ICRA

Relaxo Footwears Limited

December 28, 2017

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	101.67	101.67	[ICRA]AA- (Stable); Rating upgraded from [ICRA]A+ and outlook changed from Positive
Cash Credit	100.00	100.00	[ICRA]AA- (Stable); Rating upgraded from [ICRA]A+ and outlook changed from Positive
Non-funds-based	120.00	120.00	[ICRA]A1+; Reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; Reaffirmed
Total	**371.67**	**371.67**	

Rating action

ICRA has upgraded the long-term rating for the Rs. 101.67-crore[1] term loans and Rs. 100 crore fund-based limits of Relaxo Footwears Limited (RFL) from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus). The outlook on long-term rating has been revised from Positive to Stable. Further, ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 50.00-crore commercial paper programme and Rs. 120 crore non-fund-based limits of RFL[2].

Rationale

The rating upgrade takes into account the continued improvement in RFL's financial risk profile on the back of healthy cash flows and reduction in debt, resulting in strong debt protection indicators- interest cover stood at 30 times, Net cash accrual/Total debt at 100%, Total debt/OPBITDA at 0.71 times, and gearing at 0.29 times as on September 30, 2017. 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 increase in working capital intensity of operations post the rollout of Goods and Services tax (GST), lower profitability margin in H1FY12018 due to increase in raw material prices and significant outflows towards capex, which has impacted the company's free cash flows. Also, the rating is constrained by intense competition due to the fragmented nature of the Indian footwear industry, strong presence of the unorganised sector, and by the vulnerability of RFL's profitability to the fluctuation in raw material prices and exchange rates. ICRA also take into account the modest accruals from RFL's retail network, despite better scale, reach and significant investments.

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 sensitivities.

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[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

RFL is expected to benefit from healthy demand for its products at multiple price points and different customer segments. Further, notwithstanding the exposure to volatility in raw material prices and competitive intensity in the sector, the established market position of the company is expected to continue to support adequate cash accruals. The outlook may be changed to Positive if the improvement in accruals and financial risk profile is better than expected. Conversely, the outlook on the rating may be changed to Negative if the growth in accruals is below ICRA's estimates or if the company's capital structure/liquidity profile deteriorates from the current levels.

Key rating drivers

Credit strengths

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, RFL has successfully expanded in new product categories, geographies and customer segments and is now one of the largest footwear manufacturers in the country. The company has eight plants spread across three cities with aggregate manufacturing capacity of more than 20 crore pairs per annum

Strong internal accruals of the company have led to healthy debt protection indicators- The company has recorded healthy internal accruals which, coupled with the reduction in debt, has led to strong debt protection indicators- interest cover stood at 30 times, Net cash accrual/Total debt at 100%, Total debt/OPBITDA at 0.71 times, and gearing at 0.29 times as on September 30, 2017

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 50% of the revenues. Company has also started selling its products through ecommerce websites such as Amazon and Flipkart, reaching a wider customer base

Diversified product portfolio- The company started as 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. Share of Hawai slippers has now come down to ~27% of revenues and the remaining $3/4^{th}$ of sales comes from higher value products

Credit weaknesses

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 that the internal cash flows are likely to be adequate in meeting capex requirements without any reliance on external debt

Increase in working capital intensity of operations- The working capital intensity of operations has increased post the rollout of Goods and Services Tax (GST), which led to blockage of input credit and also led to company offering higher credit period to its channel partners

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 Ethylene Vinyl Acetate (EVA) requirement. The commodity prices were benign in last three years, which has aided profitability. Nevertheless, company has gained pricing power in the domestic market and is in a position to insulate its margins, to an extent, from moderate increases in commodity prices

Highly competitive industry: Footwear industry is inherently competitive as it is characterised by strong presence of 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

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

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology

Rating Methodology for Entities in Footwear Industry

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, RFL 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", "Flite" and "Sparx" brands.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	1713.02	1739.84
PAT (Rs. crore)	120.28	122.97
OPBDIT/ OI (%)	14.07%	14.04%
RoCE (%)	28.02%	26.37%
Total Debt/ TNW (times)	0.49	0.29
Total Debt/ OPBDIT (times)	0.98	0.71
Interest coverage (times)	10.53	16.09
NWC/ OI (%)	11%	11%

Source: RFL's Annual Report, ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2017		Date & Rating in FY2016		Date & Rating in FY2015
					Dec 2017	Jun 2017	Dec 2016	Jul 2016	Nov 2015	Jun 2015	Sep 2014
1	Term Loans	Long-term	101.67	101.67	[ICRA]AA- (stable)	[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]AA- (stable)	[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+	[ICRA]A1
4	Commercial Paper/ Short-term Debt	Short-trem	50.00	-	[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	13.08.2012	-	13.08.2017	1.03	[ICRA]AA-(stable)
NA	Term Loan 2	02.01.2013	-	02.01.2018	6.17	[ICRA]AA-(stable)
NA	Term Loan 3	14.02.2013	-	14.02.2018	4.11	[ICRA]AA-(stable)
NA	Term Loan 4	25.02.2015	-	25.02.2020	34.11	[ICRA]AA-(stable)
NA	Term Loan 5	17.02.2016	-	17.02.2021	28.13	[ICRA]AA-(stable)
NA	Term Loan 6	21.03.2016	-	17.02.2021	28.13	[ICRA]AA-(stable)
NA	Fund-based Limits	--	--	--	120.00	[ICRA]AA-(stable)
NA	Non-fund Based Limits	--	--	--	100.00	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	50.00	[ICRA]A1+

Source: Relaxo Footwears Limited

ANALYST CONTACTS

K Ravichandran
+91-44-45964301
ravichandran@icraindia.com

Mr. Shubham Jain
+91-124-4545306
shubhamj@icraindia.com

Kapil Banga
+91 124 4545 391
Kapil.banga@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-3341580 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 66069999