

Super Tannery Limited

November 26, 2018

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Remarks |
|------------------------------|--|--|--|
| Long-term Bank Facilities | 92.50 | CARE BBB-: Stable (Triple B Minus; Outlook: Stable) | Reaffirmed; Removed from Credit Watch with developing implications |
| Short-term Bank Facilities | 18.30 | CARE A3 (A Three) | Reaffirmed; Removed from Credit Watch with developing implications |
| Total Bank Facilities | 110.80 (Rupees One hundred ten Crore and eighty lakhs only) | | |

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Super Tannery Limited (STL) derives comfort from the experience of the promoters in tannery and leather industry, the company's long track of operations and diversified customer base across various industries. Further, the ratings also derives strength from the company's moderate financial risk profile with moderate gearing as well as debt coverage indicators and location advantages. However, the ratings are constrained by STL's modest scale, low profitability margins amid high competition, working capital intensive nature of operations and foreign exchange fluctuation risk. The ratings take cognizance of demerger of goat tannery business into Amin Tannery Limited resulting in marginal reduction in debt and net-worth base of STL from pre-demerger levels.

Going forward, the ability of STL to increase scale of operations and improve profitability margins while effectively managing the foreign exchange fluctuation risk and competition would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: Mr. Iftikharul Amin is the managing director of the company and is having over 30 years of experience in leather industry. Mr. Imran Siddiqui, also joint managing director, is a chemical engineer and joined the board of the company in 1992. Mr. Mohd. Imran is a Chartered accountant and looks after export, import, accounts, excise, customs and foreign trade matters.

Established market position in leather industry: The company started its operations in 1953 (as a partnership firm). Over the years, the company has established its market position in leather industry. During the course of its operation, STL made its footprints all over the world with over 82% (PY: 78%) of the revenue coming from exports in FY18 (refers to the period April 1 to March 31). STL exports to over 40 countries in the world.

Moderate financial risk profile: The overall gearing of the company improved marginally and stood at 1.08x as on March 31, 2018 (PY: 1.12x). The company's debt servicing metrics marked by interest coverage ratio improved to 2.77x during FY18 (PY: 2.24x), on account of decrease in interest expense. Further, on account of improved gross cash accruals, total debt to gross cash accruals improved and stood moderate at 8.23x in FY18 (PY: 8.52x).

Location advantages: Super Tannery Limited is favourably located in one of largest leather producing region of the country which results in better availability of raw materials and skilled labour helping in optimization of products cost and quality.

Key Rating Weaknesses

Modest scale of operations and low profitability margins: The scale of operations of the company remains modest, however increased from Rs. 233.12 crore during FY17 to Rs. 235.49 cr. during FY18 on account of improved average sales realizations during FY18. However, PBILDT margins of the company moderated and stood at 7.04% during FY18 (PY: 8.72%) on account of increase in cost of raw material. The PAT margins of the company improved from 1.63% in FY17 to 1.73% in FY18 on account of decrease in interest cost of the company which was due to lower utilisation of working

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

capital limits. Further, the company earned a total operating income of Rs. 103.21 crore during H1FY19 (refers April 1 to September 30).

Working capital intensive operations: The liquidity profile of the company remains stretched marked by elongated working capital cycle and higher utilisation of working capital limits. The working capital cycle of STL is long at 163 days in FY18 (PY: 199 days) on account of longer inventory holding period. The company's effective collection period is around 3 months and it receives credit period of around 2 months. The longer working capital cycle has resulted in high utilization of the working capital limits.

Foreign exchange fluctuation risk: Export contribution to total sales constituted 82% in FY18 (PY: 78%). With significant chunk of sales realization in foreign currency, the company is exposed to the fluctuation in exchange rates. The company only partly hedges its exports (for around 50% of total exports) by booking forward contracts, thereby exposing it to currency fluctuation risk. The company had foreign currency fluctuation losses of Rs. 0.57 cr. during FY18 (PY: Rs. 0.70 cr.)

Highly competitive Industry: Leather industry is highly fragmented and 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 and not highly dependent on specialized plant and machinery resulting in presence of a large number of unorganized players. The same impacts the pricing flexibility of the players in the industry which has a bearing on their margins.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)

About the Company

STL manufactures finished leather, leather shoes and other leather related products such as safety shoes, shoe uppers, lifestyle shoes, belts and leather accessories. The company was incorporated in February 1984 to acquire business of partnership firm 'Super Tannery' (set up in 1953). STL came with an initial public offering in May 1993 and got listed on BSE. The company's major export destinations are Australia, USA, Italy, Israel, Germany, Singapore and China. In India, STL sells its products under the brands name 'hxLondon' and is having 4 outlets in Kanpur. STL has a controlling stake in Super Tannery UK, Safety Solutions, Aarifi Tanners, Super Corporation Ltd and Super Tannery UAE. However, these subsidiaries do not have much of operations.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 233.12 | 235.49 |
| PBILDT | 20.32 | 16.57 |
| PAT | 3.79 | 4.07 |
| Overall gearing (times) | 1.13 | 1.08 |
| Interest coverage (times) | 2.24 | 2.77 |

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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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 | - | - | March 2025 | 9.00 | CARE BBB-; Stable |
| Fund-based - LT-Working Capital Limits | - | - | - | 83.50 | CARE BBB-; Stable |
| Non-fund-based - ST-Working Capital Limits | - | - | - | 18.30 | CARE A3 |

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-Term Loan | LT | 9.00 | CARE BBB-; Stable | - | 1)CARE BBB- (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE BBB-; Stable (05-Oct-17) | 1)CARE BBB- (22-Nov-16) | - |
| 2. | Fund-based - LT-Working Capital Limits | LT | 83.50 | CARE BBB-; Stable | - | 1)CARE BBB- (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE BBB-; Stable (05-Oct-17) | 1)CARE BBB- (22-Nov-16) | - |
| 3. | Fund-based - LT-EPC/PSC | - | - | - | - | 1)CARE BBB- (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE BBB-; Stable (05-Oct-17) | 1)CARE BBB- (22-Nov-16) | - |
| 4. | Non-fund-based - ST-Working Capital Limits | ST | 18.30 | CARE A3 | - | 1)CARE A3 (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE A3 (05-Oct-17) | 1)CARE A3 (22-Nov-16) | - |
| 5. | Fund-based - LT-FBN / FBP | - | - | - | - | 1)CARE BBB- (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE BBB-; Stable (05-Oct-17) | 1)CARE BBB- (22-Nov-16) | - |
| 6. | Fund-based - LT-Proposed fund based limits | - | - | - | - | - | 1)CARE BBB- (22-Nov-16) | - |

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