Ajanta Footcare (India) Private Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	6.50	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**6.50 (₹ Six Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in rating to bank facilities of Ajanta Footcare (India) Private Limited (AFPL) take into account satisfactory capital structure and debt coverage indicators marked by nil debt repayment obligations in the next two years along with absence of debt funded capex. The rating also considers increased scale of operations in FY22 (refers to period from April 01 to March 31) in view of higher sales volume and realization albeit decline in profitability margin due to increase in the prices of raw materials (linked to crude oil prices) which could not be fully passed on. However, the margins have started to improve from Q3FY23 onwards, with the softening in the prices of raw materials. The rating also takes note of gradual recovery of accumulated Good and Service Tax (GST) receivables from March 2022 onwards which in turn is expected to lead to improved liquidity position.

The rating continues to derive strength from experienced promoters with long track record of operations, established brand presence with diversified product portfolio coupled with satisfactory distribution & retail network.

The rating is however, constrained by moderate capacity utilization, susceptibility of profitability to raw material price volatility, foreign exchange fluctuation risk, geographical concentration risk along with competitive nature of the footwear industry and working capital intensive nature of operations of the company.

Rating sensitivities

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

- Improvement in scale of operations beyond Rs 800 crore while maintaining PBILDT margin at 10% on a sustained basis
- Receipt of GST refund leading to reduction in borrowing and improvement in overall gearing ratio below 0.5x on a sustained basis.
- Reduction in combined inventory holding period below 75 days on a sustained basis.

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

- Deterioration in overall gearing ratio beyond 1.1x on a sustained basis.
- Inability of ASPL to reduce its high working utilization from current levels by the end of current fiscal.
- Any significant debt funded capex leading to deterioration in financial risk profile.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record of operations

Promoters of Ajanta Shoes (India) Private Limited (ASPL) have long experience in footwear business. Banik family is engaged in manufacturing of 'Hawai' since 1956 under the leadership of Late Mr Rabindra Nath Banik (father of Mr Subrata Banik). Currently, the day-to-day affairs of ASPL are looked after by Mr Sagnik Banik (MD; son of Mr. Subrata Banik) and Ms Soumi Banik (daughter of Mr Subrata Banik) under the guidance of Mr Subrata Banik (Chairman & Managing Director).

Established brand presence with diversified product portfolio

ASPL has been in the footwear business for around six decades and has developed a strong brand, 'Ajanta', in the footwear industry mainly in rubber "Hawai" segment. Its brand is popular mainly in Eastern India with focus mostly on the rural and semi-urban area. Over the period, the group has also entered into manufacturing of EVA (Ethylene Vinyl Acetate) based Hawai slippers

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

(since 2002) and non-leather footwear (since 2007). ASPL has a diversified product portfolio consisting of Hawai slippers, EVA slippers and footwear, PU and PVC footwear.

Satisfactory distribution and retail network

The group has strong dealer network of 499 dealers (including 20 exclusive dealers) on a pan India basis, while 196 dealers are in Bengal itself, remaining are spread out 1in the rest of the country. This apart, the group has also appointed 12 super-stockists to which the group supplies its products directly and they in turn supply to the dealers. This help ASPL reduce the credit risk since the super stockists buy on cash basis (though they avail 2-3% discounts when compared to the distributors). In AFPL, the group has a network of 140 showrooms out of which it operates 83 (79 on lease and 4 are owned properties) and 57 are on franchise model. These also help the group facilitate sales and expand the retail network.

Increased scale of operations in FY22 albeit decline witnessed in profitability margins

At a combined level, the operating income of the company grew by 14% to Rs.380.72 crore in FY22 as against Rs.335.16 crore in FY21 on account increase in both sales volume and sales realisations. However, the PBILDT margin had declined significantly from 10.04% in FY21 to 5.52% in FY22 primarily on account of substantial increase in the prices of raw materials which are directly linked to crude oil prices which the company was not able to pass on fully to its price sensitive customers.

In H1FY23, the group has reported combined PBILDT of Rs 13 crore on TOI of Rs 237.42 crore as against PBILDT of Rs 12.93 crore on TOI of Rs 180.76 crore. On a y-o-y basis, the margin has declined from 7.15% in H1FY22 to 5.48% in H1FY23 on account of continuous rise in raw material cost. With the softening in raw material prices from Q3FY23 onwards, the margins have started to improve. ASPL, on a standalone basis, has reported PBILDT of Rs 15.46 crore on a TOI of Rs 247.44 crore (PBILDT margin-6.25%) in 8MFY23.

Satisfactory capital structure and debt coverage indicators

On a combined level, the capital structure, improved and remained satisfactory with overall gearing (including LC backed creditors) of 0.65x as on March 31, 2022 as compared to 0.78x as on March 31, 2021 on account of accretion of profits to reserve. Further, TD/GCA also remained stable at 3.85x in FY22 as against 3.06x in FY21.

Key Rating Weaknesses

Moderate capacity utilization

The total quantity of footwears produced has remained stable at 345 lakh pairs in FY22 as against 351 lakh pairs in FY21. Hence, the overall capacity utilisation (CU) of ASPL has remained stable at 59% in FY22 (59% in FY21). The overall CU continued to remain stable at 60% in H1FY23 as well.

Raw material price fluctuation risk

The major raw materials components are natural rubber, synthetic rubber, Ethylene Vinyl Acetate (EVA), Polyurethane (PU) and Polyvinyl Chloride (PVC) & other chemicals. Given that the prices of raw materials are linked with crude oil prices which in turn are highly volatile in nature, the prices of raw materials fluctuate variably. ASPL's profitability is thus highly susceptible to the fluctuation in the prices of raw materials.

Risk associated due to fluctuation in foreign currency

During FY22, the company imported raw materials worth Rs.66.57 crore which constituted 34% of total raw material purchased as against Rs 40.43 crore which constituted about 29% of its total raw material purchased in FY21. ASPL generally keeps its forex positions unhedged which exposes the entity to foreign exchange fluctuation risk. However, the company exported goods worth Rs 1.79 crore in FY22 (Rs 0.27 crore in FY21) providing natural hedge to some extent. This apart, the company earned forex income of Rs 0.37 crore in FY22 as against Rs.0.47 crores in FY21.

Geographical concentration risk

ASPL is majorly operating in West Bengal (WB), hence contribution of sales from WB in overall turnover remained high at 64%. However, the company is trying to build a pan India presence, hence the sales concentration has declined from 73% in FY21 to 64% in FY22 owing to new sales team and super stockist appointed in other regions of India.

Competitive nature of footwear industry

The domestic footwear industry is fragmented and is characterized by large number of unorganized players. These players largely target the low/middle-income segment since these consumer groups are not brand conscious. Moreover, there is a pressure from cheap imports (mainly from China) in this segment. Since ASPL largely caters to low/middle-income segment, its profit margins are relatively low.

Working capital intensive nature of operations

ASPL's operation is working capital intensive in nature as it has to maintain high level of inventory in order to cater to the demands in various regions in which it operates, including new markets where the company has ventured in last couple of years. However, the combined inventory period has improved to 91 days in FY22 vis-à-vis 107 days in FY21 owing to better inventory management and various steps taken, like sales being routed through super stockist (done on cash basis in lieu of 2-3% discount given to them). There has also been an improvement in collection cycle from 16 days in FY21 to 14 days in FY22 resulting in improved working capital cycle from 76 days in FY21 to 57 days in FY22. Improvement in inventory period remains key rating monitorable.

Industry Outlook

India is the second-largest producer of footwear after China and third-largest footwear consumer globally. The revenue in the footwear market in India amounted to 23.73 billion dollar in 2022. The market is expected to grow annually by 6.77% CAGR 2022-2027. The market's largest segment is leather footwear with a market volume of 16.62 billion dollar in 2022. The size of the Indian footwear industry is expected to reach nearly 27.84 billion by 2027. The footwear market in India was seeing an upsurge since past many years and is poised to continue its momentum in coming years on the back of growing demand for trendy, fancy and comfortable footwear among the youth of the country. Rapid urbanization, higher disposable income and growing influence of social media led to change in fashion trends and thereby increase in demand. With increasing trend for active and exercise regimes, demand for athletic shoes grew rapidly as well. It is to be noted that the Centre has notified the Indian Footwear & Leather Development Programme (IFLDP) with an outlay of Rs.1700 crore for implementation during 2021- 2026.

Liquidity: Adequate

The liquidity position is adequate marked by GCA of Rs 9.85 crore as against nil debt repayment obligations. The average utilization of working capital limits of ASPL for the last 12 months ending November 2022 remained high at more than 90% while that of AFPL remained moderate at around 67%. On account of correction of inverted duty structure from January 2022, the liquidity is expected to improve with the gradual recovery of accumulated Goods and Services Tax (GST) receivables of Rs 37.33 crore as on Oct 31, 2022 (Rs 42.65 crore as on March 31, 2022). As per the management, the remaining GST receivable is expected to be recovered in 3-4 years. This apart, the promoters had infused funds (Rs 14 crore as quasi equity and around Rs 15 crore as unsecured loans) in the past and the management has maintained that the promoters can further infuse funds upto Rs 25 crore as and when required by the company.

Analytical approach: Combined

CARE Ratings Limited has combined the business and financial risk profile of Ajanta Shoes (India) Private Limited (ASPL) and Ajanta Footcare (India) Private Limited (AFPL) together referred to as Ajanta Group as they operate under common management and are engaged in similar lines of business with operational and financial linkages.

Applicable criteria

Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Liquidity Analysis- Non-financial sector entities
Consolidation

About the Company

Ajanta Shoes started its journey as a proprietorship concern back in 1950's. ASPL, incorporated in August 2011, is promoted by Mr. Subrata Banik. The name of the company had been changed from Banik Rubber Industries (India) Pvt Ltd (BRIPL) to ASPL with effect from April 25, 2018. ASPL is into the manufacturing of Hawai slippers and footwear (non-leather) under the brand name "Ajanta". The company presently has three manufacturing facilities located in Kolkata with a combined capacity to manufacture 192 lakh pairs of Hawai slippers, 240 lakh pairs of EVA slippers and 157 lakh pairs of footwear annually.

AFPL, which is the retail arm of the group, is engaged in trading of footwear and other accessories through its 140 showrooms (79 rented space, 4 owned and 57 franchisee partners) at different locations of Eastern India.

Brief Financials (₹ crore	FY21 (A)	FY22 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	335.16	380.72	237.42	NA
PBILDT	33.64	21.03	13.00	NA
PAT	12.71	6.48	NA	NA
Overall gearing (times)	0.78	0.65	NA	NA
Interest coverage (times)	7.60	4.88	4.18	NA

A: Audited; UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	6.50	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	6.50	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Jan-22)	1)CARE A- (CE); Stable / CARE A2+ (CE) (24-Mar-21)	1)CARE A- (CE); Stable / CARE A2+ (CE) (13-Jan-20)
2	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	1)Withdrawn (05-Jan-22)	1)CARE A- / CARE A2+ (24-Mar-21)	1)CARE A-; Stable / CARE A2+ (13-Jan-20)

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:
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