

## Supreme Overseas Exports India Private Limited

February 12, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based – Cash Credit	20.00	[ICRA]C+; Assigned
Short-term - Fund based – Standby Line of Credit	3.00	[ICRA]A4; Assigned
Short-term - Fund based – Foreign Documentary Bill Purchase	5.00	[ICRA]A4; Assigned
Short-term – Non Fund based – Letter of Credit	25.00	[ICRA]A4; Assigned
<b>Total</b>	<b>53.00</b>	

### Rating action

ICRA has assigned the long-term rating of [ICRA]C+ (pronounced ICRA C plus)<sup>1</sup> and short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 53.00-crore<sup>2</sup> fund-based/non-fund based facilities of Supreme Overseas Exports India Private Limited.

### Rationale

The assigned rating takes into account the stretched financial performance of the company marked by modest scale of operations, decline in profitability, leveraged capital structure and weak coverage indicators. Furthermore, the rating is constrained by stretched liquidity position as evidenced by high utilisation of sanctioned fund-based limits due to high receivable and inventory days. The rating also takes into account the susceptibility of profit margins to continuity of various export incentives extended by the Government of India, high geographical concentration and high client concentration risks with the top-three customers accounting for around 50% of the revenue during FY2017. ICRA also takes note of the sensitivity of the company's profitability to fluctuations in foreign currency exchange rates, although the same is mitigated to a considerable extent by natural hedging and forward contract hedging practices adopted by the company. The rating positively factors in the experience of the promoter in the leather business, the established track record of the company's operations and established relationships with the customers. The rating derives comfort from the benefits of backward integration enjoyed by the company as the sister concern, Sura Leathers Private Limited, is involved in manufacturing of finished leather. Going forward, the ability of the company to scale up the operations, improve its profitability, while managing its working-capital requirements efficiently, would be the key rating sensitivities.

### Key rating drivers

### Credit strengths

**Long track record of operations of the company and the promoters in leather-manufacturing business-** The company was incorporated in 1976 and is involved in leather-jackets manufacturing and export for more than four decades. Over the years, the company has steadily increased its manufacturing capacities and garment product portfolio. The promoters of the company also own Sura Leathers Private Limited, which is involved in leather processing. As a result the company benefits from backward integration with in-house tannery and effluent plant for waste treatment and enjoys cost and process efficiencies.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

**Benefits from favourable government policies-** The leather industry has been classified as a focus product under the Market Linked Focus Product Scheme and the policies, procedures and regulatory aspects have been rationalized by the government in order to promote investment in the segment. Several fiscal incentives offered include interest subvention, duty drawback, and special lines of credit. These policies incentives are important for maintenance of competence in the international markets. Accordingly, any reduction in such incentives may affect the margins of the company as they might not be able to pass on the cost increase to their customers.

## Credit weaknesses

**Modest financial profile with thin profitability and stretched coverage indicators -** The operating margins deteriorated to 3.46% during FY2017 owing to high raw material consumption expenses. The net margin of the company also is low at 0.11% due to the low operating margins coupled with high interest burden. The company's debt levels increased from Rs. 24.62 crore in the previous year to Rs.37.01 crore in FY2017 due to increased working capital requirement. The rising inventory levels have resulted in a stretched operating cycle entailing higher reliance on working capital borrowings. Increase in Total Debt has resulted in increase in the gearing level from 1.51 times to 2.26 times. Low profitability has kept the coverage indicators at subdued levels, with Interest coverage of 0.48 times, NCA/TD at 1.13% and TD/OPBDITA at 20.83 times in FY2017. The leveraged capital structure and moderate debt coverage indicator exposes the company to high financial risk.

**Highly working-capital intensive operations and limited accruals result in stretched liquidity profile-** The receivables days increased as the company provided longer credit period to its customers due to poor market conditions. Overall, due to a long receivable and inventory cycle, the working capital intensity is on the higher side. The working capital intensity increased to 77.77% in FY2017. The average utilisation of the cash credit limits availed by the company relative to its monthly sanctioned limit remained high at around 98% during the period April, 2016 to November, 2017. The company has limited liquidity cushion available in the form of undrawn working capital limits. Going forward, the liquidity position could remain stretched due to burden of interest payments and incremental funding requirement towards future capex. The company has applied for additional term loans and the sanctioning of the same could ease the liquidity profile.

**Exposure to foreign exchange rate fluctuation; however, the risk is mitigated to an extent by the benefit of natural hedge and through forward contracts-** The company's profitability is susceptible to adverse changes in foreign currency. Since the company engages in both import and export activities, the forex risk is naturally hedged to some degree. The balance foreign currency exposure is hedged by forward cover. The company books forward contracts for its receivables and for this it has Rs. 20.00-crore forward contract limit with the bank. However, it reported forex loss of Rs. 0.24 crore in FY2017.

**Susceptibility of revenue to demand in export markets-** The high geographical concentration with continued dependence on European nations exposes the company to risk arising from adverse regional developments. Also, the customer concentration remains high with top-five customers accounting for up to 60% of the company's total revenue. The loss of any of these major customers or reduction in the volume of the apparels they source from the company, would adversely affect its revenue and profitability. However, over the years, the company has developed strong linkages with its customer resulting in repeat orders.

**High competition in the industry limits the bargaining power of the exporters –** Leather industry is characterised by high competition due to presence of large number of small to medium sized players. The company has to compete not only with other domestic players, but also with Chinese, Pakistani and Bangladeshi manufacturers in the overseas market. The intense competition limits the ability of the company to pass on the volatility of the raw material prices and forex loss to its customers entirely while pricing the products.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**About the company:**

Supreme Overseas Exports India Pvt. Ltd. (Supreme Overseas) is involved in manufacturing and exporting of finished leather and leather garments, mainly leather jackets. The company was incorporated in 1976 by Mr. M.S. Sudhindra the chairman of the group. It has four units, located in Bangalore with an installed capacity to produce 1.60 lac leather garments per annum. The company outsources leather processing to its sister concern - Sura Leathers Pvt. Ltd which operates tanneries in Ambur, Vellor District of Tamil Nadu. Supreme Overseas's products are exported to over 20 countries including Germany, France, Canada, USA, etc.

In FY2017, the company reported a net profit of Rs. 0.06 crore on an operating income of Rs. 51.38 crore, as compared to a net profit of Rs. 0.11 crore on an operating income of Rs. 48.13 crore in the previous year.

**Key Financial Indicators**

	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	48.13	51.38
PAT (Rs. crore)	0.11	0.06
OPBDITA/ OI (%)	7.57%	3.46%
RoCE (%)	9.85%	9.15%
Total Debt/ TNW (times)	1.51	2.26
Total Debt/ OPBDITA (times)	6.76	20.83
Interest coverage (times)	1.01	0.48
NWC/ OI (%)	63.06%	77.77%

**Status of non-cooperation with previous CRA:**

**BWR A4 (Issuer Not Cooperating); Rating Revised on September 1, 2017** - The rating(s) were based on best available information as the entity did not provide the requisite information needed to conduct the rating exercise and was therefore classified as 'non cooperative'

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Cash Credit	Long Term	20.00	-	[ICRA]C+	-	-	-
2 Standby line of Credit	Short Term	3.00	-	[ICRA]A4	-	-	-
3 Foreign Documentary Bill Purchase	Short Term	5.00	-	[ICRA]A4	-	-	-
4 Letter of Credit	Short Term	25.00	-	[ICRA]A4	-	-	-

### 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	Cash Credit	-	NA	-	20.00	[ICRA]C+
NA	Standby Line of Credit	-	NA	-	3.00	[ICRA]A4
NA	Foreign Documentary Bill Purchase	-	NA	-	5.00	[ICRA]A4
NA	Letter of Credit	-	NA	-	25.00	[ICRA]A4

Source: Supreme Overseas Exports India Private Limited

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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.

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