Press Release

Model Tanners

June 15, 2023

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities - Proposed	1.00	NA	IVR BBB-/Stable (IVR Triple B Minus with a Stable Outlook)	Assigned	Simple
2.	Short Term Bank Facilities	69.00	IVR A4+ (IVR A Four Plus)	IVR A3 (IVR A Three)	Upgraded	Simple
	Total	**70.00**	**Rupees Seventy Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has assigned long-term rating at IVR BBB- with stable outlook and upgraded short-term rating at IVR A3 for the bank loan facilities of Model Tanners (MT).

The rating continues to draw comfort from its experience of the partners and their funding support, moderate capital structure and improvement in operating revenue along with improvement in profitability in FY23(Provisional). However, these rating strengths are partially offset by vulnerability to adverse regulatory changes in the leather and tannery industries, elongated receivables cycle leading to high working capital intensity, competitive nature of the industry keeps margins under check, foreign currency risk and risk associated with partnership constitution.

IVR has principally relied on the audited financial results of MT's upto 31 March 2022, management certified provisional results for the FY2023 and projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the firm's management.

Upward Factors

- Substantial and sustained growth in operating income and improvement in profitability.
- Sustenance of the capital structure and improvement in debt protection metrics.

Downward Factors

- Any decline in revenue and/or EBIDTA margin leading to negative GCA & decline in debt protection metrics.
- Any delay in payment of statutory dues.
- Elongation of the average collection period leading to deterioration in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced partners and their funding support:

Benefits derived from the partners' experience of over two decades and their healthy relationships with suppliers and customers should continue to support the business. The partners are also likely to continue extending need-based funds to support the business.

Moderate capital structure:

The overall gearing on Net Adjusted Tangible Net Worth is comfortable at 1.71x as on March 31,2023(P). Total indebtedness of the firm as reflected by TOL/ATNW stood at 2.60x on March 31, 2023(P). DSCR and Interest coverage ratio stood comfortable at 1.13x and 2.05x in FY 23(P).

Improvement in operating revenue along with improvement in profitability in FY23(P):

Total Operating Income (TOI) of the firm increased to Rs.168.07 crore in FY23(P) from Rs.122.98 crore in FY22 due to increase in demand for the products in overseas market as well as in domestic market. With the rise in TOI, EBIDTA increased to Rs.10.67 crore in FY23(P) from Rs.6.72 crore in FY22. PAT increased to Rs.2.14 crore in FY23(P) in from Rs.1.24 crore in FY22. EBIDTA margin increased to 6.34% in FY23(P) from 5.47% in FY22 due to decrease in the administrative expenses. Further, PAT margin also improved due to decrease in the interest expenses with the repayment in the total borrowings.

Key Rating Weaknesses

Vulnerability to adverse regulatory changes in the leather and tannery industries:

The Government of India has taken various initiatives to ban slaughtering of animals to keep the environment pollution free. Hence, regulatory changes by the central and state governments for the leather export industry will remain a key rating sensitivity factor over the medium term.

Elongated receivables cycle leading to high working capital intensity:

The receivable cycle of firm remains high, largely on account of elongated inventory holding cycle. Total credit period is of 96 days, while the cash conversion cycle is 156 days. Further, average working capital utilization also remained high at 86.92% ended in March 2023.

Competitive nature of the industry keeps margins under check:

An intense competition among many organized and unorganized players in the leather products manufacturing business limit pricing flexibility and keep margins under check. Model Tanner’s EBITDA margin remained at a moderate level of 8-9% over the last three years.

Foreign currency risk:

With the firm deriving a major portion of its revenues from exports and in absence of corresponding natural hedge of imports, the margins are susceptible to fluctuations in foreign exchange rates to the extent of exports which remain unhedged.

Risks associated with partnership constitution:

Being a partnership firm, it is exposed to adverse capital structure risk, wherein any substantial capital withdrawal by partner/partners could negatively impact its net worth and the capital structure.

Analytical Approach: For arriving at the ratings, IVR has analysed MT's credit profile by considering the standalone financial statements of the firm.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning the rating outlook

Liquidity – Adequate

The liquidity remains adequate keeping in view of ~86.92% utilisation of the PC facility during the last 12 months. Liquidity ratios continues to be moderate with the Current ratio being 1.25x and Quick ratio being 0.69x in FY 23(P). The firm has expected GCA of Rs. 6.12 crores to Rs. 7.51 crores from FY24-FY26, as against scheduled debt repayments of Rs. 2.60 crore to Rs. 1.83 crores in the same period.

About the Firm

Model Tanners was established in December 2013 in Kanpur, Uttar Pradesh, It is a partnership firm and was trading in finished leather until December 2014, when it commissioned its plant for manufacturing finished leather from raw hide. The firm currently produces finished leather, belts, and upper shoe. The firm's major raw material are raw hide and chemicals, majority of which are procured from the domestic market. Majority of the finished good is exported to the foreign markets being Turkey, China and Italy.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	122.98	168.07
EBITDA	6.72	10.65
PAT	1.24	2.14
Total Debt	51.52	70.40
Tangible Net worth	36.40	41.15
EBITDA Margin (%)	5.47	6.34
PAT Margin (%)	1.00	1.27
Overall Gearing Ratio (x)	1.42	1.71

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL vide its press release dated February 22, 2023, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (July 25, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	1.00	IVR BBB-/Stable (Assigned)	NA	-	-

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (July 25, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
2.	Fund Based	Short Term	65.00*	IVR A3 (Upgraded)	IVR A4+	-	-
3.	Non-Fund Based	Short Term	4.00	IVR A3 (Upgraded)	IVR A4+	-	-

**PC of Rs.40.00 crore and FDB/FBE(Non-PBLC) of Rs.5.00 crore is a sub-limit of Rs.65.00 crore.*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit- Proposed	-	-	-	1.00	IVR BBB-/Stable
PC/FDB/FBE	-	-	-	65.00*	IVR A3
ILC/FLC	-	-	-	4.00	IVR A3

**PC of Rs.40.00 crore and FDB/FBE(Non-PBLC) of Rs.5.00 crore is a sub-limit of Rs.65.00 crore.*

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-model-jun23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at Complexity Level of Rated Instruments/Facilities.