

April 06, 2023

Rahman Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	3.34	2.22	[ICRA]BBB (Stable); reaffirmed
Fund based-working capital facilities	100.00	115.00	[ICRA]BBB (Stable); reaffirmed
Non fund based-working capital facilities	30.00	15.00	[ICRA]A3+; reaffirmed
Total	133.34	132.22	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Rahman Industries Limited's (RIL) favourably factors in the long experience of the promoters, the company's long track record of operations, the backward integrated nature of RIL's manufacturing operations and its strong market position as one of the leading manufacturers and exporters in the niche segment of safety shoes. The ratings are further strengthened by RIL's diversified client base spread across geographies, along with its manufacturing facilities present across France, the Middle East and South Africa. Also, various international brands under the RIL Group, which support sales and accruals, provide comfort. While the company's scale of operation witnessed a healthy growth of ~17% in FY2022, the same is estimated to remain moderate at 4-5% in FY2023. Going forward, the improvement in performance remains to be seen owing to uncertainty over the global economic outlook. The operating margin is expected to remain comfortable at ~11% in FY2023 and FY2024.

The ratings are also constrained on account of high working capital intensity (although declined in FY2022 to 55% vis-à-vis 63% in FY2021) resulting in sizeable working capital borrowings due to the long receivable cycle coupled with the elevated inventory holding due to the backward integrated nature of operations. The same is expected to remain at around 60% in FY2023 as well, adversely impacting the liquidity. The same is also reflected with high utilisation of working capital limit with an average utilisation of 85% in the last twelve months ended in December 2022. Moreover, the company's revenues and profitability remain susceptible to economic cyclicity in the key markets and foreign exchange rate fluctuations, regulatory changes and revision in the export incentives by the Government. The ratings also continue to be impacted by the intense competition in the leather industry and vulnerability of profits to adverse movements in raw material prices. In addition, RIL has made substantial investments in the Group companies over the years, thereby affecting the return indicators as well. Going forward, any material investment, acquisition, or support to international subsidiaries will remain a key monitorable. ICRA also notes that in the second week of December 2022, there were income Tax search operations carried out at the offices and tanneries of Rahman Industries Limited as well as in the residence of RIL's promoters. While there has been no update post that, ICRA would continue to closely monitor any further development related to this event and take appropriate rating action, if necessary.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that the company's financial risk profile remains comfortable, and the Group will benefit from the geographically diversified presence and its position as a leading manufacturer in the niche segment of safety shoes.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – On a consolidated basis, the Group's operating income increased by ~17% to Rs. 748.4 crore in FY2022 from Rs. 639.8 crore in FY2021 on account of a healthy increase of 11% and 22% in both footwear and tannery divisions, respectively, after the impact of the pandemic waned. The Group is expected to report a revenue growth of around 4-5% and the operating profitability is also expected to remain stable at ~11.5% in FY2023. The debt coverage metrics also remain comfortable. Going forward, the improvement in performance remains to be seen owing to uncertainty over the global economic outlook.

Established presence of Rahman Group in key export markets – 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 through acquisitions and associations, both in domestic and global markets. As on date, the company has seven manufacturing units spread across India, France, Italy, the UAE, 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. It then converts the finished leather into uppers, shoes, and other leather accessories. It has an established presence in safety shoes, which are largely exported to European nations.

Experienced promoters with long track record in leather industry – The company was established by Mr. Fazlur Rahman and is now managed by his sons, Mr. Nadeem Rahman and Mr. Kamran Rahman. Mr. Nadeem Rahman takes care of marketing, exports as well as research and development and has more than 30 years of experience in the leather business. Mr. Kamran Rahman looks after production, finance and administration and has an experience of more than 25 years in the industry.

Credit challenges

High working capital intensity due to substantial receivables from Group entities and high inventory – The working capital intensity of RIL has remained elevated (NWC/OI of 55% as on March 31, 2022) due to substantial inventory and receivables, given the backward integrated nature of operations and long receivable cycle from associates and Group entities. The same is expected to remain at around 60% in FY2023 as well, adversely impacting the liquidity. The same is also reflected in high utilisation of the working capital limit, with an average utilisation of 85% in the last twelve months ending in December 2022. Better management of working capital, leading to an improvement in the liquidity position, going forward, will remain a key monitorable.

Vulnerability of profits to adverse movements in foreign exchange rate, raw material prices, and changes in export incentives – The company's profits remain vulnerable to adverse movements in foreign exchange rate due to unhedged forex exposure. Further, profits remain vulnerable to adverse movement in raw material prices and rates of export incentives.

Risks of debt-funded large 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 its debt coverage indicators.

Liquidity position: Adequate

The liquidity of the Group remains adequate, as evident from unencumbered cash and liquid investments of ~Rs. 35 crore as of March 31, 2022. Moreover, the Group has been generating cash accrual of around Rs. 60 crore, which is sufficient to repay the annual debt obligations. The debt repayment in the next two years stands at ~Rs. 15 crore in FY2024 and ~Rs. 12 crore in

FY2025, while the fund flow from operation is expected to remain comfortable to meet the debt repayment obligations. However, the working capital requirements remain high owing to high working capital intensity of operation, which adversely impacts the liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a sustained improvement in revenues and cash accruals while improving the working capital cycle, leading to an improvement in the liquidity position.

Negative factors – The ratings may be downgraded if there is a deterioration in the financial risk profile, leading to weakening of debt coverage metrics. Additionally, large debt-funded expansion/acquisition or additional stress in the working capital cycle of the company, leading to weakening of the liquidity position, will be credit negative. Specific metrics which may lead to ratings downgrade include an interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for entities in Footwear Industry
Parent/Group support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RIL. As on March 31, 2022, the company had five subsidiaries, which have been enlisted in Annexure II.

About the company

Rahman Industries Limited (RIL) 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 its revenues is generated from exports. The Rahman Group also manufactures chemicals, rubber and other auxiliary items needed for manufacturing leather and footwear through the backward integration strategy. The Group is present across various countries like Spain, France, Italy, South Africa, and the UAE, apart from India.

Key financial indicators (audited)

Particulars	Standalone		Consolidated	
	FY2021	FY2022	FY2021	FY2022
Operating income (Rs. Crore)	355.4	455.9	639.8	748.4
PAT	26.8	35.5	32.4	44.7
OPBDIT/OI	13.7%	12.8%	10.9%	11.0%
PAT/OI	7.5%	7.8%	5.1%	6.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	1.0	0.8
Total debt/OPBDIT (times)	2.2	1.6	4.0	3.0
Interest coverage (times)	5.9	12.9	6.5	11.3

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating in April 6, 2023	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
						January 02, 2023	April 07, 2022	April 09, 2021	-
1	Fund based-Term Loan	Long term	2.22	1.11	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-
2	Fund based-working capital facilities	Long term	115.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-
3	Non fund based-working capital facilities	Short term	15.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based – Term Loan	Simple
Fund based-working capital facilities	Simple
Non fund based-working capital facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: 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	FY2019	-	FY2024	2.22	[ICRA]BBB (Stable)
NA	Fund based-working capital facilities	-	-	-	115.00	[ICRA]BBB (Stable)
NA	Non fund based-working capital facilities	-	-	-	15.00	[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis:

Company Name	% Holding	Country	Consolidation Approach
Rahmco SRL	60%	Italy	Full Consolidation
Groupe LS S.A	100%	Luxembourg	Full Consolidation
Safetix (Mid East) FZE	100%	UAE	Full Consolidation
LS Holding	100%	France	Full Consolidation
Beier Drawtex Healthcare Propreitory Ltd	41.67%	South Africa	Equity method

ANALYST CONTACTS

Jayanta Roy

+91 33 71501100

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 61693328

priyesh.ruparelia@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

Prerna Aggarwal

+91 4545 380

prerna.aggarwal1@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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