

## Covid-19 impacts topline, B/S strengthens...

Disruptions owing to store closures (from mid-March onwards) led to substantial contraction in revenues for Relaxo Footwear in Q4FY20. However, better gross margins, lower taxation rate arrested PAT de-growth, to a certain extent. Revenue for the quarter de-grew 15% YoY to ₹ 540.6 crore with volumes down ~18-20% YoY. Favourable product mix, benign RM prices (EVA & PU: crude linked derivatives) led to significant gross margin expansion of 660 bps YoY to 59.8% (up 200 bps QoQ). However, due to negative operating leverage (employee & other expenses as percentage to sales up 313 bps, 277 bps YoY, respectively), EBITDA margin expansion was restricted (up 70 bps YoY to 15.7%). PAT for Q4 de-grew 5% YoY to ₹ 51.8 crore, aided by lower tax rate (25.0% vs. 31% in Q4FY20). On the b/s front, stringent working capital policy (18% of revenues) translated to healthy CFO generation in FY20 (CFO/EBITDA: 75%), with FCF of ~₹ 160.0 crore (capex: ₹ 116.0 crore). Subsequently, Relaxo retired debt worth ₹ 90.0 crore making it virtually debt free. Near term challenges owing to slump in demand, manufacturing constraint are expected impact profitability.

### Premiumisation drives revenue for FY20

Relaxo exited FY20 with revenue growth of 5% YoY to ₹ 540.6 crore. Topline was mainly driven by realisation growth of 8% YoY to ₹ 135/pair. Volumes for FY20 fell 2.7% YoY to 17.9 crore pairs (management indicated volume growth till mid-March was at 6-7%). Favourable product mix and benign raw material prices resulted in gross margin expansion of 370 bps YoY to 56.9%. Subsequently, EBITDA margins improved 170 bps YoY to 15.7% (adjusted for Ind-AS 116). The management indicated that while north, east and central regions have gradually picked up pace, western region continues to be under stress (50% of touch points currently operational). Inventory in trade channels is at ~ 60 days. Hence, primary sales are expected to be adversely impacted in Q1FY21. Early trends indicate at pent up demand towards low ticket size products such as slippers/open sandals (~67% of product portfolio). Playing out of premiumisation theme looks challenging in the current scenario as customers would opt for value proposition.

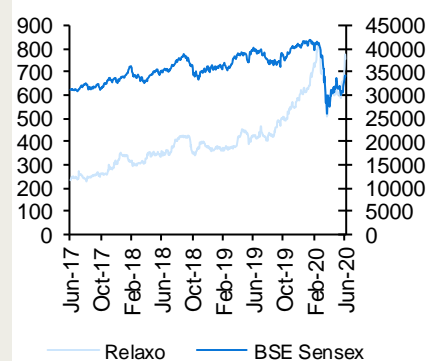
### Valuation & Outlook

Relaxo Footwear over the years has maintained balance sheet prudence with controlled working capital cycle (NWC days: 65 days), healthy asset turns of 2.5x and generating RoCE of 20%+. With earnings in short-term expected to be negatively impacted (particularly H1FY21E), Relaxo through its strong balance sheet and brand patronage is expected to tide over the current situation. We bake in revenue, EBITDA CAGR of 10%, 15%, respectively, in FY20-22E. The stock saw a sharp run up last month (up 25%) and is currently trading at rich valuations (56.3x FY22E EPS). We continue to remain structurally positive on the stock and its long term growth prospects but post the recent stock price flare up, we downgrade a notch from BUY to **HOLD** with a target price of ₹ 715 (earlier: ₹ 775). We would prefer to await better entry points at lower levels from a long term holding perspective.

#### Particulars

Particulars	Amount
Market Capitalisation (₹crore)	17,193.3
Total Debt (FY 20) (₹crore)	19.2
Cash (FY 20) (₹crore)	4.1
EV (₹crore)	17,208.4
52 Week H / L	830 / 388
Equity Capital (₹crore)	24.8
Face Value (₹)	1.0

#### Price Chart



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#### Key Financial Summary

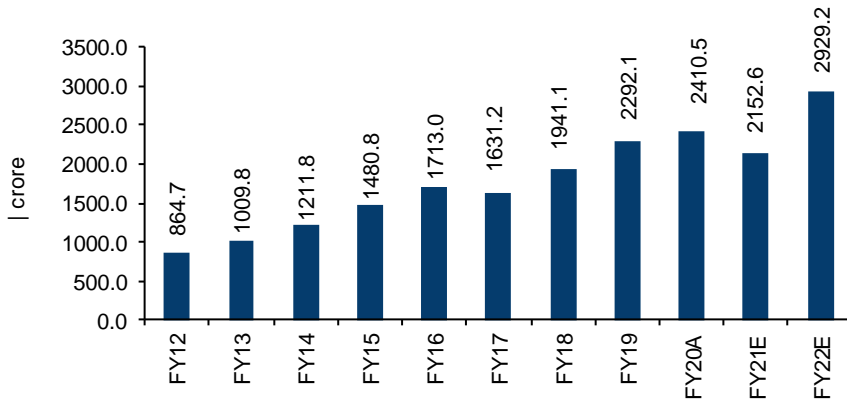
₹ crore	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,292.1	2,410.5	2,152.6	2,936.1	10.4%
EBITDA	324.3	408.8	338.0	543.2	15.3%
Adjusted PAT	175.4	226.1	163.8	318.1	18.6%
P/E (x)	98.0	76.1	105.0	54.1	
EV/Sales (x)	7.5	7.1	8.0	5.8	
EV/EBITDA (x)	53.4	42.1	50.9	31.5	
RoCE (%)	22.6	23.9	16.5	26.4	
RoE (%)	15.9	17.8	11.6	19.3	

## Key conference call takeaways

- The company added 47 new exclusive stores in FY20 taking total store count to 390 (8% of revenues). Online sales contributed ~ 10% to sales, whereas share of exports was at 4%
- As per the management, channel inventory could be around 60 days and primary sales may take time to pick up
- Raw material cost is likely to remain benign in Q1FY21. Gross margin is likely to sustain at FY20 levels of 57-58%
- The major raw materials are EVA and PU, which are imported from seven to eight countries
- On the current demand trend, the company indicated at enhanced demand for open footwear. Also, rural demand has been better than urban demand as urban regions have not yet fully reopened and are still facing restrictions related to days/timing of opening
- Overall, there are around 85000 direct outlets of footwear in India of which Relaxo has a reach of around 45000 outlets. The company currently has ~800 distributors (added 100 in FY20)
- On the capex front, the company is expected to spend ~ ₹ 100 crore, of which ₹ 50 crore is expected to be spent on construction of building and rest would be maintenance capex
- The management indicated that company revenues were growing ~12% till mid-March (volume growth: 5-6%)
- The company is likely to enhance its focus on value products rather than premium products in the next two quarters
- As per management estimate, in market share terms, it commands overall 5% market share. West and southern regions continue to grow at a faster pace (albeit on low base)

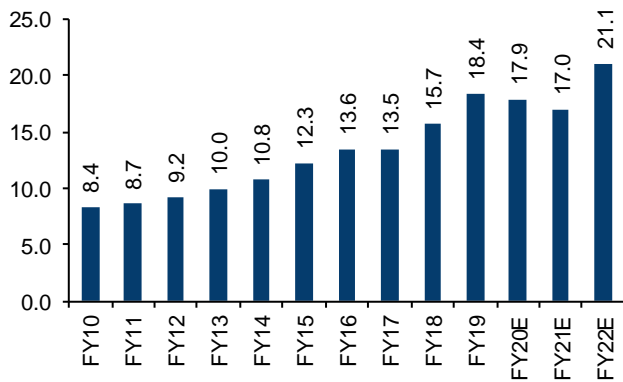
## Financial story in charts

Exhibit 1: Revenue trend



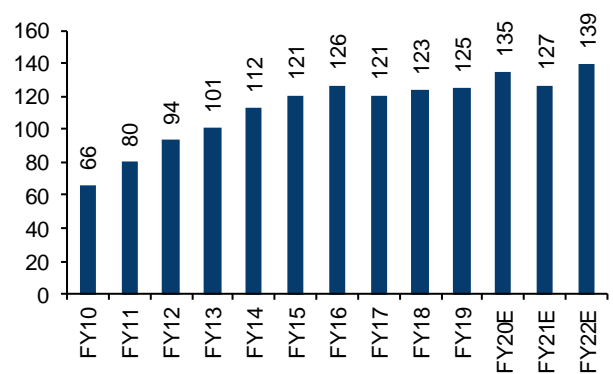
Source: Company, ICICI Direct Research

Exhibit 2: Volume trend (crore pairs)



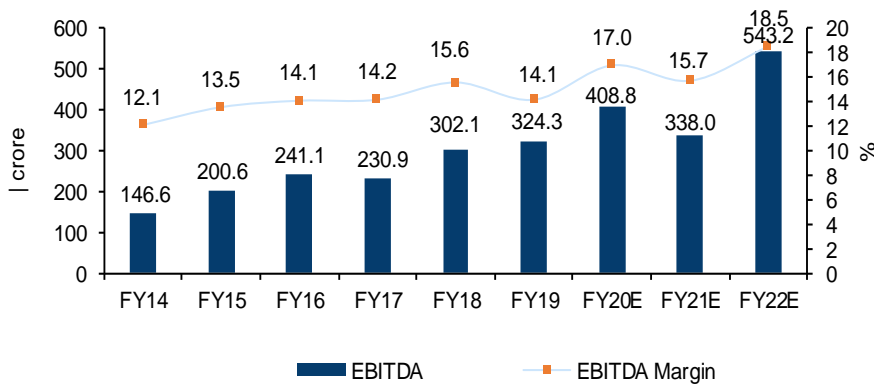
Source: Company, ICICI Direct Research

Exhibit 3: Realisation trend (per pair)



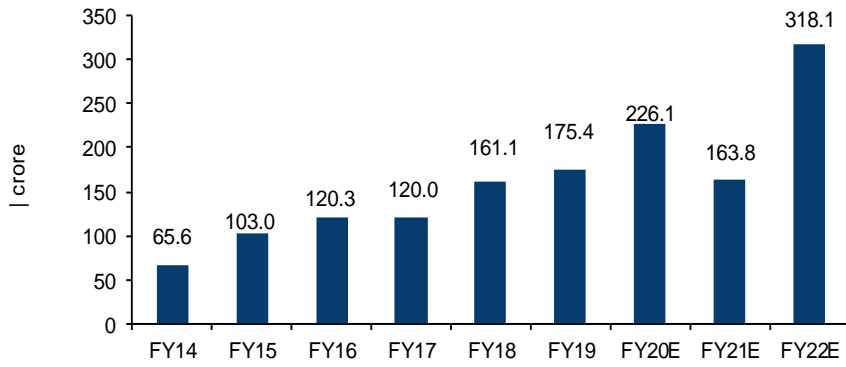
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



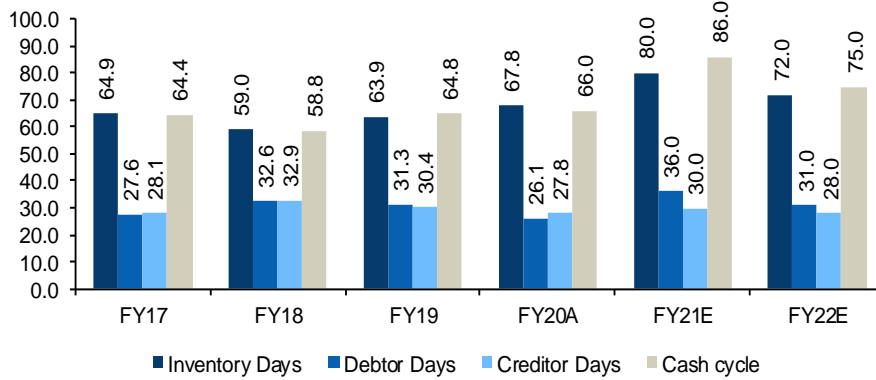
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Net working capital days



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 7: Profit & Loss Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
<b>Net Sales</b>	2,292.1	2,410.5	2,152.6	2,936.1
Growth (%)	18.1	5.2	(10.7)	36.4
Total Raw Material Cost	1,072.3	1,039.5	914.8	1,277.2
Gross Margins (%)	53.2	56.9	57.5	56.5
Employee Expenses	258.7	294.0	301.4	328.8
Other Expenses	636.8	668.2	598.4	786.9
Total Operating Expenditure	1,967.8	2,001.7	1,814.6	2,392.9
<b>EBITDA</b>	324.3	408.8	338.0	543.2
EBITDA Margin	14.1	17.0	15.7	18.5
Interest	6.9	16.9	18.4	16.5
Depreciation	62.4	109.4	108.7	116.6
Other Income	13.0	9.1	8.0	15.0
Exceptional Expense	-	-	-	-
PBT	268.0	291.5	218.9	425.0
Total Tax	92.5	65.5	55.1	107.0
<b>Profit After Tax</b>	175.4	226.1	163.8	318.1

Source: Company, ICICI Direct Research

### Exhibit 8: Cash Flow Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Profit/(Loss) after taxation	175.4	226.1	163.8	318.1
Add: Depreciation	62.4	109.4	108.7	116.6
Net Increase in Current Assets	-161.5	-70.6	-98.4	-205.3
Net Increase in Current Liabilities	44.8	24.3	-5.6	49.6
<b>CF from operating activities</b>	<b>121.1</b>	<b>289.2</b>	<b>168.4</b>	<b>278.9</b>
(Inc)/dec in Investments	0.5	0.0	-1.3	0.0
(Inc)/dec in Fixed Assets	-259.5	-116.0	-96.2	-100.0
Others	1.6	-1.0	-3.2	0.0
<b>CF from investing activities</b>	<b>-257.4</b>	<b>-117.0</b>	<b>-100.6</b>	<b>-100.0</b>
Inc / (Dec) in Equity Capital	0.4	12.4	0.0	0.0
Inc / (Dec) in Loan	-41.4	-92.8	10.8	-10.0
Others	175.5	-89.9	-56.9	-113.7
<b>CF from financing activities</b>	<b>134.5</b>	<b>-170.4</b>	<b>-46.0</b>	<b>-123.7</b>
Net Cash flow	-1.8	1.8	21.7	55.2
Opening Cash	4.0	2.2	4.1	25.8
<b>Closing Cash</b>	<b>2.2</b>	<b>4.0</b>	<b>25.8</b>	<b>81.0</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Balance Sheet

(Year-end March)	FY19	FY20A	FY21E	FY22E
Equity Capital	12.4	24.8	24.8	24.8
Reserve and Surplus	1,092.7	1,247.6	1,386.8	1,625.4
Total Shareholders funds	1,105.1	1,272.4	1,411.6	1,650.2
Total Debt	112.0	19.2	30.0	20.0
Non Current Liabilities	34.5	172.1	172.1	172.1
<b>Source of Funds</b>	<b>1,251.5</b>	<b>1,463.7</b>	<b>1,613.8</b>	<b>1,842.3</b>
Gross block	941.1	960.7	1,060.7	1,160.7
Less: Accum depreciation	140.6	210.6	287.0	369.4
Net Fixed Assets	800.5	750.1	773.7	791.3
Capital WIP	10.2	43.8	40.0	40.0
Intangible assets	48.9	42.8	42.8	42.8
Investments	0.2	0.2	1.5	1.5
Inventory	401.5	447.7	471.8	579.2
Cash	2.2	4.1	25.8	81.0
Debtors	196.6	172.1	212.3	249.4
Loans & Advances & Other (	136.9	185.8	219.9	280.8
Total Current Assets	737.2	809.7	929.8	1,190.4
Creditors	190.9	183.8	176.9	225.2
Provisions & Other CL	162.1	193.6	194.8	196.1
Total Current Liabilities	353.0	377.4	371.7	421.3
Net Current Assets	384.2	432.3	558.1	769.1
LT L& A, Other Assets	7.6	194.5	197.7	197.7
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,251.5</b>	<b>1,463.7</b>	<b>1,613.8</b>	<b>1,842.3</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Key Ratios

(Year-end March)	FY19	FY20A	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	7.1	9.1	6.6	12.8
Cash EPS	9.6	13.5	11.0	17.5
BV	44.5	51.3	56.9	66.5
DPS	0.9	2.6	1.0	3.2
Cash Per Share	0.1	0.2	1.0	3.3
<b>Operating Ratios (%)</b>				
EBITDA margins	14.1	17.0	15.7	18.5
PBT margins	11.7	12.1	10.2	14.5
Net Profit margins	7.7	9.4	7.6	10.8
Inventory days	63.9	67.8	80.0	72.0
Debtor days	31.3	26.1	36.0	31.0
Creditor days	30.4	27.8	30.0	28.0
<b>Return Ratios (%)</b>				
RoE	15.9	17.8	11.6	19.3
RoCE	22.6	23.9	16.5	26.4
<b>Valuation Ratios (x)</b>				
P/E	98.0	76.1	105.0	54.1
EV / EBITDA	53.4	42.1	50.9	31.5
EV / Sales	7.5	7.1	8.0	5.8
Market Cap / Revenues	7.5	7.1	8.0	5.9
Price to Book Value	15.6	13.5	12.2	10.4
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.0	0.0	0.0
Debt/EBITDA	0.3	0.0	0.1	0.0
Current Ratio	2.1	2.1	2.4	2.6
Quick Ratio	0.9	0.9	1.2	1.3

Source: Company, ICICI Direct Research

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Sell: <-15%



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