

Profit Shoe Company Private Limited: Reaffirmed

Facilities	Amount (Rs Crore)	Rating/Outlook
Cash Credit	8.00	SMERA BB/Stable (Reaffirmed)
Secured Overdraft	1.00	SMERA BB/Stable (Withdrawn)

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs. 8.00 crore bank facility of Profit Shoe Company Private Limited (PSCPL). Further, SMERA has withdrawn the long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.1.00 crore bank facility since there are no dues outstanding as certified by the banker. The outlook is '**Stable**'.

The rating continues to derive comfort from the extensive experience of the promoter in footwear retailing and moderate financial risk profile supported by comfortable operating margin and moderate coverage indicators. However, the rating is constrained by leveraged capital structure and modest scale of operations in a highly competitive and fragmented footwear industry.

Update

PSCPL was promoted by Mr. B S Koteswara Rao, who possesses experience of over two decades in the footwear industry. The moderate financial risk profile is marked by increase in operating margin of 8.52 percent in FY2015-16 (Provisional) as compared to 8.34 percent a year earlier due to the company's ability to manage costs efficiently. The interest coverage ratio stood at 1.57 times in FY2015-16 (Provisional) as against 1.72 times in the previous year. The DSCR stood at 1.55 times in FY2015-16 (Provisional) as compared to 1.65 times in the previous year indicating the company's ability to serve debt going forward. The company registered operating income of Rs.59.99 crore in FY2015-16 (Provisional) as compared to Rs.62.79 crore a year earlier.

However, the gearing was high at 3.84 times in FY2015-16 (Provisional) as compared to 3.63 times a year earlier. The company is exposed to intense market competition in the footwear industry.

Outlook: Stable

SMERA believes that PSCPL will continue to maintain a stable outlook over the medium term owing to the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of sustainable increase in revenue and profitability, leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if cash accruals are lower than expected or in case of deterioration in the working capital management. Any further deterioration in the financial risk profile due to debt-funded capex may also entail a Negative outlook.

Rating Sensitivity Factors

- Scaling up of operations while maintaining profitability margins
- Management of working capital funds.

Criteria Applied to arrive at the rating:

- Trading Entities

About the Company

PSCPL was incorporated in 1991 as a partnership firm and converted to a private limited company in 1995. The company headed by Mr. B.S. Koteshwara Rao, Managing Director is engaged in the retail of shoes.

For FY2015-16 (provisional), the company reported profit after tax (PAT) of Rs.0.69 crore on operating income of Rs.59.99 crore as compared with net loss of Rs.2.87 crore on operating income of Rs.62.79 crore for FY2014-15. The net worth stands at Rs.9.34 crore as on March 31, 2016 (Provisional) as compared with Rs.7.95 crore a year earlier. (The total Networth of Rs.9.34 crore in FY2015-16 (provisional) includes quasi equity of Rs.1.60 crore).

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
26 June, 2015	Cash Credit	8.00	SMERA BB (Assigned)		Stable
	Secured overdraft	1.00	SMERA BB (Assigned)		Stable

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ABOUT SMERA

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