT COOPERATING* (05-Apr-17)

**Issuer not cooperating; Based on best available information*

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based-Short Term	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. Investors/market intermediaries/regulators or others are welcome to write to 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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