July 07, 2022

Relaxo Footwears Limited: Ratings reaffirmed

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
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 ratings action favourably factors in Relaxo Footwears Limited's (RFL) healthy financial risk profile, characterised by a strong net worth, a conservative capital structure and healthy debt coverage indicators. The liquidity also remained comfortable with cash and cash equivalents of ~Rs. 200 crore as on March 31, 2022 and large undrawn working capital limits. While the company reported a moderate revenue growth of ~12% in FY2022, the operating profit margin (OPM) was impacted owing to higher raw material cost and GST rate hike. In FY2023, the company has rolled back certain price hikes undertaken in the last fiscal, which are likely to support the volume growth and operating margin is also expected to remain healthy for the entity. Consequently, the absolute profits and net cash accruals are likely to improve in FY2023. In addition, the liquidation of large inventory levels piled up as on March 31, 2022, is also expected to reduce the working capital intensity and improve liquidity to an extent. 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 ratings, however, are constrained by intense competition due to aggressive expansion by the new brands, fragmented nature of the Indian footwear industry, strong presence of the unorganised sector and vulnerability of RFL's profitability to raw material price fluctuations and exchange rates. The ratings also factor in the challenges faced by the retail sector amid the pandemic in the last couple of years. However, the distributor-based business model limited the impact of RFL's performance compared to other organised players having large retail presence. The company operates 394 retail and franchise stores in the country. However, the same contributed ~7% to the company's total revenue in FY2022. The ratings are also constrained by significant outflows (~Rs. 100-150 crore) towards capex every year, which though funded largely by internal accruals, keeps the company's free cash flows under check. Nonetheless, the cash flows are expected to remain comfortable relative to its debt service obligations in the near term.

The Positive outlook is underpinned by the expected improvement in RFL's sales volume and margin, resulting in higher operating profits and net cash accruals in FY2023. The liquidity position is also expected to strengthen with healthy accruals and liquidation of high inventory levels.

Key rating drivers and their description

Credit strengths

Healthy performance over the years marked by robust internal accruals and nil debt – While the company reported a moderate revenue growth of ~12% in FY2022, the OPM was impacted owing to higher raw material cost and GST rate hike impact. In FY2023, the company has rolled back certain price hike undertaken in the last fiscal, which is likely to support the volume growth and the operating margin is also expected to remain healthy for the entity. Consequently, the absolute profits and net cash accruals are likely to improve in FY2023.

Strong liquidity position – The company's liquidity position remained comfortable with cash and equivalents of close to Rs. 200 crore as on March 31, 2022 and large undrawn working capital limits of approximately Rs. 120 crore as on 31st March 2022. The liquidity is expected to improve on account of healthy accruals and liquidation of high inventory as of March 2022.

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.

Pan-India presence – The company has a pan-India network of distributors and retail stores supplying Relaxo products through more than 60,000 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.

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 30 crore pairs per annum.

Credit challenges

Stiff competition in 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 are low. Also, presence of many small-to-medium-sized players constrains the pricing power.

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, changes in the exchange rate impact the cost of materials, as the company imports most of its EVA and PU requirements. A significant increase in raw materials cost impacted the operating margin in FY2022.

Significant outflows towards capex likely to continue – The company reported annual capex outflow 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.

Liquidity position: Strong

RFL's liquidity position is **strong,** with cash and cash equivalents close to Rs. 200 crore as on March 31, 2022 and cushion of Rs. 120 crore in working capital limits as on 31st March 2022. Further, ICRA estimates that the company will generate surplus free cash flows in FY2023 on the back of its healthy profitability, after accounting for working capital as well as capex requirements, which is expected to improve 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 a rating upgrade. Additionally, the core return on capital employed remaining above 20% on a sustained basis could also lead to a rating upgrade.

Negative factors – A sharp decline in revenues or profitability, resulting in a deterioration in the liquidity position or weakening of debt protection metrics could lead to a downward revision of ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Footwear Industry
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 India with a pan-India distribution network and sells its footwear under the Relaxo, Bahamas, Flite and Sparx brands. The company can manufacture close to 30 crore pairs per annum.

Key financial indicators

RFL	FY2021(A)	FY2022(A)
Operating Income (Rs. crore)	2,359.2	2,653.3
PAT (Rs. crore)	291.6	232.7
OPBDIT/OI (%)	21.0%	15.7%
PAT/OI (%)	12.4%	8.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.29	0.4
Interest Coverage (times)	29.0	27.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 07,2022	July 05,2021	August 28,2020	August 5,2019
1	Cash Credit	Long-term	140.0	-	[ICRA]AA(Positive)	[ICRA]AA(Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund based limits	Short term	120.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

3	Term loans	Long term	-	-	-	-	-	**[ICRA]AA (Stable)**
4	Commercial paper	Short term	-	-	-	-	**[ICRA]A1+; Rating reaffirmed and withdrawn**	**[ICRA]A1+**

*reaffirmed and withdrawn^ reaffirmed and put on notice of withdrawal

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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	140.0	[ICRA]AA(Positive)
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-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Jayanta Roy
91-33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
91-22- 61693328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
91-33- 7150 1111
sumit.jhunjhunwala@icraindia.com

Gaurav Singla
91-124- 4545366
gaurav.singla@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

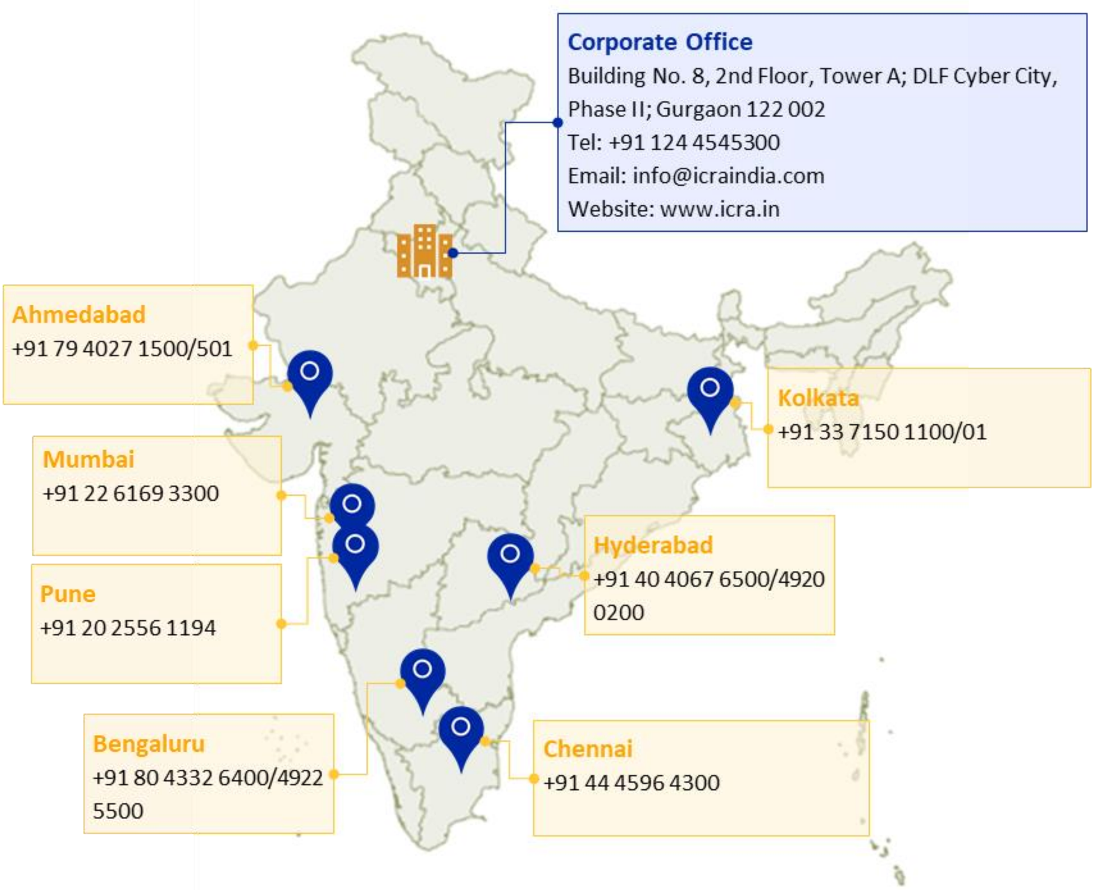
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.