

Press Release

S.M. Lulla Industries World Wide (SML)

09 April, 2018



Rating Reaffirmed and Assigned

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 27.40 Cr. (Enhanced from Rs. 20.40 Cr.) |
| Long Term Rating | SMERA BBB /Negative (Reaffirmed and Assigned) |
| Short Term Rating | SMERA A3+ (Reaffirmed and Assigned) |

**Refer annexure for 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.19.00 crore bank facilities of S.M. Lulla Industries World Wide (SML). The outlook has been changed to '**Negative**' from '**Stable**'.

Further, SMERA has assigned long term rating of '**SMERA BBB**' (read as SMERA triple B) and the short term rating to '**SMERA A3+**' (read as SMERA A three plus) on the Rs.8.40 crore proposed bank facilities of S.M. Lulla Industries Worldwide (SML). The outlook is '**Negative**'.

S.M. Lulla industries Worldwide (SML), established in 1994, is a Chennai-based partnership firm established 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.

The rating continues to derive comfort from the established presence of the firm in the leather industry. The rating is supported by moderate financial risk profile and established relations with reputed brands. However, the above mentioned strengths are partially offset by moderate decline in revenue owing to intense competition in the industry.

Key rating drivers

Strengths

Long track record and experienced management

S.M. Lulla was established in 1994 and benefits from its long track record of operations. The firm is led by Mr. Lulla and Mrs. Mona Lulla who possess experience of over two decades in the industry.

SMERA believes that SML will benefit from its established position in the industry and experienced management.

Established relations with reputed clients

SML enjoys long term relations with its reputed clients - Massimo Dutti (Spain), Danier Leather Inc. (Canada), Gimos (Italy) among others.

Moderate financial risk profile

The firm has moderate financial risk profile marked by net worth of Rs.0.10 crore as on 31 March, 2017 as against Rs.11.42 crore as on 31 March, 2016. The gearing (debt-equity) stood moderate at 0.58 times as on 31 March, 2017 as against 1.00 times as on 31 March, 2016. The total debt outstanding as on 31 March, 2017 stood at Rs.5.88 crore which comprising Rs.5.70 crore as short term borrowing from the bank and term loan of Rs.0.18 crore. The Interest Coverage Ratio stood at 3.93 times in FY2017 as against 5.13 times in FY2016. The Net Cash Accruals stood at Rs.3.80 crore while the NCA/TD stood at 0.65 times in FY2017.

SMERA believes that the financial risk profile will remain moderate in the absence of debt funded capital expenditure and steady net cash accruals.

Weaknesses**Volatility in raw material prices and forex fluctuation risk**

Since SML exports its products, its margins are exposed to fluctuations in forex rates. Besides, the margins are also exposed to volatility in raw material prices over the medium term.

Intense market competition

The firm is exposed to intense competition in the industry from local players as also from Chinese leather products.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SML to arrive at the rating.

Outlook - Negative

SMERA believes that the outlook of SML will remain 'Negative' over the medium term owing to decline in revenue. The rating would be downgraded if the pressures are further intensified due to decline in revenue and/or margins. Conversely, the outlook may be revised to 'Stable' if the firm is able to demonstrate growth in revenue.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 123.88 | 153.03 | 137.63 |
| EBITDA | Rs. Cr. | 7.05 | 8.50 | 7.89 |
| PAT | Rs. Cr. | 3.23 | 4.39 | 3.94 |
| EBITDA Margin | (%) | 5.69 | 5.55 | 5.73 |
| PAT Margin | (%) | 2.61 | 2.87 | 2.86 |
| ROCE | (%) | 36.36 | 41.64 | 48.11 |
| Total Debt/Tangible Net Worth | Times | 0.58 | 1.00 | 1.19 |
| PBDIT/Interest | Times | 3.93 | 5.13 | 5.05 |
| Total Debt/PBDIT | Times | 0.77 | 1.30 | 1.15 |
| Gross Current Assets (Days) | Days | 28 | 55 | 44 |

Any other information:

Not Applicable

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>

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

None

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|--------------|------------------------------------|------------|--------------------|---------------------------------|
| 23-May, 2017 | Export Packing Credit | Long Term | 2.50 | SMERA BBB / Stable (Reaffirmed) |
| | Foreign Bills Discounting (Non LC) | Short Term | 10.00 | SMERA BBB / Stable (Reaffirmed) |
| | Foreign Bills Discounting | Short Term | 1.50 | SMERA A3+ (Reaffirmed) |
| | Foreign Exchange Forward | Short Term | 1.20 | SMERA A3+ (Reaffirmed) |

| | | | | |
|--------------|---|------------|-------|-------------------------------|
| | Letter of Credit | Short Term | 3.00 | SMERA A3+ (Reaffirmed) |
| | Standby Line of Credit | Short Term | 2.00 | SMERA A3+ (Assigned) |
| | Proposed | Short Term | 0.20 | SMERA A3+ (Assigned) |
| 02-Mar, 2016 | Export Packing Credit | Long Term | 2.50 | SMERA BBB / Stable (Upgraded) |
| | Foreign Bills Discounting (Non LC) | Short Term | 10.00 | SMERA A3+ (Upgraded) |
| | Foreign Bills Discounting | Short Term | 1.50 | SMERA A3+ (Upgraded) |
| | Foreign Exchange Forward | Short Term | 1.20 | SMERA A3+ (Upgraded) |
| | Letter of Credit | Short Term | 3.00 | SMERA A3+ (Upgraded) |
| 26-Feb-2015 | Export Packing Credit | Long Term | 2.50 | SMERA BBB-/ Stable (Assigned) |
| | Foreign Bills Discounting (Non LC) | Short Term | 7.00 | SMERA A3 (Assigned) |
| | Proposed Foreign Bills Discounting (Non LC) | Short Term | 3.00 | SMERA A3 (Assigned) |
| | Foreign Bills Discounting | Short Term | 1.50 | SMERA A3 (Assigned) |
| | Forward Exchange Forward | Short Term | 1.20 | SMERA A3 (Assigned) |
| | Letter of Credit | Short Term | 3.00 | SMERA A3 (Assigned) |

***Annexure - Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|--|
| Export Packing Credit | Not Applicable | Not Applicable | Not Applicable | 2.50 | SMERA BBB/ Negative (Reaffirmed) |
| Foreign Bills Discounting (Non LC) | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA A3+ (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA A3+ (Assigned) |
| Foreign Bill Discounting | Not Applicable | Not Applicable | Not Applicable | 1.50 | SMERA A3+ (Reaffirmed) |
| Standby Line of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A3+ (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 1.40 | SMERA BBB/ Negative (Assigned) |

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ABOUT SMERA

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