

Sarup Industries Limited

Instrument	Amount in Rs. Crore [^]	Rating Action
Fund Based Limits	15.82	[ICRA]BB(Stable); revised from [ICRA]BBB-(Stable)
Non-Fund Based Limits	3.62	[ICRA]A4; revised from [ICRA]A3
Unallocated Limits	2.56	[ICRA]BB(Stable)/Revised from [ICRA]BBB-(Stable); [ICRA]A4/Revised from [ICRA]A3

ICRA has revised its long term rating on the Rs. 15.82 crore¹ fund based bank facilities of Sarup Industries Limited (SIL) to [ICRA]BB (pronounced as ICRA double B) from [ICRA]BBB- (pronounced as ICRA triple B minus)² and has also revised its short term rating on the Rs 3.62 crore non-fund based bank facilities to [ICRA]A4 (pronounced as ICRA A four) from [ICRA]A3 (pronounced as ICRA A three). ICRA has also revised its ratings to [ICRA] BB/ [ICRA]A4 from [ICRA]BBB- / [ICRA]A3 on the Rs. 2.56 crore unallocated limits of SIL. The outlook on the long term rating is 'Stable'.

The revision in ratings takes into account the deterioration in the company's financial profile as reflected by fall in operating income (OI) (29% year-on-year) attributable to dip in orders from its major customers namely Reebok, Puma and Decathlon. This coupled with decline in profitability and return indicators due to lower utilisation of the expanded capacity, higher overheads and capital-related charges led to losses at net level in FY2016. ICRA also takes note of the fact that the company is in the midst of undertaking debt-funded capital expenditure worth Rs. 90 crore towards construction of a mall in Jalandhar which, in turn, would increase the company's debt obligation and further weaken the coverage and capitalisation indicators going forward.

The ratings continue to be constrained by the company's modest scale of operations resulting in limited pricing & bargaining power and the customer concentration risk with high dependence on Reebok which accounts for ~40-45% of company's total sales. ICRA also takes note of the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and volatility in the raw material prices as majority of company's raw material requirements are met through imports (40% in FY2016). The ratings continue to factor in SIL's stretched liquidity position due to high inventory levels of more than 5 months and delay in receipt of payments from some of its customers; a substantial portion of the receivables belong to orders that were executed in the past and the visibility of the realization of the same remain very bleak; any significant write-off going forward could pose further threat to the margins.

The ratings, however, favourably factor in the long track record of the company in the footwear business and the established and long standing relationships with major industry players.

ICRA notes that the continuing pressure on margins of the company attributable to slow order inflow leading to low capacity utilization and volatility in raw material prices could result in further tightening of the liquidity position. Going forward, the ability of the company to increase its scale of operations in a profitable manner along with prudently managing its working capital requirements will be the key rating sensitivities.

Company's Profile

Incorporated in 1979 as Sarup Tanneries Private Limited, the company was converted into public limited in 1992. The company came out with a public issue in 1994 and got its securities listed on Bombay Stock Exchange. The name of the company, however, was changed to Sarup Industries Limited (SIL) with effect from November 1, 2011. SIL is currently engaged in the manufacturing of sports shoes and finished leather on contract basis for brands such as Puma, Reebok, Bata, Decathlon and United Colors of Benetton. The company is promoted by Mr. Atamjit Singh Bawa, who along with his family holds majority stake in the company. SIL operates through 3 manufacturing facilities (2 being in Jalandhar, Punjab and 1 in Una, Himachal Pradesh) with a combined installed capacity of manufacturing 12 lakh shoe uppers and 18 lakh shoe pairs.

[^] 100 lakh = 1 crore = 10 million

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² For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications



Recent Results

During FY2016, SIL recorded a net loss of Rs. 2.34 crore on an OI of Rs. 49.29 crore, as against a net profit of Rs. 2.03 crore on an OI of Rs. 69.65 crore in the previous year.

June 2016

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