November 22, 2019

Superhouse Limited: Ratings reaffirmed at [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	44.89	41.30	[ICRA] BBB+ (stable); reaffirmed
Fund based- Working Capital Facilities	165.00	191.23	[ICRA] BBB+ (stable); reaffirmed
Non-fund based-Working Capital Facilities	68.50	73.00	[ICRA] A2; reaffirmed
Unallocated	27.14	-	-
Total	**305.53**	**305.53**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of Superhouse Limited's (Superhouse) ratings favourably factors in its established market position as one of the leading exporters of leather products in India and its experienced promoters, who have a long and established track record in the leather and footwear businesses. The ratings continue to derive comfort from Superhouse's integrated manufacturing operations which increase its cost competitiveness, and financial flexibility owing to limited long-term debt, undrawn lines of credit as of September 2019, and adequate liquidity position as reflected by its healthy cash and equivalents. The ratings are strengthened by the diversified customer and supplier base with limited dependence on any particular customer or vendor, along with a diversified product portfolio consisting of finished leather, shoe uppers, finished footwear, textile garments, and other leather products. Further, ICRA notes that 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.

The ratings, however, are constrained by the decline in revenues by 11% in H1FY2020 vis-à-vis H1FY2019, given the continued tepid demand in Europe (the company's main market) and a dip in operating profitability to 8.6% in H1FY2020 vis-à-vis 9.2% in FY2019. Further, the company changed its revenue recognition policy in FY2020 – the top line is now recognised at the time of bill of shipping rather than bill of lading, which has been leading to delayed revenue recognition. The same has also impacted the top line for H1FY2020. The ratings continue to be constrained by the elevated working capital intensity of operations at 34% in FY2018 and FY2019 and intense competition in the leather footwear industry, geographical concentration of its revenues with Europe accounting for 56% of revenues in FY2019, and vulnerability of its profits to adverse movements in exchange rates, raw material prices and changes in duty drawback rates. While reaffirming the ratings, ICRA has noted that there have been sizeable transactions related to overseas subsidiaries and associate companies over the years. The outlook remains Stable, as ICRA believes that Superhouse will continue to benefit from the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Established position in export footwear market with large and diversified customer base - Superhouse is promoted by Mr. Mukhtarul Amin, who has been involved in the leather business for more than four decades. The company has an established position in leather and leather footwear exports with a diversified client base. It has more than 250 overseas clients under its portfolio, including Lloyds Shoes, ASOS.com, and Sainsbury's supermarket.

Integrated facilities for footwear manufacturing - Superhouse has backward-integrated operations with its own tanneries and manufacturing units spread across UP, most of which are concentrated near Kanpur. This ensures quality control and helps capture the value addition across the supply chain.

Financial flexibility owing to limited long-term debt and adequate liquidity - Limited long-term debt, healthy cash and equivalents (Rs. 44.1 crore as on September 30, 2019) and undrawn working capital facilities provide financial flexibility.

Diversified product portfolio - Superhouse has a diversified product portfolio which includes finished leather, shoe uppers, finished footwear, textile garments, and other leather products. Further, the company manufactures both safety and fashion footwear.

Credit challenges

Decrease in top line and operating profitability in H1FY2020 – The top line decreased by 11% to Rs. 270.3 crore H1FY2020 vis-à-vis Rs. 302.4 crore in H1FY2019. The operating profitability dipped to 8.6% in H1FY2020 from 11.1% in H1FY2019, given the slow demand in Europe, which is the company’s main export market.

Elevated working capital intensity due to high receivables and inventory levels – The working capital intensity remained elevated due to high debtor days at 94 in H1FY2020 compared with 82 in FY2019. Correspondingly, the company increased the payment cycle for its creditors, as reflected by an increase in creditor days to 132 in H1FY2020 from 117 in FY2019. Further, the company maintains an inventory (raw materials and various types of manufactured products) of about Rs. 150-160 crore, which pushes up the inventory-holding period and results in elevated working capital intensity.

Vulnerability of profits to adverse movements in exchange rate, raw material prices and export incentives – The margins of the company are largely exposed to fluctuations in raw material prices and exchange rates. Also, as an exporter, Superhouse enjoys export incentives and interest subvention under various schemes run by the Government of India (GoI). Any adverse change in raw material availability/prices or in the GoI’s regulations may impact the company’s profitability.

Intense competition – The leather industry is characterised by intense competition due to the presence of a large number of small-to-medium sized players owing to low entry barriers. This limits the pricing power of all players in the industry, especially because Superhouse is primarily a third-party manufacturer.

Geographical-concentration risks – High region-specific risk with almost 56% of the sales being derived from Europe, which witnessed tepid demand due to sluggish economic environment.

Liquidity position: Adequate

The liquidity is **adequate** as reflected by the unutilised portion of working capital facilities. The company's working capital utilisation averaged 66% of the Rs. 165.0 crore of sanctioned limits over the last one year that ended in September 2019, along with cash and liquid balances of Rs. 37.9 crore as of March 31, 2019.

Further, ICRA notes that Superhouse has limited capital expenditure plans going forward. Also, its annual cash accruals from operations are expected to remain comfortable to service debt obligations in a timely manner.

Rating sensitivities

Positive trigger - The rating may be upgraded if the interest cover improves to 5x or more on a sustained basis. Substantial growth in revenues and cash flows will be credit positives.

Negative trigger - Decrease in revenue growth or cash flows, any major capital expenditure, or stretch in the working capital cycle will be credit negatives. A specific measure could be decrease in interest cover to 2x or lower on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Footwear Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Superhouse 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 named Aminsons Leather Finishers Pvt. Ltd. and was later converted to a public limited company. Subsequently, its name was changed to Aminsons Ltd. in 1989. Post the merger of the other Group companies, its name was changed to Superhouse Leather Ltd. and then to Superhouse Limited in 2006. The company is promoted by Mr. Mukhtarul Amin, who along with his family members holds around 54.5% stake in the company.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	563.7	594.1
PAT (Rs. crore)	12.9	19.1
OPBDITA/ OI (%)	7.0%	9.2%
RoCE (%)	8.3%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDITA (times)	4.7	3.3
Interest Coverage (times)	2.2	3.1
DSCR	1.4	1.7

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2020)</th><th colspan="4">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding</th><th>Rating</th><th>FY2019</th><th>FY2018</th><th colspan="2">FY2017</th></tr>
<tr><th>22-Nov-2019</th><th>13-Sept-2018</th><th>10-Aug-2017</th><th>27-Dec-2016</th><th>5-Aug-2016</th></tr>
<tr><td>1</td><td>Fund Based Term Loan</td><td>Long Term</td><td>41.30</td><td>39.1</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>2</td><td>Fund based-Working Capital Facilities</td><td>Long Term</td><td>191.23</td><td>-</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>3</td><td>Non-fund based-Working Capital Facilities</td><td>Short Term</td><td>73.00</td><td>-</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2+</td></tr>
<tr><td>4</td><td>Unallocated</td><td>Long Term</td><td>-</td><td>-</td><td>-</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>-</td><td>-</td></tr>
</table>

Amount in Rs. crore

Complexity level 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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook

NA	Fund based-Term Loan	FY2014-FY2019	NA	Sept-2022	41.30	[ICRA]BBB+(Stable)
NA	Fund based-Working Capital Facilities	-	NA	-	191.23	[ICRA]BBB+(Stable)
NA	Non-fund based-Working Capital Facilities	-	NA	-	73.00	[ICRA]A2

Source: Superhouse Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

For more information, visit www.icra.in

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