

April 03, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	1.50	SMERA B-/ Stable / Assigned
Term Loan I	1.52	SMERA B-/ Stable / Assigned
Term Loan II	4.12	SMERA B-/ Stable / Assigned
Letter of Credit	1.00	SMERA A4/ Assigned

SMERA has assigned a rating of '**SMERA B-**' (read as **SMERA Single B minus**) to the Rs. 7.14 crore long term facilities (fund based) and '**SMERA A4**' (read as **SMERA A four**) to the Rs. 1.00 crore short term facility (non-fund based) of Shyam Plastic Industries (SPI). The outlook is '**Stable**'. The rating of SPI is constrained by limited operational track record, debt funded capex resulting in high gearing levels and project implementation risk. The rating also factors the intense competition in a highly fragmented footwear industry, working capital intensive nature of operations and vulnerability to adverse changes in exchange rates. The rating is, however, supported by long standing experience of the promoters in shoe manufacturing business and established distribution network of group entity Shyam Industries.

SPI is relatively a new entrant in shoe manufacturing industry which is characterized by intense competition due to presence of numerous small players, with unorganized sector accounting for ~70% of the market share. SPI is into manufacturing of Rubber and PVC footwear with an annual installed capacity of 8.5 lakh shoe pairs (to be increased to 14.33 lakh shoe pairs post current expansion) with in-house brands like "Wisdom", "Spykar", "Spyke lite" and "PU Spyke". High raw material cost as well as presence of other reputed footwear brands in India limits SPI's profitability. Further, ~25% of raw material requirement is met through un-hedged import purchases thus rendering SPI vulnerable to foreign exchange fluctuations.

SPI's business operations are working capital intensive as the company is compelled to provide extended credit terms to its customers to face completion from the established brands; however it has very limited flexibility in negotiating better terms from its suppliers. Thus growth in SPI's operations is leading to regular increase in its working capital requirement, leading to high

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utilization- over 95%-of cash credit limit over past two months. Moreover, SPI had also availed of adhoc working capital limits in January, 2013 to tide over its liquidity requirements.

SPI has undertaken capex plan with total project cost of Rs. 7.52 crore and this includes purchase of land, building construction and machinery purchase; repayments of these loans would begin from FY 2014 and would required to be monitored.

Mrs. Jyoti Singhal, Mrs. Ram Kali Singhal and Mrs. Vipul Singhal are partners in SPI; however day to day business operations are managed by Mr. Radhey Shyam Singhal (Proprietor Shyam Industries) and his brother Mr. Deepak Singhal, who have over 2 decade's experience in shoe manufacturing business. Though SPI was established in the year 2008, the partner's family is involved in shoe manufacturing business for more than 3 decades.

Outlook: Stable

SPI has 'Stable' outlook. SMERA believes that SPI will continue to benefit from promoter's long years of experience and established distribution network of group entity Shyam Industries. However, SPI's ability to scale up the operations while improving its capital structure and maintaining comfortable liquidity position remains the key rating sensitivities.

About Shyam Plastic Industries

SPI was established as a proprietorship concern in the year 2008 by Mrs. Jyoti Singhal. However, the business operations have commenced only from October, 2011. Subsequently, on 01/Sep/2012, constitution was changed to partnership firm with the induction of Mrs. Ram Kali Singhal and Mrs. Vipul Singhal as new partners.

The firm is managed by Mr. Radhey Shyam Singhal (Proprietor Shyam Industries) and Mr. Deepak Singhal, who have long years of experience in the field of shoe manufacturing.

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SPI manufactures Rubber and PVC footwear with an annual installed capacity of 8.5 lakh shoe pairs (to be increased to 14.33 lakh shoe pairs post current expansion) with in-house brands like "Wisdom", "Spykar", "Spyke lite" and "PU Spyke". SPI has its factory in Bahadurgarh, Haryana & its products are sold all over India through an established distribution network by its group entity: Shyam Industries.

For FY 2012 (6 months), SPI reported a net profit of Rs. 0.02 crore on a total income of Rs. 0.49 crore. Further, as per VAT returns submitted, SPI has earned revenue of Rs. 3.11 crore for the period from April to December 2012.

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