

April 27, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	6.00	SMERA BB+/Stable (Assigned)
Term Loan	4.33	SMERA BB+/Stable (Assigned)
Long Term (Proposed)	5.77	SMERA BB+/Stable (Assigned)
Letter of Credit	0.15	SMERA A4+ (Assigned)
Bank Guarantee	0.75	SMERA A4+ (Assigned)

SMERA has assigned rating of '**SMERA BB+**' (read as **SMERA double B plus**) on the Rs.16.10 crore long term (fund based) bank facilities and '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.0.90 crore short term (non-fund based) bank facilities of Indcoat Shoe Components Limited (ISCL). The outlook is '**Stable**'. The ratings derive comfort from the company's low leverage and healthy debt protection metrics. The ratings also draw support from the experienced management and profitability profile. However, the aforementioned strengths are partially offset by the negative growth in operating income and capital intensive nature of business. SMERA believes that the business risk profile has also taken a hit due to fall in demand from European nations caused by a slowdown.

Outlook: Stable

SMERA believes ISCL will benefit over the medium term from its established market position and extensive experience of promoters. The outlook may be revised to 'Positive' with sustained improvement in revenue and profitability leading to large cash accruals and new customer segments emerging from non-European continents. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue or continuation of negative growth in revenue and profitability. A stretched working capital cycle or large debt-funded capex undertaken by the company may also entail a 'Negative' outlook.

Rating Sensitivity Factors

- Ease down in geographical concentration
- Debt funded capital expansion
- Improvement in working capital cycle
- Sustainable growth in revenue and profitability profile

About the Company

Indcoat Shoes Component Limited (ISCL), part of the Indcoat group was established in 2000. The company, managed by Mr Khemka and family, is engaged in the manufacture of polyurethane (PU) and thermo plastic rubber (TPR) soles, used in shoe manufacturing. The company has four manufacturing facilities at Kanpur with an annual capacity of 6 lakh pairs of shoes. The average utilisation varies between 65-70 per cent.

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For FY2014–15, the company reported profit after tax (PAT) of Rs.1.59 crore on operating income of Rs.42.72 crore, as compared with profit after tax (PAT) of Rs.1.99 crore on operating income of Rs.45.54 crore in FY2013–14. ISCL has reported operating income of Rs.22.17 crore (provisional) for nine months ended December 2015. The net worth of the company stood at Rs.17.11 crore as on March 31, 2015 against Rs.15.42 crore a year earlier.

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