July 05, 2021

Zenith Exports Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund Based Working Capital	22.00	22.00	[ICRA]B+ (Stable)/ [ICRA]A4; Reaffirmed
Total	**22.00**	**22.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings of Zenith Exports Limited (ZEL) considers the weak financial profile of the company, which is reflected in continuous decline in the top line, operating losses since FY2017 and weak debt coverage metrics. A challenging operating environment and weak demand scenario due to the Covid-19 pandemic are likely to result in a further decline in the company's turnover and continuation of losses in the current fiscal as well. ICRA notes that intense competition in the leather gloves business limits ZEL's pricing flexibility, leading to a low profitability in the leather gloves segment. The ratings are also constrained by the high working capital intensity of the company's operations and vulnerability of its profits to exchange rate movements due to significant dependence on exports, although the same is mitigated to an extent by the forward cover taken by the company. The company also remains vulnerable to the counterparty risk as a significant portion of its exports is made against open credit. The ratings also factor in any adverse changes in government regulations, which could potentially impact the competitiveness of its products as well as business.

The ratings, however, positively factor in the long presence of ZEL in the leather and textile businesses, which along with its diversified geographical presence support the company's market position. While arriving at the ratings, ICRA also factored in the comfortable capital structure of the company, as reflected in a low gearing of 0.11 times as on March 31, 2020 and a sizeable cash balance, supporting its liquidity position.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's expectations that ZEL will continue to benefit from its established position in the industrial leather gloves export business and its liquidity position is likely to remain adequate in the near to medium term due to a sizeable cash balance, notwithstanding the likely losses in FY2022 as well on a reduced revenue.

Key rating drivers and their description

Credit strengths

Long presence of the company in leather and textile industries – ZEL has been involved in the production of industrial leather gloves and other leather products, silk and velvet fabrics for over three decades. In 9M FY2021, around 88% of the company's revenues was derived from the leather division, followed by around 12% from the textile division.

Geographically diversified client base – ZEL generates the major portion (around 85% in FY2020) of its sales from exports. The company has a geographically diversified client base and it exports to countries like Chile, France, Germany, Italy, Spain, Poland, the UK and the US. France was the highest contributor to ZEL's revenue in 9M FY2021 and accounted for around 28% of the company's exports. Presence across various geographies mitigates revenue risks arising from competition/slowdown in a particular region and lends stability to revenues.

Conservative capital structure – ZEL's capital structure remains conservative, as reflected by a gearing of 0.11 times as on March 31, 2020 due to a comfortable net worth vis-a-vis its limited debt level. However, losses incurred by the company in the last few years impacted its net worth position.

Credit challenges

Steady decline in scale of operations and depressed debt coverage metrices – ZEL's turnover declined continuously from ~ Rs. 242 crore in FY2016 to ~ Rs. 83 crore in FY2020 due to a deterioration in the performance of both leather and textile products divisions on account of intense competition from other players. Declining turnover and high fixed costs (despite retirement of around 30% of the textile segment's total employees under the voluntary retirement scheme in FY2019) resulted in continuous losses since FY2017. The continuing losses also kept ZEL's debt coverage metrics at a depressed level over the last few years. ZEL has reported an operating income of ~Rs. 37 crore in 9M FY2021 compared to ~Rs. 64 crore in 9M FY2020. A challenging operating environment and weakening of demand due to the Covid-19 pandemic are likely to result in a further deterioration in the company's turnover and continuation of losses in the current fiscal.

High working capital intensity of operations – High inventory levels maintained for leather gloves and textile business led to a high working capital intensity of the company's operations, as reflected by its high net working capital relative to the operating income of 46% in FY2020 though improved from 65% in FY2019.

Exposed to foreign currency fluctuation and counterparty risks – With high dependence on exports, most of ZEL's sales contracts are denominated in foreign currencies, exposing its profitability to volatility in exchange rate movements. Nonetheless, forward contract bookings for around 60-70% of its receivables mitigate such risk to an extent. ZEL is also exposed to the counterparty risk as the company extends open credit to overseas customers for most of its exports. However, long relationships with most of the overseas customers mitigate the risk to some extent.

Susceptibility of profitability to change in export incentives or any adverse changes in regulations – ZEL receives a significant amount of export incentives from the Indian Government. However, such incentives are mostly passed on to the customers due to an intense competition in the international markets, keeping the company's profitability susceptible to the changes in export incentives. The company's business is likely to remain exposed to the changes in relation to export incentives or any adverse developments in international trade policies and regulations in India and the importing countries.

Liquidity position: Adequate

The company's liquidity position is adequate. The company does not have any long-term debt repayment obligation. Its average fund-based working capital utilisation remained at a moderate level of around 28% during March 2020 to May 2021. Though ZEL's working capital intensity of operations remained high, a significant cash and bank balance (~Rs. 25 crore as on March 31, 2020) is likely to support its liquidity. Despite continuing loss, the company is expected to maintain its high cash balance in the near term at least.

Rating sensitivities

Positive factors – ICRA may upgrade ZEL's ratings if a turnaround of the company's operations translates into profits at the operating and net levels on a sustained basis.

Negative factors – A significant weakening of the company's liquidity position may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

ZEL was incorporated in 1981 as a public limited company. At present, it has two separate manufacturing divisions, namely Zenith Main Division (ZM) and Zenith Textiles (ZT), while the manufacturing operations of another division, Zenith Spinners (ZS), was shut down in November 2015. ZM is involved in the export of silk fabrics, industrial leather hand gloves and other leather products, which are manufactured in Kolkata, West Bengal. ZT is a 100% export-oriented unit. Its manufacturing facility is located at Nanjangud, Karnataka, which produces silk and velvet fabrics.

Key financial indicators (audited)

ZEL Standalone	FY2019	FY2020	9M FY2021	9M FY2020
Operating Income (Rs. Crore)	98.69	83.03	37.04	63.99
PAT (Rs. Crore)	-7.87	-1.56	-1.63	-2.43
OPBDIT/OI (%)	-0.12%	-4.97%	-6.29%	-6.44%
PAT/OI (%)	-7.97%	-1.88%	-4.40%	-3.80%
Total Outside Liabilities/Tangible Net Worth (times)	0.37	0.20	-	-
Total Debt/OPBDIT (times)	-171.30	-2.00	-	-
Interest Coverage (times)	-0.07	-3.05	-2.77	-5.42

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 5, 2021	August 11, 2020	-	February 11, 2019	June 12, 2018
1	Fund-based working capital limits*	Long-term and short term	22.00	-	[ICRA]B+ (Stable)/[ICRA]A4	[ICRA]B+ (Stable)/[ICRA]A4	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]A4
2	Non-fund based	Short term	-	--			-	[ICRA]A4	[ICRA]A4

* Packing Credit-PC/PCFC, FDB, FBE, BRD, Rupee Advance

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based Working Capital	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 analyzing 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, is available on ICRA's 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 working capital	NA	NA	NA	22.00	[ICRA]B+ (Stable)/ [ICRA]A4

Source: *Company*

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.

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