

August 22, 2017

Sarup Industries Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. Crore)	Rating Action
Fund-based Limits	15.82	[ICRA]BB- (Stable) revised from [ICRA] BB (Stable)
Non Fund-based Limits	3.62	[ICRA]A4; re-affirmed
Unallocated Limits	2.56	[ICRA] BB- (Stable)/A4 revised from [ICRA]BB (Stable)/A4

*Instrument details are provided in Annexure-1

Rating action

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 ICRA double B minus) from [ICRA] BB (pronounced ICRA double B)² and has re-affirmed its short term rating on the Rs 3.62 crore non-fund based bank facilities at [ICRA] A4 (pronounced ICRA A four). ICRA has also revised its ratings to [ICRA] BB-/ [ICRA] A4 from [ICRA] BB / [ICRA] A4 on the Rs. 2.56 crore unallocated limits of SIL. The outlook on the long term rating is 'Stable'.

Rationale

Sarup Industries Limited announced its quarterly results for Q1 FY2018 on August 14, 2017. During Q1 FY2018, the company reported an operating income (OI) of Rs. 6.48 crore and a net loss of Rs. 0.83 crore compared to an OI of Rs. 13.25 crore and a net profit of Rs. 0.16 crore in the corresponding previous quarter.

The revision in ratings takes into account the muted growth in the company's financial profile in FY2017 and further deterioration during Q1FY2018 as reflected in the fall in operating income (OI) (51% quarter-on-quarter), attributable to a dip in orders from its major customers. This, coupled with a decline in profitability, higher overheads and capital-related charges, led to losses at a net level during Q1FY2018.

The ratings continue to be constrained by the company's modest scale of operations resulting in limited pricing and bargaining power and the customer concentration risk. 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. The ratings continue to factor in SIL's stretched liquidity position due to high inventory levels of more than seven months as on March 31 2017 and delay in receipt of payments from some of its debtors, 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 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 and volatility in raw material prices could result in further tightening of the liquidity position. The change in the long term rating represents pressure on the profitability and credit metrics of the company. ICRA's

¹ 100 lakh = 1 crore = 10 million

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

further rating action depends on the company's ability to regain its sales momentum, along with the improvement in operating profit margins. Any sizeable debt-funded capital expenditure would be monitorable.

Key rating drivers

Key strengths

- **Four-decade long experience of the promoters in the industry:** The company's promoters have experience of more than 35 years in the foot-wear industry which has enabled them to establish a name in the industry.
- **Long term association with reputed customers:** The company's customer profile consists of some big industry players such as Reebok, PUMA etc. from which it has been able to get repeated orders

Key weaknesses

- **Muted growth in operating income:** SIL had observed muted growth in its financial profile during FY2017, moreover Q1FY2018 performance has seen a de-growth with the revenues at Rs.6.48 crore which is a ~48% decline from the same period in FY2017
- **High working capital intensity due to high inventory days:** The company generally maintains inventory to fulfill any orders that it receives within the stipulated timeline. However the same resulted in stretched liquidity position due to inventory days of more than seven months as on March 31, 2017
- **Intense competition, given the low entry barriers and complexity-** The company faces stiff competition from its industry peers, limiting its pricing flexibility and bargaining power with customers. This puts pressure on its revenues and margins.
- **Vulnerability of profitability to adverse fluctuation in raw material prices -** The company's margins are susceptible to raw material price fluctuation, which in turn affects the sales realisations. Any adverse movement in the price of raw materials could negatively impact the company's margins as it has limited ability to pass on the price hike because of high competition. The price fluctuations also impact the realisation.

The link to the detail credit rationale of SIL for the previous rating action is below:

[ICRA revises its long-term rating on the bank facilities of Sarup Industries Limited to \[ICRA\]BB from \[ICRA\]BBB- and its short-term rating to \[ICRA\]A4 from \[ICRA\]A3 outlook 'Stable'](#)

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria

[Rating Methodology for Corporate](#)

[Approach for Financial Ratio Analysis](#)

[Framework for Liquidity Analysis in Corporate Ratings](#)

About the company

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 a contract basis for brands such as Puma, Reebok, Bata, Decathlon and United Colors of Benetton. Mr. Atamjit Singh Bawa, who along with his family holds majority stake in the company, is the promoter of the company. SIL operates through three 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.

Key financial indicators

	FY2016	FY2017	Q1FY2017	Q1FY2018
Operating Income (Rs. crore)	49.29	49.68	12.28	6.48
PAT (Rs. crore)	-2.35	0.54	0.16	-0.83
OPBDIT/ OI (%)	1.79%	8.17%	8.96%	0.23%
RoCE (%)				
Total Debt/TNW (times)	1.35	1.55		
Total Debt/OPBDIT (times)	34.17	8.55		
Interest Coverage (times)	0.49	2.24		
NWC/ OI (%)	52%	55%		

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net worth; NWC: Net Working Capital; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Source: Financial statements of SIL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

**Rating history for last three years
Table**

S.No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the Past 3 years		
		Type	Rated amount	Month-year & Rating	Month- year and Rating in		
			(Rs. crores)	August 2017	FY2017	FY2016	FY2015
					June 2016	June 2015	June 2014
1	Unallocated Limits	Long term/ Short-term	2.56	[ICRA]BB-(Stable)/ A4	[ICRA]BB-(Stable)/ A4	[ICRA]BBB-(Stable)/ A3	[ICRA]BBB-(Stable)/ A3
2	Fund Based Limits	Long-term	15.82	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Non Fund Based Limits	Short-term	3.62	[ICRA]A4	[ICRA]A4	[ICRA]A3	[ICRA]A3

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund based – Cash Credit	-	-	-	13.00	[ICRA]BB- (Stable)
-	Fund based – Term Loan	2010	-	2018	2.82	
-	Letter Of Credit	-	-	-	2.50	[ICRA]A4
-	Bank Guarantee	-	-	-	1.00	[ICRA]A4
-	Forward Contracts	-	-	-	0.12	[ICRA]A4
-	Unallocated Limits	-	-	-	2.56	[ICRA]BB- (Stable)/A4

Source: Sarup Industries Limited

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About ICRA Limited:

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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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