No. CARE/DRO/RR/2022-23/1784

Shri Mohd. Imran
Chief Financial Officer
Super Tannery Limited
187/170, Jajmau Road,
Kanpur
Uttar Pradesh 208010

January 18, 2023

Dear Sir,

Credit rating of Super Tannery Limited for Rs.111.30 crore

Please refer to our letter dated January 02, 2023, on the above subject.

2. The rationale for the rating(s) is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 19, 2023, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

[Rajan Sukhija]	**[Sachin Mathur]**
Lead Analyst	**Assistant Director**
rajan.sukhija@careedge.in	sachin.mathur@careedge.in

Encl.: As above

Annexure-1

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	86.00 (Enhanced from 85.50)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.00 (Reduced from 7.50)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	18.30	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**111.30 (₹ One Hundred Eleven Crore and Thirty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Super Tannery Limited (STL) continues to drive strength from the experienced promoters in the leather and tannery industry along with company's long operational track record and diversified customer base. The rating also factors in company's locational advantage, stable operational performance and company's average financial risk profile marked by a comfortable gearing level and modest debt coverage indicators. The ratings are, however, constrained by presence of large organized and unorganized players in the leather industry, its elongated operating cycle and susceptibility of profitability margins due to volatile raw material prices.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in capacity utilization with ROCE above 12.00% on sustained basis.
- Reduction in operating cycle below 150 days on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing above 1.50x.
- Reduction in TOI below Rs 150 crore leading to reduction in profitability margins.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Iftikharul Amin, (aged 64 years) postgraduate, is the Managing Director of the company and is associated with the company since inception. He has over three decades of experience in leather industry. Mr. Iqbal Ahsan, Joint Managing Director, has been closely associated with the company for over 33 years and is involved in the operations of the company. Mr. Mohd. Imran is a Chartered Accountant and looks after export, import, accounts, excise, customs and foreign trade matters.

Long track record of operations, locational advantage and diversified customer base

STL began its operations in 1953 as a partnership firm in Uttar Pradesh – one of the major leather producing states. In 1984, STL was converted into a closely held public limited company and made its initial public offering in 1993. STL exports to more than 40 countries and contributed 82% (PY: 80%) of the total income in FY22 (refers to period April 1 to March31).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

STL has a diversified customer and supplier base with top 5 customers constituted to ~19% of total sales during FY22 (PY: ~22%).

Stable operational performance

The scale of operations of the company remains moderate and has increased by around 16% from Rs. 190.86 crore for FY21 to Rs. 221.18 crore for FY22. Improvement in total operating income was due to increase in sales from leather shoe and components during FY22 which was driven by post covid demand. STL's end user segment includes Footwear industry and Saddlery industry (includes bells, harness and dock collars), contributing 40% and 60% respectively. Further, owing to increase in the raw hide prices due to reduction in supply, the company along with all the other tanneries had to bear the cost of increase in raw material price which led to slight moderation in its PBILDT Margin, however, sales volumes improved slightly. PBILDT margin of the company has moderated to ~7% in FY22 from 8.48% during FY21 and resultant moderation in PAT margin to 1.82% in FY22 from 2.42% for FY21.

The company has reported sales of Rs.117.69 crore with PBILDT margin of ~8% during H1FY23 (refers to the April 1 to September 30) as against a total operating income of Rs. 112.93 crores with PBILDT margin of 7.24% in H1FY22.

Average financial risk profile

The overall gearing of the company stood at 0.87x as on March 31, 2022 (PY: 0.96x) which improved due to scheduled repayment of the term loans, slightly lower utilisation of working capital limits as on March 31, 2022, coupled with accretion of profits to tangible net worth. The interest coverage ratio of company also improved slightly from 3.03x for FY21 to 3.91x for FY21 mainly due to reduction in the interest expenses from Rs. 5.33 crore in FY21 to Rs. 3.96 crore for FY22 on account of lower utilisation of working capital limits and scheduled repayment of its term debt. Further, on account of increase in gross cash accruals during FY22, total debt to GCA has improved from 8.35x as on March 31, 2021, to 6.22x as on March 31, 2022.

Elongated operating cycle

The operating cycle of the company remained elongated at 162 days in FY22 (PY: 194 days) on account of high inventory days of ~135 days in FY22 (PY: 182 days). The prices of raw hide are highly volatile which is dependent on the demand supply of raw meat. Company procures raw hide in bulk quantities during Q4 in order to benefit from the low prices thereby leading to high inventory build-up as on March 31, 2022. The company's majority of inventory is kept in form of work-in progress, which after chemical treatment to the raw hides procured not only to elongate the shelf life of raw hide but it also results in an uninterrupted supply of raw material to its manufacturing unit throughout the year. Furthermore, sometimes due to government regulations wet work (the process which entails discharge of polluted water) remains closed for around 20-30 days, therefore the company needs to maintain inventory for 1-2 months so that manufacturing process can be carried on unhindered.

Competition from organized and unorganized players

As per the Council of Leather Exports, India is the second largest global producer of leather footwear after China. Footwear industry is highly competitive in nature due to the low entry barriers on account of low capital investment required for setting up of a new facility. Also, the operations of the industry are labour intensive resulting in presence of large number of unorganized players in the industry. The prospects of the company shall be governed by its ability to profitably scale up operations without any adverse impact on the capital structure of the company.

Foreign exchange fluctuation risk albeit hedged

Export contribution to total sales constituted ~80% in FY21 (PY: 78%). With significant chunk of sales realization in foreign currency, the company is exposed to the fluctuation in exchange rates. Company partly hedges its exports (for around 40-45% of total exports) by booking forward contracts, around 10% is natural hedge and the remaining payments are made by the company in CAD (Cash against Documents). Company imports lining and leather for the shoe component based on customer specifications. In absence of any formal policy of hedging, the company remains exposed to the volatility in forex movement for the unhedged forex portion. The company has made foreign exchange fluctuation gains of Rs 3.07 crore in FY22 increasing from Rs 1.56 crore in FY21.

Liquidity: Adequate

The company has adequate liquidity marked by gross cash accruals of ~Rs 10 crore vis-à-vis scheduled repayment obligations of Rs.0.68 crore during FY23. Though, current ratio of the company remains moderate and stood at 1.10x for the year ending FY22 (PY: 1.10x) with moderate cash and bank balance of Rs 1.93 crore as on September 30, 2022. Further, company's average utilization levels have remained high at ~85% for last trailing twelve months ending September 2022, primarily to fund the elongated operating cycle. The company is planning to set up an additional unit of footwear manufacturing during FY23 with a total expected outlay of around Rs. 3.6 crores which will be funded using a term loan of Rs. 2.5 crores from banks and balance using internal accruals.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing companies
Short term Instruments

About the Company

Super Tannery Limited (STL), incorporated in February 1984 to acquire business of partnership firm 'Super Tannery' (set up in 1953). STL came up with an initial public offering in May 1993 and got listed on BSE. It was promoted by Mr. Iftikharul Amin, (aged 61 years and postgraduate) who is managing director of company and is associated with the company since its inception. He is having over three decades of experience in leather and leather product industry.

Financial Performance: (Rs. crore)

For the period ended / as at March 31,	2020 (12m, A)	2021 (12m, A)	2022 (12m, A)
Working Results			
Net Sales	172.98	183.08	211.82
Total Operating income	183.06	190.86	221.18
PBILDT	15.80	16.18	15.49
Interest	6.70	5.33	3.96
Depreciation	5.70	5.95	6.27
PBT	3.66	5.30	8.01
PAT (after deferred tax)	4.49	4.61	4.03
Gross Cash Accruals	8.37	9.94	12.66
Financial Position			
Equity Capital	10.80	10.80	10.80
Networth	81.67	86.43	90.09

For the period ended / as at March 31,	2020 (12m, A)	2021 (12m, A)	2022 (12m, A)
Key Ratios			
Profitability			
PBILDT/Total Op. income (%)	8.63	8.48	7.00
PAT (after deferred tax)/ Total income (%)	2.45	2.42	1.82
ROCE (%)	6.31	6.85	6.16
Solvency			
Debt Equity ratio (times)	0.06	0.05	0.01
Overall gearing ratio(times)	0.88	0.96	0.87
Interest coverage(times)	2.36	3.03	3.91
Term debt/Gross cash accruals (years)	0.55	0.41	0.10
Total debt/Gross cash accruals (years)	8.62	8.35	6.22
Liquidity			
Current ratio (times)	1.16	1.10	1.10
Quick ratio (times)	0.44	0.54	0.59
Turnover			
Average collection period (days)	77	92	93
Average inventory (days)	192	182	135
Average creditors (days)	70	80	67
Operating cycle (days)	198	194	162

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2026	2.50	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	83.50	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	7.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Working Capital Limits		-	-	-	18.30	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	2.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BBB-; Stable	1)CARE BBB-; Stable

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4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
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CIN-L67190MH1993PLC071691

							(11-Nov-20)	(05-Dec-19)
2	Fund-based - LT-Working Capital Limits	LT	83.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BBB-; Stable (11-Nov-20)	1)CARE BBB-; Stable (05-Dec-19)
3	Non-fund-based - ST-Working Capital Limits	ST	18.30	CARE A3	-	1)CARE A3 (06-Jan-22)	1)CARE A3 (11-Nov-20)	1)CARE A3 (05-Dec-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	7.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jan-22)	1)CARE BBB-; Stable / CARE A3 (11-Nov-20)	1)CARE BBB-; Stable / CARE A3 (05-Dec-19)

*Long term/Short term.

Annexure-3: Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	2.50
	Total	**2.50**

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	83.50
	Total	**83.50**

Total Long Term Facilities : Rs.86.00 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	18.30
	Total	**18.30**

Total Short Term Facilities : Rs.18.30 crore

3. Long Term / Short Term Facilities

3.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Proposed	7.00
	Total	**7.00**

Total Long Term / Short Term Facilities : Rs.7.00 crore

Total Facilities (1.A+1.B+2.A+3.A) : Rs.111.30 crore

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Working Capital Limits	Simple

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Contact us

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(This follows our brief rationale for the entity published on January 6, 2023)

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**