

Liberty Shoes Limited

January 7, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|---------------|
| Long-term Bank Facilities | 141.14 (reduced from Rs.144.84 crore) | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 41.50 (enhanced from Rs.37.80 crore) | CARE A2+ (A Two Plus) | Reaffirmed |
| Total Facilities | 182.64 (Rupees One hundred and eighty two crore and sixty four lakh 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 with fixed royalty pay-out to group entities further exerting pressure on profitability, its susceptibility to the volatility in the raw material prices and foreign exchange fluctuations, highly fragmented and competitive nature of the footwear industry, and working capital intensive nature of operations.

The ability of the company to profitably 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.

Wide Distribution network and geographically diversified revenue base: LSL has a wide and established distribution network comprising of more than 150 distributors and more than 600 exclusive showrooms as on September 30, 2018 (including franchised and owned) spread across the country. LSL derives its domestic sales from four channels viz. distributors (16%), franchised showrooms (22%), Owned stores (22%) and Institutional sales (40%) 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" and has also ventured into the lifestyle space, with the introduction of its new fragrance line in October, 2018.

Liquidity: The liquidity profile of the company is moderate with free cash and cash equivalents as on March 31, 2018 stood at Rs.5.36 crore. Further the company has generated stable cash flow from operations (Rs.47.82 crore in FY18 as compared with Rs.16.94 crore in FY17) to manage day-to-day operations.

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

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 marginally from 7.74% in FY17 to 7.46% in FY18 on account of execution of low margin orders in FY18 including order from UP Government for supply of school bags, shoes and socks. However, the capital structure of LSL has been comfortable on account of high net-worth base owing to accretion of profits over the years in absence of fresh term borrowing or major capex. The overall gearing of the company remained comfortable at 0.69x as on March 31, 2018 as compared with 0.89x as on March 31, 2017. 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 2.60 in FY18 (2.44x in FY17) and term debt/GCA of 0.53x as on March 31, 2018 (0.79x as on March 31, 2017).

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 growing number of stores (both franchise and owned) and wide variety of product range which requires high inventory levels that the company maintains with them. Apart from that the company has wide variety across product category which results in high inventory.

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.

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 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. 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) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 497.86 | 544.36 |
| PBILDT | 38.55 | 40.62 |
| PAT | 6.54 | 6.60 |
| Overall gearing (times) | 0.89 | 0.69 |
| Interest coverage (times) | 2.43 | 2.60 |

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.

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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 | - | 9.25% | 2021 | 6.14 | CARE A-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 135.00 | CARE A-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 41.50 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 6.14 | CARE A-; Stable | 1)CARE A-; Stable (29-June-18) | 1)CARE A-; Stable (04-Jan-18) | 1)CARE A-; Stable (18-Jan-17) | 1)CARE A- (29-Jan-16) 2)CARE A- (20-Apr-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 135.00 | CARE A-; Stable | 1)CARE A-; Stable (29-June-18) | 1)CARE A-; Stable (04-Jan-18) | 1)CARE A-; Stable (18-Jan-17) | 1)CARE A- (29-Jan-16) 2)CARE A- (20-Apr-15) |
| 3. | Non-fund-based - ST-BG/LC | ST | 41.50 | CARE A2+ | 1)CARE A2+ (29-June-18) | 1)CARE A2+ (04-Jan-18) | 1)CARE A2+ (18-Jan-17) | 1)CARE A2+ (29-Jan-16) 2)CARE A2+ (20-Apr-15) |

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