Press Release

Shamsons Industries

July 11, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.50 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' **(read as SMERA BB)** and short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 8.50 crore bank facilities of Shamsons Industries. The outlook is **'Stable'**.

Shamsons Industries (SI) was formed as a partnership firm in 2005 and started commercial operations in 2008 by Mr. Deepak Batra and Mr. Varun Batra. The firm is engaged in the manufacture of shoes, slippers and sandals with their manufacturing unit in Roorkee, Uttaranchal. The firm has manufacturing capacity of 100,000 pairs per shift per month at facilities in Roorkee, Uttarakhand. To arrive at the ratings, SMERA has combined the business and financial risk profiles of SI and Shamsons Polymers Private Limited (SPPL), together referred to as the ?Shamsons Group?. The consolidation is in view of the significant business synergies, common management and significant financial linkages.

Key Rating Drivers

Strengths

- **Experienced management**

  The promoters, Mr. Deepak Batra and Mr. Varun batra have around two decades of experience in the footwear industry as management is also engage managing group company named Shamsons Polymers Private Limited (SPPL) which is into similar line of business and was incorporated in the year 1993.

- **Established marketing and distribution channel**

  The group has a well-established distributor network and also sells its products through e-commerce websites such as Amazon, Flipkart, Jabong to name a few.

- **Comfortable financial risk profile**

  The financial risk profile is marked by conservative gearing, healthy net worth and comfortable debt protection metrics. The gearing is low and comfortable at 0.68 times as on 31st March 2016 as compared to 0.83 times as on 31st March 2015. The debt mainly comprises of short term working capital limit of Rs.12.91 crore and term loan of Rs. 0.83 cr in FY2016. The net worth base is healthy at Rs.20.09 cr (includes unsecured loans of Rs.8.38 crore from promoters) as on 31st March 2016. SMERA has treated the unsecured loans of Rs. 8.38 crs as quasi equity based on a confirmation from the management that the amount would be retained in the business over the medium term. The interest coverage and debt service coverage ratios stood at 2.64 times and 2.33 times respectively in FY2016. In FY2015, the interest coverage ratio stood at 2.31 times while the debt service coverage ratio stood at 2.22 times. SMERA believes that, going forward the group will maintain the comfortable financial risk profile over the medium the term backed by steady accruals and no major capex plans.

Weaknesses

• **Modest scale of operation amidst intense competition**
The group operates in a highly competitive and fragmented industry from various unorganised and organised players with the established brand presence. Further ecommerce portals like, flipkart, snapdeal, ebay, etc. also possess threat of larger customer acquisition. The scale of operation of the group stood modest with the operating income of Rs. 43.52crore in FY2015-16 as compared to Rs. 62.10 crore in FY2014-15. The turnover of the group has declined in FY2015-16 on account of election in Tamil Nadu resulting to halt of purchases by the government organisation. Further the group has achieved the operating income of around Rs.55.00 crore for the period April 2016 to March 2017 (provisional).

• **Working capital intensive nature of operation**
The operations of the group are working capital intensive marked by gross current assets days of 334 days in FY2016 vis-à-vis 224 days in FY2014-15. This is mainly on account of increase in inventory days to 245 days (vis-à-vis 101 days in FY2015) and debtors of 147 days (vis-à-vis 100 days in FY2015) in FY2016. The debtor days and inventory days has increased as the group deals with government organisation and elections in Tamil Nadu led to the ahlt in purchase and debtor realisation. Further the average cash credit limit is around 95 percent utilised, which provides limited headroom for the liquidity of the group. SMERA believes that any further stretch in working capital cycle would require additional funding facility which will in turn adversely impact the financial risk profile of the group.

Analytical Approach
SMERA has considered the consolidated business and financial risk profile of the Shamsons Industries and Shamsons Polymers Private Limited.

Outlook: Stable
SMERA believes that the group will maintain a stable outlook in the medium term owing to its experienced management and established marketing and distribution channel. The outlook may be revised to 'Positive' in case the group registers substantial growth in revenues and cash accruals while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of any large debt funded capex leading to deterioration of financial risk profile of the group.

About the Group
Shamsons group formed by Mr. Deepak batra is engage in manufacturing of sports and casual shoes, sandals and floater.

About the Rated Entity - Key Financials
In FY2015-16, the group has achieved the operating income of Rs.43.52 crore in with the Profit After Tax (PAT) of 1.36 crore as compared to the operating income of Rs. 62.10 crore with PAT of 1.46 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4+

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ABOUT SMERA

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