

Inventory re-stocking enables volume recovery...

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%+

Q4FY23: Revenue for Relaxo Footwear improved both YoY and QoQ. The company reported positive revenue growth YoY after two consecutive quarters of decline.

- Revenue for Q4FY23 grew 10% YoY to ₹ 765 crore (up 12% QoQ). Volumes grew 24% YoY to 5.2 crore pairs. Owing to price cuts and higher sales of open footwear average realisation fell 12% YoY at ₹ 147/pair
- Gross margin declined 200 bps YoY to 52.2% (53.0% in Q3F22). However, positive operating leverage led to EBITDA margin decline being restricted to 50 bps YoY to 15.4% (Q3FY23 : 10.6%)
- PAT for the quarter remained flat YoY to ₹ 63.3 crore (up 110% QoQ)

What should investors do? Relaxo's stock price has declined by 12% over the last 12 months. However, the stock price over the last three months delivered positive price momentum with an increase of ~15% owing to softening of input prices and positive impact of price corrections taken on volume growth. Though near term demand appears moderate, we do remain structurally positive on the business model given its strong brand prominence in tier II/III towns and healthy balance sheet, which would enable sustained growth over longer term. However, premium valuations may limit upsides. Hence, we maintain our **HOLD** rating on the stock with a revised target price. Further sustained positive momentum in volume growth would be a key monitorable for an improvement in operational performance.

Target Price and Valuation: We value Relaxo at ₹ 930 i.e. 60x FY25E EPS.

Key triggers for future price performance:

- Despite selling ~17 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 17% in FY23-25E with volumes recovering to ~22.8 crore pairs in FY25E (FY21: 19.0, FY22: 17.5, FY23: 17.1 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. We have a target price of ₹ 1640



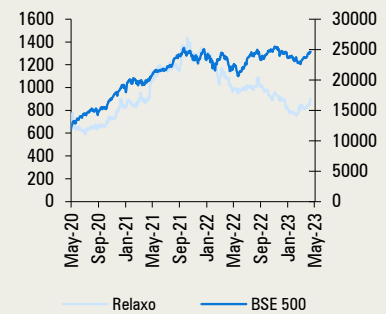
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	21,708.8
Total Debt (FY23) (₹ crore)	-
Cash & invetment (FY23) (₹ crore)	299.3
EV (₹ crore)	21,409.5
52 Week H / L	1107 /748
Equity Capital (₹ crore)	24.9
Face Value (₹)	1.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	70.8	70.8	70.8	71.0	71.3
FII	3.2	3.2	3.1	3.0	2.8
DII	6.9	7.1	7.4	7.6	8.0
Others	19.1	19.0	18.7	18.4	18.0

Price Chart



Key risks

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

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Key Financial Summary

Financials	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,410.5	2,359.2	2,653.3	2,782.8	7.5%	3,228.0	3,786.5	16.6%
EBITDA	409.0	495.5	415.8	335.8	2.1%	516.5	647.5	38.9%
Adjusted PAT	226.3	291.6	232.7	154.5	-0.8%	297.2	391.1	59.1%
P/E (x)	96.0	74.5	93.6	141.0		73.3	55.7	
EV/Sales (x)	9.0	9.1	8.1	7.7		6.6	5.6	
EV/EBITDA (x)	53.1	43.2	52.0	64.0		41.4	32.8	
RoCE (%)	23.9	26.0	18.3	12.4		20.3	23.5	
RoE (%)	17.8	18.5	13.2	8.3		14.5	16.9	

Key takeaways of Q4FY23 results

- The management highlighted that volumes grew 24% YoY to 5.2 crore pairs. Upsurge in demand at distributor level was owing to liquidation of high old cost inventory and restocking of shelves (primary sales). The management said it has gained most of the lost market share that was ceded to competition in the preceding two quarters
- On the demand front, the management indicated that it continues to remain challenging, especially in rural areas that can lead to softer demand in Q1FY24. It expects the demand recovery to pick up pace from Q2FY24 onwards and expects mid teen volume growth in FY24
- The realisation during Q4FY23 was at ₹ 147/pair and volume of 5.2 crore pairs mainly owing to change in product mix as the company sold higher proportion of open footwear. The management indicated that it expects blended realisation to trend ~ ₹ 160/pair owing to increase in share of closed footwear, going forward
- On the pricing front, the management indicated that the current pricing was competitive and it does not envisage any further price reductions from current level. The company had taken price cuts in the open footwear category whereas for closed footwear category there were no price cuts
- The raw material prices (EVA) has stabilised ~ ₹ 155-160 per kg (vs. price of ₹ 250 per kg previous year) and are expected to stay range bound in the near term. Further, the management highlighted that EBITDA margins could be in the range of 15-17% with a positive bias
- On the product wise category front, Sparx Sports shoes have grown at a rapid pace (25%) in FY23. Sparx brand currently is at 40% of sales (₹ 1100+ crore) with closed footwear within Sparx brand contributing ~40% (₹ 450 crore). Currently the revenue share of open footwear is 75% and closed footwear contributes ~ 25%. The management said it expects the closed footwear to grow in double digit over next five years with its revenue share increasing to 30%. Flite brand contributes ~ 38% while Bahamas and other brands contribute 22%
- The management said there was no requirement for any further capex or capacity expansion for the next two years as the company is currently operating at 57% utilisation level providing ample capacity for volume growth over next two years. The management highlighted that only routine and maintenance capex would be required
- On retail exclusive brand outlet (EBO) front, the management indicated it has 400 EBOs and is expected to add 65 new stores in FY24E. Further, the management highlighted EBOs currently have a lower margin profile (high single digit) than the wholesale distribution business
- The online channel contributed 11% of revenues in FY23. The company expects it to increase to 15% over the next two to three years. Relaxo is planning to enhance its presence on online platforms like Ajio and Tata Cliq
- The share of exports in the revenue is ~ 4.5% and the management expects the exports grow in double digits. The major markets that the company caters to is the Gulf region, Oceania, Africa and central America
- The company spent ~ 8-9% of total sales on advertisement, publicity and is likely to maintain the same level, going ahead. The expense on pure advertising is ~4% of total revenues

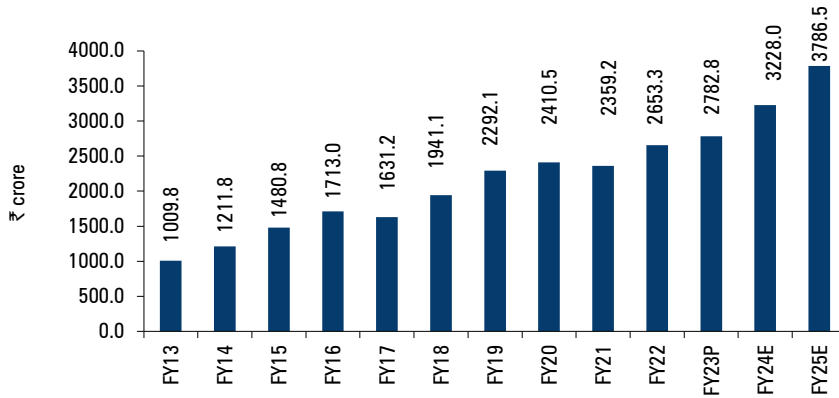
Exhibit 1: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	764.9	698.2	9.6	681.0	12.3	Volumes increased 24% YoY and were up by 27% QoQ. Average realisations declined 12 YoY at ₹ 145 per pair (QoQ decline of 11%)
Raw Material Expens	366.0	319.5	14.5	319.9	14.4	
Gross Profit	399.0	378.7	5.4	361.1	10.5	
Gross Profit Margin	52.2	54.2	-208 bps	53.0	-87 bps	Gross margins decline by 208 bps to 52.2% owing to change in product mix (higher share of open footwear)
Employee exp	85.4	89.9	-5.0	86.2	-1.0	
Other Exp	195.6	177.7	10.1	202.7	-3.5	
EBITDA	118.0	111.1	6.2	72.3	63.3	
EBITDA Margin (%)	15.4	15.9	-49 bps	10.6	481 bps	
Depreciation	32.8	28.7	14.1	32.0	2.5	
Other Income	4.3	5.9	-26.9	4.4	-2.3	
Interest	4.1	3.9	5.9	4.1	0.2	
Exceptional Income	-	-		-		
PBT	85.4	84.4	1.1	40.6	110.5	
Tax Outgo	22.1	21.5	2.8	10.5	111.0	
PAT	63.3	62.9	0.6	30.1	110.3	

Source: Company, ICICI Direct Research

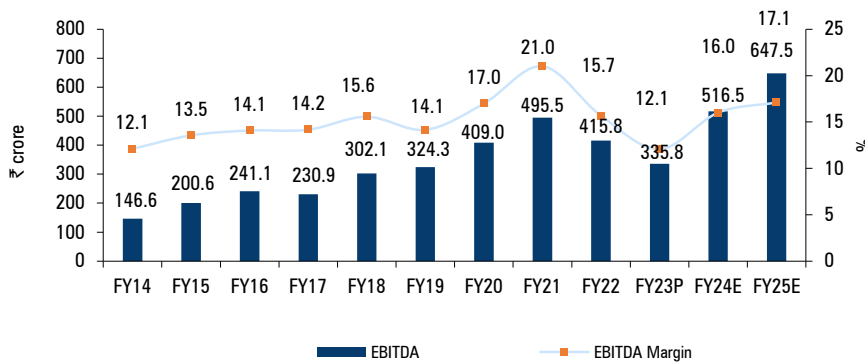
Financial story in charts

Exhibit 2: Revenue growth trend



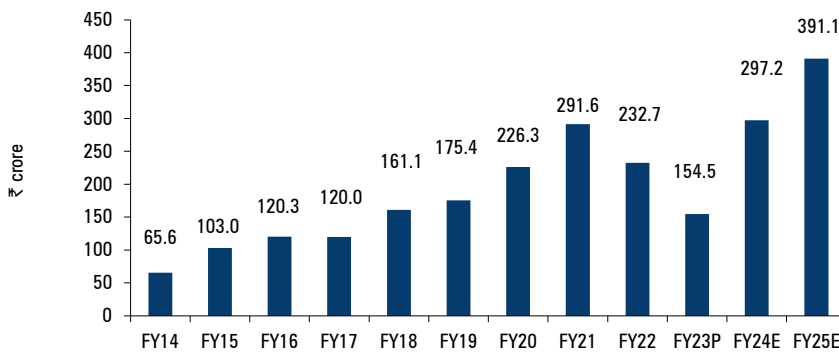
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin trend



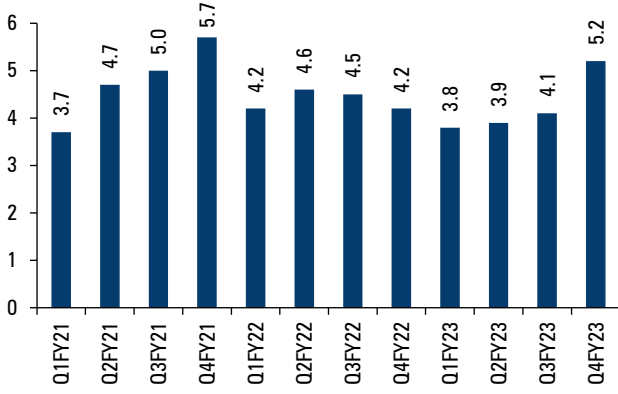
Source: Company, ICICI Direct Research

Exhibit 4: Net profit trend



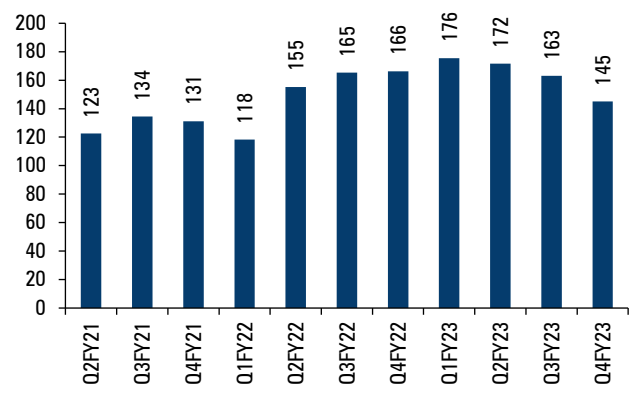
Source: Company, ICICI Direct Research.

Exhibit 5: Quarterly volume trend (crore pairs)



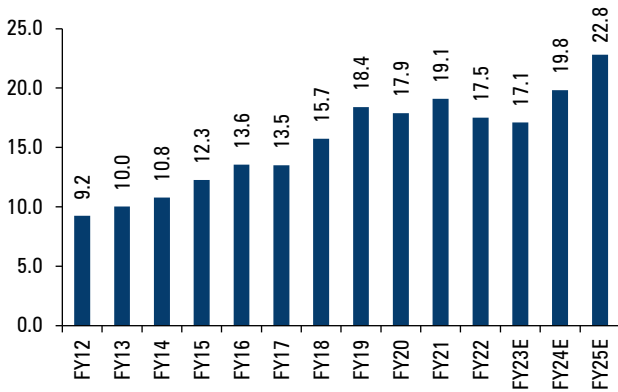
Source: Company, ICICI Direct Research

Exhibit 6: Realisation trend (₹/pair)



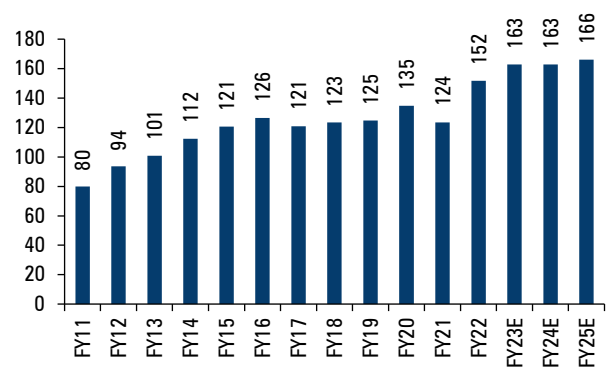
Source: Company, ICICI Direct Research

Exhibit 7: Annual volume trend (crore pairs)



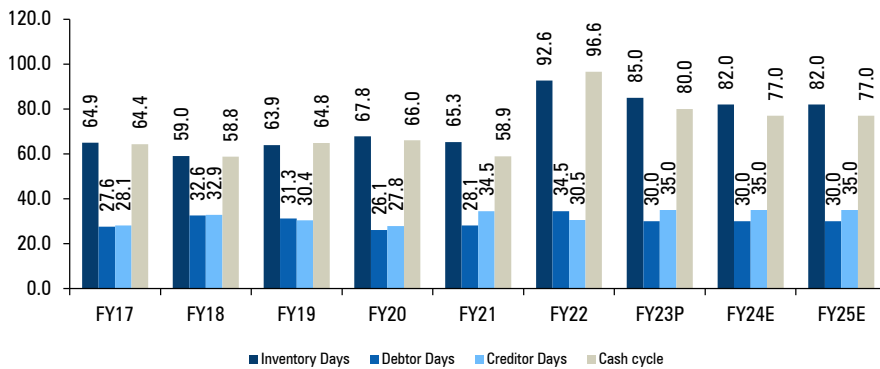
Source: Company, ICICI Direct Research

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	FY23P	FY24E	FY25E
Net Sales	2,359.2	2,653.3	2,782.8	3,228.0	3,786.5
Growth (%)	(2.1)	12.5	4.9	16.0	17.3
Total Raw Material Cost	1,003.3	1,216.7	1,334.3	1,501.0	1,730.4
Gross Margins (%)	57.5	54.1	52.1	53.5	54.3
Employee Expenses	301.4	334.7	343.3	374.4	431.7
Other Expenses	559.0	686.1	769.4	836.1	976.9
Total Operating Expenditure	1,863.7	2,237.5	2,447.0	2,711.5	3,139.0
EBITDA	495.5	415.8	335.8	516.5	647.5
EBITDA Margin	21.0	15.7	12.1	16.0	17.1
Interest	17.1	15.3	19.2	20.2	20.2
Depreciation	110.0	113.5	125.1	134.1	139.6
Other Income	22.8	23.7	18.6	35.0	35.0
Exceptional Expense	-	-	-	-	-
PBT	391.2	310.6	210.0	397.1	522.6
Total Tax	99.6	77.9	55.5	100.0	131.5
Profit After Tax	291.6	232.7	154.5	297.2	391.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
Profit/(Loss) after taxation	291.6	232.7	154.5	297.2	391.1
Add: Depreciation	110.0	113.5	125.1	134.1	139.6
Net Increase in Current Assets	56.0	-271.6	84.2	-169.8	-186.7
Net Increase in Current Liabilities	62.0	-12.2	27.0	57.6	54.5
CF from operating activities	519.6	62.5	390.7	319.1	398.5
(Inc)/dec in Investments	-338.0	143.9	-31.0	-31.2	0.0
(Inc)/dec in Fixed Assets	-123.3	-150.5	-181.7	-84.2	-60.0
Others	-13.4	1.7	-8.7	11.5	0.0
CF from investing activities	-474.7	-4.8	-221.4	-103.9	-60.0
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	-87.9	-139.1	-177.3
CF from financing activities	-41.3	-52.8	-107.9	-139.1	-177.3
Net Cash flow	3.6	4.9	61.4	76.0	161.2
Opening Cash	4.1	7.7	12.6	73.9	150.0
Closing Cash	7.7	12.6	74.0	150.0	311.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
Equity Capital	24.8	24.9	24.9	24.9	24.9
Reserve and Surplus	1,547.6	1,735.0	1,830.2	2,028.6	2,282.8
Total Shareholders funds	1,572.4	1,759.9	1,855.1	2,053.5	2,307.7
Total Debt	-	20.0	-	-	-
Non Current Liabilities	164.0	173.9	185.5	185.5	185.5
Source of Funds	1,736.4	1,953.8	2,040.6	2,239.0	2,493.2
Gross block	975.3	1,099.6	1,339.1	1,399.1	1,459.1
Less: Accum depreciation	254.2	330.2	415.2	509.0	608.2
Net Fixed Assets	721.1	769.4	923.9	890.2	850.9
Capital WIP	112.2	145.2	87.8	112.0	112.0
Intangible assets	39.1	32.4	31.9	31.9	31.9
Investments	338.2	194.3	225.3	256.5	256.5
Inventory	422.1	673.3	563.8	725.2	850.7
Cash	7.7	12.5	74.0	150.0	311.2
Debtors	181.5	250.8	270.3	265.3	311.2
Loans & Advances & Other	146.1	97.2	102.9	116.3	131.7
Total Current Assets	757.3	1,033.7	1,011.1	1,256.9	1,604.8
Creditors	222.8	221.7	252.9	309.5	363.1
Provisions & Other CL	216.6	205.5	201.3	202.2	203.1
Total Current Liabilities	439.4	427.2	454.2	511.8	566.2
Net Current Assets	318.0	606.5	556.9	745.1	1,038.6
LT L&A, Other Assets	207.9	206.1	214.8	203.3	203.3
Other Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	1,736.4	1,953.8	2,040.6	2,239.0	2,493.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
Per share data (₹)					
EPS	11.7	9.3	6.2	11.9	15.7
Cash EPS	16.2	13.9	11.2	17.3	21.3
BV	63.3	70.7	74.5	82.5	92.7
DPS	0.0	2.5	2.2	4.2	5.5
Cash Per Share	0.3	0.5	3.0	6.0	12.5
Operating Ratios (%)					
EBITDA margins	21.0	15.7	12.1	16.0	17.1
PBT margins	16.6	11.7	7.5	12.3	13.8
Net Profit margins	12.4	8.8	5.6	9.2	10.3
Inventory days	65.3	92.6	73.9	82.0	82.0
Debtor days	28.1	34.5	35.5	30.0	30.0
Creditor days	34.5	30.5	33.2	35.0	35.0
Return Ratios (%)					
RoE	18.5	13.2	8.3	14.5	16.9
RoCE	26.0	18.3	12.4	20.3	23.5
RoIC	34.6	20.8	14.1	24.9	31.2
Valuation Ratios (x)					
P/E	74.5	93.6	141.0	73.3	55.7
EV / EBITDA	43.2	52.0	64.0	41.4	32.8
EV / Sales	9.1	8.1	7.7	6.6	5.6
Market Cap / Revenues	9.2	8.2	7.8	6.7	5.8
Price to Book Value	13.8	12.4	11.7	10.6	9.4
Solvency Ratios					
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	2.2	2.3
Quick Ratio	0.7	0.8	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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