Super Tannery Limited

November 11, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	86.90 (reduced from 87.82)	CARE BBB-; Stable (Triple B minus; Outlook: Stable)	Reaffirmed
Proposed Long Term / Short Term Bank Facilities	7.50	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed
Short term Bank Facilities	18.30 (enhanced from 17.50)	CARE A3 (A Three)	Reaffirmed
Total Facilities	**112.70 (Rupees one hundred twelve crore and seventy 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) continue to drive strength from the experienced promoters in the leather and tannery industry along with company's long operational track record and diversified customer base. The rating also factors in locational advantage, stable operational performance and company's moderate financial risk profile marked by comfortable gearing level and debt coverage indicators.

The ratings are, however, constrained by presence of large organized and unorganized players in the leather industry, its elongated operating cycle and susceptibility of profitability margins to volatile raw material prices.

Rating Sensitivities

Positive Factors

- Improvement in capacity utilization with ROCE margin above 12.00% on sustained basis.
- Reduction in gross current assets below 150 days.

Negative Factors

- Decline in profitability and gross cash accruals leading to weak liquidity and debt coverage indicators.
- Deterioration in overall gearing above 1.50x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Mr. Iftikharul Amin, (aged 62 years) post graduate, is the Managing Director of the company and is associated with the company since inception. He has over three decades 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.

Long track record of operations, locational advantage and diversified customer base: STL began its operations in 1953 as a partnership firm in Uttar Pradesh – one of the major leather producing states. In 1984, STL was converted into a closely held public limited company and made its initial public offering in 1993. STL exports to more than 40 countries and contributed 78% (PY: 77%) of the total income in FY20. STL has a diversified customer and supplier base with top 5 customers constituted to around 25.78% of total sales during FY20 (PY: 22.01%).

Stable operational performance: The scale of operations remains moderate and declined marginally by 2.10% to Rs. 183.05 crore for FY20 (PY: Rs. 186.98 crore) primarily due to lower sales realization. STL's end user segment includes Footwear industry and Saddlery industry (includes bells, harness and dock collars), contributing 40% and 60% respectively. Even though the raw material prices have declined in FY20, the same has been offset by the increase in cost of chemicals and increase in stores and spares cost keeping the PBILDT margin intact at 8.63% (PY: 8.77%). PAT margin has increased to 2.45% for FY20 (PY: 1.13%) on account of increase in the deferred tax asset in FY20 as a result of change in tax rate by adopting new tax structure. However, the gross cash accrual remained stable during FY20 at Rs.8.36 crore as compared with Rs.8.78 crore during FY19.

Moderate capital structure: The company's debt to equity ratio stood at 0.05x as on March 31, 2020 as compared to 0.01x as on March 31, 2019. The overall gearing has improved marginally and stood at 0.88x as on March 31st, 2020 as against 0.91x on March 31, 2019 on account of accretion of reserves to the net-worth. The company's interest coverage ratio reduced marginally from 2.59x for FY19 to 2.35x for FY20 mainly due to increase in the interest expense from Rs. 6.19 crore in FY19 to Rs. 6.70 crore for FY20 which increased on account of term loan of Rs.2.67 crore availed by the company during FY20.

Key Rating Weaknesses

Elongated operating cycle: The operating cycle of the company remained elongated at 199 days in FY20 (PY: 198 days) on account of high inventory days at 191 days in FY20 (PY: 171 days). The prices of raw hide are highly volatile which is dependent on the demand-supply of raw meat. The raw hide was procured by the company in bulk quantities to benefit from the low prices which led to high inventory build-up as on March 31, 2020. Furthermore, sometimes due to government regulations wet work (the process which entails discharge of polluted water) remains closed for around 20-30 days, therefore the company needs to maintain inventory for 1-2 months so that manufacturing process may be carried on unhindered.

Competition from organized and unorganized players: As per the Council of Leather Exports, India is the second largest global producer of leather footwear after China. India exported around Rs. 14,758.8 crore of leather footwear in FY20 a decline of about 3.86% as compared to FY19. Footwear industry is highly competitive in nature due to the low entry barriers on account of low capital investment required for setting up of a new facility. Also, the operations of the industry are labour intensive resulting in presence of large number of unorganized players in the industry. The prospects of the company shall be governed by its ability to profitably scale up operations without any adverse impact on the capital structure of the company.

Covid-19 impact on company

Due to the nation-wide lockdown, few orders could not be dispatched in the month of March 2020 and lower realizations also contributed towards relatively lower operating income in FY20 which continued during Q1FY21. Company reported total operating income of Rs. 19.79 crore during Q1FY21 while PAT remained low at 0.16 crore. Two manufacturing facilities of company in Unnao, U.P. got permission from state government to operate at 50% capacity from May, 2020, while the other 3 in Kanpur started operations in June, 2020.

Liquidity: Adequate

The cash and bank balances of STL stood at around Rs. 3.45 crore as on March 31, 2020. While the current ratio stood at 1.16x as on March 31, 2020 as against 1.18x as on March 31, 2019. STL has reported cash accruals to the tune of Rs. 8.36 crore during FY20 (PY: 8.78 crore) with similar cash accrual envisaged for the current year against repayment obligation of Rs. 1.24 crore in FY21. STL has stretched operating cycle of around 185 days in FY20 as against 199 days in FY19 on account of high inventory period of 178 days in FY20 against 171 days in FY19. Utilization of working capital limits stood moderate at around 70%. The company has not availed moratorium facility from the banks for any of the bank facility. Considering low debt repayment obligations and no capex in the near to medium term, there is adequate liquidity cushion to meet its debt repayments.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook and credit watch to credit ratings
CARE's policy on default recognition
CARE's criteria for short term instruments
Liquidity Analysis – Non-financial sector
Rating Methodology-Manufacturing Companies
CARE's methodology for 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 managing director of company and is associated with the company since its inception. He is having over three decades of experience in leather and leather product industry.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	186.98	183.05
PBILDT	16.37	15.80
PAT	2.12	4.49
Overall gearing (times)	0.91	0.88
Interest coverage (times)	2.59	2.35

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

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	3.40	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
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	3.40	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-19)	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)
2.	Fund-based - LT-Working Capital Limits	LT	83.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-19)	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)
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)
4.	Non-fund-based - ST-Working Capital Limits	ST	18.30	CARE A3	-	1)CARE A3 (05-Dec-19)	1)CARE A3 (26-Nov-18)	1)CARE A3 (Under Credit watch with Developing Implications) (23-Feb-18) 2)CARE A3 (05-Oct-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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)
6.	Non-fund-based - LT/ ST-BG/LC	LT/ST	7.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (05-Dec-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the instrument	Complexity Level
1.	Fund-based – LT – Term Loan	Simple
2.	Fund-based – LT – Working Capital Limits	Simple
3.	Non-fund-based – LT/ST – BG/LC	Simple
4.	Non-fund-based – ST – Working Capital Limits	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sachin Mathur
Contact no. - +91-11-45333206, +91-9810865435
Email ID- sachin.mathur@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no. : +91-11-45333237
Email ID: swati.agrawal@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.

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