Press Release

Alpine Shoes Private Limited

November 13, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** on the Rs. 16.00 crore bank facilities of Alpine Shoes Private Limited. The outlook is **'Stable'**.

Alpine Shoes Private Limited (ASPL) incorporated in 2010 by Mr. Sanajay Leekha , Mrs. Charu Leekha and Mr. Hardeep Singh is engaged in manufacturing of sport shoes for men and women. The manufacturing facility is located at Baddi (Himachal Pradesh) with an installed capacity of 12,00,000 pairs of shoes monthly. The company manufactures for Reebok, Adidas and Bata.

Analytical Approach

Acuité has considered standalone business and financial risk profile of ASPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  The promoters of the company have experience of more than two decades in leather industry through their group companies which are into leather based fashion accessories and have developed healthy relations with reputed customers and suppliers for leather industry. ASPL manufactures sports shoes for Reebok, Adidas and Bata. Based on superior quality and healthy relationship, repeated orders from old and new customers are witnessed. Acuité believes that the company will continue to benefit from its promoters' industry experience over the long term.

- **Comfortable working capital cycle**

  The working capital cycle of ASPL is comfortable marked by Gross Current Assets (GCA) of 93 days in FY2018 (PY: 60 days). The GCA days have increased on account of increase in inventory holding period and receivables in FY2018 over FY2017. The inventory holding period stood at 48 days in FY2018 (PY: 37 days). The receivable days stood at 26 days in FY2018 (PY: 20 days). The average bank limit utilisation stood at 80 percent for the last six months ended September, 2018.

Weaknesses

- **Uneven revenue trend with declining profitability margins**

  ASPL has shown uneven revenue trend during the period FY2016 to FY2018 under the study. The revenue stood at Rs.41.36 crore for FY2018 as against Rs.54.73 crores for FY2017 and Rs.32.58 crore for FY2016. The decline in revenues in FY2018 was on account of GST implementation which impacted the retail segment for 4 to 5 months. The company did not receive orders in that period to execute in FY2018. Further, the company has registered revenues of Rs.28.00 crore for the period April to September, 2018. The profitability margins are declining during the period FY2016 to FY2018 under the study. The operating margins stood at 4.52 percent for FY2018 (PY: 4.95 percent). The margins are declining on account of increase in employee cost and other manufacturing cost in FY2018 over FY2017. The net profitability margins have declined in FY2018 to 0.72 percent (PY: 2.10 percent) on account of significant increase in debt levels in FY2018 over FY2017. However, going ahead, Acuité expects improvement in profitability with the ongoing capital expenditure plan which will help it to manufacture the upper shoes in-house over the near to medium term.

- **Risk associated with implementation of new capex plan and successful scale up of operations**
  ASPL has undertaken a capital expenditure plan for enhancing the current manufacturing capacity of the sport shoes to 15,00,000 pair of shoes monthly (Existing capacity 12,00,000 pair monthly). The total envisaged cost of the project is Rs.10.00 crore, funded through equity of Rs.3.00 crore and balance by term loan of Rs.7.00 crore. The entire project funding is yet to be finalised thereby exposing it to funding risk. The project is expected to start by March, 2019 and end by October, 2019. The commercial production from this capex is expected to be November, 2019. The company remains exposed to risks associated with stabilisation and successful scale up of operations as per the expected parameters. Moreover, significant debt repayment coupled with long gestation period is likely to keep the credit profile constrained over the near term. Timely scale up of operations along with generation of adequate cash accruals would remain critical from the credit perspective.

- **Average financial risk profile**
  The financial risk profile of ASPL is average marked by net worth of Rs.4.67 crore as on 31 March, 2018 (PY: Rs.4.46 crore). The gearing (debt/equity ratio) stood at 1.52 times as on 31 March, 2018 (PY: 0.67 times). The gearing has increased on account of increase in debt levels in FY2018 over FY2017. The interest coverage ratio (ICR) stood at 1.91 times in FY2018 (PY: 4.16 times). The decline in the ICR was on account of significant increase in working capital requirements in FY2018 over FY2017. DSCR stood at 1.37 times in FY2018 (PY: 1.93 times). The net cash accruals declined to Rs.0.93 crore in FY2018 (PY: Rs.1.68 crore). The accruals have declined on account of decline in net profits. NCA/TD stood at 0.13 times in FY2018 (PY: 0.56 times).

Outlook: Stable

Acuité believes that ASPL will maintain a 'Stable' outlook over the medium term owing to its experienced promoters. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' if the company reports deterioration in its financial risk profile and liquidity position due to higher than expected working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	41.36	54.73	32.58
EBITDA	Rs. Cr.	1.87	2.71	2.45
PAT	Rs. Cr.	0.30	1.15	1.05
EBITDA Margin	(%)	4.52	4.95	7.51
PAT Margin	(%)	0.72	2.10	3.23
ROCE	(%)	13.58	29.89	52.12
Total Debt/Tangible Net Worth	Times	1.52	0.67	1.19
PBDIT/Interest	Times	1.91	4.16	4.33
Total Debt/PBDIT	Times	3.69	1.09	1.65
Gross Current Assets (Days)	Days	93	60	79

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

None

Any other information

None

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)
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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+ / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE B+ / Stable
Proposed Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 02249294034 namita.palve@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.