

## Metro and Metro

May 28, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/ Short term Bank Facilities	29.00 (enhanced from 24.00)	<b>CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)</b>	<b>Reaffirmed and removed from issuer not cooperating</b>
Short-term Bank Facilities	11.00 (enhanced from 5.00)	<b>CARE A2 (A Two)</b>	<b>Reaffirmed and removed from issuer not cooperating</b>
<b>Total Facilities</b>	<b>40.00 (Rupees Forty crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metro and Metro (Metro) 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 healthy 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 enhance 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 20 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.

**Healthy profitability:** The total operating income increased by 24% in FY17 (refers to the period April 1 to March 31) on account of higher units sold. However, the firm's PBILDT margins decreased marginally due to increase in leather prices. As a result of decline in PBILDT margins and increase in interest expenses, the PAT margin also moderated to 8.32% in FY17 (PY: 8.73%). Nevertheless, the profitability margins continued to remain healthy. Further, the firm reported PBILDT margin of 11.23% on total income of Rs. 111.91 cr during 9MFY18 (refers to the period April 1 to December 31).

**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 and higher working capital outstanding. The liquidity position of the firm was supported by healthy cash and bank balance of Rs. 13.08 cr as on March 31, 2017. Furthermore, the utilization of the working capital limits remained moderate.

#### Key Rating Weaknesses

**Customer concentration risk:** Metro's revenue profile is highly concentrated with top 10 customers constituting 84% of the total sales in FY17 (PY: 79%) with the top customer contributing towards 51% of the total revenue in FY17 (PY: 43%). However, the established long term relationship with its customers mitigates the customer concentration risk to a large extent.

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

**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. 0.58 cr in FY17 (PY: Rs. 0.80 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 can potentially restrict the profit margins of industry players.

**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)	FY16 (A)	FY17 (A)
Total operating income	109.41	135.80
PBILDT	12.31	14.63
PAT	9.56	11.30
Overall gearing (times)	0.27	0.41
Interest coverage (times)	12.23	8.83

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](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.

#### Analyst Contact

Name: Mr. Ajay Dhaka

Tel: 011-45333218

Mobile: +91 88268 68795

Email: [ajay.dhaka@careratings.com](mailto:ajay.dhaka@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://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.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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; 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; 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; 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; 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)

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691