

**Press Release**  
**STAR EXPORTS**  
**January 25, 2024**  
**Rating Reaffirmed**



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

**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**'.

**Rationale for rating reaffirmation**

The rating reaffirmation takes into consideration the improvement recorded in SE's operating performance in FY2023 marked by growth in revenues and profitability margins. The revenue of the firm stood at Rs.113.52 Cr in FY2023 as against Rs.93.28 Cr in FY2022, reporting a growth of ~21.69 percent in FY2023. The operating margin improved and stood at ~8.19 percent in FY2023 as against ~5.03 percent in FY2022. Further, the firm's financial risk profile continues to remain moderate with moderate net worth, gearing levels and comfortable debt protection metrics. The rating also factors in the experienced management along with its long track record of operations.

The rating, however, remains constrained due to its intensive nature of working capital operations, presence in highly competitive and fragmented industry and risks associated with withdrawal of capital by partners.

**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. Star Exports has 3 Tannery Units, 2 Units situated in Chennai and one at Ranipet. On average basis, ~50- 60% of the products are exported and balance for Local consumption. The local sales are catering to export oriented units. The firm exports to countries like Bangladesh, Poland, Italy, British, China, etc.

**Unsupported Rating**

None

**Analytical Approach**

Acuite has taken a standalone view of the business and financial risk profile of Star Exports (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.

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

### **Improvement in operating performance**

The revenue of the firm increased by ~21.69 percent and stood at Rs.113.52 crore in FY2023 compared to revenue of Rs.93.28 crore in FY2022. The operating profit margin of the firm improved in FY2023 and stood at 8.19 percent as against 5.03 percent in FY2022. The improvement in operating margins is due to less dependency on the job works, increase in the capacity utilization, and decrease in the administrative cost. The capacity utilisation by the firm stands at ~61.96 percent in FY2023 as compared to ~56.50 percent in FY2022. The PAT margin improved and stood at 5.19 percent in FY2023 compared to 2.37 percent in FY2022. Further, the firm reported revenue of Rs.96.00 Cr in 9MFY2024 and expected to achieve turnover of Rs.120-140 Cr in FY2024 with similar profitability levels.

Acuité believes that the firm will sustain the growth in the operating performance over the near to medium term.

### **Moderate financial risk profile**

Star exports financial risk profile is moderate with improving net worth, moderate gearing ratios and comfortable debt protection metrics. The tangible net worth of firm stood at Rs.28.59 crore as on 31 March 2023 as against Rs.22.85 crore as on 31 March 2022. The increase in the tangible net worth is due to accretion of profits to reserves. The gearing level of the firm improved and stood at 2.36 times as on 31 March 2023 as against 2.80 times as on 31 March 2022. The Debt/EBITDA improved, however stood high at 6.93 times as on 31 March 2023 as against 11.06 times as on 31 March 2022. The total debt of the firm comprised of long term debt of Rs.3.22 crore, unsecured loans of Rs.40.76 crores, short term debt of Rs.22.32 crore and current maturities of long term debt of Rs.1.13 Cr as on 31 March 2023. The short term debt consists of Cash credit, packing credit as well as bills discounting. The unsecured loans are provided by the sister concern of the firm. Hence, the adjusted gearing and debt/EBITDA of the firm excluding the unsecured loans stood low at 0.93 times and 2.74 times respectively for FY2023. The TOL/TNW moderately improved stood at 3.16 times as on 31 March 2023 as against 3.90 times as on 31 March 2022. The coverage ratios of the company remained comfortable with Interest Coverage Ratio (ICR) of 5.69 times for FY2023 against 3.74 times for FY2022. The Debt Service Coverage Ratio (DSCR) stood at 3.42 times for FY2023 against 3.42 times for FY2021.

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

### **Weaknesses**

#### **Working capital intensive operations**

The firm's operations are working capital intensive as evident from high Gross Current Asset (GCA) of 220 days as on March 31, 2023 as against 260 days as on March 31, 2022. The inventory levels improved significantly in FY2023, however still stood high at 129 days as on 31 March 2023 as compared against 222 days as on 31 March 2022. The raw materials are obtained at lower prices during the slaughtering season which is in June, July and August. Hence the firm procures it at those lower prices and holds inventory for a period of average 3-4 months. The debtor days moderated and stood at 54 days as on 31 March 2023 as compared to 43 days as on 31 March 2022. Mostly the payments are received in advance. Average credit period allowed to the customers is around 45-50 days for the export customers. Export sales are also covered by irrevocable letter of credit ranging from 60-90 days and includes advance payment. Local Sales, is ~30% by bank payment and credit extended for 60-90 days. The creditor days of the firm stood at 112 days as on 31 March 2023 as against 143 days as on 31 March 2022. The average credit period received from the suppliers is around 80-100 days. Further, the working capital limits have been moderately utilised at around ~81.20 percent in the last seven months ended October 2023.

Acuité believes that the improvement working capital management will remain in a key

rating sensitivity over 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.

### **Risks of withdrawal of capital by partners**

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 of the firm.

### **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.

### **Liquidity: 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.7.94 crore in FY2023 compared against maturing debt obligations of Rs.1.11 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.7-53 - 9.57 crore during 2024-26- period while its matured debt obligations are estimated to be in the range of Rs.1.13 -1.07 crore during the same period. The firm's reliance on working capital borrowings is on a moderate levels marked by average utilization of working capital limits of ~81.20 percent during the last seven months' period ended October 2023. The firm maintains unencumbered cash and bank balances of Rs.4.77 crore as on March 31, 2023 and the current ratio also stood moderate at 1.69 times as on March 31, 2023.

### **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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	113.52	93.28
PAT	Rs. Cr.	5.89	2.21
PAT Margin	(%)	5.19	2.37
Total Debt/Tangible Net Worth	Times	2.36	2.80
PBDIT/Interest	Times	5.69	3.74

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

Not applicable

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Oct 2022	Working Capital Term Loan	Long Term	3.50	ACUITE BB+   Stable (Reaffirmed)
	Bills Discounting	Short Term	6.00	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB+   Stable (Reaffirmed)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.50	ACUITE BB+   Stable   Reaffirmed
Union Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2026	Simple	3.50	ACUITE BB+   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>  Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:thejaswini.pv@acuite.in">thejaswini.pv@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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