

Rahman Industries Limited

December 17, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	215.00	215.00	[ICRA]BBB; Downgraded from [ICRA]BBB+, Outlook revised from Negative to Stable
Term loans	28.45	28.45	[ICRA]BBB; Downgraded from [ICRA]BBB+, Outlook revised from Negative to Stable
Non-fund based limits	35.00	35.00	[ICRA]A3+; Downgraded from [ICRA]A2
Unallocated limits	21.55	21.55	[ICRA]BBB/A3+; Downgraded from [ICRA]BBB+/A2, Outlook revised from Negative to Stable
Total	300.0	300.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings factors in the stretched liquidity position of Rahman Industries Limited on account of significant blockage of funds in Goods and Services Tax (GST) as well as large receivables. The same has led to high working capital intensity of operations and elevated utilisation of working capital limits, which provides limited buffer. The ratings continue to be constrained by high forex risk because of significant unhedged foreign currency exposure and the challenging operating environment due muted growth in the company's key export markets, which have adversely impacted cash flows. While revising the rating and outlook, ICRA has taken note of the sizeable transactions related to overseas subsidiaries and associate concerns and has also noted that receivables from these Group entities are significantly stretched. Also, given the substantial investments in the Group companies, any material investment, acquisition or support to international subsidiaries remains a risk

Nonetheless, the ratings continue to favourably factor in the company's experienced promoters, its long track record of operations, integrated nature of its manufacturing operations and its strong market position as one of the leading manufacturers and exporters in the niche segment of safety shoes. Further, low term loans and limited repayments in FY2019 and FY2020 have resulted in comfortable capitalisation and coverage indicators with a gearing of 0.86 times as on March 31, 2018 and interest cover of 3.36 times in FY2018 vis-à-vis 2.97 times in FY2017.

Outlook: Stable

The outlook has been revised to Stable from Negative. Though the company has been facing a challenging operating environment, it has limited capital expenditure plans going forward and has low term debt obligations. The outlook may be revised to Negative or the rating may be downgraded in case of major debt-funded capital expenditure or additional stress in the working capital cycle. The outlook may be revised to Positive or the rating may be upgraded if the working capital intensity and utilisation of the working capital facilities improve and the company maintains the current accruals and leverage.

Key rating drivers

Credit strengths

Experienced promoters with long track record in leather industry – Incorporated in 1981, the company has extensive experience in the leather and leather footwear industry. Over the years, the company has diversified its geographical presence by way of acquisitions and associations, both domestically as well as internationally. As on date, the company has more than 10 manufacturing units spread across seven different countries, the prominent ones being in France, China, Italy, the UK and South Africa. The company is a leading manufacturer in the niche segment of safety shoes.

Backward-integrated operations with presence of leather tanneries and complete footwear manufacturing facilities – The company is backward integrated to manufacture finished leather from raw leather hides, and then converts it into uppers, shoes, and other leather accessories. The company has an established presence in safety shoes, which are largely exported to European nations.

Limited term debt obligations – Although the debt levels have increased owing to the rise in receivables and inventory, the company has low external long-term obligations and limited repayments (Rs. 2.0 crore in FY2019 and Rs. 1.6 crore in FY2020). Its leverage levels remain comfortable as reflected by gearing of 0.86 times as on March 31, 2018, and Total Outside Liabilities (TOL)/Total Net Worth (TNW) of 1.27 times as on March 31, 2018. Further, interest cover stood at 3.36 times in FY2018 and DSCR at 1.63 times as on March 31, 2018.

Credit challenges

High working capital intensity due to substantial inventory and receivables – The substantial inventory and receivables, along with blockage of significant funds due to non-receipt of refunds post implementation of GST, have led to high working capital intensity and have translated into consistently elevated utilisation of working capital limits over the 12-month period from April 2017 to March 2018, lowering the liquidity cushion available with the company in case of exigencies

Vulnerability of profits to adverse movements in foreign exchange rate, raw material prices, and changes in export incentives – Profits remain vulnerable to adverse movements in foreign exchange rate due to high unhedged forex exposure at more than 5 times the OPBDITA¹ in FY2018, though the company gained ~Rs. 4.5 crore due to forex volatility. Further, profits remain vulnerable to adverse movement in raw material prices and rates of export incentives.

Risks of cash outflows because of investments/acquisitions – The company has sizeable transactions related to overseas subsidiaries and associate concerns and the receivables from these Group entities are significantly stretched. Given the large number of subsidiaries and associates, there remains the risk of cash outflows due to stretched receivables, additional investments or acquisitions, or support to domestic and international subsidiaries. Moreover, debt funding of the same can deteriorate debt coverage indicators.

Liquidity position

High utilisation of working capital limits provides low buffer in case of exigencies. Support, especially if debt funded, extended to subsidiaries and Group concerns, may also deteriorate the company's liquidity. Nonetheless, the company has low debt repayments and limited capex plans in the near term, which will cushion its liquidity position.

¹ OPBDITA- Operating Profits before Depreciation, Interest, Tax, and Amortisation

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among these

About the company

Rahman Industries was incorporated in 1981 as a tannery business unit. It later ventured into manufacturing of shoe uppers and complete shoes. At present, the company manufactures finished leather, shoe uppers and finished shoes. It primarily manufactures safety shoes and around 90% of the revenues is generated from exports. Through the backward-integration strategy, the Rahman Group now manufactures chemicals, rubber and other auxiliary items needed for manufacturing leather and footwear. The Group is present across various countries such as Spain, France, Italy, South Africa, the UAE and China, apart from India.

In FY2018, the company reported a net profit of Rs. 23.21 crore on an operating income (OI) of Rs. 473.88 crore compared with a net profit of Rs. 23.15 crore on an OI of Rs. 436.02 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	436.02	473.88
PAT (Rs. crore)	23.15	23.21
OPBDIT/ OI (%)	13.22%	12.40%
RoCE (%)	10.92%	10.68%
Total Debt/ TNW (times)	0.87	0.86
Total Debt/ OPBDIT (times)	3.80	4.02
Interest coverage (times)	2.97	3.36

Status of non-cooperation with previous CRA: CRISIL suspended its ratings on the Rs. 250-crore bank facilities of Rahman Industries Ltd. on May 28, 2015 on account of non-cooperation by Rahman Industries Limited.

Any other information: None

Rating history for last three years

	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) (as on March 31, 2018)	Date & Rating December 2018	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016 March 2016
1	Fund-based limits	Long Term	215.0	-	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]A- (stable)
2	Fund based-Term Loan	Long Term	28.45	2.93	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]A- (stable)
3	Non-fund based limits	Short Term	35.0	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2	-	[ICRA]A2+
4	Unallocated limits	Long Term	21.55	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]A- (stable)/ [ICRA]A2+

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based-Term Loan	February 2016	-	March 2021	28.45	[ICRA]BBB (Stable)
NA	Fund based- Working Capital Facilities	-	-	-	215.0	[ICRA]BBB (Stable)
NA	Non-fund based- Working Capital Facilities	-	-	-	35.0	[ICRA]A3+
NA	Unallocated limits	-	-	-	21.55	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Rahman Industries Limited

Annexure-2: List of entities considered for consolidated analysis due to common promoter group

Company Name	Ownership	Consolidation Approach
Rahman Industries Limited	-	Full Consolidation
Icon Designs	0%	Full Consolidation
ATO Exims Private Limited	0%	Full Consolidation
Safetix Protective Equipments Private Limited	0%	Full Consolidation
Sadaf Enterprises Private Limited	0%	Full Consolidation
LS Holding SAS and its subsidiaries	NA	Full Consolidation
Performance Brands Limited	50.0%	Full Consolidation
Rahmco SRL	NA	Full Consolidation
Safetix Mid-East F.Z.E.	100%	Full Consolidation
Groupe LS S.A.	NA	Full Consolidation

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