

Metro and Metro

May 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	34.00 (Enhanced from 29.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Short Term Bank Facilities	11.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	45.00 (Rs. Forty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metro and Metro (Metro) continue to factor in the extensive experience of the partners in the footwear business, the firm's long track record of operations and long-standing association with the clients. The ratings are further supported by firm's steady operational performance, healthy financial risk profile marked by comfortable overall gearing and adequate debt coverage indicators and adequate liquidity position. The ratings are, however, constrained by the susceptibility of the firm's profitability margins to volatility in the foreign exchange rates, customer concentration risks, high competition in the leather footwear industry and its constitution being a partnership firm.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in total operating income and PBILDT margin above 12% on a sustained basis.
- Diversification in customer base.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in overall gearing beyond 1.00x.
- Any elongation in operating cycle beyond 90 days and reduction in cash balances

Detailed description of the key rating drivers

Key Rating Strengths

Experienced partners and long track record of operations: Metro was formed in 1991 and is currently managed under the partnership of Mr. Ajit Nath Kalsi and his wife Mrs. Meenakshi Kalsi. The firm has a long track record of operations for more than two decades. The partners were engaged in shoe manufacturing business for more than 21 years prior to Metro coming into existence.

Steady operational performance: Metro and Metro reported an increase of ~4.5% in its total operating income to Rs. 159.81 crore in FY20 (refers to the period: April 01 to March 31) (PY: Rs.150.08 crore). The firm's PBILDT and PAT margins remained stable at 8.60% and 4.08% in FY20 respectively (PY: 8.80% and 4.05% respectively). However, owing to the disruption in operations and subdued demand due to outbreak of Covid-19 pandemic the total revenue of the company stood low at Rs. 96 crore FY21 and PBT of Rs. 7 crore.

Healthy financial risk profile: The overall gearing of the firm stood comfortable at 0.61x as on March 31, 2020 (PY: 0.61 x). The interest coverage ratio and total debt/GCA improved marginally and stood healthy at 9.65x and 2.77x respectively as on March 31, 2020 (PY: 8.41x and 2.99x respectively). The improvement in the interest coverage ratio was due to marginal decrease in the interest cost. Overall gearing of the firm moderated marginally to 0.65x as on December 31, 2020, primarily due to increase in the term debt.

Short working capital cycle: The operating cycle of the firm shortened to 21 days as on March 31, 2020 (PY: 31 days) on account of decrease in collection period from 37 days as on March 31, 2019 to 32 days as on March 31, 2020 coupled with decline in inventory holding period to 60 days as on March 31, 2020 (PY: 64 days).

Key Rating Weaknesses

Customer concentration risk with geographical concentration in Europe: Metro's revenue profile is highly concentrated with top 10 customers constituting 83.34% of the total revenue in FY20 with the top customer contributing towards ~46% towards the total revenue in FY20. However, the established long-term relationship with its customers leading to repeat business over the years, mitigates the customer concentration risk to some extent.

Foreign exchange fluctuations risk: The firm is mainly focused in the export market which exposes the profit margins to fluctuations in foreign exchange rates as the firm hedges only part of the outstanding exposure net of natural hedge due to imports of part of raw materials. The firm reported a foreign exchange fluctuation gain of Rs. 2.86 crore in FY20 (PY: Rs. 2.12 crore).

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Competition from organized and unorganized players: Footwear industry is highly competitive in nature due to low capital investment required to setup a new facility and operations are labour intensive resulting in presence of large number of unorganized players. The same restricts the profit margins of industry players.

Constitution being a partnership firm: Metro's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital and the firm being dissolved upon the death/retirement/insolvency of partners with restricted access to external borrowing as credit worthiness of partners would affect credit decision for the lender

Prospects

The footwear industry has been hit hard by COVID-19 pandemic in the form of delay in orders and receipt of payment for shipments made and big retail players closing stores and filing bankruptcies in the US and Europe. Metro has borne the brunt of COVID-19 in the first half of FY21 with slowdown in operations, delays in deliveries coupled with delayed realization of its debtors. The firm operated at reduced capacity as a result of lockdown and lesser manpower. Nevertheless, the customers of Metro are slowly gaining traction and demand for exports is picking up. Going forward, diversification of client and geographic base would remain key for company's prospects.

Liquidity: Adequate

The liquidity profile of the firm derives comfort from sufficient cash and cash equivalent balance, miniscule debt repayment obligations of vehicle loan and adequate cash accruals. Cash and Cash equivalent as on December 31, 2020 stood at Rs. 23.30 crore (March 31, 2020: Rs. 26.28 crore). Metro only had total term debt (vehicle loan) outstanding of Rs. 0.50 crore as on December 31, 2020 against projected cash accruals of Rs. 7.09 crore for FY21. The firm has not availed moratorium under RBI's Covid-19 relief package from its bankers. The current ratio of Metro stood at 1.36x in FY20 (PY: 1.34x). The average working capital utilization stood at 68.59% for the trailing 12 months period ended January, 2021. The firm is not planning any major capital expenditure except routine capex.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non - Financial Sector Entities](#)

About the Firm

Metro & Metro (Metro) was formed in 1991 as a partnership firm by Mr. Dwarka Nath Kalsi and his son, Mr. Ajit Nath Kalsi. In 2011, after the demise of Mr. Dwarka Nath Kalsi, Mrs. Meenakshi Kalsi (wife of Mr Ajit Nath Kalsi) joined the business as a partner. The firm is engaged in the manufacturing of leather footwear at its manufacturing plant situated at Agra with an installed capacity of 18,00,000 pairs per annum as on December 31, 2020. The firm is primarily into exports as it sells its shoes to the overseas retailers mainly based in Europe and USA.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	150.09	159.81
PBILDT	13.20	13.75
PAT	6.05	6.52
Overall gearing (times)	0.61	0.61
Interest coverage (times)	8.41	9.65

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-EPC/PSC	-	-	-	15.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Working Capital Limits	-	-	-	11.00	CARE A2
Fund-based - LT/ ST-EPC/PSC	-	-	-	15.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	4.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT/ ST-EPC/PSC	LT/ST	15.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (24-Mar-21)	1)CARE BBB+; Stable / CARE A2 (27-Mar-20) 2)CARE BBB+; Stable / CARE A2 (04-Apr-19)	1)CARE BBB+; Stable / CARE A2 (28-May-18)
2.	Non-fund-based - ST-Working Capital Limits	ST	11.00	CARE A2	-	1)CARE A2 (24-Mar-21)	1)CARE A2 (27-Mar-20) 2)CARE A2 (04-Apr-19)	1)CARE A2 (28-May-18)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	15.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (24-Mar-21)	1)CARE BBB+; Stable / CARE A2 (27-Mar-20) 2)CARE BBB+; Stable / CARE A2 (04-Apr-19)	1)CARE BBB+; Stable / CARE A2 (28-May-18)
4.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	4.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (24-Mar-21)	1)CARE BBB+; Stable / CARE A2 (27-Mar-20) 2)CARE BBB+; Stable / CARE A2 (04-Apr-19)	1)CARE BBB+; Stable / CARE A2 (28-May-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-EPC/PSC	Simple
2.	Fund-based - LT/ ST-Stand by Line of Credit	Simple
3.	Non-fund-based - ST-Working Capital Limits	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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