

Press Release

Alam Tannery Private Limited

December 07, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs. 33.50 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B-**' (read as ACUITE B minus) from '**ACUITE B**'(read as ACUITE B) and reaffirmed short term rating of '**ACUITE A4**' (read as ACUITE A four) on the Rs. 33.50 crore bank facilities of Alam Tannery Private Limited. The outlook is '**Stable**'.

The rating downgrade reflects substantial deterioration in profitability margins due to increased cost of raw materials coupled with significant cancellation of export orders leading to huge inventory pile up.

Established in 1920 as a proprietary concern, Kolkata based ATPL was subsequently converted into a private limited company in 1983. The company processes raw leather hides and manufactures leather upholstery and industrial gloves. ATPL exports more than 50 percent of its produce to Italy and United Kingdom along with catering to the local market in Kolkata.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the company to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**

Alam Tannery Private Limited has an established record of operations spanning over three decades in leather industry. The company is currently managed by the third generation of Alam family consisting of Mr. Mahmud Alam, Mr. Afroz Alam, Mr. Aftab Alam, and Mr. Shadab Alam. The extensive experience of management has resulted in established relationship with customers and suppliers and is expected to support the business profile of the company.

Weaknesses

- **Decline in profitability margins**

ATPL registered significant decline in gross profitability margins from 21.53 percent in FY2017 to 9.92 percent in FY2018 (provisional). The decline in profitability ratio emanates from increased cost of raw material along with other overheads. The PAT margins remained subdued at 0.60 percent in FY2018 as against 0.54 percent in FY2017. Going forward, company's ability to sustain revenue growth along with healthy profitability margins will remain key monitorable.

- **Working capital intensive nature of business**

The operations of ATPL are working capital intensive as reflected from its stretched gross current asset (GCA) days of 473 days in FY2018 as against 995 days in FY2017. The high GCA emanates from long inventory holding period of 435 days in FY2018 as against 399 days in FY2017. The debtors' declined from 617 days in FY2017 to 44 days in FY2018. Going forward, the company's ability to efficiently manage its working capital requirement and sustain revenue profile will remain a key

rating sensitivity factor.

Outlook: Stable

Acuité believes ATPL will maintain a stable business risk profile over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while registering sustained improvement in profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the company's scale of operations and profitability or in case of further elongation of working capital cycle and deterioration in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	46.12	24.21	38.56
EBITDA	Rs. Cr.	4.58	5.21	5.62
PAT	Rs. Cr.	0.28	0.13	0.35
EBITDA Margin	(%)	9.92	21.53	14.58
PAT Margin	(%)	0.60	0.54	0.90
ROCE	(%)	5.54	6.68	7.65
Total Debt/Tangible Net Worth	Times	0.81	0.81	0.66
PBDIT/Interest	Times	1.37	1.30	1.34
Total Debt/PBDIT	Times	6.30	5.55	3.92
Gross Current Assets (Days)	Days	473	995	558

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Oct-2018	Cash Credit	Long Term	INR 4	ACUITE B (Issuer not co-operating)
	Proposed Long Term Loan	Long Term	INR 2.75	ACUITE B (Issuer not co-operating)
	Packing Credit	Short Term	INR 13	ACUITE A4 (Issuer not co-operating)
	Bills Discounting	Short Term	INR 12.5	ACUITE A4 (Issuer not co-operating)
	Letter of Credit	Short Term	INR 1.25	ACUITE A4 (Issuer not co-operating)

22-Aug-2017	Cash Credit	Long Term	INR 4	ACUITE B / Stable (Assigned)
	Proposed Long Term Loan	Long Term	INR 2.75	ACUITE B / Stable (Assigned)
	Packing Credit	Short Term	INR 13	ACUITE A4 (Assigned)
	Bills Discounting	Short Term	INR 12.5	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	INR 1.25	ACUITE A4 (Assigned)

***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	17.00*	ACUITE B- / Stable (Downgraded)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE B- / Stable (Downgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A4 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A4 (Reaffirmed)

*EPC limit of Rs 6.50 Crore and FBP/FBD/FBN limit of Rs 6.50 Crore is a sublimit of Cash Credit

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About Acuité Ratings & Research:

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