ICRA

August 10, 2017

Superhouse Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Facilities	175 earlier 165)	[ICRA] BBB+ (stable); reaffirmed
Term Loans	60.37 (earlier 43.33)	[ICRA] BBB+ (stable); reaffirmed
Non-fund-based Facilities	68.50 (earlier 68.50)	[ICRA] A2; reaffirmed
Unallocated	1.66 (earlier nil)	[ICRA] BBB+ (stable); reaffirmed
Total	305.53	

* Instrument details are provided in Annexure I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)[1] for Rs. 237.03. -crore[2] term loans , fund-based and unallocated limits of Superhouse Limited (Superhouse). The outlook on long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) for Rs. 68.50 crore non-fund-based limits of Superhouse.

Rationale

The reaffirmation of Superhouse's ratings favorably factors in its experienced promoters, its integrated manufacturing operations which increase its cost competitiveness and its established market position as one of the leading exporters of leather products in India. Further, ICRA notes that post incurring substantial debt funded capital expenditure in last few years, Superhouse has limited capital expenditure plans going forward and its annual cash accruals from operations are expected to remain comfortable to service the overall debt obligations in a timely manner. Ratings also draw comfort from company's limited long-term debt obligations, its healthy cash and equivalents and significant undrawn credit lines as of July 2017, which provide financial flexibility.

The ratings are however constrained by the decline in Superhouse's revenues in last two years on account of weak demand from its customers in the European region and slowdown in investments in oil industry (for company's safety shoes) post the fall in prices of crude oil. Moreover, with the continuing sluggish economic and capex activity in the European and Middle Eastern regions which forms the company's main export market, its top line and profitability are expected to remain under pressure in the short to medium term. The ratings are also constrained by restriction on slaughter of cattle and closure of multiple slaughter houses and tanneries in Uttar Pradesh, which impacted the availability of raw material and margins of the company; that, coupled with the decision of National Green tribunal (NGT) to lower the capacity utilisation of tanneries in Unnao (Uttar Pradesh) led to ~80% decline in net profits in Q4FY2017.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

The ratings continue to be constrained owing to high competitive intensity in the leather footwear industry, geographical concentration in Superhouse's revenue profile and vulnerability of its profits to adverse movements in exchange rates, raw material prices and changes in duty drawback rates.

Going forward, Superhouse's ability to grow its turnover with improvement in profitability while managing its working capital intensity as well as capital structure will be the key rating sensitivities. Further, the extent of future capital expenditure and investments will be a key rating monitorable.

Key rating drivers

Credit strengths

- **Experienced promoters with long track record in the finished leather and footwear business-** Superhouse, which was originally incorporated in 1980 as a private limited company in the name of Aminsons Leather Finishers Pvt. Ltd., is promoted by Mr. Mukhtarul Amin. Mr. Amin and his family have been engaged in the leather business since more than four decades
- **Established position in the export footwear market with diversified and large customer base**: Superhouse has an established position in the leather and leather footwear exports with diversified client profile, it has more than 200 overseas clients under its portfolio, including Lloyds Shoe Company, Asos.com, Kurt Geiger Ltd., Tesco International, Stabilus, Gaston Mille, Louis Steiz Secura, Pellami Due Spa etc.
- **Integrated facilities for footwear manufacturing**: Superhouse has its own footwear manufacturing units and also its own tannery for leather processing. Backward integrated nature of operations with the presence of leather tanneries and complete footwear manufacturing facilities helps capture the value addition across the supply chain and also helps in ensuring quality of the final product
- **Healthy financial risk profile -** Moderate gearing levels (0.73x as on March 31, 2017) with limited long term debt, healthy cash and equivalents (Rs. 30 crore as on March 31, 2017) and considerable undrawn credit facilities provide financial flexibility

Credit weaknesses

- **De-growth of 5% in revenues during FY2017-** Following weak demand from the customers in Superhouse's largest export market, United Kingdom (UK), due to UK's vote on exiting European Union and consequent sharp decline in value of Great Britain Pound (GBP), the company's revenues declined by 5% in FY2017. Also, the company's safety footwear segment has been significantly impacted due to slowdown in investments in oil industry post the decline in prices of crude oil
- **Regulatory changes led to decline in profits -** Restriction on slaughter of cattle and closure of multiple slaughter houses and tanneries in Uttar Pradesh impacted the availability of raw material and margins of the company; that, coupled with the decision of National Green tribunal (NGT) to lower the capacity utilisation of tanneries in Unnao (Uttar Pradesh) led to ~80% decline in net profits in Q4FY2017
- **Geographical concentration risks**: High region specific risk with almost 65% of the sales being derived from Europe, which is currently witnessing sluggish economic environment
- **Vulnerability of profits to adverse movements in exchange rate, raw material prices and export incentives** – Superhouse is a manufacturer of leather and leather products and the operations are dependent on procuring quality animal skins at competitive prices. Also, as an exporter, Superhouse enjoys export incentives and interest subvention under various schemes run by Government of India (GoI). Any adverse change in raw material availability/ prices or in GoI's regulations may impact company's profitability

- **High Competition Intensity** - Leather industry is characterised by high competition intensity due to presence of large number of small to medium sized players owing to low entry barriers. This limits the pricing power of all players in the industry

Analytical approach
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Link to the applicable criteria
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Entities in Footwear Industry

About the company
Superhouse Limited is a manufacturer and exporter of finished leather, leather products (including footwear, accessories etc.) and textile garments. The company was originally incorporated in 1980 as a private limited company in the name of Aminsons Leather Finishers Pvt. Ltd and was later converted to a public limited company and subsequently its name was changed to Aminsons Ltd. in 1989. Post the merger of other group companies its name was changed to Superhouse Leather Ltd. and then to Superhouse Ltd. in 2006. The company is promoted by Mr. Mukhtarul Amin, and he and his family members together hold around 54.5% stake in the company.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	619.28	585.44
PAT (Rs. crore)	25.11	13.00
OPBDIT/ OI (%)	11.01%	7.8%
RoCE (%)	13.8%	8.3%
Total Debt/ TNW (times)	0.79	0.73
Total Debt/ OPBDIT (times)	2.85	4.15
Interest coverage (times)	3.96	2.49
NWC/ OI (%)	30.3%	32.0%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Rating history for the last three years

Table

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
		Type	**Amount Rated (Rs. Crore)**	**Date & Rating**	**Date & Rating assigned in FY2017**	**Date & Rating assigned in FY2017**	**Date & Rating assigned in FY2016**	**Date & Rating assigned in FY2016**	**Date & Rating assigned in FY2016**	**Date & Rating assigned in FY2015**
				Aug-17	Dec-16	Aug-16	Mar-16	Oct-15	Jul-15	Jul-14
1	Fund-based Facilities	Long Term	175	[ICRA] BBB+ (stable)	[ICRA] BBB+(stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]A (negative)	[ICRA]A (stable)	[ICRA]A (stable)
2	Term Loans	Long Term	60.37	[ICRA] BBB+ (stable)	[ICRA] BBB+(stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]A (negative)	[ICRA]A (stable)	[ICRA]A (stable)
3	Non-fund based Facilities	Short Term	68.50	[ICRA] A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term	1.66	[ICRA] BBB+ (stable)	-	-	-	-	-	-

Note on complexity levels of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated/ Outstanding (Rs crore)	Current Rating and Outlook
Term Loan	--	--	Jun-22	60.37	[ICRA]BBB+

Source: Mirza International Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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