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FOOTWEAR INDUSTRY

Footwear industry to witness margin expansion of 200-300 bps in FY2023

SEPTEMBER 2022

Highlights

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Footwear industry sales expected to reach pre-Covid levels in FY2023 on the back of increased footfalls and uptick in discretionary spends.

About 14-15% YoY revenue growth and 200-300 bps margin expansion is expected in FY2023; moreover, balance sheet of key players remains strong with healthy liquidity and low financial leverage, thus supporting debt protection metrics.

- Domestic footwear players are likely to witness healthy business performance in FY2023 with reversion to pre-Covid levels already witnessed in Q1 FY2023. The demand in the near term is expected to be driven by offline retail route, especially during the festival and wedding seasons. Consequently, footwear entities in ICRA's sample set is are expected to register healthy YoY revenue growth of ~14-15% in FY2023, translating into ~10% revenue growth over the pre-covid level.
- During FY2022, the casual and athleisure segments dominated the SKU mix; however, with the gradual resumption of office and reopening of schools, the formal segments are also expected to witness double digit growth in FY2023. The share of omni-channel retailing has also increased to ~10% in FY2022, up from ~3-4% in FY2020. Penetration of online sales is further expected to increase to ~14-15% of the total sales over the medium term.
- The operating margin (OPM) of footwear entities is likely to expand by ~200-300 bps in FY2023 led by healthy volumetric growth and softening of raw material prices in recent months, which is likely to benefit the entities in H2 FY2023.
- While export was impacted during Covid, the same has seen healthy improvement in FY2022 both on in footwear and leather segments with the USA and Germany emerging as the major export destinations. However, India is still a marginal player in the global trade with a meagre share of ~1%.
- The financial position of footwear players is expected to remain strong with healthy on-balance sheet liquidity and low financial leverage. The companies are expanding in Tier 3 towns and rural areas through the franchisee route, thus limiting own capex needs. The credit metrics are likely to remain strong with interest coverage and Total Debt/OPBDITA being estimated at 8.2x and 1.4x respectively in FY2023 compared to 6.8x and 1.7x respectively in FY2022.

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Thank You!

Q1FY2023 has been the best quarter since onset of Covid in terms of revenues

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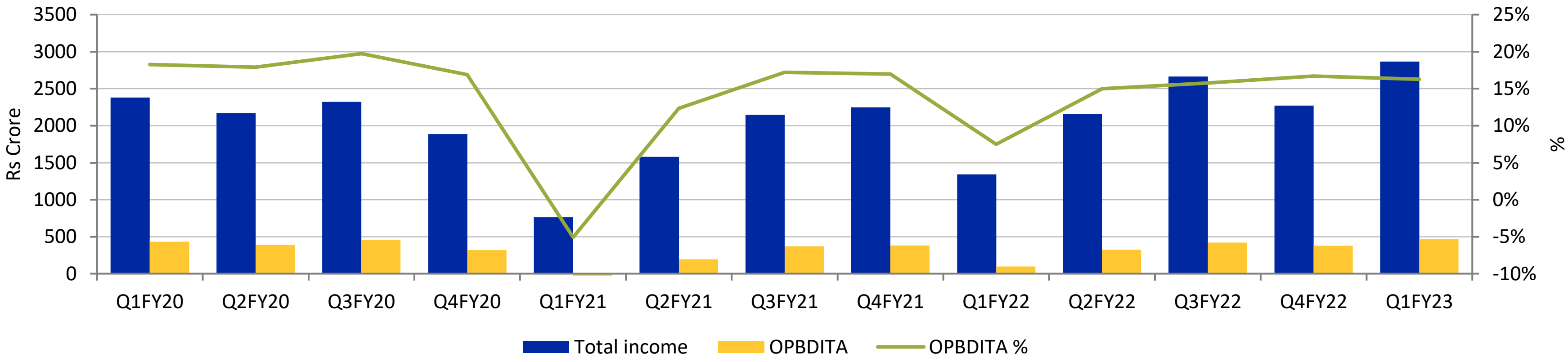
Exhibit: QOQ trend in revenues and operating margins of ICRA Sample set



- The footwear entities in ICRA's sample set reported a 25% YoY improvement in revenues in FY2022, albeit on a low base. The same was only 4% lower than pre covid sales of FY2020. While the recovery had been sharp in Q2 FY2022 and Q3 FY2022, the spread of the new variant led to almost ~14% lower revenues in Q4 FY2022 compared to the corresponding previous quarter. Consequently, the revenues remained lower than pre-Covid levels.

- While OPM was adversely impacted in Q1FY 22,the same improved in rest of the year driven by better operating leverage. However, operating margins in FY2022 remained lower by around 4% in comparison to FY2020. However the Q1FY2023 has seen a robust growth in revenues and operating margins remained buoyant at ~17%.

Source: ICRA Research, data based on 6 footwear entities(Bata India Limited,Relaxo Footwears Limited,Mirza International Limited,Superhouse Limited,Khadim Limited,Liberty Shoes Limited