

Press Release

Enco Shoes

22 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.25 Cr.
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.11.25 crore bank facilities of Enco Shoes (ES).

Enco Shoes (ES) established in 2003 by Mr. Najmul Hasan and Ms. Faiza Simin is a Chennai-based partnership firm engaged in the manufacture and export of leather shoe uppers and finished leather shoes. The manufacturing unit is located at Velappanchavadi (near Chennai). The installed capacity stands at 18000 pairs per month for leather shoes and shoe uppers. The firm exports its products to UK, Germany, USA and Asian countries.

Key rating drivers

Strengths

Extensive experience of the promoters

ES was established in 2003 by Mr. Najmul Hasan (Managing Partner) and Ms. Faiza Simin who possess over a decades experience in the footwear business. The extensive experience has helped the firm develop long term relations with customers and suppliers.

Proximity to raw material sources

The manufacturing facilities are located at Ranipet (leather hub) which is in close proximity to tanneries ensuring steady supply of raw material.

Moderate financial risk profile

The financial risk profile is moderate marked by modest networth of Rs. 11.54 (Provisional) crore as on 31 March, 2017 against Rs.9.97 crore in the previous year. The net worth increased due to infusion of funds and retention of profit in the business by the partners. The gearing stood comfortable at 0.58 times (Provisional) as on 31st March, 2017 against 0.57 times as on 31st March, 2016.

Further, the total debt of Rs.6.73 crore (Provisional) in FY2017 constitutes working capital funds. The interest coverage ratio (ICR) stood at 3.56 times (Provisional) in FY2017 against 3.48 times in FY2016. The NCA (net cash accruals to total debt) stood at 0.15 times (Provisional) as against 0.16 times in the previous year. The Total outside liabilities to tangible net worth (TOL/TNW) stood healthy at 0.96 times (Provisional) as on 31 March, 2017 as against 0.93 times in the previous year. However, the return of capital employed is low at 5.84 percent for FY2017 (Provisional) as against 6.01 percent for FY2016.

Weaknesses

Moderate scale of operations in a fragmented industry

The scale of operations is moderate with revenue of around Rs.36.54 crore in FY2017 (Provisional) as against Rs. 35.11 crore in the previous year. ES operates in a highly fragmented and competitive industry due to low entry barriers and large number of organised and unorganised players.

Working capital intensive operations

The operations are working capital intensive, as reflected by the high gross current assets (GCA) of 200 days (Provisional) as on 31 March, 2017 as against 169 days in the previous year. Further, the working capital cycle days stood at 114 days as on 31 March, 2017 (Provisional) as against 95 days in the previous year. This was on account of high inventory holding days of 153 in FY2017 (PY: 132 days). The firm maintains high level of inventory to meet customer demands. However, the debtor days stood at 25 as on 31 March, 2017 as against 21 days in the previous year.

Customer concentration risk

Around 70 percent of the total sales is derived from three major customers i.e. Durea Schoenfabriek BV – Netherland, Gabor Shoes AG – Germany and Weber Schuh GMBH – Germany. However, these customers have established presence in the retail footwear industry. Further, ES has long standing relations with the aforementioned clients leading to repeat orders.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

About the Rated Entity – Key Financials

Particulars	Unit	FY17 (Prov)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.54	35.11	39.49
EBITDA	Rs. Cr.	1.44	1.27	1.07
PAT	Rs. Cr.	0.58	0.45	0.51
EBITDA Margin	(%)	3.95	3.61	2.72
PAT Margin	(%)	1.60	1.27	1.29
ROCE	(%)	5.84	6.01	5.78
Total Debt/Tangible Net Worth	Times	0.96	0.93	0.90
PBDIT/Interest	Times	3.56	3.48	10.60
Total Debt/PBDIT	Times	4.66	4.45	2.57
Gross Current Assets	Days	200	169	123

Any other information:

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Not Applicable

Annexure - 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	8.00 [^]	SMERA A4+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA A4+

[^]Fully interchangeable with foreign bill discounting

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ABOUT SMERA

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