# Liberty Shoes Limited
## March 31, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | - | - | Withdrawn based on No Dues Certificate |
| Long-term Bank Facilities | 135.00 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Short term Bank Facilities | 47.64 (enhanced from 41.50) | CARE A2+ (A Two Plus) | Reaffirmed |
| **Total** | **182.64 (Rs. One hundred eighty two crore and sixty four lakh only)** | | |

*Details of instruments/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, comfortable capital structure and geographically diversified revenue stream. These strengths are however, partially offset by moderation in profitability margins, its susceptibility to the volatility in the raw material prices, highly fragmented and competitive nature of the footwear industry, and elongated inventory holding period.

**Rating Sensitivities**

**Positive:**

- Increase in Total Operating Income above Rs. 800 crore, PBILDT margin above 9% and PAT margin above 2.5% on a sustainable basis.

**Negative:**

- Decline in Total Operating Income below Rs.550 crore and PBILDT margin below 6% on a sustained basis.
- Deterioration in capital structure with overall gearing ratio deteriorating beyond 1.00x on a sustained basis.

**Detailed description of the key rating drivers**

**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 family and is engaged in footwear business for last six decades. The company is led by Mr. Adesh Kumar Gupta (Chief Executive Officer), who pioneered the use of Poly-urethane (PU) technology in the Indian footwear market. 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.

**Reputed brand name and strong 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 is spending substantially on the branding and promotion activities related to all its brands and also initial marketing of fine fragrance products (Liberty Lifestyle). LSL has also developed number of popular sub brands such as Fortune, Warrior, Windsor, Senorita, Tiptop, Footfun, Prefect, Force-10, Gliders, Coolers, Aha, Leap7x, Healers and Lucy & Luke.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

**Widespread and diverse distribution network**

LSL has wide and established distribution network comprising of about 150 distributors and 600 exclusive showrooms as on December 31, 2019 (both franchised and owned) spread across the country. LSL's sales are well diversified in terms of geography in North, South, East and West part of India with Major contribution from North India. The company drives sales mainly from four channels viz. distributors, exclusive showrooms (franchised and company owned) and Institutional sales and is not highly dependent on any one of them.

**Comfortable capital structure**

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 improved from 0.99x as on March 31, 2017 to 0.65x as on March 31, 2019 (March 31, 2018: 0.72x). The interest coverage ratio of the company has improved to 2.83x in FY19 as compared to 2.60x in FY18 and 2.44x in FY17. The improvement in the interest coverage ratio and overall gearing is on the back of decrease in term debt and unsecured loans.

**Key Rating Weaknesses**

**Moderation in profitability margins**

The PBILDT margin of the company has moderated to 6.95% in FY19 from 7.46% in FY18 mainly on account of increase in the advertisement cost and commission paid to the franchisee. The high advertisement cost incurred mainly towards the newly introduced fine fragrance brand "Liberty Lifestyle". Further, the contribution of the low price shoes remained considerable during FY19 and 9MFY20, the margin from these shoes are comparatively low resulting in low overall margins albeit improving total revenue.

**Elongated Inventory holding period**

The inventory holding period of the company stood at 127 days in FY19 (PY: 134 days). The company has to maintain 100-120 days of inventory to meet any sudden spike in demand of a particular product, the company has to maintain wide variety of inventory of finished goods across product category which results in high inventory. Consequently, the operating cycle of the company also stood high at 120 days (PY: 130 days).

**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.

**Fragmented and highly competitive industry**

The domestic footwear industry is fragmented and is characterized 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 behavior 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.

**Prospects/Industry Outlook** *(Source: msme.gov.in)*

India is the third largest footwear consuming country in the world after China and USA, India is the second largest footwear producer in the world, with footwear production accounting for approximately 13 per cent of the global annual production – 16 billion pairs as compared to China, which produces over 60 per cent of the global production. 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. The outbreak of COVID-19 has impacted the sales of the company g as the revenue from stores (both owned and franchisee) has reduced for the month of March 2020, as all the malls and markets were closed.

**Liquidity: Adequate**

The liquidity position of the company derives comfort from the adequate cash accruals of Rs. 20.31 crore during FY19. The current ratio stood comfortable at 1.43x as on March 31, 2019 (PY: 1.33x). The average utilization of fund based working capital limits remained moderate at 78.94% for the trailing twelve month ending February, 2020. Its moderate cash accruals and unutilized bank limits provide it a cushion against fund mismatches, if any, as well as any adverse market scenarios. There is no major capital expenditure planned except miniscule amount of repair and maintenance which will funded through internal accruals. Further, the company has repaid all its term debt obligations in 9MFY20 except a miniscule amount of vehicle loan of Rs. 1.15 crore.

**Analytical approach**

Standalone. The approach has been changed from consolidated to standalone as LSL had decided to discontinue its wholly owned subsidiary -Liberty Foot Fashion Middle East FZE (LFFME) which has not commenced its operations and there was no activity in this company. The consolidated financial statements were not prepared and audited.

**Applicable Criteria**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
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.

**Covenants of rated instrument / facility:** *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 544.36 | 602.78 |
| PBILDT | 40.62 | 41.89 |
| PAT | 6.60 | 6.84 |
| Overall gearing (times) | 0.72 | 0.65 |
| Interest coverage (times) | 2.60 | 2.83 |

*A: Audited*

**Status of non-cooperation with previous CRA: Nil**

**Any other information:** NA

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

**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 | - | - | - | 0.00 | Withdrawn |
| Fund-based - LT-Cash Credit | - | - | - | 135.00 | CARE A-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 47.64 | CARE A2+ |

**Annexure-2: Rating History of last three years**

| Sr. | Name of the | Current Ratings | Rating history |
|---|---|---|---|

| No. | Instrument/Bank Facilities | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
|---|---|---|---|---|---|---|---|---|
| 1. | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE A-; Stable (07-Jan-19)<br>2)CARE A-; Stable (29-Jun-18) | 1)CARE A-; Stable (04-Jan-18) | 1)CARE A-; Stable (18-Jan-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 135.00 | CARE A-; Stable | - | 1)CARE A-; Stable (07-Jan-19)<br>2)CARE A-; Stable (29-Jun-18) | 1)CARE A-; Stable (04-Jan-18) | 1)CARE A-; Stable (18-Jan-17) |
| 3. | Non-fund-based - ST-BG/LC | ST | 47.64 | CARE A2+ | - | 1)CARE A2+ (07-Jan-19)<br>2)CARE A2+ (29-Jun-18) | 1)CARE A2+ (04-Jan-18) | 1)CARE A2+ (18-Jan-17) |

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

***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.*

**Contact us**

**Media Contact**
Mr. Mradul Mishra
+91-22-68374424
mradul.mishra@careratings.com

**Analyst Contact**
Mr. Sachin Mathur
+91-11- 45333206
sachin.mathur@careratings.com

**Business Development Contact**
Ms. Swati Agrawal
+91-11-45333200
swati.agrawal@careratings.com

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