Liberty Shoes Limited

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	123.88 (Reduced from 127.19)	CARE BBB+ (RWD)	Continues to be on Rating Watch with Developing Implications
Short Term Bank Facilities	42.50 (Reduced from 58.50)	CARE A2 (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Liberty Shoes Limited (LSL) were placed on rating watch with developing implications on the back of dispute among promoters resulting in removal of Mr. Adesh Gupta as the Chief Executing Officer (CEO) of the company with effect from September 05, 2023, since the exact implication on the credit profile and business operations were not clear at that juncture. While the petition filed by Mr. Adesh Gupta for "oppression and mismanagement" under section 241, 242 and 244 read with 213 of the Companies Act, 2013 against the company has been dismissed by National Company Law Tribunal (NCLT), Chandigarh bench on November 20, 2023, the rating watch with developing implications has continued, in order to witness any foreseeable impact on the operations of the company in the ensuing quarters as a fallout of aforesaid dispute. 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.

Furthermore, the reaffirmation of ratings assigned 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 H1FY24 (refers to the period April 01 to September 30), wide distribution network, comfortable capital structure and geographically diversified revenue stream. These strengths are however, partially offset by risk of termination notices from group entities which may lead to disruptions in company's operations and surrendering of "Liberty" trademark held by Group entity Liberty Footwear Co. (LFC), 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

- Termination of contract with any of the group entities adversely affecting the company's operations
- 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

Outlook: Not Applicable

Detailed description of the key rating drivers:

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

Key strengths

Improved operational performance in FY23 and H1FY24: The company has reported growth of ~35% in turnover in FY23 which 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%) on account of better product mix with higher profit margin backed by introduction of new premium brand in athleisure segment viz, LEAP7X. Further, improvement in scale led to efficient utilization of manufacturing capacities and better absorption of fixed overheads.
H1FY23: The company has reported a turnover of Rs 315.14 crore in H1FY24 with a PBILDT margin of 9.90% as against Rs 329.72 crore in H1FY23 with a margin of 10.60%. The marginal decrease in turnover is resultant from normalization in demand in current fiscal which was supported by pent-up demand in H1FY23. However, this gap in demand was compensated by e-commerce sales with a contribution of around ~15% during the current fiscal. Further, company's profitability has been impacted by lower returns from the online segment vis-à-vis company owned stores, primarily attributed to various discounts offered online.

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 its long successful track record. The company has widespread presence in North India with increasing footprints in Southern part. LSL has also developed number of popular sub brands such as Fortune, healers, Lucy n 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 433 exclusive showrooms as on June 30, 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 247 as of June 2023 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).

Experienced management with long track record of operations: The management team of the company has experience of more than three decades in the footwear industry. In the year 2022, the Board of Directors undertook the reconstitution of the Management Committee (MC), tasked with overseeing and evaluating all strategic and operational aspects of the company. Within this framework, Mr. Shammi Bansal oversees the manufacturing division, while Mr. Adish Kumar Gupta serves as the director responsible for leather operations. Mr. Raman Bansal directs operations within the wholesale market, and Mr. Anupam Bansal supervises retail sales.

Key weaknesses

Risk related to termination notices by group entities: The Company has long term arrangements with three group firms namely Liberty Group Marketing Division (LGMD), Liberty Enterprises (LE) and Liberty Footwear Co. (LFC), renewed with validity till 31st March 2028 for the exclusive use of complete business of these firms including their intellectual property rights (IPR) and trademarks. However, the Company has received a termination notice from Mr. Arpan Gupta, who is a beneficiary and legal heir of one of the partners of LFC, LE, and LGMD. Additionally, Mr. Harish Gupta, a partner in LFC, has issued a similar notice. As a response, LSL has invoked the arbitration clause stipulated in the contract, leading to a court-issued status quo order presently. Since the company has many operational linkages with these firms and the "Liberty" brand trademark is held by LFC, any change in contract terms would have significant impact on company's operations. To mitigate this risk, the Company is actively emphasizing the promotion of their proprietary brands such as Healers, Leap 7x, Lucy n Luke, among others. Moreover, as per the management, majority of the partners within these entities intend to acquire liberty brand and consolidate other assets from aforesaid partnership firms under LSL.

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 as on March 31, 2023, 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 might exert pressure on the company's profitability.

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. However, to address this issue, the company has introduced new brands and incorporated innovative technology like NITPRO.

Liquidity: Adequate

The company has adequate liquidity marked by projected gross cash accruals of Rs. 31.04 Cr vis-à-vis scheduled repayment obligations of Rs. 3.81 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.

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, 2023. LSL sells its merchandise through its pan India distribution network.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	486.10	654.33	315.14
PBILDT	44.04	61.75	31.21
PAT	2.76	12.91	5.99
Overall gearing (times)	0.97	1.28	1.05
Interest coverage (times)	3.61	5.11	4.07

A: Audited UA: Unaudited; H1FY24: refers to the period from April 01, 2023, to September 30, 2023; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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	8.88	CARE BBB+ (RWD)
Non-fund-based - ST-BG/LC		-	-	-	42.50	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+ (RWD) (28-Sep-23)	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	42.50	CARE A2 (RWD)	1)CARE A2 (RWD) (28-Sep-23)	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	8.88	CARE BBB+ (RWD)	1)CARE BBB+ (RWD) (28-Sep-23)	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in Sachin Mathur Associate Director **CARE Ratings Limited** Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in Rohit Bhatia Rating Analyst **CARE Ratings Limited** E-mail: Rohit.Bhatia@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in