

Press Release

ASG Leather Private Limited

April 07, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.21	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	8.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	54.21	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

ACUITE has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 54.21 Cr bank facilities of ASG Leather Private Limited (ALPL). The outlook is 'Stable'.

The rating draws strength from the experienced management, flexibility in production to manufacture diverse products, steady revenue growth, and healthy profitability margins and cash accruals arising from increasing realizations. The rating also factors the moderate financial risk profile of the company characterized by improving leverage and healthy debt coverage indicators. These strengths are partly offset by the working capital intensity in ALPL's operations and exposure to competition in the industry. The rating also considers ALPL's high geographical and client concentration risks as the major portion of its export revenues is derived from a few clients in Germany and Spain.

About the Company

ASG Leather Private Limited (ALPL), promoted by Mr. Alope Kumar Sengupta, was incorporated in 2002. The company manufactures leather goods like handbags, wallets, folders, organisers, pouches, and other small leather goods like passport/card holders, personalized accessories, gift items etc. The company has three leather goods manufacturing units and two tanneries in Kolkata. It derives the major portion (91 per cent in FY 2021) of its revenues from exports. ASG also sells leather products in the domestic market under the brand name, Kompanero, through 27 retail outlets. Around 15 per cent of the entire sales through exports is done under the brand name of the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of ALPL to arrive at this rating.

Key Rating Drivers

Strengths

Promoter's long experience and AIPL's established track record of operations in the leather products industry

For nearly two decades, ALPL has been making and exporting leather bags, wallets, accessories, and small leather goods. Operational risk is mitigated to some extent by the company's proven track record of operations in the manufacturing and export of leather products, as well as the promoter's extended experience in the industry.

Moderate financial risk profile

The financial risk profile of the company is marked by moderate networth, high level and healthy debt protection metrics. The tangible networth stood at Rs 18.77 crore as on 31st March, 2021 as compared to Rs 17.36 crore in the previous year. The gearing (debt-equity) stood at 2.05 times in FY 2021 as compared to 1.81 times in the previous year. The coverage indicators stood moderate marked by Interest coverage ratio (ICR) which stood at 3.52 times for FY 2021 as compared to 3.90 times in FY 2020. Debt service coverage ratio (DSCR) stood at 1.79 times in FY 2021 as compared to 1.95 times in FY 2020. Net cash accruals to total debt (NCA/TD) stood at 0.17 times in FY 2021. The Debt-EBITDA stood at 3.21 times in FY 2021. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Diversified geographical presence and established relationship with customers and suppliers

ALPL's revenue streams are more stable due to its diverse geographical presence. Furthermore, the company's business risk profile is bolstered by existing ties with consumers and suppliers. Germany, Spain, France, and Australia are among the major European countries where the company has a presence. Having been in business for almost two decades ensures a positive relationship with consumers and suppliers. Hamled GMBH (Germany) and Juju & co. are two of the company's most important clients (Australia).

The company sells most of its products in Europe, and notwithstanding the continent being among the worst hit by the Covid pandemic, the company has garnered exports of over Rs. 70.22 crore from the continent, up from Rs. 72.49 crore in FY 20. This is backed by better customer relations and repeat orders.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 184 days as on March 31, 2021 as against 178 days as on March 31, 2020. The high GCA days are on account of high inventory period of the group which stood at 109 days as on March 31, 2021 as compared to 120 days as on 31st March 2020. The inventory days are high on account of the lengthy manufacturing process of the leather from hides. The debtor period stood at 19 days as on 31st March, 2021 as against 7 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels over the medium term mainly due to the long manufacturing cycle.

Exposure to foreign exchange rate fluctuation risk

Export sales account for the majority of the company's revenue, putting it at risk of foreign exchange rate fluctuations. A natural hedge on account of raw material imports helps to limit this risk. However, ASG did not opt for any formal hedging policy.

Rating Sensitivities

Lower than expected operating performance
Deterioration in working capital cycle

Material covenants

Not Applicable

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals which stood at Rs 6.48 Cr as on March 31, 2021 as against long term debt repayment of Rs. 2.11 Cr over the same period. The cash and bank balances of the company stood at Rs. 1.17 Cr as on March 31, 2021 as compared to Rs. 2.40 Cr as on March 31, 2020. The current ratio stood low at 0.90 times as on March 31, 2021. However, the fund based limit utilisation remained moderately at 80 per cent over six months ended February, 2022. The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 184 days as on March 31, 2021 as against 178 days as on March 31, 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that ALPL will maintain a stable outlook over medium term on account of experienced management, steady revenue growth and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company achieves higher than expected improvement in its operating income and profitability while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of substantial reduction in its operating income, sharp decline in its operating margins and further stretch in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	89.78	99.93
PAT	Rs. Cr.	1.41	2.78
PAT Margin	(%)	1.57	2.78
Total Debt/Tangible Net Worth	Times	2.05	1.81
PBDIT/Interest	Times	3.52	3.90

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

CRISIL, vide its press release dated December 28, 2021 had denoted the rating of ASG Leather Private Limited as CRISIL B /Stable; ISSUER NOT COOPERATING'

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	5.06	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.29	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Assigned
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	11.85	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.31	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.20	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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