Relaxo Footwears Limited

January 16, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	51.71	39.71	[ICRA]AA (Stable); Rating upgraded from [ICRA]AA- and outlook changed from Positive to Stable
Cash Credit	100.00	150.00	[ICRA]AA (Stable); Rating upgraded from [ICRA]AA- and outlook changed from Positive to Stable
Non-funds-based	120.00	120.00	[ICRA]A1+; Outstanding
Commercial Paper	50.00	50.00	[ICRA]A1+; Outstanding
Total	**321.71**	**359.71**	

Rating action

ICRA has upgraded the long-term rating for the Rs. 39.71-crore[1] (earlier Rs. 51.71 crore) term loans and Rs. 150 crore (earlier Rs. 100 crore) fund-based limits of Relaxo Footwears Limited (RFL) from [ICRA]AA- (pronounced ICRA double A minus) to [ICRA]AA (pronounced ICRA double A). The outlook on long-term rating has been revised from Positive to Stable. Further, ICRA also has short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding 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 robust increase in RFL's revenues and accruals in H1FY2019, which coupled with the reduction in leverage, led to improvement in debt protection indicators- operating income increased by 18%, from Rs. 943 crore in H1FY2018 to 1112 crore in H1FY2019, OPBDITDA grew by 18% from Rs. 132 crore to Rs. 156 crore, interest cover increased from ~32 times to ~49 times, Net cash accrual/Total debt increased from 103% to 219%, and Total debt/OPBITDA improved from 0.71 times to 0.34 times during the same period. The ratings continue to draw comfort from RFL's significant financial flexibility owing to its low debt levels coupled with large undrawn credit lines; RFL's well-established position as one of the largest players in the Indian footwear industry; its extensive pan-India distribution network and its diversified product portfolio. The company started with a single product (Hawai slippers) and has over the years diversified into higher value slippers as well as casual & sports shoes. The Company has been successful in diversifying its product portfolio and increasing the share of high-value products in its portfolio. Furthermore, the highest growth in H1FY2019 has come from its new product segment- Flite PU, which grew by more than 50%; Flite PU is a relatively new product for the company and is priced higher than its Hawai and Flite EVA slippers. The ratings also factor in the improved market position of the company's products over the years on account of significant advertising and branding initiatives.

The ratings, however, are constrained by the cuts made in selling price of Hawaii and Flite EVA products in H1FY2019, leading to muted growth in these products. The price cut was undertaken to address pressure on volumes of these products, increase market share, s. 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. The rating is also 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 takes into account

[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

the modest accruals from RFL's retail store network. Even though majority of the sales are through distributors, the company operates more than 300 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 taken note of the proposed merger of RFL with Marvel Polymers Private Limited and Relaxo Rubber Private Limited (both are promoter held entities). The merger is credit positive as, once completed, it will eliminate the rent payments (~Rs. 6 crore annually) to these promoter entities, thus improving RFL's profitability and cash flows. The transaction will also increase promoter shareholding in RFL.

Outlook: Stable

RFL is expected to benefit from healthy demand for its diversified product portfolio catering to different casual footwear requirements. Company is also likely to benefit from gradual shift in the industry towards organised players due to the impact of Goods and Services Tax (GST). The rating may be upgraded if the improvement in scale of operations and financial risk profile is better than expected. Conversely, the outlook on the rating may be changed 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.

Key rating drivers

Credit strengths

Robust internal accruals of the company coupled with decline in debt have led to healthy debt protection indicators- The company has recorded strong internal accruals which, coupled with the decline in debt, has led to healthy debt protection indicators- interest cover stood at ~49 times in H1FY2019 (~32 times in H1FY2018), Net cash accrual/Total debt at 219% (103% in H1FY2018), and Total debt/OPBITDA at 0.34 times (0.71 times in H1FY2018). Further, company has significant undrawn bank lines, which provides financial flexibility

Strong growth in revenues and profits continues: RFL's turnover grew by 17% in H1FY2019 (~18% in H1FY2018), driven largely by increase in volumes as growth in Average Selling Price (ASP) remained muted. Flite PU segment registered the highest growth- more than 50%. In H1FY2019, the growth is likely to continue to be healthy in short-to-medium term due to expected increase in disposable income, competitive pricing of RFL's products and shift of business from unorganised to organised players

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 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 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 and good brand recall- 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. The market position of the company's products has also improved over the years on account of significant advertising & branding initiatives and celebrity endorsements

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

Pressure on sales of Hawai and Flite Eva slippers: In order to stave off competitive pressure in Hawai and Flite EVA slippers segment, company had to undertake cuts in selling price in H1FY2019. This was done in order to increase market share

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) and Polyurethane (PU) requirements. The commodity prices were benign in last three years, which has aided profitability

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

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 Ratings: A Note on 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, 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", "Bahamas", "Flite" and "Sparx" brands. Company has capacity to manufacture more than 20 crore pairs per annum.

Key Financial Indicators

	FY 2017 Audited	FY2018 Audited	H1FY2019 Limited Review
Operating Income (Rs. crore)	1631.15	1956.92	1111.67
PAT (Rs. crore)	119.95	161.07	85.41
OPBDIT/ OI (%)	14.16%	15.44%	14.07%
RoCE (%)	26.40%	32.65%	31.25%
Total Debt/ TNW (times)	0.29	0.20	0.13
Total Debt/ OPBDIT (times)	0.77	0.51	0.34
Interest coverage (times)	15.36	35.17	49
NWC/ OI (%)	13%	14%	13%

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 (FY2019)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
					Jan 2019	July 2018	Dec 2017	Jun 2017	Dec 2016	Jul 2016	Nov 2015	Jun 2015
1	Term Loans	Long-term	39.71	39.71	[ICRA]AA (stable)	[ICRA]AA- (positive)	[ICRA]AA- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)
2	Fund-based Limits	Long-term	150.00	41.90	[ICRA]AA (stable)	[ICRA]AA- (positive)	[ICRA]AA- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)
3	Non-fund Based Limits	Short-term	120.00	49.50	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper/ Short-term Debt	Short-term	50.00	0.00	[ICRA]A1+	[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	25.02.2015	9.36%	25.02.2020	16.61	[ICRA]AA(stable)
NA	Term Loan 2	17.02.2016	8.55%	17.05.2020	23.10	[ICRA]AA(stable)
NA	Fund-based Limits	--	--	--	150.00	[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

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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.

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For more information, visit www.icra.in

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