Liberty Shoes Limited

September 30, 2022

Ratings

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

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Liberty Shoes Limited (LSL) continues 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. The ratings also factor in improved operational performance in FY22 (refers to the period April 01 to March 31) and Q1FY23 (refers to the period April 01 to June 30) marked by improved capacity utilisation and better absorption of overheads, wide distribution network, comfortable capital structure and geographically diversified revenue stream. These strengths are however, partially offset by 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.

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

Detailed description of the key rating drivers

Key rating strengths

Improved operational performance in FY22 and Q1FY23

The company has recorded growth of ~7% in FY22 and stood at Rs 486.10 crore (PY: Rs 456.23 crore) on account of low base effect as total operating income (TOI) of the company remained impacted in last two years due to COVID 19. The growth in sales is marked by the increase in the sale of non-leather shoes to Rs 266.84 crore (PY: Rs 242.75 crore) on the back of improved realisation of non-leather shoes per pair from Rs 395 in FY21 to Rs 481 in FY22. On the other hand, realisation from leather shoes has marginally moderated to Rs 1150 in FY22 (PY: Rs 1181) per pair.

The PBILDT margin of the company moderated by 178 bps and stood at 9.06% in FY22 (PY: 10.84%) due to increase in raw material and employee cost which was partially offset by improved realisations and better absorption of expenses. Due to COVID 19 led disruption, Q1FY22 was impacted resulting in net loss, however, with recoupment of losses due to better realisations in non-leather segment and reduction in utilisation of working capital limits during 9MFY22, PAT witnessed marginal improvement from 0.05% in FY21 to 0.57% in FY22. Thus, company's focus on reducing its reliance on working capital limits resulting into lower interest cost shall remain key monitorable

Q1FY23: The company has recorded turnover of Rs 161.27 crore till June 2022 with net profit of Rs 5.47 crore as against turnover and PAT of Rs 97.65 crore and -3.07 crore respectively in Q1FY21. The company's demand of non-leather shoes has been on the rise over the past few years (barring FY21 which was adversely impacted due to Covid-19 led disruption and closure). The company reported sale of Rs 101.71 crore from this segment during Q1FY23 which picked up pace due to its presence in affordable segment and also company's sale for sports shoes is also increasing, though, realisation per pair moderated from Rs 481 Rs in FY22 to Rs 469 in Q1FY23. The improved demand also led to capacity utilisation reach pre-covid level of 85% in Q1FY23 (PY: 60%). The profitability is majorly driven from the increase in the sale of manufactured shoes as in some tender based supplies, company procures the material from outside and thus margins are lower. However, company's ability to increase its scale of operations along with improvement in profitability margins shall key monitorable going forward.

Reputed brand name and established position in Indian footwear industry with diversified geographical presence

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

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

has also developed number of popular sub brands such as Fortune, healers, Lucy & 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 411 exclusive showrooms as on June 30, 2022 (both franchised and owned) spread across the country. The company derives sales from its three channels viz. institutional sales, franchisee stores, distributors and company owned showrooms and thus is not dependent on any one of them. In Q1FY23, company witnessed growth across all the channels backed by increase in demand thereby leading to improved capacity utilisation and operational performance. Though, the number of showrooms under franchisee-based model are reducing from 360 in FY21 to 275 as on June 2022 due to shutting down of small franchisee or consolidating non-performing franchisees with performing ones.

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 0.97x as on March 31, 2022 (PY: 1.52x). The improvement is mainly on account of lower working capital utilisation of limits amounting to Rs 50.92 crore (PY: Rs 82.16 crore) as on March 31, 2022. The company is focussing on improving its cash flow from operations and reducing its dependence on working capital limits. Further, debt coverage indicators also improved due to improvement in operational profile of the company marked by total debt to GCA and interest coverage ratio of 3.93x and 3.61x (PY:4.93x and 3.43x).

Key rating weaknesses
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 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. Debtors period has reduced on account of faster selling of inventory in distributor and franchisee channel on the back of increased footfall as debtors period is usually high in these two segments only excluding dues from Telangana government of Rs ~24 crore for more than a year. 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 89 days as on March 31, 2022 (PY: 151 days), apart from the amount due from Telangana government against which creditors upto Rs 15 crore are also outstanding. The average utilization of fund based working capital limits also improved and stood moderate at ~65% in the trailing 12 months period ended June 2022.

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. In FY22, prices of raw materials were very high which was offset by better absorption of expenses and improved realisation in both the segments, despite which PBILDT margin moderated by 178 bps.

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 analysis: Adequate
The company has adequate liquidity marked by gross cash accruals of Rs.31.37 crore vis-à-vis scheduled repayment obligations of Rs.4.42 crore during FY23 and modest cash and bank balance of Rs. 3.77 crore as on June 30, 2022. Further, company's average utilization levels have remained at ~65% in last 12 months ending June 2022, and has above unity current ratio with steady operational cash flows in FY22. Considering no major capex envisaged in the near future, company has comfortable current ratio in the projected years to meet its repayment obligations.

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, 2022. LSL sells its merchandise through its pan India distribution network.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY22(UA)
Total operating income	456.23	486.10	161.27
PBILDT	49.43	44.04	17.24
PAT	0.23	2.76	5.47
Overall gearing (times)	1.52	0.97	-
Interest coverage (times)	3.43	3.61	6.16

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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		-	-	31-March-2026	12.19	CARE BBB+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (31-Mar-20)
2	Fund-based - LT-Cash Credit	LT	115.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Dec-21)	1)CARE BBB+; Stable (08-Oct-20) 2)CARE A-; Negative (29-Apr-20)	1)CARE A-; Stable (31-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	58.50	CARE A2	-	1)CARE A2 (23-Dec-21)	1)CARE A2 (08-Oct-20) 2)CARE A2+ (29-Apr-20)	1)CARE A2+ (31-Mar-20)
4	Fund-based - LT-Term Loan	LT	12.19	CARE BBB+;	-	1)CARE BBB+;	1)CARE BBB+;	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
				Stable		Stable (23-Dec-21)	Stable (08-Oct-20)	

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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 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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