

Press Release

10 April, 2017

T Abdul Wahid Tanneries Private Limited

Rating Assigned

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|--------------------------------------|-------------|
| Total Bank Facilities Rated * | Rs.25.40 Cr |
| Short Term Rating | SMERA A4 |

Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 25.40 crore bank facilities of T Abdul Wahid Tanneries Private Limited.

T Abdul Wahid Tanneries Private Limited (TAWTPL) incorporated in 1975 is a Chennai-based company promoted by Mr. Rafeeq Ahmed. The company commenced commercial operations in July, 1975 to manufacture and export finished leather to USA, Germany, Italy, Korea, Hong Kong, China and Portugal. Group company, M/s T. Abdul Wahid & Company, undertakes the tanning related job work. The company has set up two tanneries - B Tannery and C Tannery at Ambur, Tamil Nadu each with capacity of 36 lakhs pieces (goat skins per annum) and 30 lakhs pieces (semi-finished skins to finished skins per annum). The company also has effluent treatment plants with capacity of handling 50,000 litres and 1,00,000 litres per day.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

TAWTPL incorporated in 1975, is engaged in the manufacturing and export of finished leather. The company was promoted Mr. T. Rafeeq Ahmed (Chairman) and Mr. T. Adnan Ahmed (Managing Director). The Board of the Company consists of Mr. T. Rafeeq Ahmed (Chairman), Mr. T. Adnan Ahmed, (Managing Director), Mrs. B. Dur-E-Naaz and Mr. T. Ashfaq Ahmed (Whole time Director) who possess extensive experience in the leather sector.

- **Stable operating margins and moderate RoCE**

The operating margins have remained stable at 4.78 percent in FY2016 against 4.55 percent in FY2015. The group has a moderate RoCE of 9.73 percent in FY2016 as against 9.86 percent in FY2015.

- **Geographical diversification and reputed clientele**

The group manufactures and exports finished leather and leather footwear targeted at men and women, to USA, Germany, Italy, Korea among others. Some of the reputed customers are Josef Seibel, Van Haren, Sioux and MSG Merkur Shoe.

Weaknesses

- **Moderate scale of operations**

The group has moderate scale of operations with operating income of Rs.122.84 cr in FY2016 compared to Rs.135.01 cr in FY2015. The group registered revenue of ~Rs.83.44 cr from April 2016 to January 2017.

- **Thin PAT margins**

The PAT margins are thin and stood at 0.22 percent in FY2016 as against 0.38 percent in FY2015.

- **Average financial risk profile**

The T Abdul Wahid Group has an average financial risk profile marked by net worth of Rs.13.06 cr as on March 31, 2016 against Rs.12.79 cr as on March 31, 2015. The gearing (debt-equity ratio) stood at 2.72 times as on March 31, 2016 against 2.51 times as on March 31, 2015. The total debt of Rs.35.48 cr comprises mainly short term borrowings of Rs.35.03 cr and long term borrowings of Rs.0.46 cr. The group's debt protection metrics are moderate as Interest coverage ratio and DSCR (debt service coverage ratio) stood at 1.52 times and 1.41 times for FY2016. The NCA/TD stood at 0.05 times and TOL/TNW levels are high at 6.68 times for FY2016.

- **Operating margins are susceptible to raw material prices and forex fluctuation**

The operating margins are susceptible to fluctuations in raw material prices and forex rates. While the group exports ~85 per cent of its sales to Hong Kong, China, Taiwan, Italy, Germany, and Poland among others it imports semi finished leather, a mere 4 percent from Turkey, Italy and Germany. However, the group has gained Rs.0.26 cr of forex gain in FY2016.

- **Working capital intensive operations**

The operations are working capital intensive, as reflected by the high gross current assets (GCA) of 245 days as on March 31, 2016. This was on account of increase in inventory days to 170 in FY2016 (PY: 132 days). The working capital cycle stands at 84 days as on March 31, 2016. The average six months utilisation of working capital facility ended January 2016 stood at ~99.49 percent.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of T Abdul Wahid Tanneries Private Limited and Faizan Shoes Private Limited. The two entities are referred to as the T Abdul Wahid Group on account of the similarity in their lines of business, financial fungibility and common management.

About the Group

The T Abdul Wahid Group comprises T Abdul Wahid Tanneries Private Limited (TAWTPL) and Faizan Shoes Private Limited (FSPL). TAWTPL is engaged in the manufacturing and export of finished and semi-finished leather while FSPL manufactures and exports leather footwear.

About the Rated Entity - Key Financials

On consolidated basis, the T Abdul Wahid group reported net profit after tax (PAT) of Rs. 0.27 cr on operating income of Rs. 122.84 cr in FY2015-16 compared to PAT of Rs.0.51 cr on operating income of Rs.135.01 cr in the previous year. The net worth stood at Rs. 13.06 cr as on March 31, 2016 compared to Rs. 12.79 cr a year earlier.

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>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-----------------------------|-----------------|
| PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 13.00 | SMERA A4 |
| FBN/FBP/FBD/PSFC/FBE | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4 |
| Stand By Line of Credit | Not Applicable | Not Applicable | Not Applicable | 2.40 | SMERA A4 |
| FBN/FBP/FBD/PSFC/FBE | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA A4 |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4 |

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ABOUT SMERA

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