Basant Overseas

August 11, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Short term Bank Facilities	13.50	CARE A4+ (A Four Plus)	Assigned
Total facilities	**13.50 (Rs. Thirteen crores and fifty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Basant Overseas draws comfort from experienced management and long track record of operations ,moderate profitability margins, moderate financial risk profile and adequate liquidity position. The ratings, is however constrained by small and growing scale of operations, Foreign currency fluctuation risk, Highly fragmented and competitive nature of footwear industry and Constitution of the entity being a partnership firm

Rating Sensitivities

Positive Factors:

- Improvement in scale of operations followed by increase in operating income up to 100 crores on a sustained basis.

Negative Factors:

- Deterioration in profitability margins marked by PBILDT margins below 8.00%.
- Deterioration in Capital structure marked by overall gearing below 1.25x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and long track record of operations

Basant Overseas (BOS) is a Partnership firm and established in 1991 by Mr. Kuldeep Singh Gujral, Mr. Jaswinder Singh Gujral and Mr. Gaurav Gujral. All are graduates by qualification and have experience of more than two and half decades through their association with this entity. They are associated with BOS since its inception and look after overall business of the firm. The long standing presence in industry through this entity and other associates has enabled the firm to establish a relationship with its customers and suppliers in the industry.

Moderate Financial Risk Profile

The profitability margins of the firm marked by PBILDT margin and PAT margin stood moderate for past three financial year i.e. FY18-FY20 (Prov.). The firm maintains wide variety of product (Footwear) portfolio wherein the margins largely depends upon category and quality of footwear manufactured being customized products as per the specification of the clients. The profitability margins marked by PBILDT margin and PAT margins stood at 10.69% and 8.20% respectively for FY20 (prov.). However, there is marginally decline in margins as compare to FY19(A) as marked by PBILDT margin and PAT margins at 12.14% and 9.22% respectively on account of increase in cost of material purchased and Labour and overheads during the year.

The capital structure marked by debt equity ratio and overall gearing ratio stood moderate at 0.25x and 0.36x as on March 31, 2020(Prov) on account of lower utilization of working capital borrowings. as compare to 0.01x and 0.48x respectively in FY19 (A) on account of moderate reliance on bank borrowings as compare to existing net worth.
The coverage indicators marked by Interest coverage ratio and total debt to GCA ratio stood moderate at 9.78x and 1.35x in FY20 (Prov.) as against 9.15x and 1.61x for the FY19 (A) on account of increase in gross cash accruals during the year and lower utilization of working capital borrowings. The firm total debt has reduced to Rs. 10.76 crores as on March 31, 2020 (Prov.) from Rs. 12.36 crores as on March 31, 2019 inspite of the firm has taken LAP loan from HDFC bank of Rs. 7.45 crores (Sanctioned amount of Rs. 7.50 crores) and lower utilization of working capital borrowings.

[1]*Complete definitions of the ratings reaffirmed are available at www.careratings.com and in other CARE publications.*
**Issuer did not cooperate; Based on best available information*

Moderate operating Cycle

The operating cycle of the firm stood moderate at 32 days in FY20 (Prov.) as against 25 days in FY19 (A). The Average collection period stood at 31 days in FY20 (Prov) as against 28 days in FY19 (A) on account of healthy relationship with the customers. The average inventory period stood 74 days in FY20 (Prov.) as against 61 days in FY19(A) , as firm needs to maintain adequate level of inventory in the form of raw material and finished product for smooth functioning of its manufacturing process. Furthermore, there is slight delay in payment to creditors resulting to Average creditors days of 72 days in FY20 (Prov.) from 64 days in FY19 (A) as the payment made once received. The average working capital borrowings of the firm remained 70% utilized.

Liquidity Position- Adequate

Adequate liquidity characterized by sufficient cushion in accruals marked by Gross cash accruals of Rs. 7.96 crores with respect to repayment obligations of LAP of 0.25 crores (Rs. 12.06 Lakhs monthly installments starts from February 2020) and Vehicle loan of Rs.0.07 crores and moderate cash balance of Rs. 0.29 Crore as March 31, 2020(Prov). Its bank limits are utilized to the extent of 30% for the past 3 months (February 20 to April 20) ended April 30, 2020 and supported by above unity current ratio of 1.26x and quick ratio of 0.60x as on March 31, 2020(Prov.).The firm has working capital borrowings from Canara bank of Rs. 10.00 crores (Rs. 8.50 crores of Packing Credit and Rs. 1.50 crores of Foreign bill discounting). The moratorium facility and facility of deferment of interest is not availed by the client for Canara bank and HDFC bank.

Key Rating Weaknesses

Small and growing scale of operations

The firm's scale of operations during FY20(Prov.) marked by total operating income and gross cash accruals has improved and stood at Rs.82.35 crore and Rs.7.96 crore respectively as compare to Rs. 70.31 crores and 7.66 crores respectively in FY19(A) is on account of higher intake of orders from existing customers. Further, the net worth base stood moderate at Rs.29.77 crore as on March 31, 2020(Prov.). The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

Foreign currency fluctuation risk

The firm's operations are dependent on the export market as industry's revenue is mainly driven by the overseas market than the domestic market. With initial cash outlay for procurement in domestic currency and significant chunk of sales realization in foreign currency, the firm is exposed to the fluctuation in exchange rates. However, the firm hedges around 100% of its export receivable through forward contracts which reduce the foreign currency exposure to large extent.

Highly fragmented and competitive nature of footwear industry

BOS operates in the footwear industry which is highly fragmented and has various organized and unorganized players. The industry is labour intensive and requires low capital investment which resulted into low entry barriers. Further there is a low product differentiation among the players. These factors resulted into high competition among them. Being a small player in the industry the firm is not able to increase the price of its products which affect the profitability margins of the firm

Constitution of the entity being a partnership firm

BOS constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Impact of Covid-19

Due to lockdown announced by Government of India in the wake of COVID-19, the firm had to shut down its operations from March 24, 2020 and up to April 2020. The operational expenses of the firm are being managed from the realization of the debtors and Export incentives and GST realization of Rs. 2.50 crores. The firm has realised Debtors of Rs. 2.70 crores till date out of total of Rs 7.50 crores as on March 31, 2020. Also, the salaries to the employees were given in the form of some advances depending upon their salary bracket in the months of March and April. However, as per the new directives issued by the government, the firm has received necessary permissions to start its manufacturing facilities with limited capacity of 60% workforce. As per the management, owing to the restrictions on account of labour constraints, supply chain restrictions etc., the sales are likely to be adversely affected to a certain degree in the initial months of FY21. The firm has booked Sale of Rs. 1.15 crore as date, May 31, 2020. As on April 30, 2020, the firm has confirmed unexecuted orders in hand from the Export Clients amounting to ~Rs.30.00 crore which will be executed till September 2020. The firm has the sufficient orders in hand as in normal scenario only the timely delivery of the finished goods has affected. BOS majorly exports its product to the stores located in USA, Europe and Australia.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Firm
Uttar Pradesh based, Basant Overseas (BOS) is a Partnership Firm, established on October 01, 1991 and is currently being managed by Mr. Kuldeep Singh Gujral, Mr. Jaswinder Singh Gujral and Mr. Gaurav Gujral. The firm is engaged in the manufacturing of leather footwear which includes casuals and high fashion foot wears at its manufacturing units located at Agra, Uttar Pradesh with an installed capacity of 8,00,000 pairs per annum as on March 31, 2020. The unit set up has been assembled under the guidance of experienced industry experts, which allows testing production techniques and fully developing and commercializing the innovative products for the clients. The factory has insole unit, Prefab sole unit, leather sourcing and finishing division. BOS is a family owned firm established in 1985 by Kuldeep Singh Gujral. The firm provides services to its customers in terms of providing competitive pricing, internationally complaint factory, timely deliveries, ERP based working, In house Design studio ,Hi tech Research and development / P.D. facilities, skilled artisan team, stringent QC, QA, AQL process and research /PROP65 compliant materials. The manufacturing process involves procurement of leather, finishing, high speed punching, Lazer work, riveting, embroidery, heat transfers. The main raw material for the manufacturing of footwear are leather cloth, sole sheets, nails, forms, packing material and grindery and other different raw material depending upon the type of products. The raw material is procured 90 % domestically from local manufactures and dealers and 10 % imports from countries like, Singapore, China etc. The finished goods are Exported (98%) to Countries like Europe, USA and Australia and also sold (2%) in India. The Firm is engaged in manufacturing of 90% women's footwear and 10 % others (Which includes men's footwear and children's footwear).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (P)
Total operating income	60.04	70.31	82.35
PBILDT	8.21	8.54	8.81
PAT	5.65	6.48	6.76
Overall gearing (times)	0.46	0.48	0.36
Interest coverage (times)	0.46	0.48	0.36

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: CRISIL A4+; Issuer not cooperating via Press Release dated August 31, 2019

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 - ST-PC/Bill Discounting	-	-	-	10.00	CARE A4+
Fund-based-Short Term	-	-	-	3.50	CARE A4+

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 - ST-PC/Bill Discounting	ST	10.00	CARE A4+	-	-	-	-
2.	Fund-based-Short Term	ST	3.50	CARE A4+	-	-	-	-

Annexure 3: Detailed Explanation of Covenants of the rated instruments/ facilities: Not Applicable.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-PC/Bill Discounting	Simple
2.	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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