

## Press Release

### RAADHIKA SHOECRAFTS PRIVATE LIMITED

December 15, 2017



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 17.57 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3

\* Refer Annexure for details

#### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-** (read as SMERA BBB minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs. 17.57 crore bank facilities of RAADHIKA SHOECRAFTS PRIVATE LIMITED. The outlook is '**Stable**'.

Raadhika Shoecrafts Private Limited (RSPL) is a Chennai-based company incorporated in January 2014 by Directors, Mr Jatinder Singh and Mrs Raadhika Singh among others. The company is engaged in the manufacture of luxury leather shoes and leather uppers primarily for export. The manufacturing facility is located at Guindy, Chennai with installed capacity of 1500 pairs/day. The current utilisation is around 1200 pairs/day.

#### Key Rating Drivers

##### Strengths

###### • Established track record and experienced management

RSPL was incorporated in January 2014. The company is led by Directors, Mr Jatinder Singh, Mrs Raadhika Singh. Prior to this, Mr. Singh promoted Jagar Exports whereas Mrs Singh promoted Raadhika Exports. Jagar Exports was established in 1998 and manufactured leather shoe and leather uppers. Raadhika Exports, established in 2000, dealt in a similar line of business. In 2015, the above mentioned firms were acquired by RSPL. Mr. Singh and Mrs. Singh possess extensive experience in leather industry.

###### • Healthy financial riskprofile

The financial risk profile is healthy marked by net worth of Rs 14.43 crore as on 31 March, 2017 compared to Rs 12.62 crore in the previous year. The gearing stood at 0.57 times as on 31 March, 2017 compared to 0.85 times as on 31 March, 2016. The total debt of Rs 10.68 crore consists of Rs 2.14 crore of long term borrowing in foreign currency and packaging credit of Rs 5.26 crore as on 31st March, 2017. The debt service coverage ratio stood at 2.22 times in FY2017 as against 1.65 times in FY2016. The gearing is expected to remain comfortable in the medium term with repayment of long term borrowings over the next two years. The interest coverage ratio is healthy at 7.27 times for FY2017 compared to 5.88 times for FY2016. The Net cash accrual stood at Rs 2.81 crore in FY2017. As against this, RSPL has debt repayment obligation of around Rs 88 lakh in FY2018. SMERA believes that RSPL will sustain a healthy financial risk profile on the back of healthy cash accruals in the absence of debt funded capex plans.

###### • Reputed clientele

RSPL has a reputed client base in Europe. Notable among its clientele are Melvin and Hamilton, Barker Shoe limited, Dr Martens, Bennett and Barker Ltd to name a few. Further expansion of business to USA, Australia and Japan is on the cards. The company also supplies to Louis Philippe in the domestic market.

## Weaknesses

- **Small scale of operations, susceptibility of profit margins to forex fluctuations**

The scale of operation is small with operating income of Rs 36.60 crore in FY2017 as against Rs 51.35 crore in FY2016. The company earns 95 per cent of its revenue from exports and the balance from domestic sales. As a result, the profit margins are susceptible to risk of fluctuations in foreign exchange. Besides, the company does not have a hedging mechanism in place.

- **Moderate working capital cycle**

RSPL's operations are moderately working capital intensive reflected in the GCA days of 123 in FY2017 as compared to 103 days in FY2016. The GCA days are mainly dominated by creditors of 86 days in FY2017 as against 51 days in FY2016. The debtors days stood at 46 in FY2017 as against 60 in FY2016. The inventory days stood at 65 days in FY2017 as compared to 23 days in FY2016. However, the working capital cycle is comfortable at 25 days in FY2017.

- **Highly competitive and fragmented industry**

RSPL operates in a highly competitive and fragmented industry characterised by numerous players.

## Analytical Approach

SMERA has considered the standalone business and financial risk profile of RSPL.

### Outlook: Stable

SMERA believes that RSPL will maintain a Stable outlook over the medium term on account of its experienced management and established presence in the leather industry. The outlook may be revised to 'Positive' if the company registers significant growth in operations while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative', in case the company registers significant decline in operations or capital structure on account of larger-than-expected working capital requirements. Any large, debt-funded capital expenditure undertaken by the company may entail a Negative outlook.

### About the Rated Entity - Key Financials

For FY2016-17, RSPL reported profit after tax (PAT) of Rs 2.21 crore on operating income of Rs 36.60 crore compared with PAT of Rs 0.85 crore on operating income of Rs 51.35 crore for FY2015-16. The net worth stood at Rs.14.43 crore as on 31 March, 2017 compared to Rs 12.62 crore as on 31 March, 2016.

### Status of non-cooperation with previous CRA (if applicable)

CRISIL Ratings in its press release dated October 11, 2017 inter alia has stated the following: Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of Raadhika Shoecrafts Private Limited. This restricts CRISIL's ability to take a forward looking view on the credit quality of the entity. CRISIL believes that the information available for Raadhika Shoecrafts Private Limited is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB' category or lower. Based on the last available information, CRISIL has reaffirmed the rating at 'CRISIL BB+/Stable/CRISIL A4+'.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

<https://www.smerra.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
Foreign Currency Term Loan	Not Applicable	Not Applicable	Not Applicable	3.57	SMERA BBB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA A3

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## ABOUT SMERA

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