

Press Release

Sahyog Exports Private Limited

30 October, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr
Short Term Rating	SMERA A4 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA A4**' (read as SMERA A four) to the Rs.12.00 crore bank facility of Sahyog Exports Private Limited (SEPL). The outlook is '**Stable**'.

Sahyog Exports Private Limited (the erstwhile Sahyog Exports, a partnership firm) was established in 1990 by Mr. Samir Doshi and Mr. Manish Doshi. The firm was later converted to private limited in 2006. The company, promoted by Mr. Samir Doshi, Mr. Manish Doshi and Mr. Harshad Doshi, is engaged in the manufacturing and export of leather footwear (for children, ladies) and accessories. The company is also engaged in trading of EXIM licenses which contributes around 36 percent to its revenue. The company exports its products to US and Europe. SEPL has two manufacturing units located at Vasai and Palghar with total capacity of 75,000 pairs per month. The company's operations are carried out mainly during the eight months - June to September with monsoon being the slack season.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management

Sahyog Exports Private Limited (SEPL) is engaged in the manufacturing and export of leather footwear. SEPL took over the existing business of Sahyog Exports, a partnership firm established in 1990. SEPL supplies its products to international retailers including Gioseppo S.L.U, Chaussea Sas, Oca-Loca Kids Shoe SL, Andrec-Cec, BAV Shoes Spa etc. located in Spain, Italy and France. The management includes Mr. Harshad Doshi who possesses around five decades of experience in the footwear industry and is in-charge of the production department. Further, the directors Mr. Samir Doshi, Mr. Manish Doshi and Mr. Harshad Doshi possess more than two decades of experience in the said line of business.

Moderate financial risk profile

The financial risk profile is moderate marked by adjusted gearing of 1.51 times as on 31 March, 2017 (Provisional) as against 2.97 times in the previous year. The adjusted gearing has been arrived at after considering Rs. 2.01 crore from related parties as equity as the same is subordinated to bank debt. The Interest Coverage ratio stood at 5.33 times for FY2017 (Provisional) as against 4.76 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.14 times as on 31 March, 2017 (Provisional) as against 0.12 times in the previous year. However, the adjusted Total outside Liabilities to tangible networth (TOL/TNW) stood at 3.45 times as on 31 March, 2017 (Provisional) as against 6.73 times in the previous year. The tangible networth stood at Rs. 3.37 crore as on 31 March, 2017 (Provisional) as against Rs. 2.69 crore in the previous year.

Weaknesses

Decline in revenue

The company reported operating income of Rs. 62.66 crore for FY2017 (Provisional) as against Rs. 57.36 crore in the previous year. The company is engaged in the manufacturing of leather footwear which contributed around 64 percent to the total operating income in FY 2017 and remaining was derived from trading of EXIM licenses. However, the company has discontinued trading of EXIM licenses after the implementation of the GST in July, 2017. Hence, the company is expected to report a decline of more than 30 percent in its operating income in FY2018. Further, as informed by the management, SEPL reported Rs. 9.00 crore of revenue during April, 2017 to August, 2017 and has orders worth Rs. 32.00 crore in hand which is expected to be executed by March, 2018.

Customer concentration risk

SEPL is exposed to customer concentration risk as 60 percent of the export revenue is derived from a single customer i.e. Giuseppe S. L., Spain. The company caters to international retailers including Giuseppe S.L.U, Chaussea Sas, Oca-Loca Kids Shoe SL, Andrec-Cec, BAV Shoes Spa etc. located in Spain, Italy, France, Portugal, Romania etc.

Low profitability, margins susceptible to fluctuations in metal prices and forex rates

The company reported low operating margins of 2.88 percent for FY2017 (Provisional) as against 2.45 percent in the previous year. The profitability is exposed to volatility in raw material prices as the key raw material for the company is finished leather. The raw material cost constituted around 75 percent of the total operating income in FY2017 (Provisional) as against 79 percent in the previous year. Hence, adverse movements in raw material prices can have a significant impact on the profitability of the company. As a result, the profitability is exposed to volatility in foreign exchange rates in the absence of adequate hedging mechanism.

Working capital intensive operations

The operations are working capital intensive evident from the gross current asset days of 124 for FY2017 compared to 115 days in the previous year. This is on account of high debtor days and high amount of other current assets in FY2017 (Provisional). However, the working capital cycle is comfortable at 28 days for FY2017 (Provisional) as against 37 days in the previous year.

Competitive and fragmented industry

SEPL operates in a highly competitive and fragmented industry characterised by organised as well as unorganised players.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

Applicable Criteria

- Manufacturing Entities-<https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that SEPL will maintain a stable outlook and continue to benefit over the medium term, on account of its experienced management and established presence in the leather footwear industry. The outlook may be revised to 'Positive' if SEPL registers significant growth in net cash accruals while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative', in

case SEPL registers significant decline in net cash accruals or deterioration in its capital structure on account of larger-than-expected working capital requirements. Any large, debt-funded capital expenditure (capex) undertaken by the company impacting its financial risk profile may entail a Negative outlook.

About the Rated Entity -Key Financials

For FY2016-17 (Provisional), SEPL reported profit after tax (PAT) of Rs. 0.79 crore on operating income of Rs.62.66 crore compared with PAT of Rs. 0.69 crore on operating income of Rs. 57.36 crore for FY2015-16. The net worth stood at Rs. 3.37 crore as on 31 March, 2017 (Provisional) compared with Rs. 2.69 crore as on 31 March, 2016.

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

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/Outlook
Packing Credit	N.A	N.A	N.A	7.00	SMERA A4 (Assigned)
Proposed Packing Credit	N.A	N.A	N.A	5.00	SMERA A4 (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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