December 18, 2024

Relaxo Footwears Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term- Fund Based- Cash Credit	140.00	140.00	[ICRA]AA(Stable); reaffirmed
Short-term Non-Fund-Based	120.00	120.00	[ICRA]A1+; reaffirmed
Total	260.00	260.00	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation continues to factor in Relaxo Footwears Limited's (RFL) steady operational performance, aided by its long and established track record as one of the largest players in the Indian footwear industry. The ratings also consider RFL's wide distribution reach, its diversified product portfolio, and improvement in its market presence over the years from being a single product manufacturer (hawai slippers) to higher value slippers as well as casual and sports shoes. The ratings continue to draw strength from RFL's comfortable financial risk profile, reflected by healthy cash accruals, a conservative capital structure and strong debt coverage indicators. While revenues and earnings growth for the company are expected to remain muted in the current fiscal on the back of moderation in demand, the earnings are expected to improve over the medium term on the back of improvement in demand and continuous innovation and marketing spends. Despite modest growth in the current fiscal, the operating profits and cash accruals are expected to remain healthy. With limited debt, the leverage (Total Debt/OPBDITA of 0.5 times in FY2024) and coverage indicators would continue to remain strong. Further, the company's liquidity position remains strong with cash and equivalents of ~Rs. 150 crore as of September 30, 2024 and undrawn working capital limits of Rs. 140 crore.

The ratings continue to be constrained by the exposure of the company to intense competition due to the fragmented nature of the Indian footwear industry and wide presence of the unorganised sector, which constrains its pricing power. The ratings also consider vulnerability of RFL's profitability to fluctuation in raw material prices and exchange rates.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to record healthy earnings, benefitting from its strong brand. The company's debt metrics are expected to remain strong over the medium term, aided by steady healthy accruals and absence of material debt-funded capex plans.

Key rating drivers and their description

Credit strengths

Long and successful track record in Indian footwear industry – RFL was incorporated in 1984 and its promoters have been involved in the footwear business for more than four decades. Over this period, the company has successfully expanded to new product categories, geographies and customer segments and has become one of the largest footwear manufacturers in the country. It has nine plants spread across three cities with an aggregate manufacturing capacity of close to 30 crore pairs per annum. The company's market position gains strength from a diversified product portfolio across multiple price points and varied usages.

Strong business fundamentals, aided by a wide distribution reach and pan-India presence – The company has a pan-India network of distributors (650+ active distributors) and retail stores supplying Relaxo products through more than 70,000 points of sales (POS), resulting in high geographical and customer diversification. RFL also sells its products through e-commerce platforms like Amazon, Tata Cliq, Flipkart etc. to reach a wider customer base.

Diversified product portfolio and good brand recall – RFL started as a manufacturer of rubber-based hawai slippers but has gradually expanded the product portfolio to include ethylene vinyl acetate (EVA) slippers, polyurethane (PU) slippers, casual shoes, sports shoes and sandals. Its market position has also improved over the years, aided by significant advertising, branding initiatives and celebrity endorsements.

Strong liquidity position – The company's liquidity position remained comfortable with cash and equivalents of close to Rs. 150 crore as on September 30, 2024, nil term debt, significant buffer in fund-based limits, and material headroom available in drawing power to get the limits enhanced, as and when required.

Credit challenges

Stiff competition in footwear industry – The footwear industry is inherently competitive owing to the strong presence of the unorganised sector. The industry does not have a capital-intensive manufacturing process and hence the entry barriers of new players remain low. Also, presence of many small-to-medium-sized players constrains the pricing power to an extent.

Volatility in raw material prices may put pressure on profitability – The margins of the company are affected by raw material price fluctuations. Any adverse movement in the prices of raw materials may negatively impact the company's margins, considering its limited ability to pass on the price hike to the customers owing to intense competition. In addition to the price of commodities, fluctuation in the exchange rate impact the cost of materials.

Environmental and Social Risks

Environmental considerations: The exposure of footwear entities to environmental risks emanates from the tightening regulatory requirements related to waste treatment and the additional costs required to be incurred for treating and managing effluents. Lapses in adhering to the statutory pollution limits could invite fines and penalties, which could impact its profitability. Thus, the company's ability to remain compliant with the necessary regulatory stipulations remains a key consideration.

Social considerations: The exposure of footwear entities to social risks is generally not material. However, being a manpower-intensive segment, entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. The adverse impact of environmental pollution in nearby localities could trigger local criticism. The company's track record of carrying out its operations responsibly over the years provides rating comfort. The risk profile of entities is also influenced by other social factors such as changing consumer preferences, responsible sourcing, product and supply chain sustainability, given the high reliance on external suppliers.

Liquidity position: Strong

RFL's liquidity position remains **strong,** characterised by cash and cash equivalents of ~Rs. 150 crore and cushion of ~Rs. 140 crore in working capital limits as on September 30, 2024. Further, ICRA estimates the company to generate surplus free cash flows in FY2025, after accounting for working capital as well as capex requirements (Rs. 200-250 crore in FY2025). The company does not have repayment obligations.

Rating sensitivities

Positive factors – Improvement in profitability and scale of operations, while maintaining the current leverage and strong liquidity position could lead to a long-term rating upgrade. Specific credit metrics for an upgrade include core return on capital employed remaining above 20% on a sustained basis.

Negative factors – A material deterioration in the company's market position, leading to a sustained decline in earnings or substantial capex plans, resulting in a deterioration in the liquidity position or debt protection indicators could lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Footwear](#)
Parent/Group support	None
Consolidation/Standalone	Standalone

About the company

RFL was founded by Mr. Mool Chand Dua. The company was incorporated in September 1984 as Relaxo Footwears Private Limited and was converted into a public limited company in March 1993. It started as a marketing company for the Relaxo Group and subsequently started manufacturing hawai slippers in 1995. At present, the company manufactures hawai rubber slippers, EVA and PU-based slippers and sports shoes and sandals. It is one of the largest players in the non-leather footwear market in the country with a pan-India distribution network and sells its footwear under Relaxo, Bahamas, Flite and Sparx brands. The company can manufacture close to 30 crore pairs of shoes per annum.

Key financial indicators (audited)

RFL	FY2023	FY2024	H1FY2025*
Operating income	2,782.8	2,914.1	1,427.6
PAT	147.7	190.8	81.1
OPBDIT/OI	12.2%	14.0%	13.1%
PAT/OI	5.3%	6.5%	5.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.4
Total debt/OPBDIT (times)	0.5	0.5	0.6
Interest coverage (times)	15.7	21.8	18.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; *Limited audit*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				December 18,2024	Dec 07,2023	December 1, 2022	July 07, 2022	July 05, 2021
1	**Cash Credit**	Long-term	140.0	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)
2	**Non-Fund-Based Limits**	Short term	120.0	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-Fund-Based limits	Very simple

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	Cash Credit	-	-	-	140.0	[ICRA]AA (Stable)
NA	Non-Fund-Based Limits	-	-	-	120.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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