



Rating Rationale

Sarup Industries Ltd

8 Jan 2018

Brickwork Ratings assigns ratings for the long term and short term bank loan facilities of Sarup Industries Ltd.

Particulars

Facility Rated	Current Review Amount (Rs. Crs)	Tenure	Rating
Fund Based Cash Credit SLC Term Loan	15.00 0.50 3.01	Long Term	BWR BB (Pronounced as BWR Double B) Outlook : Stable
Non Fund Based ILC/FLC	3.50	Short Term	BWR A4 (Pronounced as BWR Single A Four)
Total	Rs 22.01 Crores (INR Twenty Two Crores and One Lakh Only)		

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

Long term rating assigned BWR BB (Outlook Stable). Short term rating assigned BWR A4.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

While assigning the ratings for Sarup Industries Ltd (SIL or 'the Company'), BWR has factored in the scale of operations, conversion cycle and receivables status, company's net worth, geographical presence, solvency ratios, profit margins, competition from peers and debt protection metrics. The assigned rating draws comfort from the experienced promoters in the footwear industry, improvement in quarterly results, moderate net worth, besides association with industry majors like Puma, Decathlon amongst others. However, the rating is constrained by its elongated conversion cycle and volatility in raw material prices.

Key Rating Strengths

- **Improvement in Q2FY18:** Despite a subdued growth in its financial profile during FY 2017, there has been improvement in revenue in Q2FY 18 to Rs.17.34Cr, which is 23.59% higher as compared to the same period in FY2017; profitability also improved from Rs.(0.83) in Q1FY18 to Rs.0.20Cr in Q2FY18.

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- **Improved Tangible Net worth (TNW):** The Company had a moderate tangible net worth of Rs 22.34 Cr in FY17 which improved marginally from Rs.22.32 Cr in FY16.
- **Moderate solvency ratios:** The Company had moderate solvency ratios, with interest service coverage ratio (ISCR) of 2.46x and debt service coverage ratio (DSCR) of 1.45x in FY17.
- **Experienced promoters:** The promoters are well qualified and experienced in their line of business activity.

Key Rating Weaknesses

- **Price fluctuation risk along with competition from peers:** Raw material price volatility and completion from peers in the industry are areas of concern.
- **Elongated Conversion Cycle:** The Company's conversion cycle days have deteriorated from 225 Days in FY16 to 236 Days in FY17 owing to very high inventory levels.

Analytical Approach:

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked below.

Rating Outlook: Stable

BWR believes the Sarup Industries Ltd.'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Jalandhar based Sarup Industries Limited (SIL), listed on the Bombay Stock Exchange, was incorporated in 1979. 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.

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 per annum.



Company's Financial Performance

Particulars	Units	FY2016 (Audited)	FY2017 (Audited)
Net Sales/Revenue	Crores	48.25	49.53
EBIDTA	Crores	1.32	4.34
PAT	Crores	(2.36)	0.51
Tangible Networth	Crores	22.32	22.34
TOL : TNW ratio	Times	2.14	2.29
Current Ratio	Times	1.43	1.46

Total operating income of the company has improved from Rs. 48.25 Cr in FY16 to Rs 49.53 Cr in FY17 and PAT has improved from Rs.(2.36) Cr in FY16 to Rs 0.51 Cr in FY17.

Rating History for the last three years: (including withdrawn/suspended ratings)

S.No.	Instrument/ Facility	Current Rating (FY2018)			Rating History	
		Type	Amount (Rs Crs)	Rating	FY2017	FY2016
1.	Cash Credit (CC) SLC	Long Term	15.00 0.50	BWR BB Outlook : Stable	NA	NA
2	Term Loans(o/s)		3.01			
3	ILC / FLC	Short Term	3.50	BWR A4		
	Total		Rs 22.01 Crores (INR Twenty Two Crores and One Lakh Only)			

FY refers to the period from 1st April to 31st March each year

Status of non-cooperation with previous CRA (if applicable) – NA

Any other information – NIL

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**



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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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