Zenith Exports Limited

February 11, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based working-capital	26.00	26.00	[ICRA]B+ (Stable); Assigned/ [ICRA]A4; Reaffirmed
Non-fund-based facility	1.00	1.00	[ICRA]A4; Reaffirmed
Total	**27.00**	**27.00**	

Rationale

The rating action considers the long presence of Zenith Exports Limited (ZEL) in the leather and textile business, which along with its diversified geographical presence support the company's market position. The ratings also factor in the comfortable capital structure of the company, as reflected by a low gearing of 0.13 times as on March 31, 2018 and sizeable liquid investments, supporting its liquidity to some extent.

The ratings are, however, constrained by the continuous decline in ZEL's turnover over the last four years, adversely impacting profitability and debt coverage metrics. The company's turnover declined due to shutdown of Zenith Spinners (ZS; spinning unit in Ahmedabad) in November 2015, weak performance of Zenith Textiles (ZT; textile division for manufacturing and weaving of silk, velvet, dobby and jacquard fabrics) and lower order inflow for Zenith Main Division (ZM; manufactures leather gloves that are mainly used for industrial purposes; also manufactures as well as trades in silk and made-ups). ICRA also notes that intense competition in the leather gloves industry limits ZM's pricing flexibility, leading to low profitability in the leather gloves segment. Additionally, low utilisation of the installed capacity in ZT results in significant losses from the division due to high fixed costs. In H1 FY2019, around 30% of ZT's total employees have retired under the voluntary retirement scheme which costed the company Rs. 5.51 crore. While the move is likely to reduce the fixed employee costs of the division going forward, the high expense incurred after employees' retirement in H1 FY2019 is likely to have an adverse impact on the net profit in FY2019. 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 and raw material price fluctuations. The ratings also consider susceptibility of ZEL's profit margins to any reduction in fiscal incentives or other adverse government regulations.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from ZEL's established position in the leather and textile business and its diversified geographical presence. The outlook may be revised to Positive if there is a substantial increase in the scale of operations and improvement in profitability on the back of healthy inflow of orders. The outlook may be revised to Negative if the profitability and debt coverage indicators weaken significantly or if any sizeable capital expenditure aggravates its liquidity position.

Key rating drivers

Credit strengths

Long presence in the leather and textile business – ZEL has been involved in the production of silk and velvet fabrics and made-ups, industrial leather gloves and other leather products for over three decades. In FY2018, around 88% of the company's revenues were from ZM and the rest from ZT. Additionally, around 9-10% of ZM's revenues were from silk and made-ups and the balance from industrial leather gloves and leather products.

Diversified geographical presence – As ZEL is an export-oriented unit (EOU), over 95% of the company's sales are derived from exports. The company has a diversified geographical presence and it exports to countries like Chile, France, Germany, Lebanon, Spain, Poland, the UK and the US. Chile was the highest contributor to ZEL's revenue in FY2018, accounting for around 29% of the company's exports.

Comfortable capital structure – ZEL's capital structure remains conservative, as reflected by a gearing of 0.13 times as on March 31, 2018 due to a comfortable net worth vis-a-vis its debt level, aided by a healthy accretion to reserves in the past. However, losses incurred by the company during the last few years have negatively impacted its net worth to some extent.

Credit challenges

Continuous decline in revenues adversely impacted profits and debt coverage metrics – ZEL's turnover declined continuously from FY2015 to FY2018 due to deterioration in the performance of both ZM and ZT and shutdown of operations of ZS. Lower turnover, coupled with high fixed costs, adversely impacted ZEL's profitability. In H1 FY2019, around 30% of ZT's total employees have retired under the voluntary retirement scheme, which resulted in a cost of Rs. 5.51 crore to the company. While the retirement is likely to reduce the fixed employee costs of the division going forward, the high retirement expense in H1 FY2019 is likely to have an adverse impact on ZEL's net profit in the current financial year.

High working capital intensity of company's operations – High inventory levels maintained for leather gloves and textile business led to high working capital intensity of the company's operations, reflected by high net working capital relative to the operating income of 47% in FY2018. This exerted pressure on the company's liquidity.

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 risks to an extent. ZEL is also exposed to counterparty risks as the company extends open credit to overseas customers for most of its exports.

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

Liquidity position

ZEL incurred losses during the last two years (FY2017 and FY2018), and a higher loss is expected in FY2019 on the back of increased expense on voluntary retirement scheme offered to a large number of employees in the textile division, aggravating the liquidity position. However, significant liquid investments worth Rs. 17.56 crore as on March 31, 2018 provides some comfort. The cushion in working capital utilisation with average utilisation of 57% of the sanctioned limit during April 2018-December 2018 also supports the company's liquidity to some extent.

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 profile of the company

About the company

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

Key financial indicators (audited)

	FY 2016	FY 2017	FY2018
Operating Income (Rs. crore)	242.79	129.37	110.77
PAT (Rs. crore)	0.16	-1.79	-1.88
OPBDIT/ OI (%)	1.05%	-3.05%	-2.94%
RoCE (%)	2.62%	-1.67%	-0.43%
Total Debt/ TNW (times)	0.14	0.09	0.13
Total Debt/ OPBDIT (times)	5.13	-1.95	-3.52
Interest coverage (times)	0.77	-5.05	-2.36

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding As on 31.03.2018 (Rs Crore)	Date & Rating in FY2019 February 2019	June 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2017 April, 2017	Date & Rating in FY2016 February, 2016	Date & Rating in FY2015 March, 2015
1	Fund-based working capital limits*	Long Term/ Short Term	26.00	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
2	Non-fund-based	Short Term	1.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Fund-based cash credit limit	Long Term	-					[ICRA]BB (Negative) Withdrawn	[ICRA]BB (Negative)
4	Unallocated Limits	Short Term	-	-	-	-	[ICRA]A4	-	-

*Previously rated on short-term scale only

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 working capital limits	-	NA	-	26.00	[ICRA]B+ (Stable)/[ICRA]A4
NA	Non-fund-based limits	-	NA	-	1.00	[ICRA]A4

Source: Zenith Exports Limited

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

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