

Press Release

S.M. Lulla Industries World Wide (SML)

March 23, 2017

Rating Reaffirmed

Total Bank Facilities Rated	Rs.12.00 Cr
Long Term Rating	SMERA BBB/Stable (Reaffirmed)
Short Term Rating	SMERA A3+ (Reaffirmed)

*Refer the Annexure details

SMERA has reaffirmed the long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs 20.40 Cr bank facility of S.M. Lulla Industries World Wide (SML). The outlook is '**Stable**'.

S.M. Lulla industries Worldwide (SML), set up in 1994, is a Chennai-based partnership firm promoted by Mr. S.M Lulla. The firm is engaged in the manufacturing and export of leather garments to Europe and Canada. The firm has five factories at Chennai.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations and experienced management: S.M. Lulla was established in 1994 and benefits from its long track record of operations. The partners, Mr Sanjay Kumar Mohan Singh Lulla and Mrs Mona Sanjay Kumar Lulla possess extensive experience in the industry.

Healthy growth in revenues: The revenue of the firm increased Y-O-Y from Rs.115.48 cr in FY2014 to Rs.153.03 cr in FY2016. As informed by the management, in FY2016-17 (Apr-Dec) the firm registered revenue of Rs.107.85 cr.

Healthy financial risk profile: The financial risk profile of SM Lulla is healthy marked by gearing of 1.00 times as on March 31, 2016. The Interest coverage ratio (ICR) stood at 5.20 times while the DSCR stood at 3.91 times in FY2016.

Established relationship with reputed customers: SML enjoys strong relationships with its reputed customers such as Massimo Dutti, Spain; Danier Leather Inc, Canada; Gimos, Italy; ITX Trading SA, Switzerland; Keynes Leather; Peek & Cloppenburg, and Milestone, aiding healthy revenue growth.

Weaknesses:

Volatility in raw material prices: Since SM Lulla predominantly exports its products, its margins are exposed to fluctuations in forex rates. The firm's operating margins are vulnerable to volatility in raw material prices over the medium term.

Competitive industry: The firm is exposed to intense competition in the industry. The firm faces indirect competition from China which is ahead of India in leather exports.

Outlook: Stable

SMERA believes that SML will continue to benefit over the medium term from its promoters experience in the industry. The outlook may be revised to 'Positive' in case the firm is able to register healthy revenues and sustain profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and profit margins.

About the Rated Entity

For FY2015-16, the firm reported profit after tax (PAT) of Rs.4.98 cr on operating income of Rs. 153.03 cr, as compared with PAT of Rs. 3.94 cr on operating income of Rs. 137.63 cr in FY2014-15. The net worth stood at Rs. 11.42 cr as on March 31, 2016 against Rs. 7.80 cr a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Cr)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Export Packaging Credit	LT	2.50	SMERA BBB/Stable (Reaffirmed)	2 March, 2016	SMERA BBB/Stable (Upgraded)	26 Feb, 2016	SMERA BBB-/Stable (Assigned)	-	-
Foreign Bill Discounting (Non LC)	ST	10.00	SMERA A3+ (Reaffirmed)	2 March, 2016	SMERA A3+ (Upgraded)	26 Feb, 2016	SMERA A3 (Assigned)*	-	-
Foreign Bill Discounting	ST	1.50	SMERA A3+ (Reaffirmed)	2 March, 2016	SMERA A3+ (Upgraded)	26 Feb, 2016	SMERA A3 (Assigned)	-	-
Foreign Exchange Forward	ST	1.20	SMERA A3+ (Reaffirmed)	2 March, 2016	SMERA A3+ (Upgraded)	26 Feb, 2016	SMERA A3 (Assigned)	-	-
Letter of Credit	ST	3.00	SMERA A3+ (Reaffirmed)	2 March, 2016	SMERA A3+ (Upgraded)	26 Feb, 2016	SMERA A3 (Assigned)	-	-
Stand by Limit	ST	2.00	SMERA A3+ (Assigned)	-	-	-	-	-	-
Proposed	ST	0.20	SMERA A3+ (Assigned)	-	-	-	-	-	-

* Includes the sanctioned Rs. 7.00 cr - Foreign Bill Discounting and Rs. 3.00 cr against proposed Foreign Bill Discounting.

***Annexure – Details of instruments rated:**

Name of the Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Export Packaging Credit*#\$	NA	NA	NA	2.50	SMERA BBB/Stable (Reaffirmed)
Foreign Bill Discounting (Non LC)*	NA	NA	NA	10.00	SMERA A3+ (Reaffirmed)
Foreign Bill Discounting (LC) #	NA	NA	NA	1.50	SMERA A3+ (Reaffirmed)
Foreign Exchange Forward	NA	NA	NA	1.20	SMERA A3+ (Reaffirmed)
Letter of Credit#^	NA	NA	NA	3.00	SMERA A3+ (Reaffirmed)
Stand by Limit	NA	NA	NA	2.00	SMERA A3+ (Assigned)
Proposed	NA	NA	NA	0.20	SMERA A3+ (Assigned)

* 100% both ways interchangeability from EPC to FBD (Non-LC) limit.

100% both ways interchangesability from EPC limit to LC Limit.

\$ Cash Credit of Rs.0.25crore - Sub limit under EPC;

^ BG of Rs.0.20crore – Sub limit under LC limit

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.