Press Release

Euro Safety Footwear (I) Pvt Ltd

March 06, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	12.36 Crore (Reduced from 19.59 crore)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	55.60 Crore (Enhanced from 48.41 Crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**67.96 (Rupee Twenty Six crore and Seventy Five lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Euro Safety Footwear India Pvt Ltd derives comfort from long track record of the company in industrial safety equipment industry under experienced promoters along with its stable financial performance in FY22 and in 9MFY23. The ratings also consider its healthy financial risk profile marked by its satisfactory leverage ratios with comfortable debt protection metrics and favourable demand outlook for industrial safety products. However, these rating strengths are partially offset by stiff competition in safety wear industry which exerts pressure on profit margins and exposure to foreign currency fluctuation and regulatory risk. Further, the ratings also consider its exposure to group companies/subsidiary companies.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the capital structure with improvement in overall gearing to below 1x and/or improvement in debt protection metrics.
- Reduction in exposure to group/subsidiary companies.

- Effective working capital management with improvement in operating cycle and liquidity.

Downward Factors

- Decline in operating income and/or profitability impacting the cash accrual and debt coverage indicators,
- Moderation in capital structure with overall gearing moderated over 1.5x
- Increase in exposure to group/subsidiary companies.
- Any substantial stretch in the operating cycle impacting the liquidity of the business.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record in industrial safety equipment industry**

  The promoters of the company have experience of over three decades in the leather and safety footwear industry. Further, incorporated in 2004, the company has extensive experience in the leather and leather footwear industry. Long presence in the industry under experienced promoters supports the business risk profile of the company to a large extent. The clientele is diversified across Europe, Africa and America.
- **Stable financial performance**

  ESPL is an export-oriented company and has witnessed sluggish demand from key export destinations, especially Europe, over the last couple of years, which has impacted the revenues over this period. The total operating income of the company registered a Y-o-Y growth of ~19% i.e., from Rs.130.27 crore in FY21 to Rs.152.84 crore in FY22 on account of favourable market condition and increase in sales of their main products i.e., safety shoes. Further, the EBITDA margin of the company has moderated from 12.92% in FY21(A) to 11.89% in FY22(A) mainly due to rise price of raw material and manufacturing cost. However, the PAT margin witnessed an improvement from 6.55% in FY21 to 7.55% in FY22 which is mainly due to support from the driven from non-operating income i.e. interest income and other misc. incomes. The company has earned adequate gross cash accruals of Rs.15.56 crore in FY22. Further, during 9MFY22, the company has achieved a revenue of ~Rs.115 crore.
- **Satisfactory financial risk profile**

The financial risk profile of the company remained satisfactory over the last fiscals marked by its satisfactory leverage ratios and comfortable debt protection metrics. The debt equity ratio and overall gearing ratio stood comfortable at 0.58x and 1.37x respectively as on March 31,2022 (0.72x and 1.59x respectively as on March 31,2021). Total indebtedness of the company remained comfortable marked by TOL/TNW at 1.67x as on March 31,2022 (1.62x as on March 31, 2021). The debt protection metrics of the company as indicated by interest coverage ratio has improved from 4.92x in FY21 to 5.18x in FY22, on account of increase in EBITDA amount. Further, Total debt to EBITDA remains though moderated but remains comfortable at 4.55x in FY22 vis-a-vis 3.73x in FY21. Total debt to GCA also remained comfortable at 5.32 years as on March 31,2022.

- **Favourable demand outlook for industrial safety products**
  Increasing safety awareness leads to favourable growth prospects for the industrial safety products both in the domestic and international markets. Healthy order book and favourable demand of safety products are likely to translate into an increase in the top line in the last quarter of FY23.

Key Rating Weaknesses

- **Stiff competition in safety wear industry exerts pressure on margins.**
  Intense competition from organised and unorganised players in the international safety wear market because of the low value-accretive nature of products and limited bargaining power against large overseas clientele limit the pricing flexibility. This keeps margins at a moderate level despite export incentives received from the Government. Further, the profits remain vulnerable to adverse movements in raw material prices.
- **Exposure to foreign currency fluctuation risk and regulatory risks**
  The company generates a significant portion (~95% in FY22) of its revenue from export sales mainly to European market, which exposes the company to foreign exchange rate fluctuation risk. However, the company follows a formal hedging mechanism to hedge the entire foreign currency receivables. Also, as an exporter, the company enjoys export incentives such as duty drawback and interest subvention under various schemes run by the Government of India (GoI). Accordingly, the revenues and profitability of company remain susceptible to regulatory risks such as changes in duty structure, rate of export incentives etc, which could potentially impact the competitiveness of its products as well as the business.

- **Exposure to group companies/subsidiary companies**
  The company has exposure to its group company Rogger Industries Limited (RIL) in the form of corporate guarantee extended which restricts its credit profile to an extent. However, RIL has also extended corporate guarantee for the bank facilities of ESPL which imparts comfort.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the company appears comfortable due to its expected healthy cash accruals of ~Rs.15 crore to Rs.19 crore vis-à-vis its debt repayment obligation in the range of ~Rs.4 to Rs.5.50 crore during FY23-FY25. The company has earned cash accruals of Rs.15.56 crore in FY22. Further, the company has adequate gearing headroom backed by its comfortable capital structure.

About the Company

Incorporated on December 23, 2004, Uttar Pradesh-based, Euro Safety Footwear (I) Pvt Ltd "ESPL" was promoted by Mr. Kulbir Singh along with her wife Smt. Dilbir Kaur, daughter and son in law Smt. Stella bhuhiraja and Mr Deepak Bhudhiraja. The company started its manufacturing operation from Agra which is one of the major sources of leather footwear in the global markets. Currently, the company is engaged in manufacturing and trading of industrial safety footwears and PPE products respectively by PU direct injection process, for the industrial workforce sector, across all categories, along with annual production capacity of 22 lakh pairs of safety shoes.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	130.27	152.84
EBITDA	16.83	18.18
PAT	8.62	11.90
Total Debt	62.72	82.72

For the year ended* / As On	31-03-2021	31-03-2022
Tangible Net worth	48.78	60.20
EBITDA Margin (%)	12.92	11.89
PAT Margin (%)	6.52	7.55
Overall Gearing Ratio (x)	1.59	1.37

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork Ratings vide its press release date Jan 10,2023 has maintained the rating in issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding. (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan/ GECL	LT	12.36	IVR BBB/ Stable	IVR BBB/ Stable (Jan 07,2022)	-	-	-
2.	Packing Credit/PCFC/Post Shipment	ST	50.40	IVR A3 +	IVR A3 + (Jan 07,2022)	IVR A3+ (Nov22 ,2021)	-	-
3.	Letter of Credit / Bank Guarantee	ST	2.00	IVR A3 +	IVR A3 +	-	-	-
4.	Forward Contract	ST	3.20	IVR A3 +	IVR A3+ (Jan 07,2022)	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Rahul Kr. Shaw Tel: (033) 4803 3621 Email: rahul.shaw@infomerics.com	Name: Mr. Avik Podder Tel: (033) 4803 3621 Email: apodder@infomerics.com

About Infomerics:
Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit https://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
Term Loan/ GECL	-	-	Aug 2024 & March,2027	12.36	IVR BBB/ Stable
Packing Credit/PCFC/Post Shipment	-	-	-	50.40	IVR A3 +
Letter of Credit / Bank Guarantee	-	-	-	2.00	IVR A3 +
Forward Contract	-	-	-	3.20	IVR A3 +

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Euro-mar23.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Press Release

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 https://www.infomerics.com.