

Liberty Shoes Limited

December 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	127.19 (Reduced from 171.90)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	58.50 (Reduced from 63.50)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	185.69 (Rs. One Hundred Eighty-Five Crore and Sixty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Liberty Shoes Limited (LSL) continues to derive comfort from the long-track record of its promoters and established market position of LSL in domestic footwear industry. The ratings also factor in established brand image of the company, wide distribution network, comfortable capital structure and geographically diversified revenue stream. These strengths are however, partially offset by elongated collection period and subdued operational performance of the company during FY21 (refers to the period April 01 to March 31) due to outbreak of Covid-19 pandemic adversely impacting the footwear and fashion industry. The ratings are further constrained by low profitability margins, highly fragmented and competitive nature of the footwear industry and susceptibility of margins to volatility in raw material prices.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- 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- Factors that could lead to negative rating action/downgrade:

- 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.

Key Rating Strengths

Experienced promoters and management team:

LSL is the flagship company of the Karnal (Haryana) based Liberty Group. The group is promoted by the Gupta and Bansal family and is engaged in footwear business for last six decades. The company is led by Mr. Adesh Kumar Gupta (Chief Executive Officer) and Shammi Bansal (Executive Director), who pioneered the use of Poly-urethane (PU) technology in the Indian footwear market. Mr. Gupta and Mr. Bansal has more than three decades of experience in the footwear industry and is assisted by a management team having rich experience in the same line of business.

Reputed brand name and established position in Indian footwear industry

LSL has diversified product portfolio and enjoys good brand name in the footwear industry, which stems from the long successful track record. The company has wide spread presence in North India with increasing footprints in Southern part. LSL has also developed number of popular sub brands such as Fortune, Warrior, Windsor, Seniorita, Tiptop, Footfun, Prefect, Force-10, Gliders, Coolers, Aha, Leap7x, Healers and Lucy & Luke.

Wide distribution network and geographically diversified revenue base:

LSL has wide and established distribution network comprising of about 150 distributors and 509 exclusive showrooms as on June 30, 2021 (both franchised and owned) spread across the country. The company drives sales from its three channels viz. distributors, exclusive showrooms (franchised and company owned) and Institutional sales and is not highly dependent on any one of them.

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 1.52x as on March 31, 2021 from 2.32x as on March 31, 2020. The improvement is mainly on account of lower utilisation of limits as on March 31, 2021. However, due to lower PAT margin and static interest cost despite dip in the total operating income, total debt to GCA and interest coverage ratio of the company deteriorated and stood at 13.14x and 3.51x (PY: 8.20x and 3.51x in FY20)

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

Key Rating Weaknesses**Significant dip in total operating income**

LSL reported turnover of Rs 466.34 crore in FY21 (PY: 651.44 crore), degrowth by ~23% owing to nationwide lockdown imposed by the government which impacted operations of company. However, PBILDT margin improved and stood at 10.83% (PY: 9.23%) primarily due to the lower proportion of traded goods sold in FY21 having comparatively lesser margins than manufactured goods. Though, PAT margin deteriorated significantly due to static interest cost despite lower scale of operations and difference in tax computation as per Companies Act and Income Tax Act resulting into high tax outflow.

H1FY22 Performance: The company has reported sales of Rs.209.47 crore during H1FY22 (refers to period April 1 to September 30) as against Rs.148.36 crore in H1FY21. Due to the second wave of COVID 19, performance of the company was subdued whereby it reported top-line of Rs.97.71 crore in Q1FY22 (refers to the period from April 1 to June 30) as against Rs.51.93 crore during Q1FY21 and Rs.162.59 crore during Q4FY21.

Working capital intensive nature of operations

LSL's working-capital cycle remains elongated on account of high inventory holding period as the company has to maintain 100-120 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. The average utilization of fund based working capital limits has remained moderate at ~77% in the trailing 12 months period ended Sept 2021. The same was supported by healthy collections with operational cash flows of around Rs. 70.85 crore in FY21 (Rs.24.48 crore in FY20). Going forward, the recovery of old dues to the tune of Rs.27 crore from Telangana government, prudent working capital management and improved demand leading higher Average Sales Realizations across all product categories with lower discounts for stock clearance will be a key monitorable to improve liquidity besides working capital management.

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 could exert pressure on the company's profitability. Liberty use to import shoe uppers and lower separately and sells them into domestic market after assembling, it is now discontinued.

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 gross cash accruals of Rs.18.84 crore vis-à-vis scheduled repayment obligations of Rs.1.28 crore during FY22 and modest cash and bank balance of Rs. 3.88 crore as on September 30, 2021. Further, company's average utilization levels have remained at ~77% in last 12 months ending Sep, 2021, and has above unity current ratio with steady operational cash flows in FY21.

Considering no major capex envisaged in the near future, company has comfortable current ratio in the projected years to meet its repayment obligations alongside comfortable DSCR.

Analytical approach: Standalone

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](#)

About the Company

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, 2020. LSL sells its merchandise through its pan India distribution network.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	651.44	466.34	209.47
PBILDT	60.12	50.52	17.96
PAT	11.13	0.23	(3.17)
Overall gearing (times)	2.32	1.52	NA
Interest coverage (times)	4.20	3.51	2.79

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Nil

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	115.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	58.50	CARE A2
Fund-based - LT-Term Loan		-	-	March 2026	12.19	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (31-Mar-20)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (29-Jun-18)
2	Fund-based - LT-Cash Credit	LT	115.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Oct-20) 2)CARE A-; Negative (29-Apr-20)	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (29-Jun-18)
3	Non-fund-based - ST-BG/LC	ST	58.50	CARE A2	-	1)CARE A2 (08-Oct-20) 2)CARE A2+ (29-Apr-20)	1)CARE A2+ (31-Mar-20)	1)CARE A2+ (07-Jan-19) 2)CARE A2+ (29-Jun-18)
4	Fund-based - LT-Term Loan	LT	12.19	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Oct-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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