

April 03, 2013

Facilities	Amount ( Rs. Crore)	Rating
Cash Credit	3.00	<b>SMERA B/ Stable / Assigned</b>
Term Loan I	0.37	<b>SMERA B/ Stable / Assigned</b>
Term Loan II	1.76	<b>SMERA B/ Stable / Assigned</b>
Letter of Credit	2.00	<b>SMERA A4/ Assigned</b>

SMERA has assigned a rating of '**SMERA B**' (read as **SMERA Single B**) to the Rs. 5.13 crore long term facilities (fund based) and '**SMERA A4**' (read as **SMERA A four**) to the Rs. 2.00 crore short term facility (non-fund based) of Shyam Industries (SI). The outlook is '**Stable**'. The rating of SI is constrained by small scale of operations, weak financial risk profile marked by thin profit margins, high gearing and stretched liquidity. The rating also factors the intense competition in a highly fragmented footwear industry, working capital intensive nature of operations and vulnerability to adverse changes in exchange rates and firm's limited operational track record. The rating is, however, supported by long standing experience of the proprietor in shoe manufacturing business and firm's established distribution network.

SI is a small player in shoe manufacturing industry which is characterized by intense competition from numerous small players, with unorganized sector accounting for ~70% of the market share. SI is into manufacturing of PU Sol and PVC footwear with an annual installed capacity of 18 lakh shoe pairs (to be increased to 25 lakh shoe pairs post current expansion) with in-house brands like "Wisdom", "Spykar", "Spyke lite" and "PU Spyke". SI's profit margins have remained low due to high raw material cost and stiff competition from reputed footwear brands in India. Further, ~35% of raw material requirement is met through un-hedged import purchases, thus rendering SI vulnerable to foreign exchange fluctuations.

Business operations are working capital intensive as SI provides extended credit terms to its customers to compete with established brands in the market; however it has very limited flexibility in negotiating better terms from its suppliers. Thus growth in SI's operations is leading to regular

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increase in its working capital requirement, leading to high utilization of over 90% of cash credit limit over past six months.

Lower capital base on account of partial profit plough back and inadequate capital infusion renders SI dependent on outside borrowings for continuing its business operations. This has resulted in sustained high gearing levels with total debt to tangible net worth ratio and total liabilities to tangible net worth ratio at 6.85 and 14.25, respectively, as on 31/Mar/2012.

Proprietor, Mr. Radhey Shyam Singhal, has experience of more than 2 decade's in shoe manufacturing business. Though SI was established in the year 2006, the proprietor's family has been into shoe manufacturing business for more than 3 decades. Contacts established over the years by the proprietor have resulted in the firm witnessing revenue CAGR of 24.8% during FY 2008 to FY 2012.

#### **Outlook: Stable**

SI has 'Stable' outlook. SMERA believes that SI will continue to benefit from management's long years of experience and established distribution network. However, SI's ability to scale up the operations while improving its capital structure and maintaining comfortable liquidity position remains the key rating sensitivities.

#### **About Shyam Industries**

SI was established in the year 2006 as a proprietorship concern by Mr. Radhey Shyam Singhal. SI is into manufacturing of PU Sol and PVC footwear with an annual installed capacity of 18 lakh shoe pairs (to be increased to 25 lakh shoe pairs post current expansion) with in-house brands like "Wisdom", "Spykar", "Spyke lite" and "PU Spyke". SI has its factory unit in Bahadurgarh, Haryana & its products are sold all over India through an established distribution network.

For FY 2012, SI reported a net profit of Rs. 0.19 crore on a total income of Rs. 11.01 crore as against a net profit of Rs. 0.11 crore on a total income of Rs. 9.88 crore for FY 2011.

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