

P A Footwear Private Limited

December 28, 2020

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)	Reaffirmed
Short-term Bank Facilities	25.50	CARE A2 (A Two)	Reaffirmed
Total Facilities	47.50 (Rs. Forty seven crore and fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of P A Footwear Private Limited (PAF) takes into account the comfortable capital structure, strong debt coverage indicators, and long-standing association with renowned global brands. The ratings continues to derive strength from experienced promoters and integrated nature of operations. However, the ratings are constrained by the dependence of the business on few key clients, some of whom have seen stress in the recent times and susceptibility of the profitability margins to volatile raw material prices.

Rating Sensitivities

Positive Factors

- Improvement in the scale of operations with single client concentration below 25%
- Maintain profitability margins above 15% on a consistent basis

Negative Factors

- Any large debt-funding leading to decline in the leverage above 0.25x
- Elongation in debtors' period beyond 180 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and proven operational track record

Mr S V Kumaraguruparasamy started PAF in 1987 along with Mr Anbumalar as a shoe uppers manufacturing company with a capacity of 500 pairs per day in Gummudipondi and in 2002 expanded into full shoes division with 500 pairs per day capacity. They have their own tanning division in Ranipet for dyeing wet blue. Mr S V Kumaraguruparasamy, Managing Director, with three decades of experience in this line of activity takes care of business development and procurement. Mr Anbumalar, with about three decades of experience in this line of activity takes care of tannery operations; Mr Siva Vilva Selvan, associated with the company since 2008, handles operations of full shoe division and Mr Kuzhahan, associated with the company since 2011, handles operation of shoe upper division.

Integrated nature of operations

PAF has backward integration with two tanneries supporting the production of shoe uppers and forward integration with full shoe manufacturing unit. The tanneries in Ranipet have a total capacity to process 54 lakh sq.ft of wet blue. The shoe upper unit has a manufacturing capacity of 9,000 pairs per day while the capacity of full shoe unit is 7,000 pairs per day. In FY20 (refers to the period April 1 to March 31), PAF's capacity utilization in the shoe uppers division was 57%, full shoes division was 44% and leather processing division at 50% level. In H1FY21, there was a drop in utilization as a result of lockdown and the company could not operate from April to June 2020. The presence in three stages of the value chain allows the company to exploit business opportunities for each stage of the product separately as well.

Long-standing association with reputed clientele witnessing stress during COVID-19

PAF's export constitutes 99% of its total sales. PAF has long-standing association with their major clients, including C&J Clarks, Hotters, Kickers and Euroka, ranging from 10 to 33 years. However, as a result of COVID, the major clients of PAF, Clarks and Hotter, went through a difficult time with Clarks and Hotter renegotiating rentals across their stores and went through with Company Voluntary Arrangement (CVAs) which was approved. Nevertheless, these clients continue to give orders to PAF, although with elongation in the credit period.

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

Comfortable gearing and debt protection metrics

PAF's capital structure remains comfortable with an overall gearing of 0.01x (FY19: 0.04x) as on March 31, 2020. The company has no long-term debt repayment obligations. Debt protection metrics remains comfortable with TDGCA and interest coverage ratio of 0.04 (FY19: 0.16) and 23.17x (FY19: 17.79x), respectively, in FY20. The comfortable gearing is expected to remain the same way as the company does not have any term debts and the dependence in short-term borrowings is also low.

Moderation in operational performance in H1FY21 due to COVID-19

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.216.78 crore in FY20 with stable profitability margins. However, in FY20, the company saw a decline of 11.89% in the total operating income (TOI) due to COVID-19 pandemic and restrictions in key markets of P A Footwear like US and UK resulting in delays in delivery and logistics issues starting from March 2020. In H1FY21, the company had a loss of Rs.5.07 crore against a revenue of Rs.52.54 crore as the company had to operate at almost 50% of pre-COVID levels with the lockdown restrictions and low manpower.

Key Rating Weaknesses**High client and geographic concentration risk**

The top four clients contributed to 98% of the TOI in FY20 with a single client contributing to almost 44% of the TOI. With the clients going through difficulties during the pandemic, the impact of the same is passed on to PAF in the form of credit period elongation. With majority of exports to the US and UK markets, which were severely impacted due to COVID, PAF has faced logistic delays in transporting the products due to the local lockdowns. However, the geographic concentration risk is mitigated to a certain extent by the fact that the top customers have retail outlets in all major countries.

Profitability margins impacted by volatile raw material prices

PAF's profitability depends to a large extent on the movement in raw material prices. PAF's raw materials are primarily imported from China, Taiwan and Vietnam. This is mitigated to a certain extent with Clarks identifying local sources for the purchase of stores and raw materials. However, 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. Besides that, the company has material cover of around 15 weeks in the purchase orders thereby insulating the company from any delays in delivery of raw material.

Liquidity: Strong

The company has free cash and bank balances of Rs.24.17 crore as at September 30, 2020. The current ratio stood at 3.94x as on March 31, 2020 (3.04x in FY19), mainly due to high cash and bank balances. The company does not have any long-term debt obligations and did not utilize its sanctioned working capital limits for the 12 months ended November 30, 2020 owing to strong accruals and cash balances. PAF allows 30-60-days credit to its customers. Clarks usually avails a credit period of 30 days and this was extended to 120 days in FY21 after COVID-19. With the elongation in collection period, PAF has also availed extended credit period of 60-90 days with some suppliers.

Prospects and COVID impact:

The footwear industry has been hit hard by COVID-19 pandemic in the form of delay in orders and receipt of payment for shipments made and big retail players closing stores and filing bankruptcies in the US and Europe. PAF has borne the brunt of COVID-19 in the first half of FY21 with slowdown in operations, delays in deliveries delays in collection. The company has been operating at only 50% of pre-COVID levels as a result of lockdown and low manpower. Nevertheless, the customers of PAF are slowly gaining traction and demand for exports is picking up. Going forward, diversification of client and geographic base is key for company's prospect.

Analytical Approach: Standalone**Applicable Criteria**

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

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

[Criteria: Short Term Instruments](#)

[Rating Methodology: Manufacturing Companies](#)

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

[Liquidity Analysis: Non- Financial Sector](#)

About the Company:

PA Footwear Private Limited (PAF) 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. During 1992, they started full shoes division in Red hills with a capacity of 500 pairs per day. PAF exports leather footwear to global brands and leading retailers based at UK, EU and USA. As of March 31, 2020, they have an installed capacity to produce 7,000 pairs per day of Leather Shoes, 9,000 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)	FY19 (A)	FY20 (A)
Total operating income	246.03	216.78
PBILDT	33.28	21.08
PAT	18.53	11.28
Overall gearing (times)	0.04	0.01
Interest coverage (times)	17.79	23.17

A: Audited

Status of non-cooperation with previous CRA: : ICRA has suspended its rating vide press release given in 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

Covenants of rated instrument / facility: 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	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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 A-; Stable / CARE A2 (04-Oct-19)	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 (04-Oct-19)	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 (04-Oct-19)	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 (04-Oct-19)	1)CARE A2 (18-Dec-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-EPC/PSC	Simple
2.	Fund-based - ST-FBN / FBP	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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