

Press Release

S.M. Lulla Industries World Wide

June 04, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.27.40 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Rating Reaffirmed, Outlook revised from Negative to Stable)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.27.40 crore bank facilities of S M Lulla Industries Worldwide (SML). The outlook is revised from '**Negative**' to '**Stable**'.

The rating re-affirmation is based on the experience of the promoters, comfortable financial risk profile, efficient working capital management and reputed clientele in the leather industry; however, it is partly constrained by modest growth in its revenues and volatile profitability. Its financial risk profile is comfortable marked by healthy gearing and moderate total outside liabilities to tangible network. Its clientele are reputed that include Danier Leather Inc., Hugo Boss AG, ITX Trading S.A, among others spread across Europe and Canada. However, its revenues are stagnant with modest growth from Rs.123.9 crores in FY2017 to Rs.132.8 crores in FY2019. The outlook is revised to stable basis the expected growth in the leather industry, penetration into new markets and new client addition which is reflecting in modest growth in SML's revenue profile.

S M Lulla industries Worldwide (SML), established in 1994, is a Chennai-based partnership firm promoted by Mr. S M Lulla and his family members. The firm is engaged in manufacturing and exporting of leather garments to Europe and Canada. It is a 100 percent export business. The installed capacity is 24,000 garments per month. The firm has 6 manufacturing units (owned) located in Chennai.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SML to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

The firm established in the year 1994 benefits from its long track record of operations. The firm is led by Mr. and Mrs. Lulla who possess an experience of over two decades in the industry. This has to lead to maintaining healthy relations with reputed overseas customers and maintain stable revenues. Acuite believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- **Comfortable financial risk profile**

Financial risk profile of the firm is comfortable marked by comfortable gearing and comfortable debt protection metrics though partly constrained by high total outside liabilities to tangible net worth. The gearing is comfortable at around 1 time historically; however, as creditors are stretched while withdrawing the profits, TOL/TNW is high at about 3 times. Gearing deteriorated in FY2018 to 1.42 times as on 31 March, 2018 as against 0.58 times as on 31 March, 2017; due to increase in year-end utilization of bill discounting facilities. Net worth is modest at Rs.12.02 crore as on 31 March, 2018 as against Rs.10.10 crore as on 31 March, 2017; net worth is modest owing to withdrawal of partner's capital. Of the total debt of Rs.11.10 crores as on 31 March, 2019, long term debt constitutes Rs.0.14 crore and short term debt of Rs.10.96 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD)

are comfortable at about 9.2 and 0.42 times in FY2019 (provisional) against moderate levels of 3.60 and 0.24 times respectively in FY2018; improvement owing to interest subvention they received. The firm reported cash accruals of Rs.4.08 crore for FY2018. Further, repayment obligations are expected to be in the range of Rs.0.10 crore against annual cash accruals of about Rs.4.00-5.00 crore. Acuite believes that financial risk profile is expected to be at similar levels despite moderate accruals owing to regular withdrawal of capital by the partners.

- **Efficient working capital management**

S M Lulla's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 54 -92 days historically, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days of less than 10 days which is due to manufacture of product based on buying decision of the customer, and the firm extends credit of about two months to its clientele. With modest network, moderate scale of operations and withdrawal of partner's capital lead to high utilisation of its bank lines at about 90 percent through six months ending March 2019. However, it has unencumbered cash and bank balances of about Rs.17 crores as of March 31, 2019 gives flexibility. Acuite believes that S M Lulla's operation continue to be at efficient levels supported by reputed clientele with timely payments, minimal inventory levels and support from creditors.

- **Strong customer base characterized by renowned international players and reputed brands**

S M Lulla exports leather garments to reputed global clients including ITX Trading (SPAIN), Hugo Boss (Germany) among others. The firm has well-established relationships with these customers who helped the firm in winning repeat orders from these brands; it has an unexecuted order book of about Rs.75 crores to be executed in the next six months. With expected growth in the leather industry, order book, the revenue profile is expected to improve over the medium term.

Weaknesses

- **Stagnant operating income and high competition**

S M Lulla reported revenues of Rs.124.97 crore in FY2018 against Rs.123.88 crore in FY2017; the revenues improved at modest level to Rs.132.8 crores in FY2019. However, the current levels of revenues are a sharp fall from earlier highs of Rs.153.0 crores in FY2016. Leather industry is characterized by high competition due to presence of large number of small to medium sized players. The firm has to compete not only with other domestic players, but also with manufactures in overseas market of China, Pakistan and Bangladesh. This limits the revenue growth besides the pricing flexibility. However, revenues are observed to grow but moderately considering the expected growth in the industry as a whole. Although, any drop in volumes or orders from any of these major customers is likely to adversely affect its revenues and profitability.

- **Exposure to foreign exchange rate fluctuation**

The firm's profitability is susceptible to adverse changes in foreign currency. Since the firm engages in only export activities, the forex risk is hedged to some degree. However, it reported forex gain of Rs.0.67 crore in FY2018.

Liquidity

Liquidity profile of SM Lulla Industries Worldwide is moderate reflected by moderate accruals to repayment obligations, high bank limit utilisation though partly supported by unencumbered cash and bank balances. It has reported cash accruals of Rs.4.08 crore in FY2018. It is expected to generate cash accruals in the range of Rs.4 to 5 crore over the medium term, against which its repayment obligations are about Rs.0.10 crore. Its bank lines are highly utilised at about 90 per cent; also, the partners withdraw capital to the tune of annual profits. However, liquidity is partly supported by fixed deposits of about Rs.17 crores as of March 31, 2019; and in times of need, the firm avails OD against the deposits. Acuite believes that liquidity profile continues to be at moderate levels owing to moderate accruals, withdrawal of capital though operations are working capital efficient.

Outlook: Stable

Acuite believes that S M Lulla Industries Worldwide will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the revenues or profitability or significant withdrawal of capital leading to further stretch in its creditors and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	124.97	123.88	153.03
EBITDA	Rs. Cr.	7.44	7.05	8.50
PAT	Rs. Cr.	3.46	3.23	4.39
EBITDA Margin	(%)	5.96	5.69	5.55
PAT Margin	(%)	2.77	2.61	2.87
ROCE	(%)	33.61	36.36	72.78
Total Debt/Tangible Net Worth	Times	1.42	0.58	1.00
PBDIT/Interest	Times	3.60	3.93	5.13
Total Debt/PBDIT	Times	2.08	0.77	1.30
Gross Current Assets (Days)	Days	61	28	55

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
09-April-2018	Export Packing Credit	Short Term	2.50	ACUITE BBB/Negative (Reaffirmed)
	Foreign Bills Discounting (Non LC)	Long Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed	Short Term	7.00	ACUITE A3+ (Reaffirmed)
	Foreign Bill Discounting	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Long Term	2.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Long Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed	Long Term	1.40	ACUITE BBB/Negative (Reaffirmed)
23-May-2017	Export Packing Credit	Long Term	2.50	ACUITE BBB/Stable (Reaffirmed)
	Foreign Bills Discounting (Non LC)	Short term	10.00	ACUITE A3+ (Reaffirmed)
	Foreign Bill Discounting	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Foreign Exchange Forward	Short Term	1.20	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Short Term	2.00	ACUITE A3+ (Assigned)

	Proposed	Short Term	0.20	ACUITE A3+ (Assigned)
02-March-2016	Export Packing Credit	Long Term	2.50	ACUITE BBB/Stable (Upgraded)
	Foreign Bills Discounting (Non LC)	Short Term	10.00	ACUITE A3+ (Upgraded)
	Foreign Bills Discounting	Short Term	1.50	ACUITE A3+ (Upgraded)
	Foreign Exchange Forward	Short Term	1.20	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Upgraded)

***Annexure – Details of instruments rated**

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

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuите.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross

section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.*