



Press Release
ASG LEATHER PRIVATE LIMITED
June 29, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	47.21	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	7.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	54.21	-	-

Rating Rationale

ACUITE has reaffirmed 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 has been revised from '**Stable**' to '**Negative**'.

Rationale for rating and outlook revision

The revision in outlook is primarily on account of stretched liquidity position of the company marked by full utilisation of its working capital limits owing to working capital intensive nature of operations. Furthermore, the profitability of the company has witnessed continuous deterioration in last three years as reflected by decline in operating profit margin to 10.50 percent in FY2023 from 12.09 percent in FY2022 and 13.38 percent in FY2021 respectively. The financial risk profile of the company continues to remain moderate with low networth, high gearing and moderate debt protection matrices. The rating also factors in the risk associated with the company related to foreign exchange fluctuations.

However, the rating draws comfort from well-established operations with experienced management and steady scale of operations of the company.

About the Company

Incorporated in 2002, ASG Leather Private Limited (ALPL) is promoted by Mr. Alope Kumar Sengupta. The company is engaged in the manufacturing of leather goods such as handbags, wallets, folders, organisers, pouches, and other small leather goods like passport/card holders, personalized accessories, gift items and so on. ALPL has three leather goods manufacturing units and two tanneries in Kolkata. The company derives more than 80 per cent of its revenues from export sales. Domestically the products are sold under the brand name, Kompanero, through 20 retail outlets.

Analytical Approach

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

Key Rating Drivers

Strengths

Diversified business operations aided by established brand name

The company has a long standing operations for over two decades and serves both the domestic as well as international market. The company has a well established brand name

Kompanero under which it offers the products in the domestic market. ALPL has a diversified revenue stream and has a global presence in more than ten to twelve nations and has established market presence in major European countries like Germany, Spain, France, and Australia. Further, the total exports of ALPL stands above 80 per cent out of which 15 per cent are done under the own brand name. Furthermore, the well-established operations have helped the company to develop healthy relationship with its customers and suppliers.

Acuité believes the healthy clientele relationships, established market position and the diversification in revenue base will continue to benefit the company going forward.

Modest scale of operations

The company has achieved revenues of Rs.128.20 Cr in FY2023 (Provisional) as compared to revenues of Rs.125.98 Cr in FY2022 and Rs.89.78 Cr in FY2021. The improvement in the operating income is supported by the favourable demand scenario and the addition of new product designs by the company in order to suit the customer preferences. Further, the company has focussed on spreading the brand and their own website digitally which led to accretion of customers.

However, the profitability of the company witnessed deterioration in last three years reflected by declining operating profit margin to 10.50 per cent in FY2023 (Provisional) as compared to 12.09 per cent in FY2022 and 13.38 percent in FY2021. Simultaneously, the PAT margin stood at 1.62 per cent in FY2023 (Provisional) as against 2.73 per cent in FY2022. The decline in the margins are on account of disparity in the foreign exchange currency values as the imported raw material costs increased in comparison to the selling price of the exported products.

Acuité believes that the company's hold in the international market as well as in the domestic market backed by the initiatives undertaken to increase the brand awareness will continue to benefit the operations of the company. However, improvement in profitability margins will continue to remain a key rating sensitivity going forward.

Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as marked by high Gross Current Assets (GCA) of 161 days as on March 31, 2023 (Provisional) as against 159 days as on March 31, 2022. The high GCA days are on account of high inventory period which stood at 101 days as on March 31, 2023 (Provisional) as compared to 102 days as on 31st March 2022. The high inventory period is on account of the lengthy manufacturing process of the leather from hides. However, the debtor period stood comfortable at 19 days as on 31st March, 2023 (Provisional) as against 8 days in the previous year. Furthermore, the average utilisation of its working capital limits remain highly utilised and remain at 94 percent in last six months ended May 2023 and sometimes remained fully utilised as well.

Acuité believes that the operations of the company will continue to remain working capital intensive in nature owing to the high inventory requirement due to the nature of the business and management of the same by the company will remain a key rating monitorable over the medium term.

Moderate financial risk profile

The financial risk profile of the company remained moderate marked by low networth, high gearing and moderate debt protection metrics. The tangible networth stood at Rs.27.67 Cr as on 31st March, 2023 (Provisional) as compared to Rs.23.22 Cr in the previous year. The gearing improved but stood high at 1.84 times in FY2023 (Provisional) as compared to 2.04 times in the previous year. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.00 times as on March 31, 2023 (Provisional) as against 3.73 times as on March 31, 2022. Furthermore, the debt coverage indicators stood moderate marked by Interest coverage ratio (ICR) at 2.78 times for FY2023 (Provisional) and Debt service coverage ratio (DSCR) at 2.87 times in FY2022. Net cash accruals to total debt (NCA/TD) stood low at 0.17 times in FY2023 (Provisional).

Acuité believes that going forward the financial risk profile of the company will remain moderate in absence of major debt funded capex plans.

Rating Sensitivities

- Improvement in the financial risk profile
- Elongation in the working capital cycle
- Steady scale of operations with improvement in profitability margins
- Improvement in the fund based bank limit utilisation

Material covenants

None

Liquidity Position: Stretched

The liquidity position of the company is stretched marked by almost full utilisation of the fund based bank limits led by working capital intensive nature of operations. The fund based utilisation stood on the higher side at 94 per cent over the last six months ended May, 2023. Further, the intensive working capital cycle of the company is marked by Gross Current Assets (GCA) of 161 days as on March 31, 2023 (Provisional) as against 159 days as on March 31, 2022. The current ratio stood low at 0.96 times as on March 31, 2023 (Provisional) as compared to 0.87 times as on March 31, 2022. The cash and bank balances of the company stood at Rs.1.12 Cr as on March 31, 2023 (Provisional). However, the net cash accruals stood at Rs.8.62 Cr as on March 31, 2023 (Provisional) as against the long term debt repayment of Rs.3.00 Cr over the same period.

Acuité believes that going forward the liquidity profile of the company will remain stretched over the medium term on account of high utilisation of its working capital limits led by high inventory period.

Outlook: Negative

Acuité has revised the outlook to 'Negative' on account of stretched liquidity profile of the company marked by the high utilisation of the fund based bank limits led by working capital intensive nature of operations. The rating may be 'downgraded' in case of further significant stress in the liquidity profile or in case of further deterioration in the financial risk profile. The outlook may be revised to 'Stable', if the company showcases improvement in the working capital operations without further significant liquidity stress on the cash flow requirements of its existing operations along with healthy revenue growth.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	128.20	125.98
PAT	Rs. Cr.	2.08	3.44
PAT Margin	(%)	1.62	2.73
Total Debt/Tangible Net Worth	Times	1.84	2.04
PBDIT/Interest	Times	2.78	4.50

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

CRISIL, vide its press release dated June 03, 2022 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>
- Manufacturing Entities: <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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Apr 2022	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.31	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	11.85	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	0.29	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	14.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	6.20	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	3.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	5.06	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	4.67	ACUITE BBB- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	11.85	ACUITE BBB- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB- Negative Reaffirmed Stable to

								Negative
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.20	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.99	ACUITE BBB- Negative Reaffirmed Stable to Negative

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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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