

Press Release

Star Exports

August 03, 2021



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.34.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.30.50 Cr bank facilities of Star Exports (SE). The outlook is '**Stable**'.

Also, Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.3.50 crore bank facilities of SE. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The reaffirmation in the rating reflects the experienced management & the established track record of operations and adequate liquidity position. However, the rating remains constrained on account of average financial risk profile marked by high gearing & moderate debt protection metrics and significant elongation in the working capital operations majorly due to high inventory and receivable days. Acuite believes that any change in the scale of operations with subsequent effect in the profitability and stretch in the working capital operations leading to stretch in liquidity will remain key rating sensitivity factors.

About the Company

Tamil Nadu based Star Exports (SE) is a partnership firm established in the year 1999 by Mr. Sarfraz Ahmed. The firm is engaged in processing and exporting of finished leather. The firm procures the semi-finished leather from its suppliers and processed leather is sold to its customers. Exports account for 80 percent of the total sales and the firm exports to countries like Bangladesh, Poland, Italy, British, China, etc.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The firm established in 1999, is involved in leather processing industry for more than two decades. The promoters of the firm are Mr. Sarfraz Ahmed and Mrs. Shabana Ahmed who are a veteran in the industry with long-standing experience, which lead to steady relations with customers and suppliers.

Acuite believes that the experience of the management in the industry is likely to favorably impact the business risk profile of the firm over the near to medium term.

Weaknesses

- **Average financial risk profile**

Financial risk profile of SE is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 4.05 times as on March 31, 2021 (Estimated) against 3.42 times as on March 31, 2020. TOL/TNW stood at 4.27 times as on March 31, 2021 (Estimated) against 4.14 times as on March 31, 2020. Tangible net worth of the firm stood modest at Rs.19.11 crore as on March 31, 2021 (Estimated) against Rs.18.39 crore as on March 31, 2020. The total debt of Rs.77.39 crore as on March 31, 2021 (Estimated) mainly consists of long-term debt of Rs.4.24 crore, short-term debt stood of Rs.31.50 crore and unsecured loans of Rs.41.65 crore. Debt protection metrics of

interest coverage ratio and net cash accruals to total debt stood moderate at 3.25 times and 0.04 times respectively in FY2021 (Estimated); while DSCR stood at 3.12 times in FY2021 (Estimated).

The firm has availed covid loan (WCTL UGECL) for Rs.3.50 crore as on May, 2021 and the repayment is expected to be completed by May, 2029.

Acuite believes that the financial risk profile of the firm is expected to remain at a similar level on account of modest net worth and moderate debt protection metrics for the medium term.

- **Working capital intensive operations**

SE's working capital operations are intensive marked by Gross Current Asset days (GCA) of 391 days in FY2021 (Estimated) against 255 days in FY2020. The inventory days stood at 281 days in FY2021 (Estimated) against 202 days in FY2020. The lower export during Q4FY2021 has resulted in high inventory. However, the inventory levels are expected to improve going forward since the current market situation is expected to improve. Inventory basically consists of finished leather, WIP of finished leather and chemicals. The firm maintains an inventory holding policy of 90-120 days due to seasonal factors and to cater to spot orders. The debtors' days stood at 74 days in FY2021 (Estimated) against 30 days in FY2020. The debtor days are high due to the current market scenario. However, this is expected to improve in the current year. The firm gives a credit period of 45-60 days to overseas buyers. However, working capital bank lines remains utilized at ~80-100 percent for last trailing 13 months ended June, 2021.

Acuite believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

- **Highly competitive and fragmented industry**

The leather and leather products industry in India is highly fragmented with the presence of numerous small scale players catering to both the domestic and overseas demand, leading to intense competition.

- **Risk of withdrawal associated with partnership nature**

SE was established as a partnership firm in 1999. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

SE has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.2.42 crore – Rs.3.21 crore during the last four years through FY2018-21 against moderate repayment obligations in the range of Rs.0.05 crore – Rs.1.10 crore during the same period. It is expected to generate cash accruals in the range of Rs.3.82 crore – Rs.7.64 crore over the medium term, against moderate repayment obligations in the range of Rs.0.05 crore – Rs.0.53 crore. Unencumbered cash and bank balances stood at Rs.0.23 crore as on March 31, 2021 (Estimated) with a current ratio of 1.88 times in the same period. The working capital limits remained utilized at ~80-100 percent for last trailing 13 months ended June, 2021.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuite believes that SE will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Estimated)	FY20 (Actual)
Operating Income	Rs. Cr.	62.60	83.45
PAT	Rs. Cr.	0.65	0.91
PAT Margin	(%)	1.04	1.08
Total Debt/Tangible Net Worth	Times	4.05	3.42
PBDIT/Interest	Times	3.25	3.30

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Jun-2020	Cash Credit	Long Term	1.50	ACUITE BB+/ Stable (Assigned)
	Packing Credit	Short Term	18.50	ACUITE A4+ (Assigned)
	Bills Discounting	Short Term	4.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	0.75	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	9.25	ACUITE BB+/ Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+/ Stable (Reaffirmed)
Union Bank of India	Packing Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE A4+ (Reaffirmed)
Union Bank of India	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00#	ACUITE A4+ (Reaffirmed)
Union Bank of India	Working Capital Term Loan (UGECL)	May, 2021	7.50%	May, 2029	3.50	ACUITE BB+/ Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BB+/ Stable (Reaffirmed)

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.75*	ACUITE A4+ (Reaffirmed)

*Inland BG is sublimit of Letter of Credit to the extent of Rs.0.50 crore.

#Continuation of one-way interchangeability of limit FDBP/FUDBP (Bills Discounting) limit under Prime Bank LC/Contract to PC to the extent of Rs.1.00 crore.

Contacts

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About Acuite Ratings & Research:

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