

P A Footwear Private Limited

October 04, 2019

Ratings

Facilities	Amount(Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	22.00	CARE A-; Stable/CARE A2 (Single A Minus; Outlook: Stable/ A Two)	Revised from CARE BBB+;Stable/CARE A2 (Triple B Plus; Stable/ A Two)
Short-term Bank Facilities	25.50	CARE A2 (A Two)	Reaffirmed
Total Facilities	47.50 (Rupees Forty Seven crore and Fifty lakh only)		

Details of facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of P A Footwear Private Ltd (PAF) factor in the consistent improvement in scale of operations over the years, comfortable capital structure with prepayment of term debt, strong debt coverage indicators backed by minimal debt and strong accruals. The ratings continues to derive its strength from experienced promoters, integrated nature of operation, reputed clientele and long standing association with clients. However, the rating is constrained by the dependence on a few key clients and susceptibility of the margins to volatile raw material prices and forex risk.

Going forward, ability of PAF to improve its scale of operations and diversify geographically and reduce customer concentration risk while maintaining its profitability and capital structure would be key rating sensitivities.

Detailed description of Key rating drivers

Key rating Strengths

Experienced promoters

Mr S V Kumaraguruparasamy started PAF in 1987 along with Mr Anbumalar as shoe uppers manufacturing company with a capacity of 500 pairs per day in Gummudipondi. During 2002 they started full shoes division in Red hills with a capacity of 500 pairs per day. Mr S V Kumaraguruparasamy, Managing Director, with about 30 years of experience in this line of activity takes care of business development and procurement, Mr Anbumalar, with about 30 years of experience in this line of activity takes care of tannery operations, Mr Siva Vilva Selvan, associated with the company since 2008, handles operation of full shoe division and Mr Kuzhahan, associated with the company since 2011, handles operation of shoe upper division.

Integrated nature of operations and increase in capacities in FY19

PA has backward integrated its shoe uppers division with its two tanneries at Ranipet with total capacity to process 54 lakh sq.ft of wet blue and forward integrated with one full shoe manufacturing unit at Red hills. PAF's three shoe upper manufacturing units at Gummudipoondi saw an increase in total capacity from 5000 pairs per day to 9000 pairs per day while the capacity of full shoe division increased from 4000 pairs per day to 7000 pairs per day during FY19. The increase in capacity was achieved by implementing process efficiency techniques, mainly focusing on improving labour productivity, avoiding wastage and improving quality control without any major capital expenditure. PAF's presence through the entire value chain gives comfort of flexibility to produce shoe uppers or full shoes depending on demand and realization price of shoe uppers and full shoes.

Reputed clientele and long standing association

Export constitutes 99% of its total sales of PAF. PAF has long standing association with its clients ranging from 7 to 32 years. . PAF caters to Men's and Kid's collections of some of the major clients like C&J Clarks, Hotters, Kickers and Euroka. In FY20 they have ventured into manufacturing of women's shoes for one of its major clients Hotters.

Consistent increase in scale of operations

The company's scale of operation has increased over the years. PAF's total operating income has grown from Rs.159.43 crore in FY15 to Rs.246.03 cr in FY19 with relatively stable profitability margins. The company's profit after tax has grown to Rs.18.54 crore in FY19 from Rs.9.80 crore in FY15. The continuous accretion to reserves has increased the net worth of the company over the years has resulted in lower debt and improved capital structure.

Comfortable gearing and debt protection metrics

PAF' capital structure improved considerably with an overall gearing of 0.04x as on March 31, 2019. The company has prepaid its term loans during H1FY19 and has no major capital expenditure plans in near future. Debt protection metrics

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

remains comfortable with TDGCA and interest coverage ratio of 0.16 and 17.79x respectively in FY19. The overall gearing is expected to remain comfortable with less dependence on short-term borrowings due to strong accruals and no major capital expenditure plans.

Key Rating Weaknesses:

High geographic and customer concentration risk

99% revenue of the company comes from top four customers mainly based at UK and EU. The prospect of the company depends on the prospects of its top five customers. The geographic concentration risk is mitigated by the fact that the top five customers have retail outlets in all major countries.

Susceptibility of margins to volatile raw material price and forex risk

PAF's profitability depends to a large extent on the movement in raw material prices. PAF's raw material such as wet blue, soles, insoles are primarily imported. The major raw material wet blue is primarily imported and the price depends on availability of livestock and international demand for hide which makes the price volatile. The company maintains inventory of 3 to 4 months to mitigate the risk of short supply of quality raw material and volatile price movement. The company is export oriented and imports cover just one third of total exports, is vulnerable to forex fluctuation. However, PAF hedges its export receivables by using forward contract once the order is confirmed by the client.

Liquidity-Strong

The company has no term loan repayments and expects to pay of the loans from the promoters backed by the strong accruals. The high level of cash generation has also helped the company pre pay its term debt in the previous financial year and have low reliance on working capital lines. The current ratio of the company stood at 3.04x as on March 31, 2019 on account of higher cash and cash equivalent to the tune of Rs. 17.29 crores. The working capital cycle of the company stood moderate at 101 days in FY19 on account of higher inventory days of 77. Even though the operation is working capital intensive in nature, the company didn't utilise the sanctioned working capital limits in the past twelve months ended August 31st, 2019.

Analytical approach: Standalone

Applicable criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

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

About the company

P A Footwear Private Limited (PA) was incorporated on July 08, 1987 by Mr S V Kumaraguruparasamy for manufacturing of shoe uppers with a capacity of 500 pairs per day in Gummudipoondi. As of March 31, 2019 they have an installed capacity to produce 7000 pairs per day of Leather Shoes, 9000 pairs per day of Shoe Uppers and 54 lakh sq.ft./annum capacity to process wet blue. The processed leather/ wet blue is used as raw material for their shoe uppers division and these shoe uppers are used by their full shoe division. The company has windmills with installed capacity of 0.75 MW at Ulundurpettai.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	240.87	246.03
PBILDT	36.81	33.28
PAT	20.24	18.54
Overall gearing (times)	0.33	0.04
Interest coverage (times)	12.07	17.79

A: Audited

Status of non-cooperation with previous CRA: ICRA has suspended its rating vide press release dated June 2016, on account of non-cooperation by PA Footwear P Ltd. with ICRA's effort to undertake a review of outstanding ratings.

Any other information: Not Applicable

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

Annexure-1: Details of Facilities Rated

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/ ST-EPC/PSC	-	-	-	22.00	CARE A-; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A2
Fund-based - ST-FBN / FBP	-	-	-	10.00	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	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 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)Withdrawn (18-Dec-18)	1)CARE BBB+; Stable (20-Nov-17) 2)CARE BBB+; Stable (06-Nov-17)	-
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	22.00	CARE A-; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (18-Dec-18)	1)CARE BBB+; Stable / CARE A2 (20-Nov-17) 2)CARE A2 (06-Nov-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2	-	1)CARE A2 (18-Dec-18)	1)CARE A2 (20-Nov-17) 2)CARE A2 (06-Nov-17)	-
4.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (18-Dec-18)	1)CARE A2 (20-Nov-17)	-
5.	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (18-Dec-18)	1)CARE A2 (20-Nov-17)	-

6.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A2	-	1)CARE A2 (18-Dec-18)	-	-
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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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