Liberty Shoes Limited

December 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	111.00 (Reduced from 123.88)	CARE BBB+; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	42.50	CARE A2	Reaffirmed and removed from 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 due to the removal of Mr. Adesh Gupta as the Chief Executing Officer (CEO) of the company with effect from September 05, 2023, and its possible impact on the credit profile and business operations of the company. However, 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 were dismissed by National Company Law Tribunal (NCLT). Subsequently, the appeal before National Company Law Appellate Tribunal (NCLAT) has also been dismissed vide order dated September 20, 2024. Hence, the rating watch with developing implications has been removed, as no major impact on the operations of the company has been observed in past few quarters as a fallout of the dispute and no other appeal/petition is pending before the NCLT and/or NCLAT against the company.

The reaffirmation of ratings assigned to the bank facilities of LSL 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 in the footwear industry. The ratings also factor in steady operational performance in FY24 (refers to April 01 to March 31) and H1FY25 (refers to April 01 to September 30), wide distribution network with presence in online channel, 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. Going forward, amicable resolution of all disputes and other contingencies with respect to brand and other group entities without any adverse impact on the financial risk profile of the company will be a key monitorable

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs 800 crore and Profit before interest, lease rentals, depreciation, and taxes (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

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

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings) expectation of sustained operational scale, supported by contribution from diversified sales channels and the well-established brand presence of Liberty Shoes.

Detailed description of key rating drivers:

Key strengths

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 2022, the Board of Directors reconstituted the Management Committee (MC), entrusted with overseeing and evaluating all strategic and operational aspects of the company. The MC consists of both the promoters and independent members, ensuring that decisions are made democratically, reducing reliance on any individual director. Additionally, various verticals such as procurement, marketing, exports, manufacturing, leather, and sales are all headed by different individuals from the promoter group which work cohesively towards business growth. Additionally, the company has appointed a professional consultant for bringing about efficiency and structural changes in the organisation.

Reputed brand and strong position in the Indian footwear industry with a diversified geographic 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 461 exclusive showrooms as on June 30, 2024 (both franchised and owned) spread across the country. The company derives sales from various channels including institutional sales, franchisee stores, distributors, company owned showrooms, and online channels 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 265 as of June 2024 due to shutting down of small franchisee or consolidating non-performing franchisees with performing ones.

Steady operational performance
The company's revenue remained stable at Rs 636.05 crore in FY24, with a slight decline of 2.64% from Rs 653.32 crore, due to a fire at the central warehouse in February 2024. This incident halted the movement of finished goods for over three weeks during the peak season. Due to the fire, Rs 4.70 crore has been recognised as exceptional loss during FY24 after accounting for insurance claim received of Rs 14.25 crore. However, the PBILDT margin improved by 113 bps at 10.14% due to efficient utilization of manufacturing capacities and better absorption of fixed overheads (PY: 9.11%). The profitability margins are expected to improve going forward with better product mix having higher profit margin backed by introduction of new premium brand in athleisure segment viz, LEAP7X.
H1FY25: The company has recorded a turnover of Rs 327.85 crore in H1FY25 with a PBILDT margin of 9.40% as against Rs 315.20 crore in H1FY24 with a margin of 9.90%.

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 0.71x as on March 31, 2024 (PY: 0.81x). The improvement is mainly on account of timely repayment of term loans with no additional loan availed and low working capital limit utilisation amounting to Rs 68.13 crore (PY: Rs 75.80 crore) as on March 31, 2024. Further, debt coverage indicators remained comfortable due to improvement in operating profit of the company marked by total debt to Gross Cash Accrual and interest coverage ratio of 3.28x and 2.26x for FY24 (PY: 3.59x and 5.11x).

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 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, had 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. Hence, resolution of all disputes amongst the promoters as well as with the group entities remain a key monitorable.

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 remained stable at 52 days as on March 31, 2024, 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 45 days as on March 31, 2024 (PY: 49 days).

Susceptibility of margins to the volatility in the raw material prices

The main raw materials for LSL are Polyvinyl Chloride (PVC), Leather, Polyurethane (PU) 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.

Liquidity: Adequate

The company has adequate liquidity marked by projected gross cash accruals of around Rs 31 Cr vis-à-vis scheduled repayment obligations of Rs 1.48 Cr during FY25 and modest cash and bank balance of ~Rs 3.00 crore as on March 31, 2024. Further, the company had above unity current ratio with steady operational cash flows in FY24. Considering no major capex envisaged in the near future, the unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

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

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, 2024. LSL sells its merchandise through its pan India distribution network.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	653.32	636.05	327.85
PBILDT	59.54	64.48	30.80
PAT	12.91	11.16	5.58
Overall gearing (times)	0.81	0.71	NA
Interest coverage (times)	4.93	4.75	4.85

A: Audited UA: Unaudited; NA: Not Available; 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 (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		-	-	-	95.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	16.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	42.50	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-Cash Credit	LT	95.00	CARE BBB+; Stable	-	1)CARE BBB+ (RWD) (01-Dec-23) 2)CARE BBB+ (RWD) (28-Sep-23)	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (23-Dec-21)
2	Non-fund-based - ST-BG/LC	ST	42.50	CARE A2	-	1)CARE A2 (RWD) (01-Dec-23) 2)CARE A2 (RWD) (28-Sep-23)	1)CARE A2 (30-Sep-22)	1)CARE A2 (23-Dec-21)
3	Fund-based - LT-Cash Credit	LT	16.00	CARE BBB+; Stable	-	1)CARE BBB+ (RWD) (01-Dec-23) 2)CARE BBB+ (RWD) (28-Sep-23)	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (23-Dec-21)

LT: Long term; ST: 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	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 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

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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.

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