

Press Release

S.M. Lulla Industries World Wide

July 30, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 27.40 Crore bank facilities of S M Lulla Industries Worldwide. The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of given long track record of operations, comfortable financial risk profile, low gearing, strong debt protection metrics and moderate net worth. Coupled to that, the working capital operations of the firm are efficiently managed marked by low inventory and effective receivable management further supported by adequate liquidity marked by judicious utilization of the working capital facilities. More so, the rating also factors the growth in revenue and profits in FY2020 (Prov). The rating, however, remains constrained on account of customer concentration risk with over 71 percent revenues from one client, i.e. ITX Trading S.A. and the impact on operations in FY2021 due to global outbreak of COVID-19. Acuité believes that any change in the scale of operations with subsequent effect in the profitability and stretch in the working capital operations leading to stretch in liquidity will remain key rating sensitivity factors.

About the Firm

Chennai-based, SML was established as a partnership firm in 1994. The firm is engaged in manufacturing and exporting of leather garments to Europe and Canada. The firm is promoted by Mr. S M Lulla and his family members who have over two decades of experience in the leather industry. It is a ~100 percent export business.

Analytical Approach

Acuité 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**

SML, promoted by Mr. Sanjay Kumar Mohan Singh Lulla and Mrs. Mona Sanjay Kumar Lulla have over two decades of experience in the said line of business. It is a ~100 percent export business. The firm majorly exports to nations like Europe and Canada. The firm has 6 manufacturing units located in Chennai with an installed capacity of 24,000 garments per month with ~75 percent utilization. The extensive experience coupled with a long track record of operations has enabled the firm forge to healthy relationships with customers and suppliers which translated to improvement in revenue growth, year-on-year, from Rs.125 Cr in FY2018 to Rs.166 Cr in FY2020 (Prov); a compounded annual growth rate of about 15 percent. However, due to the global outbreak of COVID-19 and the subsequent announcement of lockdown, the operations of the firm have remained impacted as observed from revenue of Rs.20 Cr, from April to July in 4MFY2021 compared to Rs.60 Cr in FY2019 for the same duration. Currently, the firm has an unexecuted order book of Rs.30 Cr which is to be executed in the next three months. Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

- Moderate financial risk profile**

Financial risk profile of the firm is moderate marked by moderate gearing, high total outside liabilities to total net worth (TOL/TNW) however, partly supported by comfortable debt protection metrics. The gearing has improved and stood moderate at 0.90 times as on 31 March, 2019 as against 1.42 times as on 31 March,

2018. TOL/TNW has improved but stood high at 2.47 times as on 31 March, 2019 as against 2.98 times as on 31 March, 2018. However, the net worth of the firm stood moderate at Rs.13.37 Cr as on 31 March, 2019 as against Rs.12.02 Cr as on 31 March, 2018. Of the total debt of Rs.12.09 Cr as on 31 March, 2019, short term debt constitutes of Rs.12.09 Cr.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 9.40 times and 0.38 times respectively, in FY2019. The company reported cash accruals of Rs.4.60 Cr for FY2019 against no repayment obligations. Further, annual cash accruals are expected to be in the range of about Rs.4.00-5.00 Cr in the medium term against no repayment obligations. Acuité believes that the financial risk profile is expected to remain moderate in the absence of any major debt-funded capex for the medium term.

• **Efficient working capital management**

SML's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 40-61 days historically, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days is less than 10 days due to the manufacture of a product based on buying decision of the customer. The debtor's days were recorded at 19 days for FY2019 as against 28 days in FY2018 on account of efficient and effective measures of collection. Due to efficiently managed working capital operations, the facilities availed against it has also been used judiciously. Acuité believes that the working capital operations will continue to be efficiently managed supported by modest net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

• **Customer concentration risk**

The firm's major revenue, of about 71% in FY2020 (Prov), is from one client i.e. ITX Trading S.A. which leads to revenue and principal concentration though it is partly mitigated by the experienced management and long-term association with clients.

• **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.

Rating Sensitivities

- Improvement in the operating revenue and scale of operations while sustaining the margins
- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity

Material Covenants

None

Liquidity: Adequate

Liquidity of SML is adequate, marked by moderate net cash accruals of Rs.4.60 Cr against nil repayment obligations. Further, the cash accruals are expected to be at Rs.4.39 Cr to Rs.5.02 Cr for the medium term against no repayment obligations. The working capital operations of the firm are efficiently managed as reflected by GCA days of 40 days in FY2019 due to prudent inventory management and quick realization from its customers. The firm had unencumbered cash and bank balances of Rs.0.17 Cr as on March 31, 2019. The current ratio stood at 1.05 times as on 31st March, 2019. Liquidity is also partly supported by fixed deposits of about Rs.21 Cr as of March 31, 2020 (Prov); and in times of need, the firm avails OD against the deposits. Efficient management of working capital operations has led to judicious utilization of bank lines. Acuité believes that liquidity profile is expected to remain adequate on account of moderate cash accruals against nil repayment obligations and efficient working capital operations.

Outlook: Stable

Acuité believes that SML will maintain 'Stable' outlook in the medium term on account of the long track record of operations, experienced management and healthy scale of operations. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case of any significant withdrawal of capital and stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	131.01	124.97
PAT	Rs. Cr.	4.03	3.46
PAT Margin	(%)	3.07	2.77
Total Debt/Tangible Net Worth	Times	0.90	1.42
PBDIT/Interest	Times	9.40	3.60

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jun-2019	Packing Credit	Long Term	2.50^	ACUITE BBB/ Stable (Reaffirmed)
	Bills Discounting	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short Term	7.00	ACUITE A3+ (Reaffirmed)
	Bills Discounting	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	3.00*	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	1.40	ACUITE BBB/ Stable (Reaffirmed)
09-Apr-2018	Packing Credit	Long Term	2.50^	ACUITE BBB/ Negative (Reaffirmed)
	Bills Discounting	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	7.00	ACUITE A3+ (Assigned)
	Bills Discounting	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	3.00*	ACUITE A3+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.40	ACUITE BBB/ Negative (Assigned)
23-Mar-2017	Packing Credit	Long Term	2.50^	ACUITE BBB/ Stable (Reaffirmed)

	Bills Discounting	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bills Discounting	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Post Shipment Credit	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 Loan	Short Term	0.20	ACUITE A3+ (Assigned)

[^]Export Packing Credit includes sublimit of Cash Credit to the extent of Rs.0.25 crore.

*Letter of Credit includes sublimit of Bank Guarantee to the extent of Rs.0.20 crore.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.50 [^]	ACUITE BBB/ Stable (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3+ (Reaffirmed)
Bills 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 Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BBB/ Stable (Reaffirmed)

[^]Export Packing Credit includes sublimit of Cash Credit to the extent of Rs.0.25 crore.

*Letter of Credit includes sublimit of Bank Guarantee to the extent of Rs.0.20 crore.

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About Acuité Ratings & Research:

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