November 02, 2020

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	41.30	16.33	[ICRA]BBB+ (Stable); reaffirmed
Fund based- Working Capital Facilities	191.23	176.0	[ICRA]BBB+ (Stable); reaffirmed
Non-fund based-Working Capital Facilities	73.00	57.5	[ICRA]A2; reaffirmed
Total	**305.53**	**249.83**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of Superhouse Limited's (Superhouse) ratings favourably factor 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 well-established track record in the leather and footwear businesses. The ratings continue to derive comfort from Superhouse's integrated manufacturing operations that increase its cost competitiveness, its adequate liquidity position on the back of 30% buffer (Rs. 47.9 crore) in the working capital limits over the past six quarters ending in September 2020, and cash and equivalents of Rs. 38.8 crore as of March 31, 2020. The ratings continue to draw comfort from the company's 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 adequate to service the overall debt obligations in a timely manner.

The ratings, however, are constrained by the impact of Covid-19 and the lockdown effected by the Governments across countries to contain the pandemic, which impacted the revenues and accruals in Q4 FY2020 and Q1 FY2021. Revenues and operating profit declined by 28% and 27%, respectively in Q4 FY2020 and 60% each in Q1 FY2021. Although total debt declined to Rs. 158.6 crore in March 31, 2020 from Rs. 178.0 crore in March 31, 2019, the steeper drop in accruals led to deterioration in debt protection indicators on a YoY basis. Total debt/OPBDITA stood at 3.9x as of March 31, 2020 against 3.3x as of March 31, 2019, and interest cover fell to 2.7x for FY2020 against 3.1x for FY2019.

The ratings continue to be constrained by the elevated working capital intensity of operations to 39% for FY2020 vis-à-vis 34% in FY2018 and FY2019. The ratings are further constrained by the intense competition in the leather footwear industry, geographical concentration of its revenues with Europe accounting for 52% of revenues in FY2020, and vulnerability of its profits to adverse movements in exchange rates and raw material prices. Further, over the last few years, the demand has been tepid in Europe (the company's main market) due to Brexit and subdued consumer sentiment, and muted demand environment is likely to persist over medium term, even after the exceptional impact of Covid-19.

While reaffirming the ratings, ICRA has noted that there have been sizeable transactions related to overseas subsidiaries and associate companies over the years. ICRA has also noted the discontinuation of the Merchandise Exports from India Scheme (MEIS), under which Superhouse claimed Rs. 12.49 crore in FY2020. MEIS is to be replaced with Remission of Duties or Taxes on Export Products (RoDTEP). The rates and certain key points for RoDTEP are yet to be finalised, and the same would remain a monitorable. The profitability may be impacted in case of adverse changes in rates under the scheme.

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.

Comfortable liquidity profile - Liquidity profile of Superhouse is comfortable, on the back of 30% buffer in the working capital limits over the past six quarters that ended in September 2020 and cash and equivalents of Rs. 38.8 crore as of March 31, 2020.

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

Impact of Covid-19 and deterioration in debt protection indicators - The lockdown since March 2020 to contain the Covid-19 pandemic and the muted demand from key export markets has resulted in significant decline in revenues and accruals for Q4 FY2020 and Q1 FY2021. Revenues declined by 60% to Rs. 52.1 crore in Q1 FY2021 from Rs. 129.6 crore in Q1 FY2020 and operating profit decreased by 60% to Rs. 47.8 crore in Q1 FY2021 from Rs. 119.0 crore in Q1 FY2020. Pickup in demand from the key destinations will remain a credit sensitivity. Further, though total debt declined to Rs. 158.6 crore in March 31, 2020 from Rs. 178.0 crore in March 31, 2019, the drop in accruals have led to deterioration in debt protection indicators on YoY basis—TD/OPBDITA stood at 3.9x as of March 31, 2020 against 3.3x as of March 31, 2019 and interest cover was 2.7x for FY2020 against 3.1x for FY2019.

Elevated working capital intensity due to high receivables and inventory levels – The working capital intensity increased to 39% in FY2020 from 34% in FY2019 due to high debtor days at 92 in FY2020 compared with 82 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; inventory days increased to 124 in FY2020 from 115 in FY2019.

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). The MEIS scheme, under which Superhouse claimed Rs. 12.49 crore in FY2020, is to be replaced with RoDTEP scheme. The rates and changes in the scheme would remain a key monitorable. Any adverse change in raw material availability/prices or in the GoI's regulations may impact the company's profitability.

Intense competition and geographical-concentration risks – 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. High region-specific risk with almost 52% of the sales being derived from Europe, which has witnessed prolonged tepid demand due to sluggish economic environment, and recently due to Covid-19.

Liquidity position: Adequate

The liquidity profile of Superhouse is **adequate**, given the 30% buffer in the working capital limits over the past six quarters that ended in September 2020, and cash and equivalents of Rs. 38.8 crore as of March 31, 2020.

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

Rating sensitivities

Positive trigger – The ratings may be upgraded if the interest cover improves to 5x or more on a sustained basis. Higher-than-expected improvement in revenues, profitability, and cash flows will be credit positives.

Negative trigger – Drop in interest cover to 2x or below, or larger-than-expected decline in revenues, profitability, or cash flows could lead to revision in rating or outlook. Further, any major capital expenditure, stretch in the working capital cycle or deterioration in liquidity position will be a credit negative.

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)

	FY2019	FY2020	Q1 FY2021 (Limited review)
Operating Income (Rs. crore)	594.1	520.4	52.1
PAT (Rs. crore)	19.1	24.3	-0.5
OPBDIT/OI (%)	9.2%	7.9%	8.5%
PAT/OI (%)	3.2%	4.7%	-1.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9	-
Total Debt/OPBDIT (times)	3.3	3.9	-
Interest Coverage (times)	3.1	2.7	2.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					02-Nov-2020	22-Nov-2019	13-Sep-2018	10-Aug-2017
1	Fund based-Term Loan	Long Term	16.33	16.33	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund based- Working Capital Facilities	Long Term	176.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund based- Working Capital Facilities	Short Term	57.5	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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 click here

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	FY2017-FY2020	NA	FY2023-FY2024	16.33	[ICRA]BBB+ (stable)
NA	Fund based- Working Capital Facilities	NA	NA	-	176.0	[ICRA]BBB+ (stable)
NA	Non-fund based-Working Capital Facilities	NA	NA	-	57.5	[ICRA]A2

Source: Superhouse Limited

Annexure-2: List of entities considered for consolidated analysis: NA

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