July 09, 2024

Farida Shoes Private Limited: Ratings downgraded to [ICRA]BB+(Stable)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based facilities - Term loan	8.08	4.17	[ICRA]BB+(Stable); downgraded from [ICRA]BBB-(Stable)
Short-term - Fund based facilities	130.00	130.00	[ICRA]A4+; downgraded from [ICRA]A3
Short-term -Non-fund based facilities	5.00	5.00	[ICRA]A4+; downgraded from [ICRA]A3
Long-term/short-term - Unallocated	-	3.91	[ICRA]BB+(Stable)/ [ICRA]A4+; downgraded from [ICRA]BBB-(Stable)/ [ICRA]A3
Total	**143.08**	**143.08**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has changed the rating approach to a standalone assessment of Farida Shoes Private Limited (FSPL) from the consolidated view of FSPL and India Shoes Exports Private Limited (ISEPL), based on the revised understanding provided by the management that no cash flow fungibility exists between the entities.

The revision in the ratings for FSPL considers the weaker-than-expected operational and financial performances in FY2024, largely affected by subdued demand for leather footwear in the European and other western markets (which contributes ~91% of export revenue of FSPL). The operating income (OI) declined by 23% on a YoY basis to Rs. 444.7 crore in FY2024 (provisional). The operating margin had improved by ~70 bps YoY to 4.5% in FY2024 (provisional) with various cost-saving measures undertaken leading to reduction in input cost; however, the margins had been lower than the historical levels of 5.3%. Besides, the increase in borrowings to fund the increased working capital intensity and hike in the cost of borrowings, resulted in the weakening of leverage and coverage indicators. FSPL's Total Debt/OPBITDA weakened to 5.7x in FY2024 from 4.9x in FY2023 with a dip in profit in absolute terms and dependence on sizeable external debt to support its operations. The company's interest coverage ratio weakened to 1.8x in FY2024 against 2.4x in FY2023. The ratings continue to be impacted by intense competition in the leather footwear industry and vulnerability of profits to regulatory risks as well as any adverse movement in raw material prices.

The ratings, however, favourably factor in FSPL's established presence in the leather footwear segment, as one of the largest exporters of leather shoes from India and continued associations with reputed international footwear brands such as Clarks International, Marks & Spencer and Crocs through repeat orders. The ratings also favourably factor in the extensive experience of FSPL's promoters spanning five decades in the leather exports business, which helped in acquiring new customers and grow the business over the years.

The Stable outlook on the long-term rating reflects ICRA's expectation of an improvement in revenues and profitability of FSPL. Further, the outlook underlines ICRA's expectation that the incremental capex, if any, will be funded in a manner that the company can durably maintain its debt protection metrics commensurate with its existing ratings.

Key rating drivers and their description

Credit strengths

One of the largest export players in organised leather footwear sector – FSPL is one of the largest exporters in the leather footwear industry, with an operating income (OI) of Rs. 444.7 crore (provisional) in FY2024 (PY- Rs. 578.9 crore). FSPL's established relationships with major multinational brands have aided in securing repeat orders and helped in mitigating competition from exporters in other countries.

Established track record in the leather business – FSPL has been involved in the manufacturing and export of leather footwear for the last five decades. The Group has expanded to eleven companies, out of which six are involved in manufacturing of shoes, while the rest are involved in manufacturing of shoe components. The extensive industry experience of the promotors has facilitated in acquiring new customers and growing its business over the years.

Reputed client base – FSPL's customers include large multinational footwear companies including Clarks International, Marks & Spencer, Crocs, Rockport, etc. FSPL has long relationships with these companies, reflected in the repeat orders over the years.

Credit challenges

Concentrated customer profile and input cost pressure leading to operating margins being lower than historical levels - While the operating margin had improved by ~70 bps YoY to 4.5% in FY2024 (provisional), with various cost-saving measures undertaken, FSPL's OPDIBTA remained lower in actual terms with a 23% decline in revenues in FY2024, on a YoY basis. Due to subdued demand for leather footwear in the European and other western markets (which contributes ~91% of export revenue for FSPL) and the increase in raw material costs not being fully passed on to its customers, the company's margins were lower than the historical levels of 5.3%. The customer concentration risk of FSPL continues to be high with 94% of export revenues in 10 MFY2024, received from top 10 customers against 96% in FY2023. Nevertheless, established relationships with these customers mitigate the risk of lower revenues due to loss of a large customer.

Financial profile characterized by moderate operating margin and coverage indicators – FSPL's working capital intensity had increased and the NWC/OI[1] stood at 32.9% in FY2024 (against 23.3% in FY2023), owing to elongated receivable cycle and higher inventory holding on account of subdued demand for leather footwear and longer lead time for leather imports due to logistical bottlenecks. Dip in absolute profits and dependency on sizeable, short-term external borrowings to support the company's operations, led to suppressed margins and moderation in coverage indicators. FSPL's Total Debt/ OPBITDA weakened to 5.7x and interest coverage to 1.8x in FY2024 with increase in cost of borrowings.

Vulnerability to regulatory risks and price fluctuation risks – FSPL derived ~81% of its operating income in FY2024 from exports. The company's profitability is supported by export incentives and interest subvention under various schemes by the Government of India (GoI). Any adverse change in the export benefits received might impact the company's profitability and cost competitiveness of the company's products. Further, FSPL's margins remain exposed to fluctuations in raw material prices and exchange rates.

Fragmented and intensely competitive nature of the industry – FSPL faces intense competition from multiple branded footwear manufacturers and exporters as well as unorganised players, which limit its pricing flexibility and consequently, its ability to expand its operating margins. Long-term associations with reputed brands restrict its bargaining power, resulting in lower margins.

Liquidity position: Stretched

The liquidity position of FSPL is expected to remain stretched over the medium term, owing to stretched working capital intensity and buffer of Rs. 22.9 crore available in the form of undrawn working capital limits as on March 31, 2024. Investment

[1] *Net Working Capital / Operating Income*

made in buildings was Rs. 19.7 crore in FY2024 and it has capex commitment of Rs. 5.0 crore in FY2025, all being funded through internal accruals. The entity is expected to meet its debt repayment commitments from its internal accruals, given minimal debt repayment obligations of Rs. 3.0 crore in FY2025 and Rs. 1.4 crore in FY2026 and modest improvement in margins.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a healthy and sustained increase in revenues and profitability with improvement in liquidity profile and debt protection metrics. A specific credit metric that could lead to an upgrade is if interest coverage is over 2.8 times, on a sustained basis.

Negative factors – The ratings could be downgraded if there is a sustained pressure on the entity's operating performance or any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Footwear](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

FSPL is the flagship company of the Farida Group, one of India's largest exporters of leather and leather goods. The Group comprises eleven entities, with six of them involved in shoe manufacturing activities, and the rest in manufacturing shoe components. FSPL was incorporated in 1976 to manufacture full shoes. The company operates out of its manufacturing units in Ambur, Vellore district, Tamil Nadu, with a capacity of 3.4 million pairs per year. M/s Farida Holdings Private Limited is promoted by the Group Chairman, Mr. Rafeeque Ahmed and family.

Key financial indicators

	Standalone		
	FY2022	**FY2023**	**FY2024***
Operating income	522.3	578.9	444.7
PAT	6.2	3.5	2.8
OPBDIT/OI	5.2%	3.7%	4.5%
PAT/OI	1.2%	0.6%	0.6%
Total outside liabilities/Tangible net worth (times)	2.3	1.8	2.2
Total debt/OPBDIT (times)	5.1	4.9	5.7
Interest coverage (times)	3.0	2.4	1.8

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Jul 09, 2024	Apr 06, 2023	Mar 31, 2023	Dec 09, 2021	Nov 30, 2021
1	**Term loans**	Long Term	4.17	**[ICRA]BB+ (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	-
2	**Fund based facilities**	Short Term	130.00	**[ICRA]A4+**	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+
3	**Non-fund-based facilities**	Short Term	5.00	**[ICRA]A4+**	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+
4	**Unallocated facilities**	Long Term	-	**-**	-	-	-	[ICRA]BBB (Stable)
5	**Unallocated facilities**	Long Term/ Short term	3.91	**[ICRA]BB+ (Stable) / [ICRA]A4+**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based facilities - Term loan	Simple
Short term - Fund based facilities	Simple
Short term -Non fund-based facilities	Very Simple
Long term/Short term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2021	NA	FY2026	4.17	[ICRA]BB+(Stable)
NA	**Fund based facilities**	NA	NA	NA	130.00	[ICRA]A4+
NA	**Non fund-based facilities**	NA	NA	NA	5.00	[ICRA]A4+
NA	**Unallocated facilities**	NA	NA	NA	3.91	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

G S Ramakrishnan
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Trusha Mahendra Patil
+91 94 2350 3574
trusha.patil@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches