Press Release

Euro Safety Footwear India Pvt Ltd
January 07, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	19.59	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Assigned
Short Term Bank Facilities	48.41 (enhanced from Rs.30.00 crores and includes proposed limit of Rs.4.71crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed
Total	**68.00 (Sixty Eight Crore)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment an reaffirmation of 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 over the past three fiscals albeit gradual moderation in its revenue. 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 margins and exposure to foreign currency fluctuation and regulatory risk. The ratings also note its exposure to group 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 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 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 witnessed gradual moderation from Rs.145.12 crore in FY19 to Rs.137.82 crore in FY20 and subsequently to Rs. 130.27 crore in FY21 with continuous decline in the sale of their main products i.e., safety shoes. However, the operating margin of the company remained moderate over the years and witnessed improvement from 7.78% in FY20 to 12.92% in FY21 as result of better cost optimisation and drop in raw material (mainly leather) cost. The PAT margin though declined from 7.53% in FY20 to 6.52% in FY21 due to increase in depreciation and finance cost (i.e. majorly due to loss of exchange difference of packing credit and foreign currency cash credit limits) remained satisfactory. The company has earned adequate gross cash accruals in the range of ~Rs.11-12 crore during FY19-21. During H1FY22, the company has achieved a revenue of ~Rs.62 crore. The company has recently completed capex for capacity enhancement and plant modernization which is expected to commence operation from December,2021.

- **Satisfactory financial risk profile**

  The financial risk profile of the company remained satisfactory over the past three fiscals marked by its satisfactory leverage ratios and comfortable debt protection metrics. The debt equity ratio and overall gearing ratio stood satisfactory at 0.72x and 1.59x respectively as on March 31,2021. Total indebtedness of the company remained comfortable marked by TOL/TNW at 1.62x as on March 31,2021 (1.59x as on March 31, 2020). The debt protection metrics as indicated by interest coverage ratio was comfortable at 4.92x in FY21 vis-a-vis 6.40x in FY20. Total debt to EBITDA remained moderate at 3.73x as on March 31,2021. However, the Total debt to GCA moderated from 4.39 years in FY20 to 5.31 years in FY21 due to increase in term loan for capex programme for expansion of capacity.

- **Favorable demand outlook for industrial safety products**

  Increasing safety awareness leads to favorable growth prospects for the industrial safety products both in the domestic and international markets. Healthy order book and favorable demand of safety products are likely to translate into an increase in the top line in the third & fourth quarter of FY22.

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-additive nature of its products and limited bargaining power against large overseas clientele limiting 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 (~90% in FY21) 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**
  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)

Liquidity – Adequate

The liquidity position of the company appears comfortable due to its expected healthy cash accruals of ~Rs.17 vis-à-vis its debt repayment obligation in the range of ~Rs.4.00 crore during FY22-24. The company has earned cash accruals of Rs.11.81 crore in FY21. 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 18 lakh pairs of safety shoes. “ESPL” is expanding its production capacity to 22 lakh pairs shoes per annum.

Financials: Standalone

(Rs.crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	137.82	130.27
EBITDA	10.72	16.83
PAT	10.84	8.62
Total Debt	51.42	62.72
Tangible Net worth	40.82	48.78
EBITDA Margin (%)	7.78	12.92
PAT Margin (%)	7.53	6.52
Overall Gearing Ratio (x)	1.63	1.59
Interest Coverage Ratio (x)	6.40	4.92

**Classification as per Infomerics’ standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facili	Current Ratings (Year 2021-22)	Rating History for the past 3 years

	ties	Type	Amount outstanding (Rs. Crore)	Rating		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan/ GECL	LT	16.59	IVR BBB/ Stable	-	-	-	-
2.	Cash Credit	LT	4.00	IVR BBB/ Stable	-	-	-	-
3.	Packing Credit/ Post Shipment /FABC Credit	ST	38.00 enhanced from 30.00 crore	IVR A3+	IVR A3+ (Nov22 ,2021)	-	-	-
4.	Forward Contract Exposure	ST	2.70	IVR A3+	-	-	-	-
5.	Letter of Credit / Bank Guarantee Facilities	ST	6.71 includes proposed limit of Rs. 4.71 crore	IVR A3+	-	-	-	-

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About Infomerics:

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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	-	-	Dec 2023 & March 2024	16.59	IVR BBB/ Stable
Cash Credit	-	-	-	4.00	IVR BBB/ Stable
Packing Credit/ Post Shipment /FABC Credit	-	-	-	38.00	IVR A3+
Forward Contract Exposure	-	-	-	2.70	IVR A3+
Letter of Credit / Bank Guarantee Facilities	-	-	-	6.71	IVR A3+

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Euro-Safety-lenders-jan22.pdf

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan/ GECL	Simple
2.	Cash Credit	Simple
3.	Packing Credit/ Post Shipment /FABC Credit	Simple
4.	Forward Contract Exposure	Simple
5.	Letter of Credit / Bank Guarantee Facilities	Simple

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.