Ajanta Footcare (India) Private Limited

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3.63 (Enhanced from 1.63)	CARE A-; Stable	Reaffirmed
Long-term bank facilities	21.00 (Enhanced from 16.00)	CARE A-; Stable	Revised from CARE A-; Stable / CARE A2+
Long-term / short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Ajanta Footcare (India) Private Limited (AFPL) factors in steady scale of operations in FY24 (refers to period from April 01 to March 31) of the group led by volume growth of around 10% despite dip in realisation by around 8%.
Ratings also continue to derive strength from experienced promoters with long track record of operations, established brand presence with diversified product portfolio and satisfactory distribution & retail network and satisfactory capital structure and debt coverage indicators.

Ratings continue to be constrained by moderate capacity utilisation despite improvement in FY24, profitability susceptible to raw material price volatility, geographical concentration risk and competitive nature of the footwear industry and working capital intensive operations of the company. Ratings also note the proposed expansion plan of the group in the form of addition of new production lines in ASPL in the existing plant and opening of around 20 new retail stores in AFPL.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the long-term/short-term bank facility of AFPL with immediate effect, as the same facility stands cancelled.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Improving scale of operations beyond ₹800 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin at 10% on a sustained basis.
- Receipt of GST refund leading to reducing borrowing and improving overall gearing ratio below 0.5x on a sustained basis.

Negative factors

- Deteriorating overall gearing ratio beyond 1.1x on a sustained basis.
- Significant debt-funded capex leading to deteriorating capital structure of the group.

Analytical approach: Combined

CARE Ratings has combined the business and financial risk profiles of Ajanta Shoes (India) Private Limited (ASPL) and AFPL together referred to as the Ajanta Group, as they operate under common management and are engaged in similar lines of business with operational and financial linkages. Also, ASPL has extended corporate guarantee for bank facilities of AFPL. However, there is no specific payment mechanism mentioned in the guaranteed deed.

Outlook: Stable

CARE Ratings believes that the group will continue to benefit from established brand presence with diversified product portfolio and distribution & retail network and likely to sustain the increased scale of operation while maintaining operating margin and capital structure at around current level.

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

Detailed description of key rating drivers

Key strengths

Improvement in financial performance of group in FY24

The group's financial performance improved in FY24 marked by steady scale of operations with increased sales volume by 10% and improvement in operating margins on the back of softening of raw material prices such as ethylene vinyl acetate (EVA), PVC, and others.

At combined level, the group's total operating income (TOI) remained steady at ₹473 crore in FY24 from ₹456 crore in FY23 on the back of higher volume sales. Operating margins improved by 337 bps y-o-y in FY24 to 9.33%. Accordingly, PBILDT levels increased to ₹44 crore in FY24 from ₹27 crore in FY23.

On standalone basis, ASPL's turnover stood at ₹412 crore and PAT of ₹13.90 crore in FY24 whereas AFPL's turnover stood at ₹78 crore and loss of ₹2 crore in FY24. AFPL reported loss in FY24 due to lower-than-expected sales performance of recently opened stores, which are yet to achieve breakeven. Consequently, the management has decided to close few of the loss-making stores in fiscal year 2024. Nonetheless, the management expects to achieve profit after tax (PAT) in fiscal year 2025 and onwards.

Satisfactory capital structure and debt coverage indicators

On a combined level, the group's capital structure continued to remain satisfactory with an overall gearing of 0.61x as on March 31, 2024 (P.Y.: 0.61x). Debt protection metrices witnessed improvement in FY24 marked by total debt to gross cash accruals (TDGCA) and interest coverage improved from 4.26x and 3.70x in FY23 to 3.27x and 4.23x in FY24 mainly due to higher GCA.

Going forward, the group's capital structure will likely remain satisfactory despite higher total debt levels attributable to increase in term loans to finance the proposed expansion plan of the group in the form of addition of new production lines in ASPL and opening of around 20 new stores in AFPL. Total capital expenditure (capex) plan is worth around ₹33 crore, which will be funded through mix of debt (70%) and internal accruals/unsecured loans (30%). Nonetheless, the capex plan is modular in nature and execution of the same will be contingent upon cash flow of the group and overall economic scenario.

Experienced promoters with long track record of operations

AFPL's promoters have long experience in footwear business. Banik family is engaged in manufacturing 'Hawai' since 1956 under the leadership of Late Rabindra Nath Banik (father of Subrata Banik). Currently, AFPL's day-to-day affairs are managed by Sagnik Banik (MD; son of Subrata Banik) and Soumi Banik (daughter of Subrata Banik), under the guidance of 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 the eastern part of India with focus mostly on the rural and semi-urban area. Over the years, the group has also ventured into manufacturing EVA-based Hawai slippers (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

ASPL has strong dealer network of 234 dealers in West Bengal. This apart, the company has 133 dealers in non-Bengal region. ASPL has appointed five super stockists to which ASPL supplies its products directly and they in turn supply to dealers. The same helps ASPL in reducing the credit risk since the super stockists buy on cash basis (though they avail 2-3% discounts when compared to distributors). Adding to this, the ASPL has also appointed 28 exclusive dealers (25 in Bengal region) who only deal in Ajanta products.

Currently, AFPL has a network of 95 company-owned and company-operated (COCO) stores and 29 franchise stores. The company also has presence through Chain stores and deals in safety shoes and caters to institutional divisions on a PAN India basis. AFPL reported loss in FY24 due to lower-than-expected sales performance of recently opened stores which are yet to achieve breakeven. Consequently, the management has decided to close few of the loss-making stores in fiscal year 2024. Nonetheless, the management has plan to open 20 new stores in FY25 in gradual manner.

Key weaknesses

Moderate capacity utilisation despite improvement in FY24

The group's capacity utilisation continued to remain moderate and stood at around 60% in the last three fiscal years ending March 31, 2023. Nonetheless, the capacity utilisation improved from 60% in FY23 to 70% in FY24 because of improved demand. Accordingly, total quantity produced increased to 405 lakh pairs in FY24 as against 357 lakh pairs in FY23.

With increased presence in northern states through its distribution and retail channels, capacity expansion and growth in utilisation levels is expected to see growth.

Raw material price fluctuation risk

The company is exposed to raw material price fluctuation risk. The major raw material components are natural rubber, synthetic rubber, ethylene vinyl Acetate (EVA), Polyurethane (PU), Polyvinyl Chloride (PVC) and other chemicals. Given that raw material prices are linked with crude oil prices which are highly volatile in nature, the raw material prices fluctuate variably leading to volatility in profitability. During periods of rising raw material prices, the company has to partly absorb the rising prices, which results in a hit on the profitability, whereas it has to pass on the benefit when prices remain benign to a large extent through dealer discounts due to footwear being a price-sensitive product. ASPL's profitability is thus highly susceptible to the fluctuation in raw material prices.

Geographical concentration risk

ASPL is majorly operating in West Bengal (WB), hence contribution of sales from WB in the overall turnover remained high at 57%. However, the company is trying to build a PAN India presence, hence, the sales concentration has declined from 73% in FY21 to 57% in FY24 owing to increased sales from new sales team and super stockist appointed in non-Bengal areas. With expansion plan in other states through its distribution and retail channels, geographical concentration risk further expected to moderate, going forward.

Competitive nature of footwear industry

The domestic footwear industry is exposed to the intense competition due to the fragmented nature of the Indian footwear industry and wide presence of the unorganised sector, which impacts the pricing power. The unorganised 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. The group also faces stiff competition from other large players such as Relaxo Footwears Limited, Paragon, Khadim, Aqualite Industries Private Limited and others.

Working capital intensive nature of operations

ASPL's operation is working capital intensive in nature as it must maintain high level of inventory to cater to the demands in regions in which it operates, including new markets where the company has ventured in last couple of years. However, the combined inventory period has seen improvement to 76 days in FY24 against 79 days in FY23 owing to better inventory management and steps taken, like sales being routed through super stockist (done on cash basis in lieu of 2-3% discount given to them). The improvement in inventory days was partly offset by increase in collection period to 39 days as against 23 days in FY23 leading to moderation in operating cycle by 14 days to 76 days in FY24. Debtors' collection days increased as the group reported higher sales of around ₹43 crore in March 2024 with credit period of 30 days to 35 days. Apart from this, there has been some delayed collection of dues from dealers which were realised in April 2024. Nonetheless, going forward, the group's operating cycle is expected to remain range bound.

There is also significant amount stuck in GST which had accumulated due to earlier inverted duty structure wherein the input GST has been higher than the output GST on the product, thus resulting in requirement of higher working capital. However, the GST Council of India had increased the GST on footwear below ₹1,000 (segment where ASPL is operating) from 5% to 12%, effective from January 01, 2022, which led to stoppage of significant accumulation under GST receivable. As on March 31, 2024, the outstanding GST receivables stood at ₹34.69 crore. (PY: ₹33.49 crore) and ₹34.76 crore as on July 31, 2024.

Liquidity: Adequate

The liquidity position is adequate marked by GCA of ₹29 crore as against repayment obligations of ₹0.49 crore; supported by above unity current ratio. The average utilisation of working capital limits of ASPL and AFPL for the last 12 months ending June 2024 stood at 60% and 95%, respectively. The group has enhanced the working capital limits which will provide comfort to some extent. The group has also availed term loan of ₹9 crore till date to fund its proposed capex plan to add new production line at the existing manufacturing plant and new retail stores.

Going forward, the cash accruals are expected to remain adequate to meet its debt obligations of ₹1.04 crore in FY25.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Retail
Short Term Instruments
Wholesale Trading

About the group and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Footwear

Ajanta Shoes started its journey as a proprietorship concern back in 1950s. Incorporated in August 2011, ASPL is promoted by Subrata Banik. The name of the company had been changed from Banik Rubber Industries (India) Pvt Ltd (BRIPL) to ASPL on April 25, 2018. ASPL is into manufacturing Hawai slippers and footwear (non-leather) under the brand name "Ajanta". The company presently has three manufacturing facilities in Kolkata with a combined capacity to manufacture 180 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 footwear and other accessories through its network of 95 COCO and 29 franchise stores.

Combined Brief Financials (₹ crore) *	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	455.52	473.17
PBILDT	27.17	44.15
PAT	-2.90	11.76
Overall gearing (times)	0.61	0.61
Interest coverage (times)	3.70	4.23

*Combined unaudited (UA) financials of ASPL and AFPL. Note: 'the above results are latest financial results available'.

Brief Financials (₹ crore) *	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	72.25	77.52
PBILDT	3.75	1.88
PAT	0.88	-2.14
Overall gearing (times)	0.57	8.61
Interest coverage (times)	4.73	0.82

*Standalone audited (A) and unaudited (UA) financials of AFPL. 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: Annexure-2

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	21.00	CARE A-; Stable
Fund-based - LT-Term loan	-	-	-	October 2029	3.63	CARE A-; Stable
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	0.00	Withdrawn

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-Cash credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable / CARE A2+ (08-Nov-23)	1)CARE A-; Stable / CARE A2+ (05-Jan-23)	1)CARE A-; Stable / CARE A2+ (05-Jan-22)
2	Unsupported rating-Unsupported rating (LT/ST)	LT/ST	-	-	-	-	-	1)Withdrawn (05-Jan-22)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (08-Nov-23)	-	-
4	Fund-based - LT-Term loan	LT	3.63	CARE A-; Stable	-	1)CARE A-; Stable (08-Nov-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-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Lender details

To view 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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