

Metro and Metro

September 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.88 (Reduced from 8.90)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	42.90 (Enhanced from 39.00)	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	11.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Metro and Metro factor in the long track record of operations along with experience of the partners in the footwear business, established client base and stable operational performance of the firm. The firm's financial risk profile remains comfortable, with adequate liquidity position and no major capex plans except the routine capex. However, the ratings continue to remain constrained by the customer concentration risk with dependence of business on few key clients, susceptibility of the firm's profitability margins to volatility in the foreign exchange rates, high competition in the leather footwear industry and its constitution being a partnership firm.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 8% on a sustained basis while maintaining the growth trend in total operating income (TOI).
- Change in constitution of the entity from partnership firm to company.
- Diversification in customer base resulting in lower concentration risk.

Negative factors

- Moderation in PBILDT margin below 5.00% with decrease in TOI below Rs. 150 crores.
- Deterioration in the financial indicators with an overall gearing of above 1.10x & interest coverage ratio of less than 3x.
- Significant withdrawal of capital by partners.
- Any adverse industry/business specific factors or macro-economic factors affecting the export market of the firm.

Analytical approach: Standalone

Outlook: Stable

"Stable" outlook reflects CARE Ratings' opinion that Metro and Metro will continue to derive benefit from its long-standing experience of promoters in the industry.

Detailed description of key rating drivers:

Key strengths

Experienced Management and long track record of operations

Metro and Metro was formed in 1991 and is currently managed under the partnership of Ajit Nath Kalsi and his wife Meenakshi Kalsi with their two daughters who joined the partnership in March 2023. The firm has a long track record of more than two decades. Prior to 1991, the partners were engaged in shoe manufacturing business for more than 20 years. This long-standing experience and expertise in the shoe manufacturing business has enabled the firm to establish itself in the industry.

Stable operational performance

The operational performance of the firm witnessed slight moderation by ~5% in FY24 (refers to the period from April 01 to March 31) on account of discontinuation of products wherein production was outsourced since the same had low margins. Despite the

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

economic slowdown in the US and Europe, the entity's established and premium customer base ensures a steady stream of orders, minimizing the impact of moderation in operational performance. Further, the firm achieved operating income of ₹90.58 crores during 5MFY25 (refers to the period from April 01 to August 31). However, the profitability margins of the firm improved marginally owing to the discontinuation of outsourced products and have remained range bound with PBILDT margin of ~7-8% over the last few years. CARE Ratings Limited (CARE Ratings) expects the firm to maintain its stable operational performance in the medium term.

Comfortable Financial Risk Profile

The overall gearing of the firm stood comfortable at 0.47x as on March 31, 2024 (PY: 0.84x). The firm has no significant long-term bank debt, except for a GECL (Guaranteed Emergency Credit Line) of ₹8.90 crore (with repayments starting from November 2024), of which ₹5.00 crore has been pre-paid, leading to improvement in capital structure. Debt coverage indicators also stood comfortable as depicted by the TDGCA (Total Debt to Gross Cash Accruals) of 2.18x as on March 31, 2024, (PY: 3.53x) and the interest coverage ratio of the firm stood at 6.51x as on March 31, 2024. With no major debt funded capex, CARE Ratings expects the firm to maintain its comfortable financial risk profile in the near to medium term.

Key weaknesses

Constitution of the entity being partnership firm

Metro's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factor affecting credit decision for the lenders. This financial strain can hinder the partnership's ability to meet obligations and invest in growth opportunities which in turn affect the operating efficiency of the organization. Notably, the partners of the firm have withdrawn capital of ~₹4.00 crores during FY24.

Customer concentration risk with geographical concentration in Europe & US

The firm generally has high customer concentration with the majority of sales to its top 10 customers exposing the firm to various risks related to changes in procurement policy of its major customers. During FY24, the top 10 customers contributed ~88% (PY: 90%) to the total operating income of the firm. It has been almost at the same levels during the last 3-4 years as well. However, the established long-term relationship with its customers leads to repeat business over the years which mitigates the customer concentration risk to some extent.

Susceptibility to foreign exchange fluctuations risk

The firm's primary focus on the export market makes its profit margins susceptible to fluctuations in foreign exchange rates. An appreciation of the Indian Rupee against foreign currencies can negatively impact profitability. However, with ~30% of its raw materials being imported, the firm benefits from a natural hedge. For the remaining exposure, the firm hedges by booking forward contracts. In FY24, the firm recorded a forex gain of ₹2.32 crore (PY: ₹2.89 crore).

Competition from organized and unorganized players:

The footwear industry is highly competitive due to low entry barriers and the minimal capital investment required to establish new facilities. Additionally, the labor-intensive nature of operations leads to a significant presence of unorganized players. According to the Council for Leather Exports, India is the second-largest global producer of footwear, contributing ~12% of global production. However, Metro gains a competitive edge by producing footwear for premium international brands using low-cost labor.

Liquidity: Adequate

The liquidity profile of the firm derives comfort from sufficient cash and cash equivalent balance of ₹22.69 crores as on March 31, 2024, and adequate cash accruals. The firm has pre-paid the debt obligation of ₹5.00 crore till August 31, 2024, and the GCA of the firm is expected to be around ₹9.5-10 crores in FY25. The current ratio of the firm stood at 1.65x as on March 31, 2024 (PY: 1.28x). The firm is not planning any major capital expenditure except routine capex. Further, with an efficient operating cycle, the average utilization of working capital limits was ~53% over the last 12 months ending June 2024 with highest utilization of ~89% in December 2023 and January 2024. Unutilized bank borrowings provide sufficient cushion to meet any short-term exigencies.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Footwear

Metro & Metro was formed in 1991 as a partnership firm by Dwarka Nath Kalsi and his son, Ajit Nath Kalsi. In 2011, after the demise of Dwarka Nath Kalsi, Meenakshi Kalsi (wife of Ajit Nath Kalsi) joined the business as a partner. In March 2023, the daughters of Meenakshi Kalsi and Ajit Nath Kalsi also joined the business as partners. The firm is engaged in the manufacturing of leather footwear at its manufacturing plant situated at Agra with an installed capacity of 15 lakh pairs per annum as on August 31, 2024. The firm is primarily into exports as it sells its shoes to the overseas retailers mainly based in Europe and the USA.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	5MFY25 (UA)
Total operating income	241.03	227.63	90.58
PBILDT	16.49	15.90	NA
PAT	8.70	8.48	NA
Overall gearing (times)	0.84	0.47	NA
Interest coverage (times)	7.02	6.51	NA

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-10-2027	3.88	CARE BBB+; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	20.90	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-EPC/PSC		-	-	-	18.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Standby Line of Credit		-	-	-	4.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Working Capital Limits		-	-	-	11.00	CARE A2

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ST-EPC/PSC	LT/ST	20.90	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Sep-23)	1)CARE BBB+; Stable / CARE A2 (09-Jan-23) 2)CARE BBB+; Stable / CARE A2 (01-Dec-22)	1)CARE BBB+; Stable / CARE A2 (29-Mar-22) 2)CARE BBB+; Stable / CARE A2 (04-May-21)
2	Non-fund-based - ST-Working Capital Limits	ST	11.00	CARE A2	-	1)CARE A2 (05-Sep-23)	1)CARE A2 (09-Jan-23) 2)CARE A2 (01-Dec-22)	1)CARE A2 (29-Mar-22) 2)CARE A2 (04-May-21)
3	Fund-based - LT/ST-EPC/PSC	LT/ST	18.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Sep-23)	1)CARE BBB+; Stable / CARE A2 (09-Jan-23) 2)CARE BBB+; Stable / CARE A2 (01-Dec-22)	1)CARE BBB+; Stable / CARE A2 (29-Mar-22) 2)CARE BBB+; Stable / CARE A2 (04-May-21)
4	Fund-based - LT/ST-Standby Line of Credit	LT/ST	4.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Sep-23)	1)CARE BBB+; Stable / CARE A2 (09-Jan-23) 2)CARE BBB+; Stable / CARE A2 (01-Dec-22)	1)CARE BBB+; Stable / CARE A2 (29-Mar-22) 2)CARE BBB+; Stable / CARE A2 (04-May-21)
5	Fund-based - LT-Term Loan	LT	3.88	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Sep-23)	1)CARE BBB+; Stable (09-Jan-23)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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