Press Release

Diamond Footcare Udyog Private Limited

June 14, 2024

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	72.20	IVR BBB- (Stable) [IVR triple B minus with stable outlook]	IVR BB+ (Positive) [IVR Double B plus with positive outlook]	Upgraded With Change in Outlook	Simple
2.	Short Term Bank Facilities	14.30	IVR A3 (IVR A three)	IVR A4+ (IVR A four plus)	Upgraded With Change in Outlook	Simple
	Total	**86.50**		(Rupees eighty-six crore and fifty lakhs only)		

Details of facilities are in Annexure 1

Rating Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded the long-term ratings to IVR BBB- with a stable outlook and the short-term ratings to IVR A3 for the bank facilities of Diamond Footcare Udyog Private Limited (DFUPL). Further, the outlook of the ratings is changed from Positive to Stable.

The rating upgrade takes into consideration healthy improvement in scale of operations along with sustained improvement in financial risk profile. The ratings continue to draw comfort from extensive experience of the promoters in the industry with reputed customer profile such as Bata Shoes, Zudio (part of Tata group) etc. The ratings continue to take into consideration moderate profitability, widespread distribution reach and product portfolio. The ratings, however, remains constrained by intense competition on account of fragmented nature of the Indian footwear industry coupled with wide presence of the unorganised sector. Further the ratings also remain constrained by elongated operating cycle.

The change in outlook from positive to stable, indicates a low likelihood of rating change over the medium term. IVR believes that DFUPL will continue to benefit from its operational track record in the business and regular inflow of orders.

IVR has principally relied on the standalone audited financial results of DFUPL up to 31 March 2024 and projected financials for FY2025 (refers to period April 1st, 2024, to Mar 31, 2025) - FY2027 (refers to period April 1st, 2026, to Mar 31, 2027), and publicly available information/ clarifications provided by the company'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.
- 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.

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 healthy 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 Shoes, Zudio (part of Tata group), Reliance Retail etc.

Improvement in scale of operations along with moderate profitability

The total operating income of the company has witnessed an increasing trend over the years with CAGR growth of 28%. TOI increased from Rs 173.99 crore in FY23 to Rs 263.45 crore in FY24, driven by increasing orders from the existing customers and new & reputed customers. EBITDA increased from Rs. 17.88 crore in FY23 to Rs. 25.35 crore in FY24. EBITDA margin decreased by 66 bps from 10.28% in FY23 to 9.62% in FY24, due to increase in consumption of raw material. PAT increased from Rs. 5.62 crore in FY23 to Rs. 13.89 crore in FY24. PAT margin increased by 204 bps from 3.22% in FY23 to 5.26% in FY24, due to decrease in interest and finance charges. The GCA improved from 7.51 Crores in FY23 to 14.93 Crores in FY24.

Comfortable capital structure with moderate debt protection metrics:

DFUPL has a moderate tangible net worth of Rs 80.66 crore. DFUPL has a comfortable capital structure with long term debt equity ratio and overall gearing ratio improved and stood at 0.48x and 1.01x, as on March 31,2024 as against 0.57x and 1.15x, as on March 31,2023. TOL/ TNW improved and stood at 1.48x as on 31st March'24 as against 1.82x as on 31st March'23. Total Debt/GCA improved and stood at 5.48 years as on 31st March'24 as against 10.19 years as on 31st March'23. The company has debt protection metrics with improvement in ISCR and DSCR. Interest coverage ratio stood at 3.07x in FY24 as against 1.97x in FY23 and DSCR stood at 1.78x in FY24 as against 1.24x in FY23.

Key Rating Weaknesses

Elongated working capital requirement:

The Operating cycle of the Company stood elongated at 126 days in FY24, although improved from 207 days in FY23 with an improvement in collection period from 77 days to 61 days in

FY24, while holding an inventory of around 96 days in FY24 as against 173 days with creditors period of 31 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. 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 also 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.

Instrument/Facility wise Default Recognition & Post-Default Curing period

Complexity Level of Rated Instruments/Facilities

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 87.88% and non-fund based working capital limit remains moderate at 39.58% during the past 12 months ended April 2024. Current ratio is 1.37x as on March 31, 2024. The operating cycle of the company improved but still remains elongated at 126 days in FY24 as against 207 days in FY23 with an improvement in collection period from 77 days to 61 days in FY24, while holding an inventory of around 96 days in FY24 as against 173 days with creditors period of 31 days. 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	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	173.99	263.45
EBITDA	17.88	25.35
PAT	5.62	13.89
Total Debt	76.54	81.85
Tangible Net Worth	66.78	80.66
EBITDA Margin (%)	10.28	9.62
PAT Margin (%)	3.22	5.26
Overall Gearing Ratio (x)	1.15	1.01
Interest Coverage (x)	1.88	3.07

**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: 2024-25)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (February 19th, 2024)	Date(s) & Rating(s) assigned in 2022-23 (January 11, 2023)	Date(s) & Rating(s) assigned in 2021-22 (January 10, 2022)
Fund based limits	Long Term	72.20	IVR BBB-/ Stable	IVR BB+/ Positive	IVR BB/ Stable Outlook	IVR BB/ Stable Outlook
Non-Fund based Limits	Short term	14.30	IVR A3	IVR A4+	IVR A4	IVR A4

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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 **(Rs. Crore)**

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
ECGLS – Long Term	-	-	January 2026	3.75	IVR BBB- / Stable
ECGLS – Long Term	-	-	February 2028	4.31	IVR BBB- / Stable
ECGLS – Long Term	-	-	February 2027	1.37	IVR BBB- / Stable
Term Loan – Long Term	-	-	March 2030	5.94	IVR BBB- / Stable
Dropline OD – Long Term	-	-	November 2037	13.04	IVR BBB- / Stable
Term loan – Proposed	-	-	-	1.29	IVR BBB- / Stable
CC – Long Term	-	-	-	42.50*	IVR BBB- / Stable
Bill Discounted – Short Term	-	-	-	10.00	IVR A3
Letter of Credit – Short Term	-	-	-	4.00	IVR A3
Derivative / FC / CEL – Short Term	-	-	-	0.30	IVR A3

**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-jun24.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