

Superhouse Limited

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	60.37	44.89	[ICRA]BBB+ (stable); reaffirmed
Fund based- Working Capital Facilities	175.0	165.00	[ICRA]BBB+ (stable); reaffirmed
Non-fund based-Working Capital Facilities	68.5	68.50	[ICRA]A2; reaffirmed
Unallocated	1.66	27.14	[ICRA]BBB+ (stable); reaffirmed
Total	305.53	305.53	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 237.03-crore long term facilities of Superhouse Limited (Superhouse)¹. ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) for the Rs. 68.50-crore non-fund based bank facilities of Superhouse. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of Superhouse's ratings favourably factors in the improvement in revenues and profitability over the last two quarters and continuing comfortable liquidity position as reflected by its healthy cash and equivalents and certain undrawn lines of credit as of May 2018. The ratings continue to derive comfort from Superhouse's experienced promoters, its integrated manufacturing operations which increase its cost competitiveness, and its established market position as one of the leading exporters of leather products in India. Further, ICRA notes that Superhouse has limited capital expenditure plans going forward and its annual cash accruals from operations are expected to remain comfortable to service the overall debt obligations in a timely manner.

The ratings, however, are constrained by the increase in working capital intensity of operations from 29% in FY2017 to 32% in FY2018 owing to an increase in receivables position. The ratings continue to be constrained by the intense competition in the leather footwear industry, geographical concentration of its revenues, and vulnerability of its profits to adverse movements in exchange rates, raw material prices and changes in duty drawback rates. While reaffirming the ratings, ICRA has noted that there have been sizeable transactions related to overseas subsidiaries and associate companies over the years. Owing to debt of the subsidiary and associate concerns, the consolidated risk profile of the entity is comparatively weaker than its standalone risk profile.

Going forward, Superhouse's ability to grow its turnover with improvement in profitability as well as working capital intensity and capital structure will be the key rating sensitivities. Further, the extent of future capital expenditure and investments will be key rating monitorables.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that Superhouse will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenues and profitability strengthen the financial risk profile. The outlook may be revised to Negative if revenue growth or cash accrual is lower than expected, or in case of any major capital expenditure, or stretch in the working capital cycle.

Key rating drivers

Credit strengths

Healthy growth in revenues and margins over the last two quarters - Owing to the revival in demand from the export destinations, mainly Europe, and depreciation of the currency, the company posted healthy growth in revenues and margins over the last two quarters ended June 30, 2018.

Established position in export footwear market with large and diversified customer base - Superhouse is promoted by Mr. Mukhtarul Amin, who has been involved in the leather business since more than four decades. The company has an established position in leather and leather footwear exports with a diversified client base. It has more than 200 overseas clients under its portfolio, including Lloyds Shoes, ASOS.com, and Sainsbury's supermarket.

Integrated facilities for footwear manufacturing - Superhouse has backward-integrated operations with their own tanneries and manufacturing units spread across UP, with most facilities concentrated near Kanpur. This ensures quality control as well helps capture the value addition across the supply chain.

Financial flexibility owing to limited long-term debt and healthy liquidity - Limited long-term debt, healthy cash and equivalents (Rs. 39.20 crore as on March 31, 2018) and undrawn working capital facilities provides financial flexibility.

Credit challenges

Increase in working capital intensity due to high receivables and inventory levels - The company offered higher credit period in FY2018, which led to an increase in debtor days from about 65 days in FY2017 to about 90 days in FY2018. Correspondingly, the company increased the payment cycle for its creditors, as reflected by an increase in creditor days from 96 to 134. Further, the company maintains an inventory (raw materials and various types of manufactured products) of about Rs. 150-160 crore at any given time. This pushes up the inventory-holding period and exposes the company to the risk of inventory losses.

Vulnerability of profits to adverse movements in exchange rate, raw material prices and export incentives - The margins of the company are largely exposed to fluctuations in raw material prices and exchange rates. Also, as an exporter, Superhouse enjoys export incentives and interest subvention under various schemes run by the Government of India (GoI). Any adverse change in raw material availability/prices or in GoI's regulations, as in the case of decline in rates of duty drawback in FY2018, may impact the company's profitability.

Intense competition – The leather industry is characterised by intense competition due to the presence of a large number of small-to-medium sized players owing to low entry barriers. This limits the pricing power of all players in the industry, especially because Superhouse is primarily a third-party manufacturer.

Geographical-concentration risks: High region-specific risk with almost 58% of the sales being derived from Europe, which witnessed tepid demand due to sluggish economic environment in FY2018. Nonetheless, the demand has started increasing from Q1FY2019.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Footwear Industry](#)

About the company

Superhouse is a manufacturer and exporter of finished leather, leather products (including footwear, accessories etc.) and textile garments. The company was originally incorporated in 1980 as a private limited company in the name of Aminsons Leather Finishers Pvt. Ltd. and was later converted to a public limited company and subsequently its name was changed to Aminsons Ltd. in 1989. Post the merger of other Group companies its name was changed to Superhouse Leather Ltd. and then to Superhouse Limited in 2006. The company is promoted by Mr. Mukhtarul Amin, who along with his family members holds around 54.5% stake in the company.

In FY2018, the company reported a net profit of Rs. 12.89 crore on an operating income (OI) of Rs. 563.70 crore, as compared to a net profit of Rs. 13.02 crore on an OI of Rs. 589.11 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	589.11	563.70
PAT (Rs. crore)	13.02	12.89
OPBDIT/ OI (%)	7.75%	7.05%
RoCE (%)	8.47%	8.31%
Total Debt/ TNW (times)	0.73	0.68
Total Debt/ OPBDIT (times)	4.14	4.66
Interest coverage (times)	2.50	2.21
NWC/ OI (%)	29%	32%

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 (Rs. crore)	Date & Rating in FY2019	Date & Rating in FY2018 August 2017	Date & Rating in FY2017* December 2016	Date & Rating in FY2016 March 2016
				Sept 2018			
1 Fund based-Term Loan	Long Term	44.89	44.89	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
2 Fund based-Working Capital Facilities	Long Term	165.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
3 Non-fund based-Working Capital Facilities	Short Term	68.50	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+
4 Unallocated	Long Term	27.14	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)

*[ICRA]A-(Stable)/[ICRA]A2+ as on August 2016

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Mar-2017	NA	Sept-2022	26.81	[ICRA]BBB+ (Stable)
NA	Term Loan 2	Mar-2017	NA	Jan- 2021	15.70	[ICRA]BBB+ (Stable)
NA	Term Loan 3	Apr-2018	NA	Mar-2020	2.38	[ICRA]BBB+ (Stable)
NA	Fund Based Working Capital	NA	NA	-	165.00	[ICRA]BBB+ (Stable)
NA	Non- Fund Based Working Capital	NA	NA	-	68.50	[ICRA]A2
NA	Unallocated	NA	NA	-	27.14	[ICRA]BBB+ (Stable)

Source: Superhouse Limited

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