

## Press Release

### Star Exports

October 28, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.00	-	ACUITE A4+   Reaffirmed
Bank Loan Ratings	5.00	ACUITE BB+   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	34.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its 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.34 Cr bank facilities of Star Exports (SE). The outlook is '**Stable**'.

#### Reason for rating reaffirmation

The rating takes into consideration the established market position of the firm in the processing of the leather segment. It also takes into consideration the growth in the revenues and adequate liquidity position of the firm. However the ratings are constrained by the moderate financial risk profile and the working capital intensive operations of the firm.

### 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 accounted for around 64 percent of the total sales for FY22. 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.

### **Improvement in revenues**

The revenue of the firm increased by ~43 percent and stood at Rs.92.41 crore in FY22(Prov) compared to revenue of Rs.64.43 crore in FY21. The revenue of the firm was affected in the covid and hence the revenue had dropped in FY21. However, in FY22 the revenue increased due to good demand for the products. The revenue of the firm till September 2022 stood at ~Rs.53 crores. The operating profit margin of the firm declined and stood at 4.76 percent in FY22(Prov) compared against 5.92 percent in FY21. The decline in the operating profit margin is due to the increase in the raw material costs. The PAT margin improved and stood at 1.79 percent in FY22 compared to 1.57 percent in FY21.

Acuité believes that the business risk profile of the firm will remain on similar lines in medium term.

### **Moderate financial risk profile**

Star exports has a moderate financial risk profile marked by tangible net worth of Rs.21.73 crore as on 31 March 2022 (Prov) as against Rs.19.88 crore as on 31 March 2021. The increase in the tangible net worth is due to accretion of profits in reserves. The gearing level of the firm improved but stood high at 3.07 times as on 31 March 2022 (Prov) as against 3.30 times as on 31 March 2021. The total debt of the firm comprised of long term debt of Rs.3.93 crore, unsecured loans of Rs.41.65 crores and short term debt of Rs.20.08 crore as on 31 March 2022 comprising of Cash credit, Packing credit as well as Bills Discounting. The unsecured loans are provided by the sister concern of the firm ie 'Patranabis leather industries'. Hence, the adjusted gearing of the firm excluding the unsecured loans stood low at 1.16 times for FY2022. The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 4.19 times for FY22(Prov) against 3.90 times for FY21. The Debt Service Coverage Ratio (DSCR) stood at 2.38 times for FY22(Prov) against 3.73 times for FY21. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 3.86 times for FY22(Prov) as against 4.29 times in FY21.

Acuité believes that the financial risk profile of the firm will remain moderate in the medium term.

### **Weaknesses**

#### **Working capital intensive**

The firm's operations are working capital intensive as evident from Gross Current Asset (GCA) of 265 days as on March 31, 2022(Prov) as against 365 days as on March 31, 2021. The inventory levels stood at 223 days for FY22(Prov) compared against 279 days for FY21. The raw materials are obtained at a cheap price during the slaughtering season which is in June, July and August. Hence the firm procures it at a cheap price and hence the inventory days are high. Average inventory holding period of the firm is around 3-4 months. The debtor days improved and stood at 44 days for FY22(Prov) against 54 days for FY21. Mostly the payments are received in advance. Average credit period allowed to the customers is around 45-50 days for the export customers and 60-90 days for the domestic customers. The creditor days of the firm stood at 96 days for FY22 as against 173 days for FY21. The average credit period received from the suppliers is around 80-100 days. The average utilization of the working capital limits of the firm remains low at ~33 percent in last six months ended Aug' 22.

Acuité believes that the working capital management will remain in a key rating sensitivity in the medium term.

#### **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 Position Adequate

Star exports has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.3.77 crore in FY22(Prov) compared against maturing debt obligations of Rs.0.90 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.3.98-4.50 crore during 2023-24 period while its matured debt obligations is estimated to be in the range of Rs.0.95-1.33 crore during the same period. The firm's reliance on working capital borrowings is also on a lower side marked by average utilization of working capital limits of ~33 percent during the last six months period ended Aug' 2022. The firm maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2022(Prov) and the current ratio also stood moderate at 1.90 times as on March 31, 2022(Prov).

### Outlook: Stable

Acuité 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	92.41	64.43
PAT	Rs. Cr.	1.65	1.01
PAT Margin	(%)	1.79	1.57
Total Debt/Tangible Net Worth	Times	3.07	3.30
PBDIT/Interest	Times	4.19	3.90

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

None

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Aug 2021	Letter of Credit	Short Term	0.75	ACUITE A4+ (Reaffirmed)
	Working Capital Term Loan	Long Term	3.50	ACUITE BB+   Stable (Assigned)
	Packing Credit	Short Term	18.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB+   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.75	ACUITE BB+   Stable (Reaffirmed)
	Bills Discounting	Short Term	6.00	ACUITE A4+ (Reaffirmed)
12 Jun 2020	Proposed Bank Facility	Long Term	9.25	ACUITE BB+   Stable (Assigned)
	Bills Discounting	Short Term	4.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	18.50	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BB+   Stable (Assigned)
	Letter of Credit	Short Term	0.75	ACUITE A4+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	May 18 2029 12:00AM	3.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.50	ACUITE BB+   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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