

Relaxo Footwears Limited

Instrument	Amount (Rs. Crore)	Rating Action December 2016
Commercial Paper	50 (enhanced from 30)	[ICRA]A1+; assigned/ outstanding
Term Loans	136	[ICRA] A+(stable); rating outstanding
Fund-based Limits	100	[ICRA] A+(stable); rating outstanding
Non-fund-based	120	[ICRA] A1+; rating outstanding

ICRA has assigned short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 50 crore (enhanced from Rs. 30 crore) commercial paper/short-term debt programme of Relaxo Footwears Limited (RFL). ICRA also has long term rating of [ICRA]A+ (stable) and short term rating of [ICRA]A1+ outstanding on Rs. 356 crore bank lines of the company.

The ratings continue to draw comfort from RFL's healthy financial risk profile as reflected by interest cover of 15x, Total Debt/OPBITDA of 0.81x, Net Cash Accruals/Total Debt was 87% in H1FY2017. ICRA's ratings also factor in RFL's strong business profile owing to established position in Indian footwear industry, its extensive distribution network and increasing share of high-margin products. The ratings also factor in successful diversification into new geographies; streamlining of processes to improve productivity & product quality and improved market position of its products on account of significant advertising and branding initiatives taken by the company.

The ratings are, however, constrained by muted growth (~1%) in revenues in H1FY2017 due to demand slowdown and aggressive competition. The demand is likely to be further impacted in H2FY2017 on account of ban on old Rs. 500 and Rs. 1000 notes. The same may also adversely impact the working capital intensity of operations, at least in short term. The ratings continue to be constrained by high competitive intensity in the Indian footwear industry; vulnerability of RFL's profitability to fluctuation in raw material prices and exchange rates, and the continuous capital expenditure being undertaken by the company, which will continue to impact its free cash flows. The ratings also take into account modest accruals from RFL's retail network, despite large scale, reach and significant investments made.

Going forward, RFL's ability to successfully execute its growth strategy while maintaining its margins, working capital intensity and capital structure will be the key rating sensitivity factors.

Company's Profile

Relaxo Footwears Ltd. (RFL) is a part of the "Relaxo Group" which was founded by Late Shri 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 Hawaii in 1995. Currently, RFL manufactures Hawaii 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", "Flite" "Bahamas" and "Sparx" brands.

Recent Results

In FY2016, the company's operating income was Rs. 1713.0 crore while its net profit was Rs. 120.3 crore, while in FY2015, its operating income was Rs. 1480.8 crore and net profit was Rs. 103.0 crore. In H1FY2017, company reported operating income of Rs. 852 crore and net profit of Rs. 64 crore against operating income of Rs. 840 crore and net profit of Rs. 63 crore in H1FY2016.

December 2016



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