

Liberty Shoes Limited

January 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	144.84 (reduced from Rs.151.64 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	37.80 (enhanced from Rs.31 crore)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	182.64 (Rs. One hundred and eighty two crore and sixty four lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Liberty Shoes Limited (LSL) continue to derive comfort from the long-track record of its promoters and strong market position of LSL in domestic footwear industry. The ratings also factors in established brand image of the company, wide distribution network and geographically diversified revenue contribution. These strengths are however, partially offset by moderation in financial risk profile with declining profitability and its susceptibility to the volatility in the raw material prices and foreign exchange fluctuations, highly fragmented and competitive nature of the footwear industry, fixed royalty pay-out exerting pressure on profitability and working capital intensive nature of operations.

The ability of the company to profitability scale up operations, stabilization and market acceptability of new product launches, efficiently manage its working capital requirements amidst highly competitive market scenario remains the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record: LSL is the flagship company of the Karnal (Haryana) based Liberty Group. The group is promoted by the Gupta and Bansal families and is engaged in footwear business for last six decades. The company is led by Mr Adesh Kumar Gupta (Chief Executive Officer). Mr Gupta 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.

Established brand image and strong position in domestic footwear industry: LSL enjoys an established brand name in the domestic footwear industry and over the last three decades, the company has established its position as one of the leading footwear brands of India. LSL has invested significantly on the branding and promotion activities related to all its brands. LSL has also developed number of popular sub brands such as Gliders, Fortune, Seniorita, Warrior and Tip Top. The company also focuses on brand promotion and advertising and has incurred Rs.8.33 crore (Rs.7.80 crore last year) for promotional activities.

Wide Distribution network and geographically diversified revenue base: LSL has a wide and established distribution network comprising of 150+ distributors and 697 exclusive showrooms as on September 30, 2017 which includes 549 franchised stores and 148 owned stores spread across the country. LSL derives its domestic sales from four channels viz. distributors (19%), franchised showrooms (27%), Owned stores (24%) and Institutional sales (30%) and is not highly dependent on any one of them. Furthermore, LSL has a diversified product portfolio with presence in all the categories of footwear including sports shoes, sneakers, ballerinas, adventure shoes, corporate formals and slip-ons with over 5000 designs. It sells a variety of Poly Vinyl Chloride (PVC) and Leather footwear. The company mainly caters to the demand of middle income groups and has also entered a premium segment through its brand "Healer".

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

LSL's sales are well diversified in terms of geography with exports contributing about 8% of the total revenues in FY17. Domestically, Northern region is the major contributor with about 45% in the total sales of FY17, followed by South 29%, whereas East and West contribute 8% each.

Key Rating Weaknesses

Moderation in financial risk profile: The financial risk profile of LSL has moderated over the past year as reflected in the declining trend of its profitability. The PBILDT margin on a y-o-y basis has declined from 9.49% in FY16 to 7.71% in FY17 on account of increase in raw material costs and a fixed royalty payment to group entities (Liberty Enterprise, Liberty Group Marketing Division and Liberty Footwear Co). The trend has continued in H1FY18 with PBILDT margin reported at 7.36%, owing to Pre-GST stock clearance with discounts to the retailers and distributors. However, the capital structure of LSL has been comfortable on account of high net-worth base owing to accretion of profits over the years. Also, the company has carried out very limited debt funded capex amounting Rs.7.47 crores for the purchase of furniture with respect to new retail stores resulting in moderate gearing ratio of 0.89x as on March 31, 2017 as compared with 0.87x as on March 31, 2016. LSL's debt profile primarily includes working-capital borrowings. In the absence of substantial term debt, the coverage indicators are also comfortable as reflected by the interest coverage ratio of 2.43x in FY17 (2.63x for FY16) and term debt/GCA of 0.80x as on March 31, 2017 (0.57x as on March 31, 2016).

Susceptibility of margins to the volatility in the raw material prices and foreign exchange fluctuations: The main raw materials for LSL are PVC (Polyvinyl Chloride), Leather, PU Chemicals etc., the prices of which are linked with crude oil prices and remain volatile. LSL's profitability depends to a large extent on the movement in raw material prices. With intense competition in the footwear segment mainly on account of significant presence of the unorganized sector and availability of cheap imported products, it is not always possible to pass on the entire increase in raw material prices to the customers, which puts pressure on the company's profitability.

Working capital intensive operations: LSL's working-capital cycle is stretched which is mainly on account of high inventory levels as well as long collection period. LSL's inventory period is stretched on account of large number of franchise stores and the inventory levels that the company maintains with them. Apart from that the company has wide variety across product category which results in high inventory. LSL's working capital cycle stood at 137 days in FY17. The working capital gap is funded through the CC limits, the utilization of which remained high ~ 90% for the 12-month period ended October 2017.

Fragmented and 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. Further, there is a pressure from cheap imports from China in this segment. Apart from this, LSL also faces stiff competition from other domestic players in the sector. Post implementation of GST, the share gain from the un-organized sector remains to be seen.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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 six manufacturing facilities located at Karnal (Haryana), Gharaunda (Haryana), Liberty Puram (Haryana), Paonta Sahib (Himachal Pradesh), Dehradun (Uttarakhand) and Roorkee (Uttarakhand) having a combined capacity of manufacturing 106 Lakh pairs of shoes per annum. LSL sells its merchandise through its pan India distribution network and also exports its products to around 25 countries across the globe.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	454.51	497.86
PBILDT	42.96	38.40
PAT	10.06	6.40
Overall gearing (times)	0.87	0.89
Interest coverage (times)	2.62	2.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr Gaurav Dixit

Tel: 011 – 4533 3235

Mobile: +91 97170 70079

Email: gaurav.dixit@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	9.84	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	135.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	37.80	CARE A2+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	9.84	CARE A-; Stable	-	1)CARE A-; Stable (18-Jan-17)	1)CARE A- (29-Jan-16) 2)CARE A- (20-Apr-15)	1)CARE A- (30-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	135.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Jan-17)	1)CARE A- (29-Jan-16) 2)CARE A- (20-Apr-15)	1)CARE A- (30-Sep-14)
3.	Non-fund-based - ST-BG/LC	ST	37.80	CARE A2+	-	1)CARE A2+ (18-Jan-17)	1)CARE A2+ (29-Jan-16) 2)CARE A2+ (20-Apr-15)	1)CARE A2+ (30-Sep-14)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com