Press Release

HERO FASHION

December 18, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has upgraded long-term rating of '**SMERA BB+**' **(read as SMERA BB plus)** and short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 17.00 crore bank facilities of HERO FASHION. The outlook is **'Stable'**.

The rating upgrade reflects the improvement in profitability, financial risk profile and debt protection metrics. The Tirupur-based Hero Fashion (HF), a proprietorship firm established in 1989 by Mr. S. Sundaramurthy manufactures and exports readymade garments (for men, women and kids). The manufacturing facility is located at Tirupur, Tamil Nadu and the installed capacity stands at 24 lakh pieces per annum.

Key Rating Drivers

Strengths

• **Experienced management, long track record ofoperations**
Established in 1989, Hero Fashion is led by Mr S. Sundaramurthy who has more than two decades of experience in the manufacturing of garments. The firm caters to reputed customers including Migros Cooperatives, a Switzerland's based retailer company and Living Crafts Organic Textiles (Germany). SMERA believes that Hero Fashion will continue to benefit from its experienced management and established relations with clients.

• **Increase in EBITDA and PAT margins**
The EBITDA margins increased to 28.39 percent in FY2017 (Provisional) from 13.84 percent in FY2016 mainly on account of decline in raw material prices and better realisation from export sales. Further, the PAT margins stood at 23.98 percent in FY2017 (Provisional) as against 16.42 percent in FY2016. The PAT margin increased by virtue of increase in EBITDA margins.

• **Moderate financial risk profile with comfortable liquidity**
The financial risk profile is moderate marked by tangible networth of Rs.41.16 crore as on 31 March, 2017 (Provisional) as against Rs.35.90 crore as on 31 March, 2016. The gearing stood at 0.50 times as on 31 March, 2017 (Provisional) as against 0.62 times in the previous year. The total debt of Rs.20.87 majorly comprises short term working capital loan of Rs. 11.07 crore and long term borrowings of Rs.9.80 crore as on 31 March, 2017. Further the firm has repaid the long term borrowings to the tune of Rs. 5.50 crore by liquidating its investment as on 31 August 2017. The outstanding balance stood at Rs.4.30 crore as on 31 August 2017 . HF has a healthy interest coverage ratio of 7.49 times in FY2016-17 as against 9.48 times in FY2015-16. Going forward, the debt protection metrics is expected to remain moderate in the medium term in the absence of debt funded capex plan.

Weaknesses

• **Modest scale of operations**
Despite being in the business from 1989, the scale of operations is modest. The revenue stood at Rs.35.91 crore in FY2017 (Provisional) as against Rs.33.27 crore in FY2016. However, the firm registered revenue of Rs. 22 crore from April to Oct 2017. The firm has an order book of Rs.20 crore to be executed by March 2017.

• **Working capital intensive operations**
The firm has working capital intensive operations marked by high Gross Current Asset (GCA) days of 165 for FY2016-17 (Provisional) as compared to 216 for FY2015-16. This is majorly on account of elongated debtor and inventory days of 84 and 49 for FY2016-17 (Provisional) as against 36 and 38 days in FY2015-16.

• **Highly competitive and fragmented industry**
Hero Fashion operates in a highly competitive textile industry with several unorganised players.

• **Risks related to customer concentration and forex fluctuation**
HF earns around 75 percent revenue from Migros, a Switzerland-based company thereby leading to customer concentration risk. However, the firm hedges its foreign exchange risk to the extent of 70 percent through forward contracts to mitigate the foreign exchange fluctuation risk.

Analytical Approach
SMERA has considered the standalone business and financial risk profile of HF

Outlook: Stable
SMERA believes that HF will maintain a stable outlook in the medium term on account of its experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins and improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenue and profitability, or deterioration in the financial risk profile.

About the Rated Entity - Key Financials
As per Provisionals for FY2016-17, HF reported net profit of Rs. 8.61 crore on total operating income of Rs.35.91 crore compared with net profit of Rs.5.46 crore on total operating income of Rs.33.27 crore in FY2015-16. The tangible net worth stood at Rs.41.64 crore as on 31 March, 2017 as against Rs.35.90 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

• Default Recognition - https://www.smera.in/criteria-default.htm
• Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
• Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Aug-2016	Packing Credit	Long Term	INR 15	SMERA BB / Stable
	Bills Discounting	Short Term	INR 1.5	SMERA A4+
	Letter of Credit	Short Term	INR 0.5	SMERA A4+

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB+ / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Pawan Punmaji Analyst - Rating Operations Tel: 022-67141352 pawan.punmaji@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.