Liberty Shoes Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	127.19	CARE BBB+ (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	58.50	CARE A2 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Liberty Shoes Limited (LBL) have been placed on rating watch with developing implications on account of lack of clarity about future leadership of the company on the back of dispute among the promoters of LBL. The company has announced the removal of Mr. Adesh Gupta as the Chief Executive Officer of the company w.e.f. September 05, 2023. Subsequent to this, an Annual General Meeting (AGM) has been scheduled for September 30, 2023, wherein one of the agenda would be removal of Mr. Gupta as Director/Executive Director of the company and Mr. Gupta has been accorded an opportunity to represent to the shareholders. The future leadership hinges upon the outcome of the aforesaid AGM. CARE will continue to monitor the developments in this regard and will take a view on the ratings, once the exact implications of the above on the credit profile and business operations of the company is clear.

The ratings continue to derive comfort from its established brand image and market position in the domestic footwear industry along with the long-track record of LSL and its promoters. The ratings also factor in improved operational performance in FY23 (refers to the period April 01 to March 31) and Q1FY24 (refers to the period April 01 to June 30), wide distribution network, comfortable capital structure and geographically diversified revenue stream. These strengths are however, partially offset by working capital intensive nature of operations, highly fragmented and competitive nature of the footwear industry and susceptibility of margins to volatility in raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs. 800 crore and PBILDT margin above 9% on a sustained basis
- Improvement in operational cashflows leading to improved liquidity and lower dependence on working capital borrowings

Negative factors

- Decline in Total Operating Income below Rs. 400 crore, PBILDT margin below 6% on a sustained basis
- Elongated gross current assets days beyond 250 days which may constrain liquidity

Analytical approach: Standalone

Detailed description of the key rating drivers

Key strengths

Improved operational performance in FY23 and Q1FY24: The company has recorded growth of ~35% in FY23 and stood at Rs. 654.33 Cr (PY: Rs. 485.04 Cr), on account of low base effect as total operating income (TOI) of the company remained impacted in last two years due to COVID 19. The PBILDT margin of the company improved by 38 bps and stood at 9.44% in FY23 (PY: 9.06%). PAT witnessed improvement from 0.57% in FY22 to 1.97% in FY23.
Q1FY23: The company has recorded turnover of Rs. 143.36 Cr till June 2023 with net profit of Rs. 3.35 Cr as against turnover and PAT of Rs. 161.27 Cr and 5.47 Cr respectively in Q1FY23. However, company's ability to increase its scale of operations along with improvement in profitability margins shall key monitorable going forward.

Reputed brand name and established position in Indian footwear industry with diversified geographical presence: LSL has diversified product portfolio and enjoys good brand name in the footwear industry, which stems from the long successful track record. The company has wide spread presence in North India with increasing footprints in Southern part. LSL has also

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

developed number of popular sub brands such as Fortune, healers, Lucy & Luke, Warrior, Windsor, Senorita, Tiptop, Footfun, Prefect, Force10, Gliders, Coolers, Aha and Leap7x.

Wide distribution network and geographically diversified revenue base: LSL has wide and established distribution network comprising of about 150 distributors and 425 exclusive showrooms as on March 31, 2023 (both franchised and owned) spread across the country. The company derives sales from its three channels viz. institutional sales, franchisee stores, distributors and company owned showrooms and thus is not dependent on any one of them. Though, the number of showrooms under franchisee-based model are reducing from 360 in FY21 to 275 as on June 2022 due to shutting down of small franchisee or consolidating nonperforming franchisees with performing ones.

Comfortable financial profile: The capital structure of LSL has been comfortable on account of high net-worth base owing to accretion of profits over the years. The overall gearing of the company stood at 1.28x as on March 31, 2023 (PY: 0.97x). The moderation is mainly on account of higher working capital utilisation of limits amounting to Rs. 79.62 Cr (PY: Rs. 50.92 Cr) and higher lease liabilities of Rs. 73.11 Cr (PY: Rs. 59.90 Cr) as on March 31, 2023. Further, debt coverage indicators also improved due to improvement in operational profile of the company marked by total debt to GCA and interest coverage ratio of 3.59x and 5.11x for FY23 (PY: 3.93x and 3.61x).

Key weaknesses

Working capital intensive nature of operations: LSL's working-capital cycle is stretched mainly on account of long inventory holding period as the company has to maintain 120-150 days of inventory to meet any sudden spike in demand of a particular product. Further, the company has to maintain wide variety of inventory of finished goods across product category which results in high inventory. Debtors period has reduced from 76 days to 50 days on account of faster selling of inventory in distributor and franchisee channel on the back of increased footfall. In institutional sales, debtors period remains in the range of 15-20 days, e-commerce within 7 days and cash sales in company owned stores, whereas the company extends a credit period of around 60 days for sales to distributors and franchisee store. Due to improved realisations, company is availing cash discounts from its suppliers for early payments leading to reduced creditors period to 49 days as on March 31, 2023 (PY: 89 days).

Susceptibility of margins to the volatility in the raw material prices: The main raw materials for LSL are PVC (Polyvinyl Chloride), Leather, PU (Polyurethane) Chemicals etc., the prices of which are linked with crude oil prices and are very volatile. LSL's profitability depends to a large extent on the movement in raw material prices. With changing customer preferences, intense competition in the footwear segment mainly on account of significant presence of the unorganized sector and availability of cheap Chinese imported products, it is not always possible to pass on the entire increase in raw material prices to the customers, which could exert pressure on the company's profitability. In FY22, prices of raw materials were very high which was offset by better absorption of expenses and improved realisation in both the segments.

Fragmented and highly competitive industry: The domestic footwear industry is fragmented and is characterised by large number of unorganised players. The unorganised segment gains prominence in the Indian context due to its price competitive products, which are more suitable and attractive to the price conscious Indian consumer. But with increased household income, shifting consumer behaviour from saving to spending, increasing brand consciousness amongst Indian consumers, influx of large number of global brands and penetration in tier – II and III cities by footwear companies, the organised retail in footwear market is rapidly evolving and expected to grow at a higher rate in the future.

Liquidity: Adequate

The company has adequate liquidity marked by gross cash accruals of Rs. 54.90 Cr vis-à-vis scheduled repayment obligations of Rs. 3.82 Cr during FY24 and modest cash and bank balance of Rs. 3.62 crore as on March 31, 2023. Further, the company has above unity current ratio with steady operational cash flows in FY23. Considering no major capex envisaged in the near future, company has comfortable current ratio in the projected years to meet its repayment obligations.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[Short Term Instruments]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry
Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Footwear

Incorporated in September, 1986, LSL is the flagship company of the Karnal (Haryana) based Liberty Group. The group has presence in Indian footwear industry for the last six decades. LSL is engaged in the business of manufacturing and selling leather and non-leather footwear. The company has five manufacturing facilities located at Karnal (Haryana), Gharaunda (Haryana), Liberty Puram (Haryana), Paonta Sahib (Himachal Pradesh) and Roorkee (Uttarakhand) having a combined capacity of manufacturing 106 Lakh pairs of shoes per annum as on June 30, 2022. LSL sells its merchandise through its pan India distribution network.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	486.10	654.33	143.36
PBILDT	44.04	61.75	15.66
PAT	2.76	12.91	3.35
Overall gearing (times)	0.97	1.28	NA
Interest coverage (times)	3.61	5.11	4.31

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	115.00	CARE BBB+ (RWD)
Fund-based - LT-Term Loan		-	-	31-March-2026	12.19	CARE BBB+ (RWD)
Non-fund-based - ST-BG/LC		-	-	-	58.50	CARE A2 (RWD)

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	115.00	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (23-Dec-21)	1)CARE BBB+; Stable (08-Oct-20) 2)CARE A-; Negative (29-Apr-20)
2	Non-fund-based - ST-BG/LC	ST	58.50	CARE A2 (RWD)	-	1)CARE A2 (30-Sep-22)	1)CARE A2 (23-Dec-21)	1)CARE A2 (08-Oct-20) 2)CARE A2+ (29-Apr-20)
3	Fund-based - LT-Term Loan	LT	12.19	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (23-Dec-21)	1)CARE BBB+; Stable (08-Oct-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on the 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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