Metro and Metro

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/ Short term Bank Facilities	29.00	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short-term Bank Facilities	11.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	**40.00 (Rupees Forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metro and Metro (Metro) continue to take into account the extensive experience of the partners in the footwear business and the firm's long track record of operations and long standing association with the clients. The ratings are further supported by firm's steady total operating income with moderation in profitability margins and healthy financial risk profile marked by comfortable gearing and interest coverage indicators. The ratings are, however, constrained by the susceptibility of the firm's profitability margins to volatility in the foreign exchange rates, customer concentration risks, high competition in the leather footwear industry and its constitution being a partnership firm.

Going forward, the ability of the firm to increase its scale of operations while maintaining healthy profitability margins and comfortable gearing would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced partners and long track record of operations*:* The firm has a long track record of operations for more than two decades. The partners were engaged in shoe manufacturing business for more than 21 years prior to the formation of Metro. 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.

Steady total operating income albeit moderation in profitability margins: Metro reported a steady total operating income in FY18 (refers to the period April 1 to March 31). However, the firm's PBILDT margins declined to 8.71% in FY18 (PY: 10.77%) largely on account of increase in cost of shoe soles which are purchased from the market. As a result of decline in PBILDT margins, increase in interest expenses due to higher utilisation of the working capital limits and increase in depreciation cost, PAT margins also declined to 5.89% in FY18 (PY: 8.32%). Further, as per the provisional results of 9MFY19 (refers to the period April 1 to December 31), the firm has registered sales of Rs. 109.41 crore with PAT margins of 5.59%.

Healthy financial risk profile and comfortable liquidity position: The overall gearing of the firm continued to remain comfortable in the absence of any long term debt. The debt coverage indicators moderated slightly due to increase in interest expenses, lower profitability and higher working capital debt outstanding. The liquidity position of the firm was supported by healthy cash and bank balance of Rs. 16.38 cr. as on March 31, 2018 (PY: Rs. 13.08 cr.). Furthermore, the utilization of the working capital limits remains moderate.

Key Rating Weaknesses

Customer concentration risk: Metro's revenue profile is highly concentrated with top 10 customers constituting 83% of the total sales in FY18 (PY: 84%) with the top customer contributing towards 50% of the total revenue in FY18 (PY: 51%). However, the established long term relationship with its customers mitigates the customer concentration risk to a large extent.

Foreign exchange fluctuations risk: The firm is mainly focused in the export market which exposes the profit margins to fluctuations in foreign exchange rates as the firm hedges only part of the outstanding exposure post natural hedge due to imports of 30% of its total raw material. However, the firm registered foreign exchange fluctuation gain of Rs. 2.32 cr. in FY18 (PY: Rs. 0.58 cr.).

Competition from organized and unorganized players: Footwear industry is highly competitive in nature due to low capital investment required to setup a new facility and operations are labour intensive resulting in presence of large number of unorganized players. The same restricts the profit margins of industry players.

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

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 and the firm being dissolved upon the death/retirement/insolvency of partners with restricted access to external borrowing as credit worthiness of partners would affect 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, 2018. The firm is primarily into exports as it sells its shoes to the overseas retailers mainly based in Europe and USA.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	135.80	137.24
PBILDT	14.63	11.95
PAT	11.30	8.08
Overall gearing (times)	0.41	0.51
Interest coverage (times)	8.83	6.74

A: Audited

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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	-	-	-	15.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Working Capital Limits	-	-	-	11.00	CARE A2
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	4.00	CARE BBB+; Stable / CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-EPC/PSC	LT/ST	15.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (28-May-18)	1)CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE A-; Stable / CARE A2+ (24-Feb-17) 2)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)
2.	Non-fund-based - ST-Working Capital Limits	ST	11.00	CARE A2	1)CARE A2 (28-May-18)	1)CARE A2; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE A2+ (24-Feb-17) 2)CARE A2+ (19-Apr-16)	1)CARE A2+ (23-Apr-15)
3.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	10.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (28-May-18)	1)CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE A-; Stable / CARE A2+ (24-Feb-17) 2)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)
4.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	4.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (28-May-18)	1)CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE A-; Stable / CARE A2+ (24-Feb-17) 2)CARE A- (19-Apr-16)	1)CARE A- (23-Apr-15)

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