

March 21, 2024

Calsea Footwear Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Domestic / Export Credit Facility	6.00	6.00	[ICRA]BBB- (Stable); reaffirmed
Domestic / Export Credit Facility	21.00	0.00	-
Interchangeable Limits ^^	(5.00)	(5.00)	[ICRA]A3; reaffirmed
Non Fund-based Facility	2.00	2.00	[ICRA]A3; reaffirmed
Unallocated limits	0.00	6.00	[ICRA]BBB- (Stable); reaffirmed
Fund based facility – Term loan	0.00	15.00	[ICRA]BBB- (Stable); reaffirmed
Total	29.00	29.00	

*Instrument details are provided in Annexure-I; ^^sublimit of Domestic / Export Credit Facility

Rationale

The ratings reaffirmation factors in the operational synergies as well as the financial flexibility and need-based support derived by Calsea Footwear Private Limited (CFPL) for being a subsidiary of Tata International Limited (TIL). The ratings reaffirmation also factors in the experience of the management in the footwear business. The company has been able to tap TIL's management expertise in driving various growth avenues, which include initiatives to explore new opportunities in the sports shoes segment to tide over the prevailing slowdown in the leather footwear division. The ratings also derive comfort from the gradual moderation in customer and geographical concentration with addition of new clients across various regions.

The ratings, however, continue to be constrained by the company's weaker-than-expected performance in FY2024 due to discontinuation of its ladies footwear segment, which was a significant revenue contributor for CFPL. The decision was made to reduce the overall losses as the segment was making consistent losses in the recent past due to low realisations and sluggish demand in the market. Notwithstanding this loss-reduction measure, the overall performance is expected to remain weak in FY2024, given that the newly commissioned facility focused on the athleisure segment has been in a stabilisation phase for a major period of the fiscal. However, the company's operating performance is expected to improve from FY2025 with a recovery in the turnover as well as the profitability, supported by increasing sales from the profitable athleisure segment as well as anticipated job work for athleisure orders received by TIL. The company's capitalisation and coverage indicators remained adverse in FY2023 and are expected to remain under pressure in FY2024 as well due to its continued operating losses.

CFPL had to rely on borrowings to support its loss-making operations post the pandemic, which in turn led to increased leverage on the balance sheet. While CFPL's negative net worth somewhat limits its ability to raise funds from external sources, the major portion of the borrowing is in the form of unsecured loans from TIL (Rs. 42 crore as on December 31, 2023) which do not have a fixed maturity and are repayable on demand. ICRA understands that these unsecured loans (USLs) are expected to remain in the books till CFPL's operations recover and turn profitable. The ratings also reflect CFPL's moderate scale of operations and intense competition in the footwear manufacturing business, which limit its pricing flexibility and restricts benefits arising from the economies of scale.

The Stable outlook reflects ICRA's expectations that CFPL will continue to benefit from the strong managerial, operational and financial support derived for being a subsidiary of TIL, which it can leverage to enter into new markets, develop new products, and acquire new customers, all of which remains key for sustainably putting it to a path to profitability in the medium term.

Key rating drivers and their description

Credit strengths

Established track record and experienced management – Following TIL's 100% acquisition of CFPL from Moveon Componentes e calçado (Moveon) in November 2018, the company has become a direct subsidiary of TIL, which is one of the leading exporters of leather and leather products in India. The company is actively managed by the head of leather and leather products division of TIL, which enables it to manage risks effectively. Further, CFPL manufactured women's footwear under TIL till early FY2024, but has shifted its focus on manufacturing of athleisure footwear at present. This complements TIL's product portfolio consisting of men's and children's footwear.

Operational synergies and financial flexibility derived for being a part of TIL – CFPL gets strong operational and financial support from TIL, as evident from the timely support through infusion of unsecured loans. In addition, TIL has provided a letter of comfort for various external borrowings availed by CFPL. Further, it has access to supply of components from TIL at favourable terms, which help the company's working capital management to some extent. The parent entity supports in new customer acquisition and provides potential cross-selling opportunities with TIL's global customers. However, CFPL's moderate scale of operations and intense competition in the footwear manufacturing business limit its pricing flexibility and benefits arising from the economies of scale.

Moderation in customer and geographical concentration – The company's customer and geographical concentration moderated following addition of new customers and merger with Euro Shoes. In FY2023, the top three customers contributed 25% to its total revenues (against ~44% in FY2022). The contribution from the top three customers stood at ~29% in 9M FY2024. Sales to the exports market have reduced as the company has been catering to the domestic market through the Euro Shoes division with more than 70% of the overall sales (in value terms) taking place in the domestic market in the current as well as the previous fiscal. Healthy demand for footwear, especially the casual and the athleisure segments, in the global markets and the company's foray in the sports shoes segment are likely to further diversify its geographical presence in the medium term.

Credit challenges

Weaker-than-expected performance in FY2024, however, recovery expected in FY2025 – The company reported weaker-than-expected performance in FY2024 due to discontinuation of its ladies footwear segment, which was a significant revenue contributor for CFPL. The decision was made as the segment was incurring consistent losses in the recent past due to low realisations and sluggish demand in the market. However, to replace the lost revenue stream, the company has commissioned a 45,000-pairs-per-month capacity for the athleisure segment, which has a healthy demand as well as a better margin profile, in collaboration with Sketchers. Notwithstanding this loss reduction measure, the overall performance is expected to remain weak in FY2024, given that the newly commissioned facility has been in a stabilisation phase for a major period of the fiscal. However, the company's operating performance is expected to improve from FY2025 with a recovery in turnover as well as profitability, supported by increasing sales from the profitable athleisure segment as well as the anticipated job work for athleisure orders received by TIL.

Stretched capitalisation and debt protection metrics in the near term; net worth remains negative – The company's capitalisation and coverage indicators remained adverse in FY2023 and are expected to remain under pressure in FY2024 as well due to its continued operating losses. CFPL had to rely on borrowings to support its loss-making operations post the pandemic, which in turn led to increased leverage on the balance sheet. While CFPL's negative net worth somewhat limits its ability to raise funds from external sources, a major portion of the borrowing is in the form of unsecured loans from TIL (Rs. 42 crore as on December 31, 2023) which do not have a fixed maturity and are repayable on demand. ICRA understands that these unsecured loans are expected to remain in the books till CFPL's operations recover and turn profitable.

Fragmented and intensely competitive nature of the industry – CFPL 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. This apart, association with reputed brands restricts its bargaining power, resulting in lower margins.

Liquidity position: Stretched

The liquidity position of the company remains stretched with limited headroom in the working capital limits, loss-making operations, and modest free cash balance of Rs. 2.7 crore as on December 31, 2023. The funding gap has been met through favourable payment terms with creditors, given its status as a TIL subsidiary, and sizeable non-operating income generated from rental income. With the company steadily increasing its borrowings from the parent company to fund its business requirements, it would continue to exert pressure on the liquidity unless the profitability improves meaningfully. ICRA, however, notes that the closure of the loss-making ladies shoe segment and foray in the athleisure segment are expected to help CFPL improve its profitability from FY2025. This, along with efficient working capital management remains crucial from the liquidity perspective.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a considerable improvement in the credit profile of the parent. The ratings could also be upgraded if there is a significant improvement in the company's scale of operations and profitability metrics.

Negative factors – ICRA could downgrade the ratings if there is any adverse change in the ownership of the company or a reduction in the extent of support provided by TIL or if the credit profile of the parent weakens considerably. The ratings could also be downgraded if there is any significant deterioration in the profitability or the liquidity position of the company for a prolonged period.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Footwear Industry
Parent/Group support	Parent Company: Tata International Limited (TIL) Given the 100% ownership and demonstrated track record of operational and financial support from TIL, ICRA expects such need-based support from the parent to continue to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

CFPL is a manufacturer and exporter of footwear based out of Walajapet, Vellore (Tamil Nadu) working on the made-to-order basis. The company commenced operations in 2006, with a full-shoe manufacturing facility in Vellore and at present has the capacity to manufacture 1 lakh full-shoe pairs per month (including the recently commissioned 45,000-pairs-per-month capacity of athleisure footwear). After the acquisition of a predominant stake in Move on Componentes e calçado (Moveon) by Tata International Limited (TIL), CFPL has been operating as TIL's subsidiary since May 2011. In November 2018, TIL purchased 100% shares of CFPL from Moveon and CFPL became a direct subsidiary of TIL. Euro Shoe Components Limited, a subsidiary of TIL was merged with CFPL in October 2019. Post the merger, the company is now vertically integrated to manufacture soles. The soles manufactured are used for in-house needs as well as sold to Group companies and other entities. The company can now produce 13,500 soles per day. In FY2024, CFPL has installed a capacity to produce 45,000 pairs per month for athleisure footwear.

Key financial indicators (audited)

CFPL – Standalone	FY2022	FY2023	9MFY2024*
Operating income	120.1	112.6	41.2
PAT	-25.3	-29.4	-11.0
OPBDIT/OI	-16.1%	-20.8%	-8.4%
PAT/OI	-21.0%	-26.1%	-26.8%
Total outside liabilities/Tangible net worth (times)	-6.3	-2.5	NA
Total debt/OPBDIT (times)	-2.9	-2.0	NA
Interest coverage (times)	-3.4	-3.7	-0.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 21, 2024	Dec 26, 2022	Sep 23, 2021	Jun 30, 2020
1 Domestic / Export Credit Facility	Long Term	6.00	--	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Domestic / Export Credit Facility	Long Term	0.00	--	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3 Interchangeable Limits ^^	Short Term	(5.00)	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4 Non Fund-based Facility	Short Term	2.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5 Non Fund-based Facility	Short Term	0.00	--	-	-	[ICRA]A3	[ICRA]A3
6 Unallocated limits	Long Term	6.00	--	[ICRA]BBB-(Stable)	-	-	-
7 Term loan	Long Term	15.00	6.56	[ICRA]BBB-(Stable)	-	-	-

^^sublimit of Domestic / Export Credit Facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Domestic / Export Credit Facility	Simple
Interchangeable Limits ^^	Simple
Non Fund-based Facility	Very Simple
Unallocated limits	NA
Term loan	Simple

^^sublimit of Domestic / Export Credit Facility

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	Domestic / Export Credit Facility	NA	NA	NA	6.00	[ICRA]BBB- (Stable)
NA	Interchangeable Limits ^^	NA	NA	NA	(5.00)	[ICRA]A3
NA	Non Fund-based Facility	NA	NA	NA	2.00	[ICRA]A3
NA	Unallocated limits	NA	NA	NA	6.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY 2022	NA	FY 2026	15.00	[ICRA]BBB- (Stable)

Source: Company; ^^sublimit of Domestic / Export Credit Facility

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

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