

Press Release

31 July, 2017



T Abdul Wahid Tanneries Private Limited

Rating Assigned and Reaffirmed

Total Bank Facilities Rated *	Rs. 25.40 Cr.
Long Term Rating #	SMERA B+/ Outlook: Stable
Short Term Rating	SMERA A4

*Refer Annexure for details

#long term rating is assigned on client's request.

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and reaffirmed the 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. The outlook is '**Stable**'.

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 among others. The group firm, M/s T. Abdul Wahid & Company undertakes tanning related job work. TAWTPL 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 each with handling capacity of 50000 litres and 100000 litres per day.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

TAWTPL is engaged in the manufacturing and export of finished leather. The company was promoted by Mr. T. Rafeeq Ahmed (Chairman) and Mr. T. Adnan Ahmed (Managing Director). The Board 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 4.75 percent in FY2016-17 (provisional) against 4.78 percent in FY2015-16. The group has a moderate RoCE of 7.92 percent in FY2016-17 (provisional) as against 9.73 percent in FY2015-16.

- **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 operates on a modest scale. The operating income declined to Rs.113.69 crore in FY2016-17 (Provisional) from Rs.122.84 crore in FY2015-16 and Rs.135.01 crore in FY2014-15 on account of demonetisation and fewer orders during the financial year.

- **Thin PAT margins**

The PAT margins are thin and stood at 0.30 percent in FY2016-17 (Provisional) as against 0.22 percent in FY2015-16 on account of high interest expenses.

- **Average financial risk profile**

The financial risk profile of the group remains average marked by net worth of Rs.14.31 crore as on 31 March, 2017 (Provisional) compared to Rs.13.06 crore as on 31 March, 2016. The gearing stood at 2.60 times as on 31 March, 2017 (Provisional) as against 2.72 times as on 31 March, 2016. The gearing is expected to remain above 2 times due to high working capital facilities requirements. Further, the group has availed a mortgage loan of Rs.3.99 crore. The Interest coverage ratio (ICR) stood moderate at 1.42 percent in FY2016-17 (Provisional) compared to 1.52 times in FY2015-16. The DSCR (Debt service coverage ratio) stood at 1.44 times in FY2016-17 (Provisional). The mortgage loan is expected to be repaid in 15 years. The NCA/TD stood at 0.04 times and TOL/TNW levels at 6.87 times in FY2016-17 (Provisional).

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

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 (4 percent) from Turkey Italy and Germany. However, the group has gained Rs.0.10 crore of forex gain in FY2016-17.

- **Working capital intensive operations**

The operations are working capital intensive as reflected by the high gross current assets (GCA) of 305 days as on 31 March, 2017. (Provisional) (PY: 245 days). The same has deteriorated on account of increase in inventory levels. The inventory days stood at 209 days as on 31 March, 2017 (Provisional) (PY: 170 days). Further the working capital facilities have been fully utilised.

Analytical Approach

SMERA has consolidated the financials 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 similarities in their lines of business, financial fungibility and common management.

Outlook: Stable

SMERA believes that the outlook on the group will remain 'Stable' over the medium term on account of the extensive experience of the management and established operational track record. The outlook may be revised to 'Positive' if the group reports substantial growth in revenue while maintaining profitability and improvement in financial risk profile. Conversely the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile or decline in operating margins.

About the Group

The T Abdul Wahid Group comprises T Abdul Wahid Tanneries Private Limited (T Abdul Tanneries) and FSPL. The former is engaged in the manufacture 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. 0.34 crore on operating income of Rs. 113.69 crore in FY2016-17 (Provisional) compared to PAT of Rs. 0.27 crore on

operating income of Rs.122.84 crore in the previous year. The net worth stood at Rs.14.31 crore as on 31 March, 2017 (Provisional) compared to Rs.13.06 crore 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>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.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
10 Apr, 2017	EPC	Short Term	13.00	SMERA A4
	FBD (Non LC)	Short Term	3.00	SMERA A4
	Stand By Line of Credit	Short Term	2.40	SMERA A4
	FDB (LC)	Short Term	4.00	SMERA A4
	Letter of credit	Short Term	3.00	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
EPC	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA B+/Stable (Assigned)
FBD (Non LC)	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+/Stable (Assigned)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.40	SMERA B+/Stable (Assigned)
FDB (LC)	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4 (Reaffirmed)

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ABOUT SMERA

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