

June 20, 2017

Relaxo Footwears Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Term Loan	101.67 (earlier 136.00)	[ICRA] A+; rating reaffirmed and outlook changed from stable to positive
Fund-based Cash Credit	100.00	[ICRA] A+; rating reaffirmed and outlook changed from stable to positive
Non-fund-based	120.00	[ICRA] A1+; rating reaffirmed
Commercial Paper	50.00	[ICRA]A1+; rating reaffirmed

* Instrument details are provided in Annexure I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus)¹ for Rs. 201.67-crore² (earlier Rs. 236.00 crore) term loans and fund-based limits of Relaxo Footwears Limited (RFL). The outlook on long-term rating has been changed from Stable to Positive. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ for Rs. 120-crore non-fund based limits and Rs. 50-crore commercial paper (CP) programme of RFL.

Rationale

The change in outlook on RFL's long-term rating is based on the sustained improvement in its financial risk profile on the back of healthy cash flows and debt reduction. The company's interest coverage ratio improved from 10.53 times in FY2016 to 16.09 times in FY2017, its net cash accruals/total debt increased from 67% as on March 31, 2016 to ~100% as on March 31, 2017 and its total debt/OPBIDTA improved from 0.98 times to 0.71 times during the same period.

Going forward, the long-term rating may be upgraded if the improvement in accruals is higher than expected and does not adversely impact the current liquidity and financial risk profile. Conversely, the outlook on the rating may be changed from Positive to Stable if the growth in accruals is below ICRA's estimates or if the company's capital structure/liquidity profile deteriorates from the current levels.

The ratings continue to draw comfort from RFL's well-established position in the Indian footwear industry, its extensive distribution network, and its diversified product portfolio. The ratings also factor in the improved market position of the company's products on account of significant advertising and branding initiatives, successful diversification into new geographies and streamlining of the supply chain, manufacturing and product-development processes to improve productivity and product quality.

The ratings, however, are constrained by the decline (by 0.7%) in volumes sold in FY2017 and slowdown in revenue growth from 15% in FY2016 to ~2% in FY2017 owing to an increase in competitive intensity, moderation in demand post the robust growth over the last few years and the impact of demonetisation. Also, intense competition due to the fragmented nature of the Indian footwear industry and strong presence of the unorganised sector, vulnerability of RFL's profitability to the fluctuation in raw material prices and exchange rates are negatives. Furthermore, the company's capital expenditure continues to impact its free cash flows, constraining the ratings. ICRA also take into account the modest accruals from RFL's retail network, despite better scale, reach and significant investments.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Going forward, RFL's ability to successfully execute its growth strategy as well as maintain margins, working capital intensity and capital structure will be the key rating sensitivities.

Key rating drivers

Credit strengths

- Experienced promoters with a long track record in Indian footwear industry
- Strong internal accruals of the company have led to healthy debt protection indicators; interest cover stood at 16 times, DSCR at 3.87 times in FY2017, NCA/TD at 100%, total debt/OPBITDA at 0.71 times, and gearing at 0.29 times as on March 31, 2017
- Pan-India network of 860 distributors supplying Relaxo products through more than 50,000 retailers, resulting in high geographical and customer diversification
- Diversified product portfolio, consisting of Hawaii slippers, Ethylene Vinyl Acetate (EVA) slippers, PU slippers and casual shoes and sandals
- Improved market position of all brands through celebrity endorsements, advertising campaigns, and growing retail operations

Credit weaknesses

- In FY2017, the company recorded a decline in volumes produced (by 2.0%) and sold (by 0.7%)
- Revenue growth slowed down from ~15% in FY2016 to ~2% in FY2017, owing to an increase in competition, moderation in demand due to the robust growth over the last few years and impact of demonetisation
- Retail channel profitability has been weak despite significant investments
- The company undertook capex of Rs. 100 crore in FY2017; significant capex-related outflows are expected going forward. Nonetheless, internal cash flows are likely to be adequate in meeting capex requirements
- The company's margins are exposed to volatility in commodity prices and fluctuations in exchange rate
- Highly competitive industry characterised by the strong presence of the unorganised sector; Stiff competition in the organised segment is expected to keep margins under pressure

Description of key rating drivers

Aggregate volume of the company declined ~0.7% in FY2017 and average realisation increased ~2.2%, leading to revenue growth of ~1.5%. Amongst the products of the company, the average realisation of shoes and Hawaii slippers have increased. For EVA, PU, retail and exports segments, the average realisation declined. PU and shoes recorded the highest volume growth in wholesale category. Volumes in exports and retail segments also grew ~17-28%, albeit on a low base. The pressure on volumes and realisation is in stark contrast with the trend in FY2015 and FY2016, when the company reported robust growth rates of 22% and 17%, respectively. The pressure on revenues in FY2017 was on account of the increase in competition and moderation in demand.

RFL's profitability is exposed to the movement in raw material prices. In addition to the price of commodities, the changes in exchange rate impact the cost of material as the company imports most of its required EVA. The commodity prices were benign in last three years, which has aided profitability. The company hedges exposure to forex but not to commodity prices.

RFL recorded a muted growth of ~1.5% in its top line in FY2017 due to pressure on volumes as well as pricing (the volumes declined ~0.7% while the average realisation increased ~2.2% in FY2017). The company has witnessed pressure across majority of its product segments and Flite slippers registered the

steepest decline. Despite the muted volume growth, the company has been able to maintain its margins due to efficiency-improvement initiatives undertaken. Marginally higher revenues, along with stable operating margin, led to a marginal increase in OPBITDA from Rs. 241 crore in FY2016 to Rs. 244 crore in FY2017. Higher OPBITDA and the decline in interest expense led to marginal increase in PAT from Rs. 120 crore to Rs. 123 crore during the year. However, slowing sales and additional capex led to a decline in return indicators - Return on Capital Employed (RoCE) declined from ~30% in FY2016 to 27% in FY2017 and Return on Networth (RoNW) fell from 28% to 23% during this period.

As on March 31, 2017, total debt of the company stood at Rs. 173 crore. Out of this, Rs. 113 crore was in the form of term loans and Rs. 60 crore was in the form of working capital debt. The long-term debt of the company primarily comprises the debt employed to set up a new manufacturing facility at Bhiwadi in Rajasthan, a centralised warehouse, a PU-manufacturing facility and Hawaii slippers-manufacturing facility. Short-term debt comprises working capital limits utilisation from banks in the form of cash credit, working capital demand loans (WCDL), and commercial paper. The company's debt has declined from Rs. 236 crore to Rs. 174 crore due to scheduled repayment of term loans as well as reduction in working capital borrowings. Healthy accruals and reduction in debt have resulted in an improvement in the debt-protection indicators. Interest coverage ratio improved from 11 times to 16 times, TD/OPBITDA improved from 0.98 times to 0.71 times, DSCR improved from 3.71 times to 3.87 times and NCA/TD improved from 67% to 100%.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Link to the applicable criteria

[Corporate Credit Ratings: A Note on Methodology](#)

[Rating Methodology for Entities in Footwear Industry](#)

About the company

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 slippers in 1995. At present, the company manufactures Hawaii slippers, EVA- and PU-based slippers, 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. It sells footwear under the "Relaxo", "Flite" "Bahamas" and "Sparx" brands.

Status of non-cooperation with previous CRA: Not applicable

Rating history for the last three years
Table

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating assigned in FY2017	Date & Rating assigned in FY2017	Date & Rating assigned in FY2016	Date & Rating assigned in FY2016	Date & Rating assigned in FY2015	
				June-17	Dec-16	Jul-16	Nov-15	Jun-15	Sep-14	
1	Term Loans	Long Term	101.67	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	
2	Fund-based Limits	Long Term	100.00	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	
3	Non-fund Based Limits	Short Term	120.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	
4	Commercial Paper/ Short-term Debt	Short Term	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	

Note on complexity levels 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**

Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated/ Outstanding (Rs crore)	Current Rating and Outlook
Term Loan 1	25.02.2015	9.66%	25.02.2020	34.11	[ICRA]A+
Term Loan 2	13.08.2012	10.90%	13.08.2017	1.03	[ICRA]A+
Term Loan 3	02.01.2013	10.25%	02.01.2018	6.17	[ICRA]A+
Term Loan 4	14.02.2013	10.25%	14.02.2018	4.11	[ICRA]A+
Term Loan 5	17.02.2016	8.35%	17.02.2021	28.13	[ICRA]A+
Term Loan 6	21.03.2016	8.35%	17.02.2021	28.13	[ICRA]A+
Fund-based Limits	--	--	--	120.00	[ICRA]A+
Non-fund Based Limits	--	--	--	100.00	[ICRA]A1+
Commercial Paper 1	13.04.2017	7.50%	23.06.2017	20.00	[ICRA]A1+
Commercial Paper 2	12.04.2017	7.10%	23.06.2017	30.00	[ICRA]A1+

Source: Relaxo Footwears Limited

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