Rating Rationale

Brickwork Ratings reaffirms 'BWR BB/A4+' for the Bank Loan facilities amounting to ₹ 25.80 Cr (enhanced from ₹ 19.60 Cr) of Sura Leathers Private Limited

Brickwork Ratings (BWR) has reaffirmed the following **Rating**[1] for the Bank Loan facilities of **Sura Leathers Private Limited** ('the Company' or 'SLPL'):

Facility	Present Limits (₹ Cr)	Previous Limits (₹ Cr)	Tenure	Rating	Rating History (March 2015)
Fund Based: Term Loan	1.30*	1.60	Long Term	**BWR BB (BWR Double B)** **(Outlook : Stable) Reaffirmed**	BWR BB (BWR Double B) (Outlook : Stable)
Fund Based Packing Credit Standby Line of Credit FDBP/FDEP Non-Fund Based Letter of Credit	12.50 2.00 1.50 8.50	6.50 1.50 1.50 8.50	Short Term	**BWR A4+ Reaffirmed**	BWR A4+
Total	25.80	19.60	INR Twenty Five Crores and Eighty Lakhs only		

** Term loan includes undisbursed term loan. Sub limit of Buyers credit facility of Rs. 4.50 Crores under LC facility*

BWR has principally relied upon the audited financials up to FY15 of Sura Leathers Private Limited, projections up to FY17, publicly available information and information/clarifications provided by the Firm's management.

The ratings continue to derive strength from the experience of the promoters in leather industry, synergy with group companies, company's increased focus on exports of shoes and healthy order book position. However, the ratings continue to be constrained by the moderate scale of operations, thin profitability, stressed liquidity and low net worth and working capital intensive operations.

Background:

Sura Leathers Private Limited (SLPL), incorporated in 1992 at Bangalore, is a part of Bangalore based Supreme Overseas Group. SLPL operates 3 tanneries and shoe manufacturing unit in Ambur, Tamil Nadu. SLPL is involved in two lines of activity – processing of leather and manufacturing of men's and women's leather shoes. The installed capacity of the Company is 6 Lakhs shoe pairs/annum and 120 lakh meters of leather processing.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

SLPL exports leather shoes mainly to Europe, o USA and ASEAN countries. ~60% of revenue of the Company is from exports of leather shoes in FY15. Export clientele include Llyod Shoe Company Limited, Hudson Shoe Agencies Limited, Motley Shoe Company Limited. Most of the leather processing work is done for the group Company - Supreme Overseas Exports Private Limited (SOEPL).

Management Details

Mr. MS Sriharsha, MSc in leather technology and MBA graduate with over 2 decades of experience is the Managing Director. Mr. SR. Ramprasad and Mr. Seetha Ramiah are the other Directors of the Company.

Financial Performance

Net sales have declined from ₹ 69.22 Crores in FY14 to ₹ 56.54 Crores in FY15 mainly on the account of change in business model (previously SLPL purchased leather from and sold processed leather to SOEPL while currently only job work processing charges is recognised as revenue). Net profits have decreased from ₹0.45 Crores in FY14 to ₹0.30 Crores in FY15. Tangible net worth of the Company (excluding revaluation reserve) stood at ₹4.04 Crores as on 31 March 2015. The Company has achieved around Rs. 47 Crores in 11MFY16 and has an order book of ~Rs. 42 Crores realisable in FY17.

Rating Outlook

The rating outlook is expected to be stable over the current year. Going forward, the Company's ability to increase scale of operations, improve profitability, improve its financial profile and efficiently manage its working capital would be key rating sensitivities.

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