



SMERA RATINGS LIMITED

Action Udhog Private Limited (AUPL)**Rating
Rationale****September 02, 2014**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	18.00*	SMERA B+/Stable (Assigned)
Term Loan	15.00	SMERA B+/Stable (Assigned)

**Includes FLC/ILC as a sublimit to the extent of Rs.5.00 crore*

SMERA has assigned a long-term rating of '**SMERA B+**' (read as **SMERA single B plus**) to the Rs.33.00 crore bank facilities of Action Udhog Private Limited (AUPL). The outlook is '**Stable**'. The rating is constrained by the company's short track record of operations in an intensely competitive segment of the footwear industry. The rating factors in risks related to the debt-funded capital expenditure planned by the company. The rating is further constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The rating factors in risks associated with the company's moderate financial risk profile and working capital-intensive operations. The aforementioned weaknesses are partially offset by the company's established association with the Action Group, which is a renowned player in the Indian footwear industry.

AUPL is a Delhi-based company engaged in trading and manufacturing of flip-flop sandals (*hawai chappals*), which are sold under the brand name of 'Actioniite'. AUPL commenced trading activity and manufacturing operations in July 2013 and March 2014, respectively. The company operates in a highly competitive and fragmented segment of the footwear industry. AUPL has total installed manufacturing capacity of 35,000 pairs per day. The company plans to undertake debt-funded capital expenditure of Rs.40.00 crore to increase the installed manufacturing capacity to 70,000 pairs per day. The aforementioned capex is likely to be funded through a term loan of Rs.26.68 crore and promoters' funds of Rs.13.32 crore. The pending financial closure of the project exposes the company to project implementation risk. AUPL expects to commission the project in March 2015.

AUPL's profit margins are susceptible to volatility in prices of various raw materials such as rubber, polyvinyl chloride (PVC) and ethylene-vinyl acetate (EVA). The company's profit margins are also exposed to forex fluctuation risk inherent in unhedged import purchases, which account for ~40 per cent of the total purchases.

AUPL's moderate financial risk profile is reflected in leverage (debt-equity ratio) of 3.20 times (after considering interest-free unsecured loans of Rs.5.00 crore as debt) as on March 31, 2014. SMERA believes AUPL's overall leverage will remain high over the medium term on account of projected increase in debt-funded capital expenditure and working capital requirements. AUPL's operations are working capital-intensive. The company's utilisation of cash credit limit is high at 90 per cent during April 2014 to June 2014.

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Action Udhog Private Limited (AUPL)

**Rating
Rationale**

AUPL is a part of the Action Group, which has established operations of around four decades in the Indian footwear industry. AUPL benefits from the strong marketing network of the Action Group, which has 500 distributors and 185 exclusive showrooms across India.

Outlook: Stable

SMERA believes AUPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from the established presence and wide distribution network of the Action Group. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while achieving healthy profit margins and comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of delays in project execution, or in case of deterioration in the company's financial risk profile.

About the company

AUPL (a part of the Action Group) is a Delhi-based company engaged in trading and manufacturing of flip-flop sandals. AUPL commenced trading activity and manufacturing operations in July 2013 and March 2014, respectively. The overall operations of the company are managed by Mr. Navneet Agarwal.

For FY2013-14, AUPL reported profit after tax (PAT) of Rs.1.39 crore on operating income of Rs.44.66 crore. AUPL's net worth stood at Rs.10.36 crore as on March 31, 2014.

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