

# Relaxo Footwears (RELF00)

CMP: ₹ 775

Target: ₹ 745 (-4%)

Target Period: 12 months

HOLD

February 6, 2023

## Lower volumes denting profitability...

**About the stock:** Relaxo is India's leading footwear manufacturing company, boasting of largest capacity of 10.0 lakh pairs per day. Relaxo is a dominant player in the open footwear space (~76% of sales), with its strong portfolio of brands ('Flite', 'Bahamas', 'Sparx', 'Relaxo).

- Market leader in value priced segment selling ~19 crore pairs annually
- Relaxo, over the years, has maintained b/s prudence with controlled working capital, healthy asset turns of 2.5x and generating RoCE of 20%+

**Q3FY23:** Gross margins recovered but EBITDA margins continued to be significantly lower YoY due to negative operating leverage.

- Revenue fell 8% YoY to ₹ 681 crore (up 2% QoQ). As per our calculation, volumes continued to stay under pressure (~ 4.1 crore pair), down 8% YoY. Owing to price cuts average realisation fell 4% QoQ at ₹ 165/pair
- Gross margins were at 53% vs. 48.9% in Q2FY23 and 53.2% in Q3FY22 owing to easing of raw material (EVA) prices. However, negative operating leverage led to EBITDA margins contracting by 580 bps YoY to 10.6%
- PAT for the quarter declined 57% YoY (up 35% QoQ) to ₹ 30 crore

**What should investors do?** Relaxo witnessed ~45% decline in share price on a YTD basis owing to unprecedented inflation scenario (35% of its RM are based on crude derivatives) and uncertainties on the demand outlook. While we do remain structurally positive on the business model given its strong brand prominence in tier II/III towns and healthy balance sheet to weather the crisis, premium valuations and near term headwinds may limit upsides. Also, with high cost inventory still existing in distribution channels, the margin recovery to normal levels is likely to be gradual and would be dependent on clearing of existing high cost inventory across channels. Hence, we maintain our **HOLD** rating on the stock with a revised target price. Further volume recovery after correction in ASPs, would be a key monitorable as volume trajectory has stagnated in the past few quarters to ~4 crore pairs.

**Target Price and Valuation:** We value Relaxo at ₹ 745 i.e. 56x FY25E EPS.

### Key triggers for future price performance:

- Despite selling ~18 crore pairs, Relaxo's current market share is <10%. Given its robust balance sheet and strong brand patronage, we believe there is enough headroom for long-term growth and market share gains
- While the north region remains the main fortress for the company (50%+ revenues), west and south remain relatively underpenetrated markets. Relaxo has geo-tagged ~100000 outlets (currently present in ~60000 outlets), which signifies immense opportunity to penetrate new territories
- We model revenue CAGR of 10% in FY22-25E with volumes recovering to ~21.7 crore pairs in FY25 (FY21: 19.0, FY22: 17.5, FY23: 16.1 crore pairs)

**Alternate Stock Idea:** Apart from Relaxo, in our retail coverage we also like Bata.

- Bata India has a strong b/s, diversified branded product portfolio and pan India network. BUY with a target price of ₹ 2065



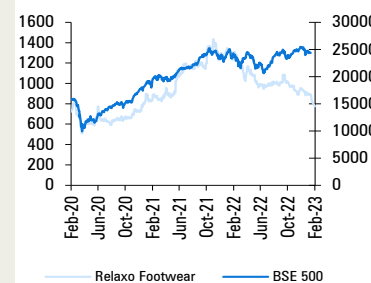
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	19,227.8
Total Debt (FY22) (₹ crore)	20.0
Cash & investment (FY22) (₹ crore)	206.8
EV (₹ crore)	19,041.0
52 Week H / L	1340 / 773
Equity Capital (₹ crore)	24.9
Face Value (₹)	1.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	70.8	70.8	70.8	70.8	71.0
FII	3.8	3.2	3.2	3.1	3.0
DII	7.1	6.9	7.1	7.4	7.6
Others	18.3	19.1	19.0	18.7	18.4

### Price Chart



### Key risks

**Key Risk:** (i) Faster than expected recovery in volumes can aid revenue growth (ii) Higher RM cost could subdue margins

### Research Analyst

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### Key Financial Summary

Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	2,410.5	2,359.2	2,653.3	10.0%	2,716.8	3,115.1	3,510.8	9.8%
EBITDA	409.0	495.5	415.8	12.0%	329.8	482.8	572.3	11.2%
Adjusted PAT	226.3	291.6	232.7	14.0%	158.7	273.0	332.2	12.6%
P/E (x)	85.0	66.0	82.9		121.6	70.7	58.1	
EV/Sales (x)	8.0	8.0	7.2		7.0	6.1	5.3	
EV/EBITDA (x)	47.1	38.2	46.0		57.5	39.1	32.8	
RoCE (%)	23.9	26.0	18.3		12.4	18.9	20.6	
RoE (%)	17.8	18.5	13.2		8.5	13.4	14.7	

Source: Company, ICICI Direct Research

## Key takeaways of Q3FY23 results

- The management indicated that demand continued to remain subdued and was negatively impacted by high inflation, which impacted the purchasing power of its core customer. The mass category of open footwear (Hawaii and Flite brands) had declined due to customers shifting to cheaper unbranded products. The closed footwear category continues to grow after opening up of markets post Covid. Revenue for the quarter declined 8% YoY (up 2% QoQ) to ₹ 681 crore. Overall ASP for Relaxo was at ₹ 165 in Q3FY23
- Revenue trajectory for Relaxo continued to remain sluggish due to existence of high priced inventory with the company's distribution channels, which impacted volume growth. From September onwards, the company had taken a price correction of 15-20% in the open footwear category. The management highlighted that volumes have marginally improved QoQ post price reduction by the company. The company expects the full impact of price corrections to be visible in ensuing quarters as the high priced inventory is cleared from distribution channels
- **In the previous four quarters, average quarterly volumes have stagnated to ~ 4.0 crore pairs after hitting an all-time quarterly high of 5.7 crore pairs in Q4FY21.** Relaxo, in FY21, had recorded its highest sales volume (19.1 crore pairs) as the pandemic led restrictions had given a fillip to demand for open footwear (slippers & sandals). However, as restrictions eased from Q2FY22 onwards, demand for open footwear (~75% of sales) started to moderate
- EVA, which is a major raw material for the company, has seen huge volatility in prices with prices increasing from ₹ 120 per kg to ₹ 300 per kg and declining to ₹ 160 per kg then moving up again to ₹ 200 per kg. **In Q2FY23, owing to high cost inventory, cost of goods sold (COGS) per pair increased to an all-time high of ₹ 88/kg (up 25% YoY). However, in Q3FY23, the COGS per pair has reduced to ₹ 78/kg (Q3FY22 ₹ 77/kg)**
- On the positive side, cuts in prices could result in enhanced volumes in ensuing quarters (leading to positive operating leverage). Factoring in Q3FY23 performance, we revise our EBITDA estimates downwards by 4% in FY23E (EBITDA margin: 12.1%). With stabilisation in RM prices and recovery in volumes, we anticipate EBITDA margins will revert back to 15-16% from Q1FY24E
- Brand Sparx is performing well as demand for sports and athleisure category continues to be robust. The brand contributes ~38% to revenues with closed shoes contributing ~60%. The management indicated that currently the capacity of sports shoes/sandals is almost fully utilised (capacity: 50000 pairs per day). Hence, it has proposed to add another 50000 sports shoes capacity per day to cater to the strong demand. The plant is expected to be operational from April 2023. For Sparx brand, the company is looking to expand its presence in the north and eastern region as the brand has a good foothold in the southern and western regions. It believes that athleisure footwear segment will grow at a fast clip owing to a shift in consumer behaviour towards fitness based products
- The online channel contributed 12% of revenues in FY22. The company expects it to increase to 15% over the next two to three years. For the Sparx brand, the contribution from the online channel is between 20% and 25%. The same is expected to increase, going ahead
- On the overall capex front, the management indicated that capex for FY23 would be ~ ₹ 140 crore while for FY24 it would be at ₹ 80-100 crore

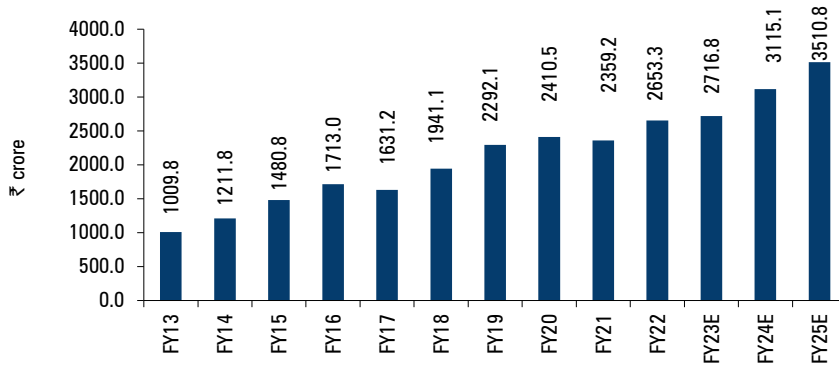
**Exhibit 1: Variance Analysis**

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	681.0	743.5	-8.4	669.7	1.7	Volumes declined 8% YoY and were up by 2%QoQ. Average realisations remained flattish YoY at ₹ 165 per pair (QoQ decline of 4%)
Raw Material Expens	319.9	348.0	-8.1	342.2	-6.5	
Gross Profit	361.1	395.5	-8.7	327.5	10.3	
Gross Profit Margin	53.0	53.2	-17 bps	48.9	412 bps	Gross margins recovered QoQ by 412 bps to 53% owing to easing of RM cost (EVA & PU).
Employee exp	86.2	84.7	1.8	84.5	2.1	
Other Exp	202.7	189.2	7.1	183.6	10.4	
EBITDA	72.3	121.6	-40.6	59.4	21.6	
EBITDA Margin (%)	10.6	16.4	-575 bps	8.9	173 bps	Owing to negative operating leverage, EBITDA margins declined by 575 bps YoY (up 173 bps QoQ)
Depreciation	32.0	29.1	10.0	30.5	4.7	
Other Income	4.4	5.5	-19.2	5.7	-21.9	
Interest	4.1	4.1	1.5	4.1	0.0	
Exceptional Income	-	-	-	-	-	
PBT	40.6	94.0	-56.8	30.4	33.3	
Tax Outgo	10.5	23.9	-56.1	8.0	30.3	
PAT	30.1	70.1	-57.1	22.4	34.4	

Source: Company, ICICI Direct Research

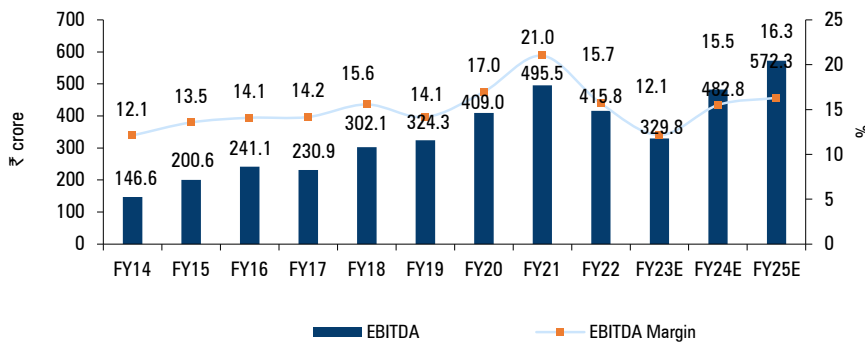
## Financial story in charts

Exhibit 2: Revenue growth trend



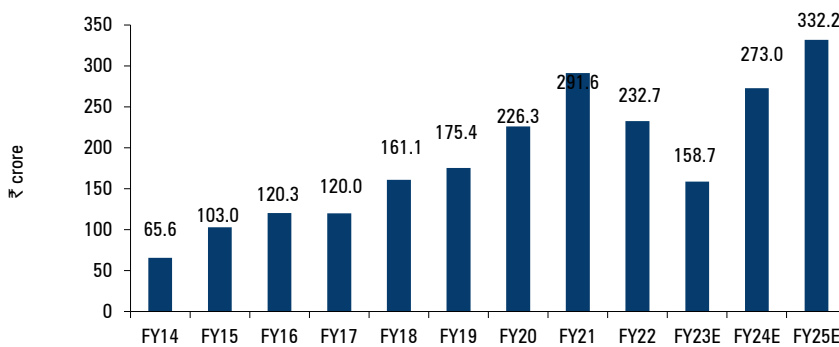
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin trend



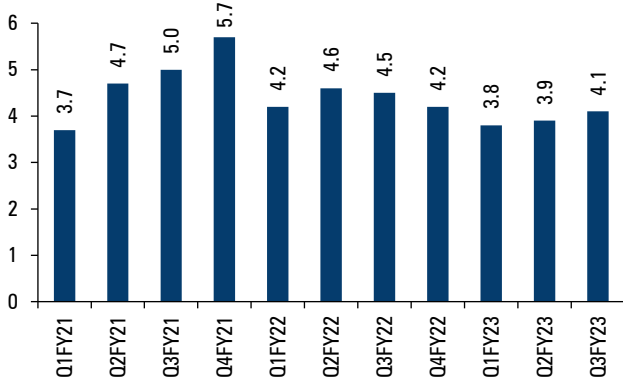
Source: Company, ICICI Direct Research

Exhibit 4: Net profit trend



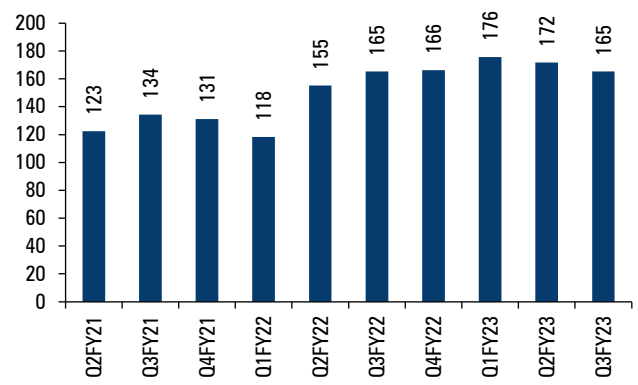
Source: Company, ICICI Direct Research.

Exhibit 5: Quarterly volume trend (crore pairs)



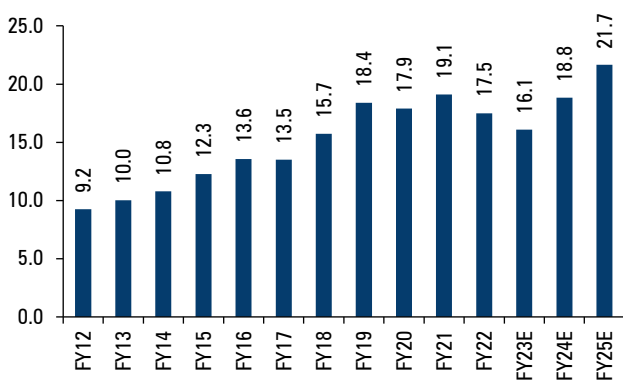
Source: Company, ICICI Direct Research

Exhibit 6: Realisation trend (₹/pair)



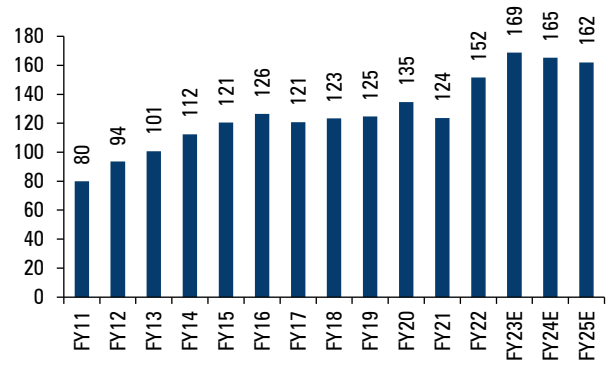
Source: Company, ICICI Direct Research

Exhibit 7: Annual volume trend (crore pairs)



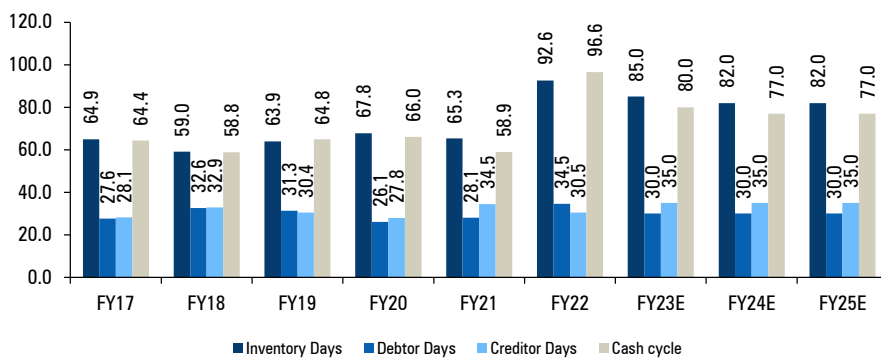
Source: Company, ICICI Direct Research

Exhibit 8: Realisation trend (₹/pair)



Source: Company, ICICI Direct Research

Exhibit 9: Net working capital cycle



Source: Company, ICICI Direct Research.

## Financial Summary

Exhibit 10: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	2,359.2	2,653.3	2,716.8	3,115.1	3,510.8
Growth (%)	(2.1)	12.5	2.4	14.7	12.7
Total Raw Material Cost	1,003.3	1,216.7	1,292.1	1,464.1	1,632.5
Gross Margins (%)	57.5	54.1	52.4	53.0	53.5
Employee Expenses	301.4	334.7	342.3	361.4	400.2
Other Expenses	559.0	686.1	752.6	806.8	905.8
Total Operating Expenditure	1,863.7	2,237.5	2,387.0	2,632.3	2,938.5
<b>EBITDA</b>	495.5	415.8	329.8	482.8	572.3
EBITDA Margin	21.0	15.7	12.1	15.5	16.3
Interest	17.1	15.3	18.3	20.2	20.2
Depreciation	110.0	113.5	123.5	132.8	143.1
Other Income	22.8	23.7	24.0	35.0	35.0
Exceptional Expense	-	-	-	-	-
PBT	391.2	310.6	212.0	364.8	444.0
Total Tax	99.6	77.9	53.4	91.8	111.7
<b>Profit After Tax</b>	291.6	232.7	158.7	273.0	332.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	291.6	232.7	158.7	273.0	332.2
Add: Depreciation	110.0	113.5	123.5	132.8	143.1
Net Increase in Current Assets	56.0	-271.6	55.3	-114.5	-138.1
Net Increase in Current Liabilities	62.0	-12.2	39.7	39.2	38.9
<b>CF from operating activities</b>	<b>519.6</b>	<b>62.5</b>	<b>377.2</b>	<b>330.5</b>	<b>376.1</b>
(Inc)/dec in Investments	-338.0	143.9	-107.2	45.0	0.0
(Inc)/dec in Fixed Assets	-123.3	-150.5	-139.8	-107.0	-130.0
Others	-13.4	1.7	9.1	0.0	0.0
<b>CF from investing activities</b>	<b>-474.7</b>	<b>-4.8</b>	<b>-238.0</b>	<b>-62.0</b>	<b>-130.0</b>
Inc / (Dec) in Equity Capital	0.0	0.1	0.0	0.0	0.0
Inc / (Dec) in Loan	-19.2	20.0	-20.0	0.0	0.0
Others	-22.2	-72.8	-94.1	-135.9	-156.7
<b>CF from financing activities</b>	<b>-41.3</b>	<b>-52.8</b>	<b>-114.1</b>	<b>-135.9</b>	<b>-156.7</b>
Net Cash flow	3.6	4.9	25.1	132.5	89.4
Opening Cash	4.1	7.7	12.6	37.6	170.2
<b>Closing Cash</b>	<b>7.7</b>	<b>12.6</b>	<b>37.7</b>	<b>170.2</b>	<b>259.6</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	24.8	24.9	24.9	24.9	24.9
Reserve and Surplus	1,547.6	1,735.0	1,838.2	2,015.6	2,231.5
Total Shareholders funds	1,572.4	1,759.9	1,863.1	2,040.5	2,256.4
Total Debt	-	20.0	-	-	-
Non Current Liabilities	164.0	173.9	173.9	173.9	173.9
<b>Source of Funds</b>	<b>1,736.4</b>	<b>1,953.8</b>	<b>2,036.9</b>	<b>2,214.4</b>	<b>2,430.3</b>

Gross block	975.3	1,099.6	1,249.6	1,379.6	1,509.6
Less: Accum depreciation	254.2	330.2	415.2	507.6	610.3
Net Fixed Assets	721.1	769.4	834.4	871.9	899.3
Capital WIP	112.2	145.2	135.0	112.0	112.0
Intangible assets	39.1	32.4	32.4	32.4	32.4
Investments	338.2	194.3	301.5	256.5	256.5
Inventory	422.1	673.3	632.7	699.8	788.7
Cash	7.7	12.5	37.6	170.2	259.6
Debtors	181.5	250.8	223.3	256.0	288.6
Loans & Advances & Other	146.1	97.2	110.0	124.6	141.3
Total Current Assets	757.3	1,033.7	1,003.6	1,250.6	1,478.2
Creditors	222.8	221.7	260.5	298.7	336.6
Provisions & Other CL	216.6	205.5	206.4	207.4	208.4
Total Current Liabilities	439.4	427.2	467.0	506.1	545.1
Net Current Assets	318.0	606.5	536.6	744.5	933.1
LT L&A, Other Assets	207.9	206.1	197.1	197.1	197.1
Other Assets	0.0	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,736.4</b>	<b>1,953.8</b>	<b>2,036.9</b>	<b>2,214.4</b>	<b>2,430.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
EPS	11.7	9.3	6.4	11.0	13.3
Cash EPS	16.2	13.9	11.3	16.3	19.1
BV	63.3	70.7	74.9	82.0	90.7
DPS	0.0	2.5	2.2	3.9	4.7
Cash Per Share	0.3	0.5	1.5	6.8	10.4
<b>Operating Ratios (%)</b>					
EBITDA margins	21.0	15.7	12.1	15.5	16.3
PBT margins	16.6	11.7	7.8	11.7	12.6
Net Profit margins	12.4	8.8	5.8	8.8	9.5
Inventory days	65.3	92.6	85.0	82.0	82.0
Debtor days	28.1	34.5	30.0	30.0	30.0
Creditor days	34.5	30.5	35.0	35.0	35.0
<b>Return Ratios (%)</b>					
RoE	18.5	13.2	8.5	13.4	14.7
RoCE	26.0	18.3	12.4	18.9	20.6
RoIC	34.6	20.8	14.8	23.3	26.3
<b>Valuation Ratios (x)</b>					
P/E	66.0	82.9	121.6	70.7	58.1
EV / EBITDA	38.2	46.0	57.5	39.1	32.8
EV / Sales	8.0	7.2	7.0	6.1	5.3
Market Cap / Revenues	8.2	7.3	7.1	6.2	5.5
Price to Book Value	12.2	11.0	10.4	9.5	8.5
<b>Solvency Ratios</b>					
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.7	2.4	2.1	2.1	2.2
Quick Ratio	0.7	0.8	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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