

## Zenith Exports Limited

June 12, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based working-capital limits	48.00	26.00	[ICRA]A4; Reaffirmed
Short-term non-fund based loans	1.00	1.00	[ICRA]A4; Reaffirmed
Unallocated limits	23.50	-	-
<b>Total</b>	<b>72.50</b>	<b>27.00</b>	

### Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 26.00-crore<sup>1</sup> (revised from Rs. 48.00 crore) fund-based working capital limits and Rs. 1.00-crore non-fund based bank limits of Zenith Exports Limited (ZEL)<sup>2</sup>. The previous unallocated limits of Rs. 23.50 crore, earlier rated at [ICRA]A4, has not been rated in the current rating exercise.

### Rationale

The rating reaffirmation considers the long presence of ZEL in the leather and textile business, which along with its diversified geographical presence, supports the company's market position. The rating also considers the comfortable capital structure of the company as on March 31, 2018, reflected by a low gearing of 0.13 times.

The rating is, however, constrained by the continuous decline in ZEL's turnover over the last four years, resulting in nominal profits in FY2015 and FY2016 and net losses in FY2017 and FY2018. The turnover declined due to shutdown of Zenith Spinners (ZS, spinning unit in Ahmedabad) in November 2015, weak performance of Zenith Textiles (ZT manufactures and weaves 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. The rating is 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 rating also considers ZEL's exposure to counterparty risks since a significant portion of its exports are not backed by the letters of credit and the susceptibility of its profit margins to any reduction in fiscal incentives or other adverse regulations enacted by the Indian Government.

**Outlook:** Not Applicable

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

<sup>2</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

## 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. During 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. Although ZM's revenue declined from Rs. 111.36 crore in FY2017 to Rs. 97.59 crore in FY2018, the net profit position of the division improved from losses of Rs. 1.68 crore in FY2017 to profit of Rs. 4.52 crore in FY2018. However, significant losses in ZT of Rs. 3.26 crore in FY2017 and Rs. 5.30 crore in FY2018 adversely impacted the profitability of ZEL during the last two years.

**Diversified geographical presence** – As ZEL is an export oriented unit (EOU), over 95% of the company's sales are made to other countries. The company has a diversified geographical presence and exports to countries like Chile, France, Germany, Lebanon, Spain, Poland, the UK and the US. Around 35% of the company's exports were made to Chile in FY2017.

**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 healthy accretion to reserves in the past. However, losses incurred by the company during the last few years have adversely impacted its debt coverage indicators.

### Credit challenges

**Continuous decline in revenues led to operating losses during the last two years** – 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.

**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 NWC/OI of 52% in FY2018.

**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 ~60-70% of its receivables mitigate the risks to an extent. ZEL is also exposed to counterparty risks as most of its exports are made on a collection basis instead of being backed by letters of credit.

**Susceptibility of profitability to change in fiscal incentives or any adverse regulations** – ZEL receives a significant amount of export incentives from the Indian Government, which supports its profitability. Thus, the profits of the company are highly sensitive to the export policies of the Government. However, ICRA notes that ZEL's ability to pass on a part of the related rise in cost mitigates the risk to some extent.

**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:

ZEL was incorporated in 1981 as a public limited company. 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

	FY 2016	FY 2017	FY2018
Operating Income (Rs. crore)	242.79	129.37	110.77
PAT (Rs. crore)	0.16	-1.79	-0.78
OPBDIT/ OI (%)	1.05%	-3.05%	-2.25%
RoCE (%)	2.62%	-1.67%	0.17%
Total Debt/ TNW (times)	0.14	0.09	0.13
Total Debt/ OPBDIT (times)	5.13	-1.95	-4.54
Interest coverage (times)	0.77	-5.05	-2.90

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

**Any other information: None**

### Rating history for last three years:

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

Source: Zenith Exports Limited

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