

August 11, 2020

## Zenith Exports Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based working capital	26.00	22.00	[ICRA]B+ (Stable)/ [ICRA]A4; Reaffirmed
Non-fund-based facility	1.00	-	
<b>Total</b>	<b>27.00</b>	<b>22.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings considers the continuous decline in Zenith Exports Limited's (ZEL) turnover over the last few years, leading to sustained losses and depressed debt coverage metrics. A challenging operating environment and weakening of demand scenario 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. ICRA notes that intense competition in the leather gloves industry limits ZEL's pricing flexibility, leading to a low profitability in the leather gloves segment, though it had improved to an extent in FY2020 due to a decline in raw material prices. Additionally, low capacity utilisation in the textile segment resulted in substantial losses from the division. 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. The company also remains vulnerable to the counterparty risk as a significant portion of its exports is made against open credit. The ratings further consider susceptibility of ZEL's profit margins to any reduction in export incentives or other adverse changes in government regulations.

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. The ratings also factor in the comfortable capital structure of the company, as reflected by a low gearing of 0.11 times as on March 31, 2020 and a sizeable cash balance, supporting its liquidity to some extent.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's expectation 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 a deterioration in revenues and continuous losses.

### 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 and made-ups for over three decades. In FY2020, around 77% of the company's revenues was derived from the leather division, followed by around 11% from the textile division and the rest from trading operations.

**Geographically diversified client base** – As ZEL is an export-oriented unit (EOU), the major portion (around 95% in FY2019) of the company's sales is derived from exports. The company has a geographically diversified client base and it exports to countries like Chile, France, Germany, Lebanon, Spain, Poland, the UK and the US. France was the highest contributor to ZEL's revenue in FY2019 and accounted for around 22% of the company's exports.

**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 during the last few years affected its net worth to some extent.

## Credit challenges

**Continuous decline in revenue led to sustained losses and depressed debt coverage metrics** – ZEL's turnover declined continuously from FY2015 to FY2020 due to a deterioration in the performance of both leather and textile products divisions and shutdown of manufacturing operations of its spinning division in FY2016. 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) led to sustained losses of ZEL. In FY2020, its operating income declined by around 16% to Rs.82.86 crore from Rs. 98.60 crore in FY2019. Consequently, the company continued to register losses in FY2020, though the amount of net loss declined compared to the previous year mainly due to a significant increase in the non-operating income, supported by forex gain. The continuing losses also kept ZEL's debt coverage metrics at a depressed level over the last few years. 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 high working capital intensity of the company's operations, reflected by high net working capital relative to the operating income of 50% in FY2020. 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 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.

**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 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 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 55% during January 2019 to May 2020. Though ZEL's working capital intensity of operations remained high, a significant cash and bank balance (Rs. 25.92 crore as on March 31, 2020) is likely to support its liquidity. A build-up of the high cash balance was aided by liquidation of sizeable mutual fund investments in FY2019 and release of working capital due to a decline in the scale of operation in FY2020, as reflected by a healthy cash flow from operations of around Rs. 17 crore in the year, despite continuing loss.

## Rating sensitivities

**Positive triggers** – 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 triggers** – A significant weakening of the company’s liquidity position may lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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, though it is involved in yarn trading business at present. ZM is involved in the export of silk fabrics, made-ups, 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 and made-ups.

## Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	98.60	82.86
PAT (Rs. crore)	-7.87	-1.43
OPBDIT/OI (%)	-0.55%	-4.96%
RoCE (%)	-8.20%	-0.77%
Total Outside Liabilities/Tangible Net Worth (times)	0.37	0.20
Total Debt/OPBDIT (times)	-37.62	-2.01
Interest Coverage (times)	-0.41	-4.11
DSCR	-5.17	1.53

Source: Zenith Exports Limited

**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
					11-Aug-20		11-Feb-19	12-Jun-18	11-Apr-2017
1	Fund-based working capital limits*	Long Term/ Short Term	22.00	-	[ICRA]B+ (Stable)/ [ICRA]A4	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]A4	[ICRA]A4
2	Non-fund-based	Short Term	-	-	-	-	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated limits	Short Term	-	-	-	-	-	-	[ICRA]A4

Amount in Rs. crore, \* Packing Credit-PC/PCFC, FDB, FBE, BRD, Rupee Advance

### 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](http://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	NA	NA	22.00	[ICRA]B+ (Stable)/ [ICRA]A4

Source: Zenith Exports Limited

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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