

Press Release

22 August, 2017



Alam Tannery Private Limited (ATPL)

Rating Rationale

Total Bank Facilities Rated *	Rs.33.50 crore
Long Term Rating	SMERA B/ Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.33.50 crore bank facilities of Alam Tannery Private Limited (ATPL). The outlook is '**Stable**'.

Established as a partnership concern, the entity was converted to a private limited company in 1983. ATPL is headed by Mr. Mahmud Alam, Mr. Afroz Alam, Mr. Aftab Alam and others and is engaged in the manufacturing of leather hides, upholstery and industrial gloves at Kolkata. The company caters to the domestic market and also exports its products to European countries. The combined installed capacity is 20 lakh sq ft per month.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

The company, established in 1920 is led by Mr Alam and family who possess extensive experience in the industry. Currently, the operations are headed by the third generation of the family- Mr. Mahmud Alam, Mr. Afroz Alam, Mr. Aftab Alam and others with experience of nearly three decades in the said line of business.

Established relationship with customers

ATPL has long standing relations of over four decades with customers spread across Italy and UK. The reputed clientele includes Wyvern Furniture Limited (UK), Relievo Essery , Gruppo Mastrotto Tannery in Italy. Major domestic players include Exotic leather, Bajaj Trading and NA Trading in Kolkata.

Weaknesses

Working capital intensive operations

The operations are working capital intensive as reflected in the gross current assets (GCA) of 558 days in FY2015-16 as against 605 days in FY2014-15. The high GCA days emanate from the lengthy collection period and high inventory holding period of 309 days and 236 days respectively in FY2016. The company's operations are expected to remain working capital intensive with long processing cycle of around ~ 75 days. The company on an average maintains inventory of around 180-200 days. The lengthy debtors days are on account of the long transit period (around 45 days in case of exports) and also due to retention of sold goods in warehouses until sold.

Moderate financial risk profile

ATPL's moderate financial risk profile is marked by low debt protection metrics, comfortable gearing and healthy net worth. The debt service indicators are below average reflected in the interest coverage of 1.34 times in FY2016 as against 1.47 times in FY2015. The NCA/TD stands low at 0.07 times in FY2016 compared to 0.08 times in FY2015. The gearing stands comfortable at 0.67 times in FY2016 compared to 0.83 times in FY2015. The net worth base stands healthy at Rs 35.81 crore in FY2016 as against Rs 34.97 crore in FY2015.

Fall in revenue owing to weak demand in the European market

During FY2017, the company registered revenue of Rs 31 crore (Provisional), a fall from Rs 38.56 crore in FY2016. This was on account of slowdown in the European Union, a major export destination for Indian leather and also due to tough competition from synthetic materials used as a substitute to manufacture industrial gloves, shoes and synthetic sofa covers.

Exposure to foreign exchange fluctuation risk

Since exports constitute around 50 per cent of its total revenue, the company is exposed to foreign exchange fluctuation risk. During FY2016, the company suffered an exchange loss of Rs 0.32 crore against profit of Rs 0.78 crore in FY2015.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of ATPL.

Outlook: Stable

SMERA believes that ATPL will maintain a stable outlook over the medium term owing to its experienced management and established association with customers and suppliers. The outlook may be revised to 'Positive' in case of strong growth in its scale of operations while registering sustained improvement in profit margins and achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its scale of operations, profitability, capital structure in case of lengthening of working capital cycle.

About the Rated Entity - Key Financials

For FY2016, ATPL reported Profit after Tax (PAT) of Rs.0.35 crore on total operating income of Rs.38.56 crore compared with PAT of Rs 0.71 crore on total operating income of Rs. 37.66 crore in FY2015.

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 for the last three years:

Name of Facilities	FY2018				FY2017		FY2016		FY2015	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	17 Aug, 2017	4.00	SMERA B/Stable (Assigned)	-	-	-	-	-	-
Proposed	LT	17 Aug, 2017	2.75	SMERA B/Stable (Assigned)	-	-	-	-	-	-
Export Packing Credit	ST	17 Aug, 2017	13.00	SMERA A4 (Assigned)	-	-	-	-	-	-
Foreign Bill Discounting	ST	17 Aug, 2017	12.50	SMERA A4 (Assigned)						
Letter of Credit	ST	17 Aug, 2017	1.25	SMERA A4 (Assigned)						

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.75	SMERA B/Stable (Assigned)
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A4 (Assigned)
Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	12.50	SMERA A4 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA A4 (Assigned)

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ABOUT SMERA

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