CRISIL Ratings

Rating Update

August 20, 2024 | Mumbai

Lehar Footwears Limited

Update as on August 20, 2024

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors:

- Sustained increase in operating income and sustenance of operating margins in range of 8-9% leading to more than expected net cash accruals.
- Efficient management of working capital cycle leading to lower reliance on working capital limits.

Downward factors:

- Decline in operating income with margins falling below 6% leading to less than expected net cash accruals.
- Further stretch in working capital cycle leading to higher utilisation on bank lines and weakening the overall cash flow position of the company.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Lehar Footwears Limited (LFL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria ‘Information Availability Risk in Credit Ratings’.

About the Company

Incorporated in 1994 and promoted by Mr Ramesh Chand Agarwal (chairman), Mr. Naresh Kumar Agarwal (executive director) and Mr Rajkumar Agarwal (managing director). Mr Pramod Agarwal is currently holding chair as executive director of company. LFL (formerly, Lawreshwar Polymers Pvt Ltd) manufactures a variety of footwear such as light-weight fancy slippers, Polyvinyl Chloride PVC footwear, synthetic leather chappals, hawai chappals and canvas shoes. It markets products under the Lehar brand. Facilities are in Jaipur, Rajasthan. The company is listed on the Bombay Stock Exchange.

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CRISIL
Ratings

Rating Rationale

June 07, 2023 | Mumbai

Lehar Footwears Limited

'CRISIL BBB-/Stable/CRISIL A3' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.78 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Assigned)**
Short Term Rating	**CRISIL A3 (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable/CRISIL A3**' ratings to the bank facilities of Lehar Footwears Ltd (LFL).

The ratings reflect the extensive experience of the promoters and moderate financial risk profile. These strengths are partially offset by working capital-intensive operations and susceptibility of operating margin to volatility in raw materials prices.

Analytical Approach

Unsecured loans of Rs 1.3 crore as on March 31, 2023, have been treated as debt as the management intends to repay these loans.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of promoters: The extensive experience of promoters for more than 5 decades in footwear industry and their strong understanding of market dynamics, along with healthy relations with customers and suppliers has helped the company achieve an operating income CAGR of ~27% for last 3 years through FY23, with expected operating income in range of Rs 200-210 crores in FY23. The extensive experience and market standing of the company has further helped the company into penetrating market share in Northeastern states and get repeat orders from State Governments. With ~Rs 130 crores of orders in hand which are expected to be completed in Q1 of FY24, the company is expected to achieve operating income in range of Rs 270-300 crores in FY24.

Moderate financial risk profile: The financial risk profile of the company has been comfortable as marked by expected gearing in range of 0.8-0.9 times as on March 31, 2023 demonstrates significant headroom to take any additional debt for business purposes. With no plans to take any additional debt and continuous accretion to reserves the capital structure of company continues to remain comfortable over medium term. With sustenance of operating margins in range of 6-8%, the expected interest cover and expected NCAAD have been comfortable in range of 3-4 times and 0.16-0.2 times respectively in FY23, Further with expected improvement in operating margins and no additional debt proposed to be taken, debt protection metric continues to remain comfortable over medium term.

Weaknesses:

Large working capital requirements: The operations of the company are working capital intensive as noted in GCA days ranging between 180-230 days historically from last 3 years through FY23. GCA days are expected to be in range of 200-230 days as on March 31, 2023 driven by debtor days of 103 days and inventory days of 120 days, which demonstrates higher reliance on working capital limits as witnessed in high bank limit utilisation of ~86% for last 12 months through April 2023 . With no change in business model, GCA days are expected to be in range of 210-220 days over medium term. Efficient management of working capital cycle and lower reliance on bank lines would therefore remain a key monitorable.

Susceptibility of operating margin to volatility in raw materials prices: The operating margins of the company are susceptible to volatility in prices of rubber and Polyvinyl Chloride [PVC] . The operating margins moderated to 7.8% in FY22 and further moderated to 7.4% in FY23 on account of high prices of rubber. The operating margins are expected to improve with stability in prices of rubber. Sustained increase in operating margins leading to higher cashflows would therefore remain a key monitorable.

Liquidity: Adequate
The liquidity profile of the company has been adequate as marked by modest expected cash and bank balance in range of Rs 4-5 crores with expected current ratio in range of 1.3-1.4 times as on March 31, 2023. Bank limit utilisations have been ~86% for last 12 months through April 2023. Net cash accruals are expected to be in range of Rs 8-16 crores which would be sufficient to meet up with annual repayment obligations ranging between Rs 1-5 crores over medium term.

Outlook: Stable
The company will continue to benefit from the extensive experience of its promoters and established relationships with clients.

Rating sensitivity Factors
Upward factors:
- Sustained increase in operating income and sustenance of operating margins in range of 8-9% leading to more than expected net cash accruals.
- Efficient management of working capital cycle leading to lower reliance on working capital limits.

Downward factors:
- Decline in operating income with margins falling below 6% leading to less than expected net cash accruals.
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About the Company
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Key financial indicators

Particulars	Unit	9M December 2022	2022	2021
Revenue	Rs.Crore	151.77	139.72	149.32
Profit After Tax (PAT)	Rs.Crore	3.42	2.51	0.98
PAT Margin	%	2.25	1.76	0.65
Adjusted debt/adjusted networth	Times	NA	1.27	0.73
Interest coverage	Times	2.89	2.6	2.29

Any other information: Not applicable.

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure – Details of instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	30	NA	CRISIL BBB-/Stable

NA	Long Term Loan	NA	NA	Nov-26	12.48	NA	CRISIL BBB-/Stable
NA	Working Capital Demand Loan	NA	NA	NA	12	NA	CRISIL BBB-/Stable
NA	Long Term Loan	NA	NA	Nov-26	5.2	NA	CRISIL BBB-/Stable
NA	Bank Guarantee	NA	NA	NA	8	NA	CRISIL A3
NA	Letter of Credit	NA	NA	NA	7	NA	CRISIL A3
NA	Proposed Working Capital Loan	NA	NA	NA	3.32	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	63.0	CRISIL BBB-/Stable		--		--		--		--	Withdrawn (Issuer Not Cooperating)*
Non-Fund Based Facilities	ST	15.0	CRISIL A3		--		--		--		--	Withdrawn (Issuer Not Cooperating)*

All amounts are in Rs.Cr.
** - Issuer did not cooperate; based on best-available information*

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	**8**	**HDFC Bank Limited**	**CRISIL A3**
Cash Credit	**30**	**HDFC Bank Limited**	**CRISIL BBB-/Stable**
Letter of Credit	**7**	**HDFC Bank Limited**	**CRISIL A3**
Long Term Loan	**12.48**	**HDFC Bank Limited**	**CRISIL BBB-/Stable**
Long Term Loan	**5.2**	**Small Industries Development Bank of India**	**CRISIL BBB-/Stable**
Proposed Working Capital Facility	**3.32**	**Not Applicable**	**CRISIL BBB-/Stable**
Working Capital Demand Loan	**12**	**HDFC Bank Limited**	**CRISIL BBB-/Stable**

This Annexure has been updated on 07-Jun-20223 in line with the lender-wise facility details as on 07-Jun-20223 received from the rated entity.

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]()
[Rating criteria for manufaturing and service sector companies]()
[CRISILs Bank Loan Ratings - process, scale and default recognition]()
[Assessing Information Adequacy Risk]()
[CRISILs Criteria for rating short term debt]()

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