

Press Release

Winner Overseas

August 17, 2021



Rating Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.12.00 Cr |
| Long Term Rating | ACUITE B+ /Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.12.00 Cr bank facilities of Winner Overseas (WO). The outlook is '**Stable**'.

The reaffirmation of ratings factors in the firm's experienced promoters, its long track record of operations, established relationship with its reputed clientele providing repeated business. The ratings remain constrained by the adverse impact of the Covid-19 pandemic, which has led to the significant decline in revenues and accruals in FY2021. The revenues for FY2021 declined by 52 percent to Rs.11.18 Cr vis-à-vis Rs.23.45 in FY2020. The rating continues to be constrained by high customer concentration risks. The rating further remains constrained by the weakness in demand in the company's key export markets which has adversely impacted its revenues over the last two years, i.e. in FY2020 and FY2021. The revenues and accruals are expected to remain muted in FY2022 due to the prolonged impact of the pandemic.

About the company

Chennai based, Winner Overseas was established in 1998 and is engaged in manufacturing and exporting of shoe uppers. WO has its manufacturing facilities located in Chennai, Tamilnadu. WO is promoted & managed by Mr. M.A.M. Balachander, Mr. G. Bhaskar, Mr. S. M. Rajendran and Mr. B. Poornachandra.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of WO to arrive at the rating.

Key Rating Drivers

Strengths

- Long track record of operations; experienced partners in the leather footwear and association with reputed Clientele**

The firm established in 1998, is involved in the manufacture and export of shoe Uppers for over three decades. WO is promoted by Mr. M.A.M. Balachandar, Mr. SM Rajendran, Mr. G Baskar, Mr. B. Poornachandra, who have been involved in the leather footwear for more than two decades, which leads to well-established relationships with its customers, which helped the firm in getting repeat orders. WO exports leather shoe uppers to reputed global clients - LLOYD SHOES GMBH (GERMANY) and it contribute over 70 percent of the total revenue. Acuité believes that the partner's experience, vintage of operations, reputed clientele is expected to support its business risk profile over the medium term.

- Above-average financial risk profile**

WO has above-average financial risk profile characterised by moderate gearing (debt-to-equity), moderate total outside liabilities to total net worth (TOL/TNW) and above-average coverage indicators. The net worth of the firm improved to Rs.5.47 Cr as on 31 March 2021 as against Rs.5.23 Cr as on 31 March 2020. The company has capital structure marked by healthy gearing (debt-Equity) and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.69 times and 1.04 times respectively as on 31 March 2021 (Prov.) vis-à-vis 0.89 times and 1.55 times respectively as on 31 March 2020. WOS's debt protection metrics are moderate marked by interest coverage ratio at 3.48 times and NCA/TD of 0.21 times for FY 2021 (Prov.) as vis-à-vis 3.76 times and 0.27 times for FY2020 while the Debt Service Coverage Ratio (DSCR)

stood around 1.02 times in FY2021 (Prov.) and 1.18 times for FY2020.

Acuité believes that the financial risk profile will continue to be at similar levels.

Weaknesses

- **Working capital intensive nature of Operations**

WO's operations are working capital intensive marked by its gross current assets (GCA) days of 93-127 days during FY2019-FY2021. The Debtor realisation and inventory days were in the range of 26-28 days and 38-108 days respectively during last 3 years ended with FY2021 (Provisional). The Company is receiving low credit of 29-83 days from suppliers during last 3 years ended with FY2021 (Provisional). Its working capital limits were utilised efficiently at ~53 percent over the 6 months ended June 2021. Acuité believes that WO's operations are continued to be at moderate levels over the medium term.

- **Impact of Covid-19 pandemic on the operating performance**

WO is an export-oriented firm and has witnessed sluggish demand from its key export destination Germany, over the last three of years, which has impacted the revenues over this period. The firms' operating performance was significant decline in revenues and accruals due to impact of Covid-19. WO's has reported revenues of Rs.11.18 Cr in FY2021 declined by 52 percent against Rs. 23.45 Cr in FY2020. Acuité believes that significant improvement of its revenues and profitability and the timing of pickup in demand would remain a monitorable over the medium term.

Rating Sensitivity

- Improvement in scale, profitability metrics
- Any significant deterioration in its overall financial risk profile, any major capital expenditure, stretch in the working capital cycle or deterioration in liquidity position

Material covenants

None

Liquidity Position: Stretched

The firm has stretched liquidity position marked by tightly matching net cash accruals against its maturing debt obligations. The firm generated cash accruals of Rs.0.75-1.25 Cr for last three years ending through FY2021 (Provisional) while its maturing debt obligation stood in the range of Rs.0.75-1.00 Cr for the same period. Going forward, the cash accruals are expected to be in the range of Rs.1-2 Cr against the debt obligation of around Rs.1-1.5 Cr for the period of FY2022-24. If any shortfall was met through Guaranteed Emergency Credit Line (GECL) of Rs.0.70 Cr. The firm has maintained low unencumbered cash and bank balances Rs.1.17 Cr and the current ratio stood at 1.16 times as on March 31, 2021 (provisional). Acuité believes that the liquidity of company is likely to remain stretched over the medium term on account of moderate cash accruals against the repayment obligations over the medium term

Outlook: Stable

Acuité believes that WO 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 | FY21 (Provisional) | FY20 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 11.18 | 23.45 |
| PAT | Rs. Cr. | 0.42 | 0.85 |
| PAT Margin | (%) | 3.72 | 3.63 |
| Total Debt/Tangible Net Worth | Times | 0.69 | 0.89 |
| PBDIT/Interest | Times | 3.48 | 3.76 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 |
|---------------|---------------------------------|------------|------------------|----------------------------------|
| 10-June-2020 | Packing Credit | Short Term | 1.50 | ACUITE A4 (Reaffirmed) |
| | Bills Discounting | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| | Cash Credit | Long Term | 0.05 | ACUITE B+/Stable (Reaffirmed) |
| | Term loan | Long Term | 1.49 | ACUITE B+/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 1.00 | ACUITE A4 (Reaffirmed) |
| | Proposed Banking Facility | Short Term | 5.96 | ACUITE A4 (Reaffirmed) |
| 04-March-2019 | Packing Credit | Short Term | 1.50 | ACUITE A4 (Reaffirmed) |
| | Bills Discounting | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| | Cash Credit | Long Term | 0.05 | ACUITE B+/Stable (Reaffirmed) |
| | Term loan | Long Term | 2.74 | ACUITE B+/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 1.00 | ACUITE A4 (Reaffirmed) |
| | Proposed Banking Facility | Short Term | 4.71 | ACUITE A4 (Reaffirmed) |
| 27-Dec-2017 | Term loan | Long Term | 0.17 | ACUITE B+/Stable (Reaffirmed) |
| | Term loan | Long Term | 0.19 | ACUITE B+/Stable (Reaffirmed) |
| | Term loan | Long Term | 0.72 | ACUITE B+/Stable (Reaffirmed) |
| | Term loan | Long Term | 5.87 | ACUITE B+/Stable (Reaffirmed) |
| | Packing Credit | Short Term | 1.50 | ACUITE A4 (Reaffirmed) |
| | Bills Discounting | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| | Letter of Credit | Short Term | 1.00 | ACUITE A4 (Reaffirmed) |
| | Cash Credit | Long Term | 0.05 | ACUITE B+/Stable (Reaffirmed) |
| | Proposed Short Term Loan | Short Term | 0.50 | ACUITE A4 (Assigned) |

***Annexure – Details of instruments rated**

| Lender Name | Name of the Facilities | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------|---------------------------|------------------|-----------------|----------------|-----------------------------|--------------------------------|
| Canara Bank | PC / FDB / FBE | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE A4 (Reaffirmed) |
| Canara Bank | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 0.05 | ACUITE B+/ Stable (Reaffirmed) |
| Canara Bank | Term Loan | APRIL-2015 | 10.15 | December, 2022 | 0.82 | ACUITE B+/ Stable (Reaffirmed) |
| Canara Bank | Term Loan | 17-06-2021 | 9.70 | 28-02-2027 | 0.30 | ACUITE B+/ Stable (Reaffirmed) |
| Canara Bank | Working Capital Term Loan | 04-06-2020 | 7.50 | 03-06-2024 | 0.70 | ACUITE B+/ Stable (Reaffirmed) |
| Canara Bank | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4 (Reaffirmed) |
| Not Applicable | Proposed Banking Facility | Not Applicable | Not Applicable | Not Applicable | 6.13 | ACUITE A4 (Reaffirmed) |
| Not Applicable | Proposed Banking Facility | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4 (Reaffirmed) |

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About Acuité Ratings & Research:

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