Euro Safety Footwear (india) Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	114.91 (Enhanced from 64.91)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	15.00 (Enhanced from 2.00)	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Euro Safety Footwear (India) Limited (ESFL) factor in the long track record of operations with experience of promoters in the footwear industry and established client base amid economic slowdown in the European market. The company's financial risk profile remains comfortable and adequate liquidity position marked by healthy cash and bank balance with investments in fixed deposits. The rating strengths are however offset by the company's moderate scale of operations which was impacted due to recessionary trends in Exports markets which is expected to rebound in FY25 (refers to the period from April 01 to March 31). The ratings are further constrained by the exposure of ESFL to its subsidiary which could impact the cash flow of the entity going forward. The ratings are also constrained by the foreign currency fluctuation risk faced by the company and highly competitive shoe manufacturing industry in which the company operates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in scale of operations with total operating income (TOI) increasing above ₹250 crore along with sustenance of profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 15%.
- Decline in customer concentration risk with top 5 customers contributing less than 30% to the total sales of the company.

Negative factors

- Increase in exposure towards subsidiary and adjusted overall gearing beyond 1.10x.
- Deterioration in the solvency position of the company marked total outside liabilities to total net worth (TOL/TNW) of more than 1.20x.

Analytical approach: Standalone after factoring in exposure towards group entities

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Experienced promoters

The company's promoters have more than three decades of experience in the footwear industry. Kulbir Singh, promoter of the company, had prior experience of working in Germany in the footwear Industry, before starting his own venture in India. He is supported by his wife, Dalbir Kaur, who also looks after the day-to-day operations of the company. Further, Kulbir Singh's son-in-law, Deepak Budhiraja is the current Managing Director of the company. ESFL also has an in-house quality checking team along with a capable and efficient management to assist in the day-to-day operations of the company.

Sustaining international alliances amid economic slowdown in the European market

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

The company's presence in 19 countries across the world enables it to supply its products to reputed clients such as the Bevaform, Prodex Logistique from France, Rockfall UK Ltd etc. Over the years, the company has established a strong relationship with its clients, which is also reflected from repeated sales to them. However, the top 5 customers account for ~95% of the total sales of the company, thereby exposing the company to customer concentration risk.

Average financial risk profile

As on March 31, 2024, the overall gearing of the company improved marginally and stood at 0.64x (PY: 0.77x) primarily because of repayment of certain term loans by the company. Debt coverage indicators witnessed slight moderation as reflected by total debt to gross cash accruals (TDGCA) of 4.76x as on March 31, 2024, from 3.59x as on March 31, 2023. The interest coverage ratio also moderated to 4.47x as on March 31, 2024, primarily due to moderation in PBILDT of the company. In absence of any major debt funded capex, CARE expects the company to maintain its average financial risk profile over short to medium term.

Key weaknesses

Moderation in operational performance in FY24 albeit expected to rebound in FY25

During FY24, the TOI of the company declined by ~29% to ₹115.14 crore because of the recessionary trends in the European market, thereby directly impacting the customers of the company. This downturn also impacted profitability margins, as indicated by PBILDT and PAT margins. Further, the company achieved operating income of ₹46 crore in Q1FY25 (refers to the period from April 01 to June 30) and is expected to achieve TOI of ₹215 crore in FY25 on account of diversification of revenue from the defense sector in India for delivery of safety shoes.

Exposure to subsidiaries

The company has three subsidiaries and one associate company. The investment in subsidiaries includes equity investment amounting to ₹12 crore in Euro Safety Equipment Private Limited, ₹2.82 crore in Freedom Shoe Private Limited and ₹0.01 crore in Euro Safety Solutions Private Limited. The said subsidiaries are smaller in scale and any impact of macroeconomic factors can impact operations of such subsidiaries. Any further investments and support to subsidiaries would impact the cash flows of this entity and would remain a key monitorable.

Foreign Currency fluctuation risk

The company is exposed to foreign currency fluctuation risk since majority of the revenue earned by the company is through export sales. However, the risk is partially offset since the company hedges its foreign currency exposure by booking forward contracts. The company booked a foreign currency loss of ₹0.12 crore as on March 31, 2024, as compared to ₹0.37 crore as on March 31, 2023.

Competition from organized and unorganized players

The footwear industry is highly competitive in nature on account of low entry barriers, considering the low capital investment required to set up a new facility. Also, operations are labor intensive resulting in presence of a large number of unorganized players. However, ESFL produces footwear for reputed international brands and produced by low-cost laborers, which gives an edge to the company over its competitors.

Liquidity: Adequate

ESFL's has adequate liquidity position with cash and liquid investment of ₹32.98 crore as on March 31, 2024, which include cash and bank balance of ₹0.18 crore and Fixed deposits amounting to ~₹32.56 crore. The company has gross cash accruals of ₹11.42 crore in FY24, which is expected to improve to ~₹18 crore in FY25 against debt repayment of obligations of ₹2.80 crore. With a gearing of 0.64 times as of March 31, 2024, the issuer has sufficient gearing headroom to raise additional debt for its future expansion plans. The current ratio stood remained at 1.21x as on March 31, 2024. The operating cycle of the company moderated to 68 days as on March 31, 2024 (PY: 53 days), owing to the recessionary trend. The average working capital utilization for trailing twelve months ending August 2024 stood at 73% with highest utilization of ~83% in July 2024.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Definition of Default
Factoring Linkages in Parent Sub JV Group
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

Euro Safety Footwear (India) Limited was incorporated in 2004 to supply industrial safety footwear to Europe. Euro Safety Group, with an annual production capacity of 2.5 million pairs, has been an integrated manufacturer and distributor of wide range of PPE for more than a decade. The export to countries such as Canada, USA, UK, France, Switzerland, Germany, Austria, Slovakia, Finland, Czech Republic, Croatia, Belarus, Kenya, South Africa, U.A.E., China, New Zealand and Australia.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	161.12	115.14	46.54
PBILDT	23.88	14.61	NA
PAT	12.95	7.07	NA
Overall gearing (times)	0.79	0.64	NA
Interest coverage (times)	5.94	4.47	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork and Infomerics has continued the ratings assigned to the bank facilities of Roger Industries Limited into 'Issuer not-cooperating' category vide press release dated April 01, 2024, and April 30, 2024, respectively, on account of non-availability of requisite information from the company.

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		-	-	December 2028	10.40	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	104.51	CARE BBB-; Stable
Non-fund-based - LT/ ST-Letter of credit		-	-	-	15.00	CARE BBB-; Stable / CARE A3

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-Working Capital Limits	LT	104.51	CARE BBB-; Stable	1)CARE BBB-; Stable (17-May-24)	-	-	-
2	Fund-based - LT-Term Loan	LT	10.40	CARE BBB-; Stable	1)CARE BBB-; Stable (17-May-24)	-	-	-
3	Non-fund-based - LT/ ST-Letter of credit	LT/ST	15.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (17-May-24)	-	-	-

LT: Long 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-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-Letter of credit	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: 120-4452000 E-mail: puneet.kansal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Rajan Sukhija Assistant Director **CARE Ratings Limited** Phone: 91-120-4452000 E-mail: Rajan.Sukhija@careedge.in Srishti Jain Rating Analyst **CARE Ratings Limited** E-mail: Srishti.jain@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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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