Fortune Elastomers Private Limited

March 28, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00 (includes proposed facilities of Rs.1.55 Cr)	IVR BBB-/ Stable (IVR triple B minus with Stable Outlook)	-	Rating assigned	Simple
Total	**50.00 (INR fifty crores only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The long-term rating assigned to the bank facilities of Fortune Elastomers Private Limited (FEPL) has taken into account the long track record of operations, experienced promoters, and steady business risk profile. Further, the rating also factor in the above average financial risk profile supported by comfortable capital structure. However, the rating is constrained by working capital intensive nature of operations, susceptibility of profitability margins due to volatility in raw material prices and exposure to intense competition.

The rating outlook assigned to long-term rating is Stable as it is supposed to benefit from the experienced management, presence in the target market and healthy financial risk profile.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in the scale of operations with improvement in profitability and cash accruals.
- Improvement in capital structure and debt protection metrics on a sustained basis.
- Managing working capital requirements efficiently leading to improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Decline in the revenue and/ or profits leading to an overall deterioration in the financial risk profile of the company.

- Moderation in capital structure and/ or coverage indicators.
- Elongation in the operating cycle with moderation in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and long track record of operations**

  FEPL has a long operational track record of more than three decades in footwear industry. In addition to this, the key promoter of the group, Mr. VKC Mammed Koya, has been in the industry for more than six decades and has a strong understanding of local market dynamics. The promoter's background, experience and healthy relations with suppliers and customers will benefit the group going forward, resulting in steady growth in the scale of operations.

- **Steady business risk profile**

  The collected business risk profile of the company is backed by the experience in the footwear industry for more than two decades and pan India presence of FEPL. However, the revenue of the company witnessed a y-o-y decline of 13.83% to Rs.180.38 Cr in FY2024 (refers to period April 1st, 2023, to Mar 31, 2024) from Rs.209.83 Cr in FY2023 (refers to period April 1st, 2022, to Mar 31, 2023) on account of halt in the production for 2 months in FY2024 to set up lab and implement the necessary measures to ensure 100% compliance with the newly formed Government standards. Further, FEPL has already achieved a revenue of Rs. 177.84 Cr as on 10MFY2025 (refers to period April 1st, 2024, to Jan 31, 2025) (Provisional) as compared to Rs. 148.87 Cr as on 10MFY2024 (refers to period April 1st, 2023, to Jan 31, 2024) (Provisional). In the medium term, the sustenance in the growth of the revenue will be a key rating sensitivity.

- **Above average financial risk profile supported by comfortable capital structure**

  FEPL has a comfortable capital structure. The adjusted tangible net worth (ATNW) of the company increased to Rs.97.34 Cr as on March 31, 2024, from Rs.90.51 Cr as on March 31, 2023, due to accretion of reserves. The ATNW of the company excludes the investment of Rs.0.01 Cr in its group firm VKC Walkmate LLP. The gearing of the company stood comfortable at 0.55x as on March 31, 2024, as against 0.53x as on March 31, 2023. The Total outside Liabilities/adjusted Tangible Net Worth (TOL/ATNW) also stood comfortable at 0.72x as on March 31, 2024, as against 0.81x as on March 31, 2023. The debt protection metrics of the company stood comfortably marked by Interest Coverage Ratio at 3.62x as on March 31, 2024, and Debt Service Coverage Ratio at 2.90x as on March 31, 2024. The total debt/EBITDA stood high at 3.72x as on March 31, 2024. Going forward, the financial risk profile of the company will continue to remain above average, backed by steady accruals and no major debt-funded capex plans

Key Rating Weaknesses

- **Working capital intensive nature of operations**

  The working capital management of FEPL is intensive marked by the high operating cycle of the company which stood at 265 days as on 31st March 2024 as compared to 184 days as on 31st March 2023. The operating cycle is predominantly driven by the high debtor during the same period. The debtor period stood at 255 days as on 31st March 2024 as compared to 179 days as on 31st March 2023. The high debtor days are driven by extended credit provided to customers to combat competition; the debtor days are increased further as on 31st March 2024 due to additional credit period provided to customers for uncertainty in the market pertaining to BIS implementation. Nevertheless, the inventory holding stood at 48 days as on 31st March 2024 as compared to 46 days as on 31st March 2023. The working capital management of the company will remain at the same level over the medium term, owing to the nature of the industry.

- **Susceptibility of profitability margins due to volatility in raw material prices**

  The major raw material for the company is Polymer & Allied products and Rexin which are crude oil derivatives. Over the years, price of crude oil has been volatile and so is the price of polymers. Considering the volatility associated with the raw material prices, timing difference arising in procurement of raw material and realization of sales, and competitive landscape resulting in market driven end-product pricing exposes the company's operating margin to raw material price fluctuation.

  Nevertheless, the EBITDA margin increased to 7.99% in FY2024 from 6.72% in FY2023 and the PAT margin increased to 3.79% in FY2024 as against 3.08% in FY2023. Further, the EBITDA margin in 10MFY25 (Provisional) stood at 9.93% as compared to 8.11% in 10MFY24 (Provisional) while the PAT margin stood at 5.29% in 10MFY25 (Provisional) as compared to

3.49 % in 10MFY24 (Provisional). Going forward, the growth of the profitability margins will be a key rating monitorable.

- **Highly competitive nature of the industry**

  The domestic footwear industry is highly fragmented and is characterized by large number of unorganized players. The organized segment caters to ~25-30% of the market while unorganized players fetch the remaining market which essentially falls under micro, small and medium enterprises. These players largely target the low/middle-income segment and thereby fetch low margin. The industry is also labour intensive and requires low capital investment which results in low entry barriers. Further, the company faces stiff competition from other reputed players in the industry and also faces competition from cheap imports (China) in this segment. FEPL also remains susceptible to continuous changes in manufacturing style and design and pricing from other footwear manufacturing players.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy on default recognition

Complexity level of rated Instruments/Facilities

Liquidity– Adequate

The company has adequate liquidity position marked by sufficient net cash accruals vis a- vis debt repayment obligations. The gross cash accruals stood at Rs.9.65 Cr in FY2024 as against maturing debt obligations of Rs.0.72 Cr. The current ratio stood comfortable at 2.33x as on March 31, 2024, and the Quick Ratio also stood comfortable at 2.03x as on March 31, 2024. The cash and bank balances of the company stood at Rs.0.04 Cr as on March 31, 2024. The average fund-based limit remains utilised at around 85.46% per cent over the twelve months ended January 2025. There have been no instances of overdrawing. Going forward, the liquidity position of the company is likely to improve supported by steady accruals.

About the Company

Incorporated in 2000, Fortune Elastomers Private Limited (FEPL) is a Kozhikode, Kerala based company, which is engaged in manufacturing of casual footwear (polyvinyl chloride, canvas and polyurethane), including slippers, sandals, and school shoes under the brand name "VKC Pride" and "Debongo". The installed production capacity of FEPL is 1.83 crore pairs of Polyurethane (PU) footwear per annum.

Financials (Standalone): **(Rs. crore)**

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	209.33	180.38
EBITDA	14.07	14.42
PAT	6.47	6.85
Total Debt	47.87	53.64
Tangible Net Worth	90.50	97.33
EBITDA Margin (%)	6.72	7.99
PAT Margin (%)	3.08	3.79
Overall adjusted Gearing Ratio (x)	0.53	0.55
Interest Coverage (x)	5.13	3.62

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	GECL	Long Term	0.45	IVR BBB-/ Stable	-	-	-
2.	WCTL	Long Term	0.50	IVR BBB-/ Stable	-	-	-
3.	Overdraft	Long Term	1.50	IVR BBB-/ Stable	-	-	-
4.	Cash Credit	Long Term	46.00	IVR BBB-/ Stable	-	-	-

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
5.	Proposed fund-based facility	Long Term	1.55	IVR BBB-/ Stable	-	-	-

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About Infomerics:

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Annexure 1: Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL	-	-	-	February 2026	0.45	IVR BBB-/ Stable
WCTL 1	-	-	-	October 2025	0.22	IVR BBB-/ Stable
WCTL 2	-	-	-	December 2026	0.28	IVR BBB-/ Stable
Overdraft	-	-	-	-	1.50	IVR BBB-/ Stable
Cash Credit 1	-	-	-	-	10.00	IVR BBB-/ Stable
Cash Credit 2	-	-	-	-	36.00	IVR BBB-/ Stable
Proposed fund-based facility	-	-	-	-	1.55	IVR BBB-/ Stable

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-FortuneElastomers-28mar25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.