July 05, 2021

Relaxo Footwears Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	140.00	140.00	[ICRA]AA(Positive); rating reaffirmed, and outlook revised from Stable
Non fund based limits	120.00	120.00	[ICRA]A1+; rating reaffirmed
Total	**260.00**	**260.00**	

**Instrument details are provided in Annexure-1*

Rationale

The change in outlook from Stable to Positive takes into account ICRA's expectation that Relaxo Footwears Limited's (RFL) credit profile will improve in the near term with regards to its scale, profitability and liquidity. Despite tepid sales in Q1 FY2021 due to the nationwide lockdown, the company managed to regain lost volumes in the balance three quarters and is well positioned to report a revenue growth in FY2022, notwithstanding some likely moderation in Q1 due to the second wave of the pandemic. This would be on the back of its diversified product portfolio catering to different casual footwear requirements and gradual shift in the industry towards organised players. Similarly, a change in product mix as well as savings in selling and general expenses kept RFL's profitability healthy in FY2021, which ICRA expects to continue going forward, given its tight cost control measures. Furthermore, its liquidity position witnessed a sharp improvement with cash and equivalents of around Rs. 340 crore as on March 31, 2021, which coupled with large undrawn working capital limits, provide a significant cushion to RFL's liquidity profile.

The ratings continue to draw comfort from RFL's strong operational risk profile, as reflected in its long and established track record as one of the largest players in the Indian footwear industry, with a pan-India presence. Additionally, the ratings favourably note its diversified product portfolio, and the gradual improvement in its market position on account of successful product launches, as well as multiple advertising, branding and celebrity endorsement initiatives. RFL started with a single product (Hawai slippers) and has, over the years, been successful in diversifying into higher value slippers as well as casual and sports shoes. The portfolio premiumisation, along with improvement in scale, has led to an improvement in its margins.

The ratings, however, are constrained by significant outflows (~Rs. 100-150 crore) towards capex every year, which albeit funded largely by internal accruals, keeps the company's free cash flows under check. The ratings are also impacted by the intense competition due to the fragmented nature of the Indian footwear industry with a strong presence of the unorganised sector, and vulnerability of RFL's profitability to fluctuation in raw material prices and exchange rates. ICRA also takes into account the fact that profitability of retail operations was affected in FY2020 and FY2021 owing to the adverse impact of the Covid-19 pandemic. Even though most of the sales are through distributors, the company operates a network of 398 retail and franchise stores in the country. Despite improved scale, reach and investments in expanding the network of retail stores across territories, the profitability of this division has remained muted over the years.

Key rating drivers and their description

Credit strengths

Healthy improvement in performance in FY2021 marked by robust internal accruals and nil debt – Despite the impact of Covid-19 pandemic, RFL witnessed a strong improvement in profitability and reported nil debt and healthy debt protection indicators in FY2021. The portfolio premiumisation, along with improvement in scale, led to the improvement in its margins over the years.

Strong liquidity position – The company's liquidity position remained comfortable with cash and equivalents of close to Rs. 340 crore as on March 31, 2021 and large undrawn working capital limits of Rs. 140 crore.

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 over three decades. Over this period, the company has successfully expanded in new product categories, geographies and customer segments and is one of the largest footwear manufacturers in the country as on date. It has eight plants spread across three cities with an aggregate manufacturing capacity of close to 23 crore pairs per annum.

Pan-India presence – The company has a pan-India network of distributors and retail stores supplying Relaxo products through more than 50,000 point of sales (POS), resulting in high geographical and customer diversification. RFL also sells its products through e-commerce websites, such as Amazon and Flipkart, 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, on account of significant advertising, branding initiatives and celebrity endorsements.

Credit challenges

Impact of Covid-19 pandemic – RFL has been impacted by the lockdown measures implemented in FY2021 to contain the spread of Covid-19 pandemic, which resulted in a 2% fall in operating income (OI) in FY2021, marked by a decline in average selling price (ASP). Furthermore, the company's operations were impacted by the second wave of the pandemic in the current fiscal due to regional lockdown measures adopted by various state governments.

Significant outflows towards capex likely to continue – The company reported annual capex outflow (adjusted for IndAS 116) of ~Rs. 100-150 crore over the last few years. Significant capex-related outflows are likely to continue going forward as well, which would exert pressure on its free cash flows. Nonetheless, ICRA expects the internal cash flows to be adequate for meeting its capex requirements without any reliance on external debt.

Exposure to volatility in commodity prices and fluctuations in exchange rate – RFL's profitability is exposed to fluctuations in commodity prices and exchange rates. In addition to the price of commodities, the changes in exchange rate impact the cost of material, as the company imports most of its EVA and PU requirements.

Stiff competition in industry – The footwear industry is inherently competitive as it is characterised by the strong presence of the unorganised sector. The industry does not have a capital-intensive manufacturing process and hence, the barriers to entry of new players are low. Also, the presence of a large number of small-to-medium-sized players constrains the pricing power.

Liquidity position: Strong

RFL's liquidity position is **strong,** with cash and cash equivalents close to Rs. 340 crore as on March 31, 2021 and cushion of Rs. 140 crore in working capital limits. Further, ICRA estimates that the company will generate surplus free cash flows in FY2022 on the back of its healthy profitability, after accounting for working capital as well as capex requirements, which bolsters its liquidity in the absence of any debt repayments.

Rating sensitivities

Positive factors – Significant ramp up in scale of operations, while maintaining healthy profitability and strong liquidity position could lead to an upgrade. Additionally, the return on capital employed (RoCE) remaining above 22%, on a sustained basis, could also lead to a rating upgrade.

Negative factors – Sharp decline in profitability leading to deterioration in liquidity position or weakening in debt protection metrics could lead to a downward revision in ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Footwear Industry
Parent/Group Support	Not Applicable
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 subsequently converted into a public limited company in March 1993. It started off as a marketing company for the Relaxo Group and subsequently ventured into manufacturing of 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 non-leather footwear market in India with a pan-India distribution network and sells its footwear under the Relaxo, Bahamas, Flite and Sparx brands. The company has capacity to manufacture close to 23 crore pairs per annum.

Key financial indicators (audited)

BIL Consolidated	FY2020(A)	FY2021(A)
Operating Income (Rs. crore)	2410.5	2359.2
PAT (Rs. crore)	226.3	291.6
OPBDIT/OI (%)	17%	21%
PAT/OI (%)	9.4%	12.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.41*	0.29*
Interest Coverage (times)	24.2	29.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *mainly includes lease liabilities due to Ind AS 116*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 05,2021	August 28,2020	August 5,2019	Jan 16,2019	Jul 6,2018
1	Cash Credit	Long-term	140.0	-	[ICRA]AA(Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
2	Non-fund based limits	Short term	120.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Term loans	Long term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
4	Commercial paper	Short term	-	-	-	[ICRA]A1+; Rating reaffirmed and withdrawn	[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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	140.0	[ICRA]AA(Positive)
Non fund based limits	-	-	-	120.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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