

Press Release

Supreme Overseas Exports India Private Limited

D-U-N-S® Number: 65-008-0492

March 07, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 51.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 51.00 crore bank facilities of Supreme Overseas Exports India Private Limited (SOPL). The outlook is '**Stable**'.

SOPL, based at Bangalore (Karnataka), was incorporated in 1998 by Mr. S. R. Ramchandar and Mr. Sri Harsha. The company is engaged in manufacturing and exporting of finished leather and leather garments. The company exports its products to countries such as Italy, Germany, France, Denmark and Switzerland, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The company has been into operations for more than four decades in the aforementioned line of business through Sura Leathers Private Limited (involved in leather processing, certified by Leather Works Group). As a result, the company benefits from backward integration with in-house tannery and enjoys cost and process efficiencies.

Weaknesses

- **Moderate financial risk profile**

SOPL has moderate financial risk profile as marked by net worth of Rs.16.47 crore in FY2018 as compared to Rs.16.35 crore in the previous year. Total debt as on March, 2018 stood at Rs.39.99 crore as compared to Rs.34.42 crore in the previous year. Out of the total debt of Rs.39.99 crore as on March 2018, short term debt consists of Rs.34.47 crore and balance is in the form of unsecured loan from Directors and related parties. This has led to gearing (debt-equity) of 2.43 times in FY2018, an increase from 2.10 times in the previous year. Total Outstanding Liability to Total Net Worth has gone up from 3.55 times in FY2017 to 4.28 times in FY2018.

- **Intensive working capital cycle**

SOPL has intensive working capital cycle as marked by Gross Current Asset (GCA) days of 397 in FY2018 as compared to 425 in the previous year. This is mainly on account of increased receivable period to 140 days in FY2018 from 101 days in the previous year. The nature of clientele necessitates stretched collection period. Such intensive working capital requirement has forced the company to utilise its CC facility to an extent of ~97 percent on an average.

- **Volatile margins**

The company has registered an uneven profitability trend during the period under study. The EBITDA margins stood at 6.94 percent in FY2018 as against 4.00 percent in FY2017 and 8.16 percent in FY2016.

Liquidity position

SOPL has intensive liquidity marked by moderate net cash accruals to its maturing debt obligations. The company has net cash accruals of about Rs.0.57 crore as on March 31, 2018. Its cash accruals are expected to be at similar levels matching to its repayment obligations of about Rs.0. 37 crore. Current ratio of the company stood at 1.16 times as on March 31, 2018. The company is likely to incur capex of Rs.3.15 crore over the medium which is likely to be funded by term loan (LRD). Acuité believes that the liquidity of SOPL is likely to remain intensive over the medium term on account of high working capital requirements and moderate accruals.

Outlook: Stable

Acuité believes that SOPL will maintain a 'Stable' outlook owing to the extensive experience of the management in the aforementioned industry. The outlook may be revised to 'Positive' in case of improvement in profitability, working capital cycle and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.87	51.93	48.64
EBITDA	Rs. Cr.	4.64	2.08	3.97
PAT	Rs. Cr.	0.12	0.06	0.11
EBITDA Margin	(%)	6.94	4.00	8.16
PAT Margin	(%)	0.18	0.11	0.22
ROCE	(%)	8.41	8.69	20.07
Total Debt/Tangible Net Worth	Times	2.43	2.10	1.32
PBDIT/Interest	Times	1.13	1.12	1.15
Total Debt/PBDIT	Times	8.06	8.30	5.20
Gross Current Assets (Days)	Days	397	425	385

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	20.00	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Kunal Khera Analyst - Rating Operations Tel: 02249294042 kunal.khera@acuiteratings.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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.