

Press Release

Superhouse Limited

March 27, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 250.00 crore* (enhanced from Rs. 30.00 crore)
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A2+ (Reaffirmed and Assigned)

* Refer Annexure 1 for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs 81.00 crore bank facilities of Superhouse limited. The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 169.00 crore bank facilities of Superhouse Limited (SL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The ratings reaffirmed derive comfort from extensive experience of promoters spanning over four decades in leather industry, long track record of operations, group's strong distribution network and reputed as well as diversified customer base across various industries. The rating assigned also factors in healthy financial risk profile of the group marked by low gearing of 0.52 times as on 31st March 2020, improved debt-coverage indicators as evident from the interest coverage ratio increase 3.45 times in FY2020 and debt service coverage ratio 1.58 times in FY2020. The group has strong net worth of Rs. 347.19 crore as on 31st March 2020 as a result of moderate profitability and healthy ploughing back of profits. On the contrary, ratings are constrained on account of working capital intensive nature of industry, foreign exchange risk exposure and intense competition in the industry. Going forward, the ability of the group to further sustain its scale of operations along with the effective management of its working capital cycle and financial risk profile would be the key rating sensitivities.

About the company

Incorporated in 1980 as a private limited company in Kanpur, Superhouse Limited is promoted by Mr. Mukhtarul Amin along with his family members who have experience of more than four decades in the leather industry. The company is recognized as one of the leading manufacturers and exporters of finished leather. The company also deals in leather footwear, other leather products, textile garments and horse riding products. It was subsequently reconstituted as a public limited company in 1984 and is listed on Bombay Stock Exchange as well as National Stock Exchange. The company is operating through its 12 manufacturing units across the country and exports its products to more than 78 countries outside India. SL is a part of Superhouse group of companies.

About the group

Superhouse Group is a multi-unit and multi-product conglomerate in the field of footwear, leather and textile garments manufacturing and exports. Superhouse group is engaged in manufacturing and supplying of leather, leather goods and textile garments across the world. The group's manufacturing unit, i.e. SL is ably backed by marketing offices and distribution channels routed through various offshore companies. Most of such companies are its wholly owned subsidiaries, i.e. Superhouse (U.K.) Limited, Superhouse (USA) International Inc., Superhouse Middle East FZC, Briggs Industrial Footwear Ltd, Superhouse GmbH, Linea De Seguridad SLU and LA Compagine Francaise D Protectio SARL. All these companies collectively, hereinafter referred to as Superhouse Group.

Analytical Approach

Acuite has considered the consolidated view of business and financial risk profiles of the Superhouse Limited along with its seven wholly owned subsidiaries owing to presence in similar line of business, common promoters and operating as well as financial linkages between the entities to arrive at this rating. Extent of consolidation:

Full.

*Refer Annexure 2 for list of entities considered for consolidation.

Key Rating Drivers

Strengths

- **Experienced promoters & established market position in export market for leather goods**

Incorporated in the year 1980, Superhouse group's operations are led by Mr. Mukhtarul Amin along with his family, who possess more than four decades of experience in the aforementioned industry. The top management is ably supported by well experienced technical team. The extensive experience of the promoters has helped the company in establishing healthy relationship with its customers and suppliers. Acuite believes that Superhouse Group will continue to benefit owing to the extensive experience of the promoters and established brand name in the leather industry.

- **Diversified product portfolio coupled with reputed clientele**

Superhouse group has a diversified product portfolio which includes finished leather, shoe uppers, finished footwear, textile garments, horse riding equipment and other leather products. The group also manufactures safety and fashion footwear. The group has an established market position in the export leather industry. The group is catering to reputed clientele such as Patrick Shoes Limited, ASOS Plc, Lloyds Shoe Company Limited, among others. In addition to this, the group is approved by vendors for global brands such as Wal-Mart, Filanto, Auchan, Andre, Shoe Fayre, Hudson Bay and many more.

- **Integrated and healthy scale of operations**

Superhouse Limited sources its key raw material, i.e. raw hide/skins majorly from its tanneries and in-house leather product divisions, thereby reducing the risk of fluctuation in raw material prices. It also imports leather from countries such as Brazil, Italy and Columbia. Superhouse group has a total of twelve manufacturing facilities including two tanneries, across Uttar Pradesh. These units are ably backed by various marketing offices located in USA, UK, UAE, Spain and Germany.

The scale of operations of the group stood healthy at Rs. 608.67 crore during FY2020. However, in FY2020 reported a decline in the sales of finished leather segment which contributes ~56% of total sales during FY2020. Further, the operating margins stood moderate at 7.48 per cent in FY2020. However, PAT margins have remained on a growth trajectory and stood at 4.31 per cent in FY 2020.

- **Healthy financial risk profile**

The financial risk profile of the group is healthy marked by healthy net worth, low gearing levels and moderate debt protection metrics and coverage indicators.

The net worth of the group is healthy at Rs. 347.19 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of higher ploughing back of profits in the form of retained earnings. However, the equity share capital was reduced by Rs. 0.39 crore on account of forfeiture of partly paid-up equity shares.

The group has followed a conservative financial policy in the past and is continuing with the same policy as reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.52 times and 0.94 times as on March 31, 2020. The total debt of Rs. 180.52 crore as on 31 March 2020 comprised of working capital borrowings of Rs. 133.82 crores and long-term borrowings of Rs. 46.71 crores of which Rs. 26.48 crore are to be repaid within a year.

The group has moderate debt coverage indicators marked by debt-service-coverage-ratio of 1.58 times as on 31st March, 2020 as against 1.33 times as on 31st March, 2019 and interest coverage ratio of 1.45 times as on 31st March, 2020 as against 1.43 times as on 31st March, 2019.

Acuite believes that the financial risk profile of the group will continue to remain healthy on account of healthy net worth and debt protection metrics.

Weaknesses

- **Intensive working capital operations due to high receivables and inventory levels**

The group has intensive working capital operations marked by Gross Current assets days of 234 days in FY2020

as against 220 days in FY2019. The deterioration is marked by increase in inventory days and debtors' collection period due to covid-19 induced lockdown towards the end of FY2020. The group secures orders through marketing agents spread across different countries. The group fulfills the orders as and when the orders are received due to which the group maintains inventory of Rs. 80-90 crores at all times. Also, the availability of raw leather is seasonal due to which the group needs to maintain high raw material inventory so that the production of the group is not affected. Debtors' days stood at 84 days as on 31 March 2020. Current Ratio stood at 1.34 times as on 31st March 2020.

Acuite believes that working capital operations of the group will continue to remain intensive due to inherent nature of industry and integrated operations of the group.

• **Competition from organized and unorganized players & Geographical concentration risk**

The group is engaged in leather industry which is a highly competitive and fragmented industry marked by the presence of a large number of small-to-medium sized players which exposes Superhouse group to pricing pressure. The company also inherits geographical concentration risk, as ~ 72 per cent of the group sales come from exports with Europe being one of the major market for the group. The exports recently have witnessed slightly lowered demand due to the ongoing pandemic and sluggish economic environment.

Rating Sensitivity

- Deterioration in profitability margins, thereby impacting debt coverage indicators
- Significant decline in scale of operations
- Further elongation in working capital cycle

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 41.02 crore for FY2020 as against Rs. 26.48 crore of repayment obligations for the same period. Superhouse group's working capital operations are intensive marked by Gross Current Asset (GCA) days of 234 days in FY2020. The fund-based working capital limits are utilized at an average of 48.57 per cent in the last eight months ending November 2020 while the non-fund based limits utilization ranges from 25 to 40 per cent, hence providing sufficient liquidity buffer to support incremental working capital requirements. The group maintains unencumbered cash and bank balances of Rs. 11.53 crore as on 31st March 2020. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals as against maturing debt obligations over the same period.

Outlook: Stable

Acuite believes that Superhouse Group will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry, healthy financial risk profile and strong distribution network. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or further elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20(Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	608.67	694.40
PAT	Rs. Cr.	26.24	20.90
PAT Margin	(%)	4.31	3.01
Total Debt/Tangible Net Worth	Times	0.52	0.66
PBDIT/Interest	Times	3.45	3.43

Status of non-cooperation with previous CRA

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-March-2021	Packing Credit	Long term	20.00	ACUITE A-/ Stable (Assigned)
	Letter of Credit (Foreign)	Short Term	10.00	ACUITE A2+ (Assigned)

***Annexure 1 – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	55.00 (enhanced from Rs. 20.00 crore)	ACUITE A-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A-/ Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	10.50	ACUITE A-/ Stable (Assigned)
FBP/ FOBP/ FOUBP/ FAUBC/ FOUBNLC/ FOBNLC	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE A-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A-/ Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	7.35	ACUITE A-/ Stable (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A-/ Stable (Assigned)
FBP/ FOBP/ FOUBP/ FAUBC/ FOUBNLC/ FOBNLC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/ Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	5.34	ACUITE A-/ Stable (Assigned)
Term Loan	Not Available	9.05%	Not Available	10.99	ACUITE A-/ Stable (Assigned)

Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.82	ACUITE A-/ Stable (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/ Stable (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/ Stable (Assigned)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A2+ (Assigned)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A2+ (Assigned)
Letter of Credit (Foreign)	Not Applicable	Not Applicable	Not Applicable	26.00 (enhanced from Rs. 10.00 crore)	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2+ (Assigned)
Letter of Credit (Foreign)	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ (Assigned)
Letter of Credit (Foreign)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Assigned)

***Annexure 2 – List of subsidiaries that have been considered for consolidation:**

Sr. No.	Name of Company	Relationship
1	Superhouse (U.K.) Limited	Subsidiary
2	Superhouse (USA) International Inc.	Subsidiary
3	Superhouse Middle East FZC	Subsidiary
4	Briggs Industrial Footwear Ltd	Subsidiary
5	Linea De Seguridad SLU Spain	Subsidiary
6	Superhouse GmbH	Subsidiary
7	LA Compagine Franchise SARL Headquarter	Subsidiary

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About Acuité Ratings & Research:

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