

## Metro and Metro

### February 24, 2017

#### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	24	<b>CARE A-; Stable/ CARE A2+ [Single A Minus, Outlook: Stable/ A Two Plus]</b>	<b>Reaffirmed and reclassified to LT/ST</b>
Short-term Bank Facilities	5	<b>CARE A2+ [A Two Plus]</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>29 (Rupees Twenty Nine crore only)</b>		

*Details of facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metro & Metro (Metro) continue to factor in the firm's healthy profitability margins, its comfortable financial risk profile and healthy liquidity position. The ratings continue to derive strength from the extensive experience of the partners in the footwear business and the firm's long track record of operations. The ratings are, however, constrained by the susceptibility of the firm's profitability margins to volatility in the foreign exchange rates, customer concentration risks and its constitution being a partnership firm. Going forward, the ability of the firm to maintain healthy profitability margins while effectively managing the foreign exchange fluctuation risk and maintain a comfortable capital structure would be the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

**Experienced partners and long track record of operations:** Metro was formed in 1991 and is currently managed under the partnership of Mr Ajit Nath Kalsi and his wife Mrs Meenakshi Kalsi. The firm has a long track record of operations for more than two decades. Prior to 1991, the partners were engaged in shoe manufacturing business for more than 20 years. This long-standing experience of partners in shoe manufacturing business and long track record of operations has enabled the firm to establish itself in the industry.

**Healthy profitability:** The firm's PBILDT margins decreased to 11.26% in FY16 (refers to the period April 01 to March 31) (PY: 14.37%) largely on account of increase in raw material cost and lower fixed cost absorption due to lower sales. As a result of decline in PBILDT margins, the PAT margin also moderated to 8.73% in FY16 (PY: 12.37%). Nevertheless, the profitability margins continued to remain healthy.

**Comfortable financial risk profile and healthy liquidity position:** The overall gearing of the firm continued to remain comfortable at 0.27x as on March 31, 2016 (PY: 0.24x) as the firm does not have any long term debt and its net worth stood healthy at Rs.37.67 crore as on March 31, 2016 (PY: Rs.39.11 crore). The debt coverage indicators continued to remain comfortable as reflected by interest coverage of 12.23x in FY16 (PY: 19.74x). The liquidity position of the firm is supported by cash and bank balance of Rs.10.65 crore as on March 31, 2016. Furthermore, the utilization of the working capital limits also stood low at 42% for the last 12 month ending December 2016 due to its comfortable operating cycle of 39 days as on March 31, 2016 (PY: 23 days).

##### Key Rating Weaknesses

**Customer concentration risk:** Metro's revenue profile is highly concentrated with top 10 customers constituting 87% of the total sales in FY16 (PY: 75%). Its sales to single largest customer continued to remain high at 43% in FY16, though decreased from 46% in FY15. However, the firm has established long term relationship of 10-15 years with its existing customers which off-sets the revenue concentration risk to a large extent.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Foreign exchange fluctuations risk:** The firm's profitability margins are susceptible to the volatility in the foreign exchange rates due to export oriented nature of business. However, about 30% of its total raw material is imported, thereby providing it a natural hedge to some extent. Nonetheless, the firm continues to remain exposed to foreign exchange fluctuation risk for the remaining portion as it hedges about 8%-10% of total outstanding exposure. The firm registered foreign exchange fluctuation gain of Rs.0.80 crore in FY16.

**Constitution being a partnership firm:** Metro's 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 the firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firm has restricted access to external borrowing as credit worthiness of partners would be the key factor affecting credit decision for the lenders.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook 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

Metro was formed in 1991 as a partnership firm by Mr Dwarka Nath Kalsi and his son, Mr Ajit Nath Kalsi. In 2011, after the demise of Mr Dwarka Nath Kalsi, Mrs Meenakshi Kalsi (wife of Mr Ajit Nath Kalsi) joined the business as a partner. The firm is engaged in the manufacturing of leather footwear at its manufacturing plant situated at Agra with an installed capacity of 18,00,000 pairs per annum as on March 31, 2016.

During FY16, the firm reported total operating income of Rs.109.41 crore and PBILDT and PAT of Rs.12.31 crore and Rs.9.56 crore, respectively. Furthermore, during 10MFY17 (refers to the period April 01 to January 31) (provisional), it reported sales of Rs.103.92 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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/ ST-EPC/PSC	-	-	-	10.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A2+
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	4.00	CARE A-; Stable / CARE A2+

**Annexure-2****Rating History for last three years:-**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT/ ST-EPC/PSC	LT/ST	15.00	CARE A-	1)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)	-	1)CARE A3 (08-Jan-14)
2.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A2+	1)CARE A2+ (19-Apr-16)	1)CARE A2+ (23-Apr-15)	-	1)CARE A3 (08-Jan-14)
3.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	5.00	CARE A-	1)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)	-	1)CARE A3 (08-Jan-14)
4.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	4.00	CARE A-	1)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)	-	-

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