August 05, 2019

Relaxo Footwears Limited: Ratings reaffirmed at [ICRA]AA(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	39.71	6.20	[ICRA]AA (Stable); Rating reaffirmed
Cash Credit	150.00	140.00	[ICRA]AA (Stable); Rating reaffirmed
Non-funds-based	120.00	120.00	[ICRA]A1+; Rating Reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; Rating Reaffirmed
Total	**359.71**	**316.20**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the healthy increase in Relaxo Footwear Limited's (RFL) revenues and accruals in FY2019, which coupled with the reduction in leverage, led to an improvement in debt protection indicators- operating income increased by 18%, from Rs. 1941.1 crore in FY2018 to Rs 2292.1 crore in FY2019, interest cover increased from 35.2 times in FY2018 to 47.0 times in FY2019, Net cash accrual/Total debt increased from 132% in FY2018 to 199%, and Total debt/OPBITDA improved from 0.51 times to 0.35 times during the same period. The ratings factor in RFL's significant financial flexibility owing to its large undrawn credit lines. The ratings continue to draw comfort from the company's well-established position as one of the largest players in the Indian footwear industry, its pan-India distribution network, diversified product portfolio, and the improvement in the market position of its products over the years on account of significant advertising and branding 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, along with increasing the share of high-value products in its portfolio. Furthermore, the highest growth in FY2019 in the wholesale channel was driven by Flite PU, which grew by more than 40%. Flite PU is a comparatively new product for the company and is priced higher than its Hawai and Flite EVA slippers.

The ratings, however, are constrained by the price cuts for Hawai and Flite EVA products in FY2019, leading to de-growth in the average selling price (ASP) for these products. However, the decline in prices was more than offset by the increased volumes sold during the same period. Nonetheless, the growth remained muted for both these categories in FY2019. The ratings continue to be constrained by significant outflows (Rs. ~100 crore) towards capex every year, which has impacted the company's free cash flows, though the same is largely funded by internal accruals, and by the intense competition due to the fragmented nature of the Indian footwear industry, 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 modest accruals from RFL's retail store network. Even though most sales are through distributors, the company operates more than 340 retail and franchise stores in the country. Despite better scale, reach and significant investments in expanding the network of retail stores across territories, the retail network makes modest profits.

ICRA has noted the merger of RFL with Marvel Polymers Private Limited and Relaxo Rubber Private Limited (both were promoter-held entities) in January 2019, which would reduce the rent outflow to related parties going forward by ~Rs 5.0 crore annually and aid the profitability margin.

Outlook: Stable

RFL is expected to benefit from the healthy demand for its diversified product portfolio catering to different casual footwear requirements. The company is also likely to benefit from the gradual shift in the industry towards organised players due to the impact of Goods and Services Tax (GST). The outlook may be revised to Positive if the improvement in scale of operations and financial risk profile is better than expected. Conversely, the outlook on the rating may be revised to Negative if the growth in accruals is below ICRA's estimates or if the company's capital structure or liquidity profile deteriorate from the current levels.

Key rating drivers

Credit strengths

Robust internal accruals of RFL and decline in debt have led to healthy debt protection indicators: The company's strong internal accruals, coupled with the decline in debt, have led to healthy debt protection indicators. Its interest coverage stood at 47 times in FY2019 (compared with 35 times in FY2018), net cash accrual/total debt at 199% in FY2019 (against 132% in FY2018), and total debt/OPBITDA at 0.35 times in FY2019 (vis-à-vis 0.51 times in FY2018). Further, company has significant undrawn bank lines, which provides financial flexibility.

Strong growth in revenues and profits: RFL's turnover grew by 18% in FY2019, driven largely by an increase in volumes as the ASP remained stagnant. The Flite PU segment registered the highest growth – more than 40% in FY2019 – aided by competitive pricing of RFL's products and shift of business from unorganised to organised players post GST implementation.

Long and successful track record in Indian footwear industry: RFL was incorporated in 1984 and the promoters have been involved in footwear business for over three decades. Over the period, the company has successfully expanded in new product categories, geographies and customer segments and is now one of the largest footwear manufacturers in the country. It has nine plants spread across three cities with aggregate manufacturing capacity of more than 20 crore pairs per annum.

Pan-India sales network: 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. The largest sales of the company are coming from North India, which accounts for more than 50% of the revenues. RFL has also started selling its products through e-commerce websites such as Amazon and Flipkart to reach a wider customer base.

Diversified product portfolio and good brand recall: The company started as a manufacturer of rubber-based Hawai slippers but has over the years expanded the product portfolio to include ethylene vinyl acetate (EVA) slippers, polyurethane (PU) slippers, casual shoes, sports shoes and sandals. The market position of the company's products has also improved over the years on account of significant advertising and branding initiatives and celebrity endorsements.

Credit challenges

Significant outflows towards capex: The company is in capex mode (it incurred annual capex of Rs. ~100 crore in last two years) and significant capex-related outflows are expected to continue going forward as well, reducing the free cash flows of the entity. Nonetheless, ICRA expects the internal cash flows are likely to be adequate for meeting capex requirements without any reliance on external debt

Pressure on sales of Hawai and Flite EVA slippers: In order to stave off competition and increase market share in the Hawai and Flite EVA slippers segments, the company had to lower selling price in FY2019.

Profitability is exposed to fluctuations in commodity prices and exchange rates: RFL's profitability depends to an extent on the movement in raw material prices. In addition to the price of commodities, the changes in exchange rate also impact the cost of material as the company imports most of its EVA and PU requirements.

Highly competitive 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, thus barriers to entry of new players are low, and presence of large number of small-to-medium sized players is significant, which constrains the pricing power.

Liquidity position

The current liquidity profile of RFL is comfortable as the cash flows from operations are more than sufficient to meet the operational, financial, capex and dividend requirements with no reliance on external funding. Further, significant undrawn bank lines (Rs. ~100 crore) provide substantial buffer in case of exigencies.

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

Relaxo Footwears Ltd. (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. RFL started off as a marketing company for the Relaxo Group and subsequently ventured into manufacturing of Hawai slippers in 1995. Currently, 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 more than 20 crore pairs per annum.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,941.1	2,292.1
PAT (Rs. crore)	161.1	175.4
OPBDITA/ OI (%)	15.6%	14.1%
RoCE (%)	32.6%	27.0%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDITA (times)	0.5	0.3
Interest Coverage (times)	35.2	47.0

Source: RFL's Annual Report, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
					August 2019	Jan 2019	Jul 2018	Dec 2017	Jun 2017	Dec 2016	Jul 2016
1	Term Loans	Long-term	6.2	6.2	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (positive)	[ICRA]AA- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
2	Fund-based Limits	Long-term	140.00	-	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (positive)	[ICRA]AA- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
3	Non-fund Based Limits	Short-term	120.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short-term	50.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Term Loan 1	30.10.2018	-	Feb 2020	6.2	[ICRA]AA(stable)
NA	Fund-based Limits	-	-	-	140.00	[ICRA]AA(stable)
NA	Non-fund Based Limits	-	-	-	120.00	[ICRA]A1+
--	Commercial Paper	Not Placed	NA	NA	50.00	[ICRA]A1+

Source: Relaxo Footwears Limited

Annexure-2: List of entities considered for consolidated analysis - Not applicable

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