

Press Release

Sarvesh Exports Private Limited

May 23, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	SMERA BB-/ Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (**read as SMERA double B minus**) and **SMERA A4+** (**read as SMERA A four plus**) on the Rs.12.00 crore bank facilities of Sarvesh Exports Pvt Ltd (SEPL). The outlook is '**Stable**'.

Incorporated in 2003, SEPL is a manufacturer and 100 percent exporter of leather garments and boots. Based in Uttar Pradesh, the company has an installed capacity of manufacturing 1.2 lakh pieces per annum of leather garments and boots. SEPL is promoted by Mr. Sushil Gulati and his wife, Mrs. Sangeeta Gulati.

Key rating drivers

Strengths

Extensive experience of promoters:

Mr. Sushil Gulati and Mrs. Sangeeta Gulati are active promoters and have an experience of more than two decades in the leather products manufacturing industry. The experience helped the promoters in strengthening the business risk profile over the past three years through FY2017. The revenues have improved from Rs.22.57 crore in FY2015 to Rs.43.96 crore in FY2017. Though, the revenues have dropped in FY2018 to about Rs.24.60 crore, due to client concentration, revenues are expected to improve to above Rs.30.00 crore over the medium term supported by healthy relations with the clientele across the regions of EU, the USA and China.

Moderate financial risk profile:

The financial risk profile is driven by moderate capital structure and debt protection metrics. The gearing is healthy at 0.8 times as on March 31, 2018 (provisional) as compared to 1.54 times as of March 31, 2016. This is an improvement partly attributed to accretion to reserves and moderate reliance on debt. Networth is moderate at Rs.8.29 crore as on March 31, 2017. Debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio are healthy at 0.62 times and 6.57 times in FY2017. SMERA believes that the financial risk profile is expected to be moderate in the absence of any significant debt-funded capex plans over the medium term.

Weaknesses

Modest scale of operations:

The revenues have improved at a compound annual growth rate of 40 percent over three years through FY2017. SEPL reported revenues of Rs.43.96 crore in FY2017. Revenues of SEPL have improved despite export revenues from the leather industry is moving towards south at ~ USD 5.6 billion in FY2017 vs USD 6.5 billion in FY2015. However, revenues of SEPL dropped in FY2018 to about Rs.24.6 crore (provisional) mainly due to loss of one single client, whose contribution to the total revenues are about 35 percent. The loss is because of price disadvantage due to reduction of duty drawback post implementation of goods and

services tax (GST) effective from July, 2017. The other competing nations like Bangladesh are enjoying zero duty or preferential rate of taxes wherein their pricing is competitive in the international market. To mitigate client concentration and improve revenues, SEPL is focusing on newer markets like the USA which is a key sensitivity factor over the medium term.

Working capital intensive nature of operations:

The operations are working capital intensive marked by high Gross Current Asset (GCA) of about 160 days. SEPL maintains an inventory of two-three months of its revenues, while its receivable days are about 40 days. It sources the key raw materials of sheep and lamb skin from domestic as well as overseas market. Exchange fluctuations are mitigated through natural hedging, as its entire revenues are from overseas markets. SMERA believes that its operations continue to be working capital intensive over the medium term.

Analytical approach:

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

Outlook:

SMERA believes that SEPL will maintain a 'Stable' outlook over the medium term from its established relationship with customers and extensive experience of promoters. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of any decline in revenues, or stretch in its working capital cycle leading to deterioration of its financial risk profile.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	43.96	37.47	22.57
EBITDA	Rs. Cr.	3.21	2.84	1.97
PAT	Rs. Cr.	1.59	1.31	0.77
EBITDA Margin (%)	(%)	7.30	7.58	8.73
PAT Margin (%)	(%)	3.61	3.50	3.42
ROCE (%)	(%)	20.41	17.93	14.10
Total Debt/Tangible Net Worth	Times	0.41	1.54	0.97
PBDIT/Interest	Times	6.57	5.38	4.53
Total Debt/PBDIT	Times	1.00	3.56	2.64
Gross Current Assets (Days)	Days	59	167	149

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB-/Stable (Assigned)
PCFC/PC	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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