

## RATING RATIONALE

10 June 2020

### Allied Exims

**Brickwork Ratings has reaffirmed the short term rating for the Bank Loan Facilities of ₹ 39.00 Crores of Allied Exims**

#### Particulars:

Facility**	Amount (₹ Cr)	Amount (₹ Cr)	Tenure	Previous Rating (September, 2019)	Present Rating (June, 2020)
	Previous	Present			
<b>Fund based</b> Packing Credit Post Shipment (LC/Non LC) Advance against collection	12.00 20.00 (3.00)	12.00 20.00 (3.00)	Short Term	<b>BWR A4 Downgraded ISSUER NOT COOPERATING*</b>	<b>BWR A4 Reaffirmed</b>
<b>Non Fund Based</b> ILC/FLC/Buyers Credit	7.00	7.00			
<b>Total</b>	39.00	39.00	INR Thirty Nine Crores Only		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

#### RATING ACTION / OUTLOOK

Brickwork rating has reaffirmed the short term rating to BWR A4 for the bank loan facilities of Allied Exims.

The rating draws comfort from established operational track record, extensive experience of partners, diversified product offering and moderate tangible network. The rating however, is constrained by decline in revenue and margins, average financial risk profile, elongated conversion cycle, nature of the constitution, intense competition in the export markets and Impact of COVID-19.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced partners and Established track record of operations:** All the Partners namely Mr. Akhtar Qaiyum, Mr. Arshad Qaiyum, Mr. Israt Qaiyum, Mr. Rafat Qaiyum, Mr. Sarbat Qaiyum and Mr. Farhat Qaiyum have an experience of more than a decade in the leather business. The extensive experience of the promoters, their understanding of the dynamics of the industry and established relations with customers and suppliers will continue to support the business risk profile. Further, the entity has been in existence for the last two decades and has seen complete business cycles.
- **Diversified Product Offering:** The Firm manufactures leather goods such as finished leather which is used in a wide variety of applications such as furniture, footwear, leather accessories such as bags, jackets and upholstery etc. Apart from this, the entity also manufactures shoe upper and Saddlery.
- **Moderate Tangible Networth:** The Firm has moderate TNW of INR 11.09 Crores in FY19 which declined marginally against INR 11.90 Crores in FY18 due to withdrawal of capital by partners.

### Credit Weakness

- **Decline in Revenue and Margins due to regulatory changes:** The operating income of the entity declined to INR 62.69 Crores in FY19 against INR 77.28 Crores in FY18. In FY20, the entity reported revenue of INR 35.63 Crores upto February, 2020 as per GST returns. NPM & OPM declined to 0.38% & 4.46% in FY19 against 0.52% & 6.39% in FY18. Restriction on slaughter of cattle and closure of multiple slaughter houses and tanneries in Uttar Pradesh impacted the revenue and margins of the entity; that coupled with the decision of National Green Tribunal (NGT) to lower the capacity utilisation of tanneries in Uttar Pradesh led to decline in revenue and profits.
- **Average Financial Risk Profile:** Firm's profitability margin remained thin over the last 3 years, with net profit margin of 0.38% in FY19. The gearing of the firm is high as reflected by Total Debt/TNW of 2.79x in FY19 as against 3.28x in FY18 and TOL/TNW of 4.86x in FY19 as against 5.25x in FY18. Net cash accruals to total debt was low at around 0.03 times in FY19. ISCR is below average at 1.30x in FY19. ROCE declined substantially to 3.57% in FY19 against 7.25% in FY18.

- **Elongated Conversion Cycle:** The net cash conversion cycle was 180 days in FY19 (FY18: 181 days), with receivables period of 95 days (FY18: 84 days), inventory period of 260 days (FY18: 207 days) and payable period of 175 days (FY18: 110 days).
- **Constitution of the entity as a partnership firm:** Allied Exim being a partnership firm, is exposed to inherent risk of capital withdrawal at the time of personal contingency which will affect its capital structure.
- **Intense competition in the export markets and Impact of COVID 19:** The global leather prices have been declining in the last two years on account of demand slowdown from the European countries. Being an average-sized exporter, has limited bargaining power with its export customers and faces stiff competition from China and other leather exporting countries like Bangladesh, vietnam etc. Due to COVID-19, the firm's revenue is expected to be impacted in the short to medium term because of disruption in production and delay in execution of existing orders.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has factored in the standalone business parameters and financial risk profile of the entity to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked detailed below (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

Going forward, the ability of the entity to improve its scale of operations, improve its profitability margins, the debt servicing capability & liquidity would be key rating sensitivities.

- **Positive :**  
The rating may be upgraded if the entity is able to achieve significant growth in revenue along with a significant improvement in profit margins, improve its gearing and sustained improvement in its working capital management.
- **Negative :**  
The rating may be downgraded if revenue and profit margins substantially decline from the current level, withdrawal of capital by partners and if there is an overall deterioration in the financial position of the entity.



**LIQUIDITY POSITION: Stretched**

The average maximum utilisation of working capital facilities was more than 90% during the last 6 months. The net cash conversion cycle was 180 days in FY19 (FY18: 181 days), with receivables period of 95 days (FY18: 84 days), inventory period of 260 days (FY18: 207 days) and payable period of 175 days (FY18: 110 days). ISCR is below average at 1.30x in FY19. Net cash accruals stood at INR 0.87 Crore in FY19. Net Cash Accruals/Total Debt stood at 0.03 times in FY19. The Entity has a current ratio of 1.07x in FY19.

**FIRM PROFILE**

Allied Exim is set up in 1993 as a partnership firm having six partners who are family members Mr. Akhtar Qaiyum, Mr. Arshad Qaiyum, Mr. Rafad Qaiyum, Mr. Irshat Qaiyum, Mr. Sarwat Qaiyum, and Mr. Farhat Qaiyum, having registered office in Kanpur (Uttar Pradesh) The firm is engaged in the manufacturing of leather products such as finished leather, shoe uppers and saddlery which are exported mainly to countries like Italy, Malaysia, Albania, Germany and Portugal. It is a 100% Export Oriented Unit.

**KEY FINANCIAL INDICATORS**

Key Parameters	Units	FY 18	FY19
Result Type		Audited	Audited
Total Operating Income	Rs Crs	77.28	62.69
OPBDIT	Rs Crs	4.94	2.79
PAT	Rs Crs	0.41	0.24
TNW	Rs Crs	11.90	11.09
Total Debt/TNW	Times	3.28	2.79

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY-** Not Available

### RATING HISTORY( Including Suspended and Withdrawn)

Facilities	Current Rating (June, 2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	September, 2019	May, 2018	2017
<b>Fund Based</b>	Short Term	32.00	BWR A4 Reaffirmed	BWR A4 Downgraded ISSUER NOT COOPERATING*	BWR A4+	-
<b>Non Fund Based</b>		7.00				
Total		39.00	INR.Thirty Nine Crores Only			

### COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

#### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Manufacturing Companies](#)
- [Short Term Debt](#)

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**Allied Exims**  
**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term {(₹ Cr)}</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
<b>Jammu and Kashmir Bank</b>	<b>Fund Based</b>			
	Packing Credit	-	12.00	12.00
	Post Shipment (LC/Non LC)	-	20.00	20.00
	Advance against collection	-	(3.00)	(3.00)
	<b>Non Fund Based</b>			
	ILC/FLC/Buyers Credit	-	7.00	7.00
<b>TOTAL</b>				<b>39.00</b>

**INR Thirty Nine Crores Only**

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