December 01, 2022

Relaxo Footwears Limited: Ratings reaffirmed; outlook revised to Stable from Positive

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; reaffirmed and outlook revised to Stable from Positive
Short-term Non-Fund-Based	120.00	120.00	[ICRA]A1+; reaffirmed
Total	**260.00**	**260.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating considers Relaxo Footwears Limited's (RFL) moderate performance in H1 FY2023, impacted by high raw material cost, price cuts and general weakness in demand in the mass category segment owing to inflationary environment. Hawaii and Flite EVA segments witnessed fall in volumes of ~27% and ~22%, respectively in H1 FY2023 vis-à-vis H1 FY2022, which led to an overall decline in the volumes sold. Consequently, the operating margin declined to 11% in H1 FY2023 from 15% in the corresponding period of the previous year. Despite tepid profitability, the balance sheet continues to remain strong, characterised by a strong net worth, a conservative capital structure and healthy debt coverage indicators. Further, the liquidity also remained comfortable with cash and cash equivalents of around Rs. 150 crore, as on September 30, 2022, apart from sufficient cushion in the working capital limits. ICRA expects recovery in the company's performance from Q4 FY2023 with ease in raw material prices and as the high-cost inventory would get entirely exhausted in Q3 FY2023.

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 good brand recall value. RFL started with a single product (hawaii slippers) and over the years, has been successful in diversifying to higher value slippers as well as casual and sports shoes.

The ratings, however, are constrained by intense competition, 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 foreign exchange rates. The ratings are also constrained by significant outflow 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.

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 over three 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 as on date. It has eight plants spread across three cities with an aggregate manufacturing capacity of close to 10 lakh pairs per day with sport shoes capacity of 50,000 pairs per day. 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 and retail stores supplying Relaxo products through more than 60,000 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.

Comfortable liquidity position – The company's liquidity position remained comfortable with cash and equivalents of close to Rs. 150 crore as on September 30, 2022, nil term debt, significant buffer in CC limits, and significant available headroom in drawing power to get the limits enhanced, as and when required.

Diversified product portfolio and good brand recall – RFL started as a manufacturer of rubber-based hawaii 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

Dip in sales volume impacts profitability – Relaxo posted weak performance in H1 FY2023 amid high raw material cost, price cuts and general demand weakness in the mass category segment owing to inflationary environment. Consequently, Hawaii and Flite EVA segment witnessed a decline in volumes by ~27% and ~22%, respectively in H1 FY2023 vis-à-vis H1 FY2022. The operating margin declined to 11% in H1 FY2023 compared to 15% in the corresponding period of the previous year.

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 rates – RFL's profitability is exposed to fluctuations in commodity prices and exchange rates. In addition to the price of commodities, fluctuation 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 the current fiscal.

Significant outflows towards capex likely to continue – The company reported an 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 of close to Rs. 150 crore and cushion of Rs. 115 crore in working capital limits as on September 30, 2022. Further, ICRA estimates that the company will be able to generate surplus free cash flows in FY2023, after accounting for working capital as well as capex requirements, and nil term debt.

Rating sensitivities

Positive factors – Improvement in profitability and scale of operations, while maintaining current leverage and strong liquidity position could lead to a rating upgrade. 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, increased reliance on debt for expansion, a deterioration in liquidity position or debt protection indicators could lead to a downward rating action.

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 the country 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	FY2022	H1 FY2023
	Audited	Audited	Unaudited
Operating Income (Rs. crore)	2,359.2	2,653.3	1,336.8
PAT (Rs. crore)	291.6	232.7	61.1
OPBDIT/OI (%)	21.0%	15.7%	10.9%
PAT/OI (%)	12.4%	8.8%	4.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4	0.4
Total Debt/OPBDIT (times)	0.3	0.4	0.6
Interest Coverage (times)	29.0	27.1	13.2

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

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
					December 1, 2022	July 07, 2022	July 05, 2021	August 28, 2020	August 5, 2019
1	Cash Credit	Long-term	140.0	-	**[ICRA]AA(Stable)**	**[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+**	**[ICRA]A1+**
3	Term Loans	Long term	-	-	-	-	-	-	**[ICRA]AA (Stable)**

4	Commercial Paper	Short term	-	-	-	-	-	-	**[ICRA]A1+; Rating reaffirmed and withdrawn**	**[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 / Sanction	Coupon Rate	Maturity Date	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

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

Prerna Aggarwal
+91-124-3341380
prerna.aggarwal1@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

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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.

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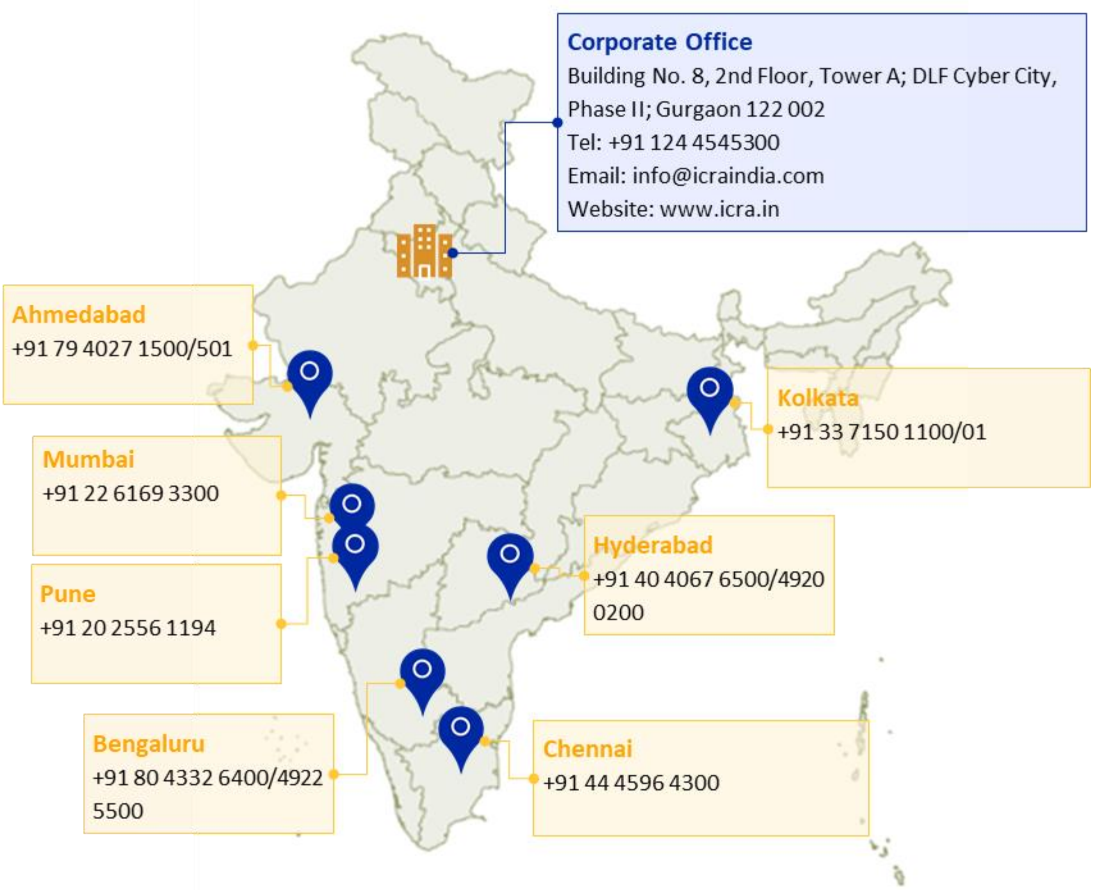
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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