

## Super Tannery Limited

February 23, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Bank Facilities	101.60	<b>CARE BBB- (Triple B Minus)</b> (Under Credit watch with Developing Implications)	Rating put under Credit watch with Developing Implications
Short-term Bank Facilities	17.00	<b>CARE A3 (A Three)</b> (Under Credit watch with Developing Implications)	Rating put under Credit watch with Developing Implications
<b>Total Bank Facilities</b>	<b>118.60</b> <b>(Rupees One hundred Eighteen Crore and sixty lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Super Tannery Ltd. (STL) under '**Credit watch with developing implications**' following the business restructuring arrangement undertaken by the company's management announced on February 14, 2018. CARE will take a view on the ratings once the exact implications of the aforementioned restructuring on the overall credit profile of STL are made available.

The ratings assigned to the bank facilities of STL continues to derive 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 comfortable debt to equity ratio and 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.

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 and leather product industry. Mr. Vequarul Amin, Joint managing director of the company is a qualified leather technologist and is associated with the company since 1990. Mr. Imran Siddiqui, also a 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. STL is expected to benefit from extensive experience of the management in the medium to long-term.

**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. It has made footprints all over the world with over 70% (PY: 76%) of the revenue coming from exports in FY17. STL exports to over 40 countries in the world.

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

**Moderate financial risk profile:** The company's debt to equity ratio stood comfortable at 0.02x as on March 31, 2017 (PY: 0.06x) on account of significantly low long term debt. The overall gearing of the company improved and stood moderate at 1.13x as on March 31, 2017 (PY: 1.37x) on account of decreased total debt. The company's debt servicing metrics marked by interest coverage ratio remained comfortable. Further, on account of increase in gross cash accruals and lower debt, total debt to gross cash accruals improved but stood high at 8.52x in FY17 (PY: 10.37x).

#### Key Rating Weaknesses

**Working capital intensive operations:** The working capital cycle of STL remained elongated at 199 days in FY17 (PY: 196 days) on account of longer inventory holding period. The company's average collection period is around 3 months and it receives credit period of around 2 months from its suppliers. Despite elongated working capital cycle, average fund based limit utilization remained moderate at 75% for the trailing 12 months ended August 2017.

**Foreign exchange fluctuation risk:** Export contribution to total sales constituted 70% in FY17 (PY: 76%). 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. In FY17, company had foreign currency fluctuation losses of Rs. 0.70 cr. (PY: Rs. 0.10 cr.)

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

#### About the Company

Super Tannery Limited (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. Total exports contributed to 70% of total sales revenue in FY17. (PY: 76%). The company's major export destinations are Australia, USA, Italy, Israel, and Germany. 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)	FY16 (A)	FY17 (A)
Total operating income	237.88	233.12
PBILDT	21.95	20.82
PAT	3.57	3.79
Overall gearing (times)	1.37	1.13
Interest coverage (times)	2.29	2.24

A: Audited

**Status of non-cooperation with previous CRA: NA**

**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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**About CARE Ratings:**

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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	-	-	Repayment by March 2018	0.60	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - LT-EPC/PSC	-	-	-	61.00	CARE BBB- (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	17.00	CARE A3 (Under Credit watch with Developing Implications)
Fund-based - LT-FBN / FBP	-	-	-	30.00	CARE BBB- (Under Credit watch with Developing Implications)

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.60	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB-; Stable (05-Oct-17)	1)CARE BBB- (22-Nov-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB-; Stable (05-Oct-17)	1)CARE BBB- (22-Nov-16)	-	-
3.	Fund-based - LT-EPC/PSC	LT	61.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB-; Stable (05-Oct-17)	1)CARE BBB- (22-Nov-16)	-	-
4.	Non-fund-based - ST-BG/LC	ST	17.00	CARE A3 (Under Credit watch with Developing Implications)	1)CARE A3 (05-Oct-17)	1)CARE A3 (22-Nov-16)	-	-
5.	Fund-based - LT-FBN / FBP	LT	30.00	CARE BBB- (Under Credit watch with Developing Implications)	1)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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