Press Release

Diamond Footcare Udyog private Limited

February 19th, 2024

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	72.22	IVR BB+ (Positive) [IVR Double B with Positive Outlook]	Upgraded With Change in Outlook	Simple
2.	Short Term Bank Facilities	14.30	IVR A4+ (IVR A four plus)	Upgraded With Change in Outlook	Simple
	Total	**86.52**	(Rupees eighty six crore and fifty two lakh only)		

Details of facilities are in Annexure 1

Rating Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded the long-term ratings with outlook revised to Positive and also upgraded the short-term ratings for the bank facilities of Diamond footcare udyog private limited (DFUPL).

The rating upgrade draws comfort from extensive experience of the promoters in the industry with reputed customer profile. Further the ratings continue to take into consideration improvement in scale of operations, comfortable capital structure and moderate debt protection metrics. The ratings, however, are constrained by working capital requirement and intense competition prevalent in the footwear industry.

The change in outlook from Stable to Positive is on account of expected improved performance in near to medium term. IVR believes that DFUPL will continue to benefit from its operational track record in the business, its reputed clientele and inflow of orders as per the current order book position.

IVR has principally relied on the standalone audited financial results of DFUPL up to 31 March 2023 and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the firm's management.

Key Rating Sensitivities:

Upward Rating Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis.
- Improvement in the capital structure and debt protection metrics.
- Effective working capital management with improvement in operating cycle and liquidity.

Downward Rating Factor:

- Decline in the revenue leading to weakening of profitability and liquidity.
- Higher working capital requirements leading to moderation in capital structure.
- Any adverse regulatory changes

Detailed Description of Key Rating Drivers

Key Rating Strengths: -

Experienced promoters

The company was established by Mr. Ramesh Kumar Gupta and Mr. Ram Phool who have over four decades of experience in footwear industry. The promoter is supported by a qualified and trained team to run day to day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers' wide network of more than 250 dealers across the country which helped the Company to get repetitive orders from its customers.

Reputed customer profile albeit concentrated and successful track record

DFUPL was incorporated in April 2008, over a period of time, company has built robust relationship with customers. Some of the customers are associated with the company for more than 20 years, reflecting good product quality and strong management credibility. DFUPL's customer profile consists of some of very well-known clients such as Bata, Lifestyle group, Max, Reliance group etc.

Improvement in scale of operations:

The total operating income of the company has witnessed an increasing trend over the years with CAGR growth of 13%. TOI increased from Rs 132.80 crore in FY22 to Rs 173.99 crore in FY23, driven by increasing orders from the existing customers and new & reputed customers. DFUPL achieved TOI of Rs. 121.61 crore in H1FY24 as against Rs. 86.24 crore in H1FY23 due to increase in demand of footwears. Further, DFUPL achieved TOI of Rs. 181.06 crore in 9MFY24 as against Rs. 125.68 crore in 9MFY23. EBITDA increased from Rs. 16.29 crore in FY22 to Rs. 17.88 crore in FY23. EBITDA margin decreased by 198 bps from 12.26% in FY22 to 10.28% in FY23, due to increase in consumption of raw material. Further, EBITDA stood at Rs. 9.7 crore in H1FY23 and EBITDA margin decreased by 300 bps and stood at 8.00% in H1FY24 as against 11.00% in H1FY23, due to, due to higher consumption of raw material. PAT increased from Rs. 2.94 crore in FY22 to Rs. 5.62 crore in FY23. PAT margin increased by 101 bps from 2.21% in FY22 to 3.22% in FY23, due to in line with EBITDA. The GCA improved from 6.47 Crores in FY22 to 7.51 Crores in FY23. Further, PAT stood at Rs. 3.04 crore in H1FY23 and PAT margin decreased by 70 bps and stood at 2.05% in H1FY24 as against 2.84% in H1FY23, in line with EBITDA margin.

Comfortable capital structure with moderate Debt Protection metrics:

Company has a modest tangible net worth of Rs 66.78 crore. DHUFL has a comfortable capital structure with long term debt equity ratio and overall gearing ratio improved and stood at 0.57x and 1.15x, as on March 31,2023 as against 0.69x and 1.56 respectively, as on March 31,2022. The company has debt protection metrics with improvement in ISCR and DSCR. Interest coverage ratio stood at 1.97x in FY23 as against 1.87x in FY22 and DSCR stood at 1.24x in FY23 as against 1.12x in FY22. Total Debt/GCA improved and stood at 10.19 years in FY23 as against 14.71 years in FY22.

Key Rating Weaknesses

Working capital requirement:

The Operating cycle of the Company improved but still elongated and stood at 213 days in FY23 as against 283 days in FY22 with improvement in collection period from 103 days to 77 days in FY23, while holding an inventory of around 178 days in FY23 as against 225 days with creditors period of 43 days.

Intense competition prevalent in the footwear industry

The company is exposed to intense competition prevalent in the highly fragmented footwear industry and faces stiff competition from both organised and unorganised players. The industry lacks capital intensive manufacturing process owing to low barrier to entry and cheap availability of labour. Due to presence of large number to medium to small size of players, the pricing power is limited to the players in the industry. Footwear Industry faces constant threat of changes of customer preferences, duplication of designs and inventory obsolescence risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

The liquidity profile of DFUPL is expected to remain adequate on the expectation that cash accruals will be sufficient to pay off the current portion of long-term debts. Further, the average utilisation of its fund based working capital limit remains moderate at 87.61 and non-fund based working capital limit remains moderate at 50.81% during the past 12 months ended Nov

2023. Current ratio is 1.42x as on March 31, 2023. The Operating cycle of the Company improved but still elongated and stood at 213 days in FY23 as against 283 days in FY22 with improvement in collection period from 103 days to 77 days in FY23, while holding an inventory of around 178 days in FY23 as against 225 days with creditors period of 43 days. The unencumbered cash and bank balance are Rs. 0.07 Crores in FY23. Liquidity is further supported by financial support from promoters in the form of unsecured loans.

About the Company

Diamond Footcare Udyog Private Limited is engaged in manufacturing and sale of non-leather footwear like rubber slippers, sandals, shoes etc under the brand name of 'Diamond' and 'SISCO' at Bahadurgarh, Haryana with capacity of 30 lakhs pieces per month and their current capacity utilization is around 50%. The company is managed by Mr Ramesh Kumar Gupta and his sons, Mr Rajat Gupta, and Mr Harsh Gupta.

Financials (Standalone): -

(In Rs. Crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	132.80	173.99
EBITDA	16.29	17.88
PAT	2.94	5.62
Total Debt	95.23	76.54
Tangible Net Worth	61.16	66.78
EBITDA Margin (%)	12.26	10.28
PAT Margin (%)	2.21	3.22
Overall Gearing Ratio (x)	1.56	1.15

**Classification as per Infomerics' standards*

Details of non-co-operation with any other CRA: None.

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2023-24)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (January 11, 2023)	Date(s) & Rating(s) assigned in 2021-22 (January 10, 2022)	Date(s) & Rating(s) assigned in 2020-21
Fund based limits	Long Term	72.22	IVR BB+/ Positive	IVR BB/ Stable Outlook	IVR BB/ Stable Outlook	-
Non-Fund based Limits	Short term	14.30	IVR A4+	IVR A4	IVR A4	-

Name and Contact Details of the Rating Analysts:

Name: Mr. Vipin Jindal

Tel: (011) 45579024

Email: vipin.jindal@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Cash credit	-	-	-	42.50*	IVR BB+/ Positive
Long Term – Dropline OD	-	-	-	13.11	IVR BB+/ Positive
Long Term – Term Loan	-	-	Jan 2026	4.50	IVR BB+/ Positive
Long Term – Term Loan	-	-	Feb 2028	4.50	IVR BB+/ Positive
Long Term – Term Loan	-	-	Feb 2027	1.44	IVR BB+/ Positive
Long Term – Term Loan	-	-	March 2030	6.17	IVR BB+/ Positive
Short Term – Bank Guarantee	-	-	-	4.30	IVR A4+
Short Term – Bill Discounted	-	-	-	10.00	IVR A4+

*Fund based Cash Credit Limit with SBI includes sublimit Of Rs. 21.00 Crores as Cash credit (book debt) within CC (Hyp.).

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Diamond-Footcare-feb24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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 .