Super Tannery Limited

December 05, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities-Term Loan	4.32	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long term Bank Facilities-Fund-based limits	83.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities-Non-Fund Based	17.50	CARE A3 (A Three)	Reaffirmed
ST/LT bank facilities-Non-Fund Based	7.50	CARE A3 (A Three)	Assigned
Total	**112.82 (Rs. One hundred and twelve crores and eighty two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Super Tannery Limited (STL) derive comfort from the experienced promoters in the tannery and leather industry, the company's long track record of operations and diversified customer base across various industries. Further, the ratings also derive strength from the company's moderate financial risk profile with comfortable gearing and debt coverage indicators along with location advantages. However, the ratings are constrained by its elongated operating cycle and competition from organized and unorganized players. Going forward, the ability of the company to further increase its scale of operations with the effective management of its working capital cycle and competition would be the key rating sensitivities.

Rating Sensitivities:

Positive Factor

- Decrease in Operating cycle with decline in the inventory levels.

Negative Factor

- Decline in the Operating Income by more than 20%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

Mr. Iftikharul Amin, (aged 61 years) post graduate, is the managing director of the company and is associated with the company since inception. He is having over three decades of experience in leather and leather product industry. He is also a director in STL's subsidiaries. He is well supported by an experienced and qualified team comprising of graduates, post graduates, CAs, leather industries technologists backed with years of experience. 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.

Long track record of operations and diversified customer as well as supplier base

STL began its operations in 1953 as a partnership firm and over the years, STL was incorporated as a company and made its initial public offering in 1993. During the course of its production operations, STL made its footprints all over the world with 77% (PY: 81%) of the total income coming from exports in FY19. STL exports to over 40 countries in the world. STL has a diversified customer and supplier base. Top 3 customers constituted to around 17.61% of total sales during FY19 (PY: 20.17%).

Modest scale of operations

The scale of operations of the company remains moderate and decreased by 26% from Rs.235.49 crore during FY18 to Rs.186.98 cr. during FY19 on account of decline in the sales of finished leather (contributing 55% of total sales during FY19). This was because of temporary closure of tanneries in The Kanpur area from November, 2018 as per the directions from National Green Tribunal (N.G.T), U.P. Pollution Control Board (UPPCB) and Central Pollution Control Board (CPCB). However, the PBILDT margins of the company increased and stood at 8.77% during FY19 (PY: 7.62%) on account of decline in the costs

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

of raw material to Rs.75.23 cr. during FY19 (PY: Rs.104.90 cr.). However, the PAT margins have declined to 1.14x as on March 31, 2019 (PY: 1.73x) on account of decline in the other income by 98% to Rs.0.03 crores in FY19 (PY: 1.37 crores).
H1FY20 Performance: The company has reported a TOI of Rs.92.82 crores during H1FY20 as against Rs.103.21 crores during H1FY19, thus reporting a decline of ~10%. However, the PBILDT and PAT margins of the company have increased to 8.88% and 2.08% respectively during H1FY20 (H1FY19: 7.93% and 1.90% respectively).

Moderate capital structure
The company's debt to equity ratio stood comfortable at 0.01x as on March 31, 2019 (PY: 0.01x) on account of nil term debt and negligible vehicle loans of Rs. 0.98 cr. as on March 31, 2019. The overall gearing of the company improved marginally and stood at 0.91x as on March 31, 2019 (PY: 1.09x) on account of increase in net worth of the company as on March 31, 2019. The debt position as on September 30, 2019 stood at Rs. 71.17 cr. comprising Rs. 0.98 cr. of vehicle loan and Rs. 70.19 cr. of working capital borrowings. The company's debt servicing metrics marked by interest coverage ratio marginally reduced to 2.60x during FY19 (PY: 2.77x). Further, on account of reduced gross cash accruals, total debt to gross cash accruals also declined moderately and stood at 8.08x in FY19 (PY: 7.99x).

Key Rating Weaknesses
Elongated Operating cycle
STL had working-capital cycle of 184 days as on March 31, 2019 (PY: 150 days) which mainly deteriorated on account of increase in the inventory holding period. The average debtor days for the company usually remain between 60-90 days in case of footwear and 40 days in case of tanneries (90% payments in case of tanneries are cash against documents). The average creditor days remains between 45-65 days in case of footwear and chemicals and in case of tanneries, raw hide is purchased in cash through Letter of Credit. However, the utilization of the working capital limits remains moderate. During October 2018 to October 2019, average working capital utilization level stood at around 76%. Cash and bank balances as on March 31, 2019 was Rs.1.95 crore (PY: Rs.0.93 cr.).

Competition from organized and unorganized players
As per the Council for Leather Exports, India is the second largest global producer of footwear after China with annual production of 22 billion pairs. India exported around Rs.15,351 crore of leather footwear in FY19 (i.e. growth of 8.56%). Footwear industry is highly 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 resulting in presence of a large number of unorganized players.

Liquidity: Stretched
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Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short-term Instruments
Financial ratios – Non-Financial Sector

About the Company
Super Tannery Limited (STL), incorporated in February 1984 to acquire business of partnership firm 'Super Tannery' (set up in 1953). STL came up with an initial public offering in May 1993 and got listed on BSE. It was promoted by Mr. Iftikharul Amin, (aged 61 years and Post Graduate) who is the managing director of the company and is associated with the company since inception. He is having over three decades of experience in leather and leather product industry.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	186.98	103.21
PBILDT	17.93	16.40
PAT	2.13	1.96
Overall gearing (times)	1.05	0.91
Interest coverage (times)	2.99	2.60

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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 - LT-Term Loan	-	-	30/06/2025	4.32	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	83.50	CARE BBB-; Stable
Non-fund-based - ST-Working Capital Limits	-	-	-	17.50	CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	7.50	CARE BBB-; Stable / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	4.32	CARE BBB-; Stable	-	1)CARE BBB-; Stable (26-Nov-18)	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-; Stable (26-Nov-18)	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	17.50	CARE A3	-	1)CARE A3 (26-Nov-18)	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	-	-	-	-	-	-	1)CARE BBB- (22-Nov-16)

	limits							
7.	Non-fund-based - LT/ ST-BG/LC	LT/ST	7.50	CARE BBB-; Stable / CARE A3	-	-	-	-

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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