

Strong operational performance

- Revenue declined 15% YoY to Rs 5.4bn in Q4FY20 - came below our estimate. Nationwide lockdown resulted in drop in revenues.
- Sharp fall in volumes was partially offset by price hikes implemented pre-lockdown period. Further price hikes would depend on the demand scenario. We believe that the margins would remain high considering larger contribution of distribution business compared to retail business.
- In the long run, we believe that the company would continue its strong performance by increasing penetration in South and West and is likely to further benefit from premiumization. Relaxo should continue to outpace Bata in terms of revenue growth and the revenue gap would narrow, going ahead.
- We have revised our FY21E EPS estimates to Rs 10.4 (-5.5%) and FY22E EPS estimates to Rs 12.9 (+2.6%). We value the stock at 60x FY22E EPS (2.5x PEG) to arrive at a TP of Rs 773. Maintain Accumulate. (Buy on Dips).

Structural drivers in place to tackle challenging times

Post normalization of demand, we believe that the company would continue to increase its distribution reach in southern and western markets. In the short run, in case of downtrading, we believe that Relaxo has better offerings compared to other players. Further, moderation in RM costs would help it to expand margins. In house manufacturing, strong distribution reach, increase in penetration are key levers for future growth. We continue to believe that the company has attractive product offerings and has the ability to premiumize portfolio at the lower end of the pyramid.

EBITDA and APAT was in line with our estimates

With favorable RM costs, gross margin expanded 660bps to 59.8%. Expansion in GM was partially offset by 310/70bps increase in staff costs/other expenditure. Consequently, EBITDA margin expanded 280bps to 17.8%. EBITDA margins adjusted to IND AS 116, stand at 15.7%. EBITDA increased 1.0% YoY to Rs 962mn- came in line with our estimate. APAT fell 4.8% YoY to Rs 518mn – came in line with our estimate.

EBITDA margins to remain elevated

With benign RM prices and premiumization, Relaxo posted 280bps expansion in EBITDA margin in Q4. We believe that, in the light of expected downtrading, Relaxo has better product offering at the bottom of the pyramid compared to other players like Bata. In addition, operating leverage continues to remain a key positive for Relaxo.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	5,406	6,357	(15.0)	5,998	(9.9)
Total Expense	4,444	5,405	(17.8)	4,982	(10.8)
EBITDA	962	952	1.0	1,016	(5.3)
Depreciation	276	161	71.6	275	0.6
EBIT	686	791	(13.3)	741	(7.5)
Other Income	40	13	200.0	22	83.9
Interest	35	17	102.9	44	(20.0)
EBT	690	787	(12.3)	719	(4.0)
Tax	172	243	(29.0)	178	(2.9)
RPAT	518	544	(4.8)	542	(4.4)
APAT	518	544	(4.8)	542	(4.4)
			(bps)		(bps)
Gross Margin (%)	59.8	53.2	661	57.8	196
EBITDA Margin (%)	17.8	15.0	282	16.9	86
NPM (%)	9.6	8.6	102	9.0	55
Tax Rate (%)	25.0	30.9	(589)	24.7	28
EBIT Margin (%)	12.7	12.4	24	12.4	32

CMP	Rs 720
Target / Upside	Rs 773 / 7%
BSE Sensex	34,404
NSE Nifty	10,168

Script Details

Equity / FV	Rs 248mn / Rs 1
Market Cap	Rs 179bn
	US\$ 2bn
52-week High/Low	Rs 830/Rs 395
Avg. Volume (no)	2,95,413
NSE Symbol	RELAXO
Bloomberg Code	RLXF IN

Shareholding Pattern Mar'20(%)

Promoters	71.0
MF/Banks/FIs	6.4
FIIIs	3.0
Public / Others	19.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	79.0	69.3	55.9
EV/EBITDA	44.1	37.9	31.8
ROE (%)	19.0	18.7	19.6
RoACE (%)	18.1	17.6	18.5

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	24,105	26,164	29,883
EBITDA	4,090	4,694	5,547
PAT	2,263	2,579	3,195
EPS (Rs.)	9.1	10.4	12.9

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Exhibit 1: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	5,406	6,313	(14.4)	Impact of lockdown was higher than estimates
EBITDA	962	933	3.1	
EBITDA margin %	17.8	14.8	300bps	Raw material costs were lower than estimates
APAT	518	503	3.0	

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	26,164	28,860	(9.3)	29,883	32,730	(8.7)
EBITDA	4,694	4,884	(3.9)	5,547	5,601	(1.0)
EBITDA Margin (%)	17.9	16.9	100bps	18.6	17.1	140bps
PAT	2,579	2,729	(5.5)	3,195	3,114	2.6
EPS (Rs)	10.4	11.0	(5.5)	12.9	12.6	2.6

Source: DART, Company

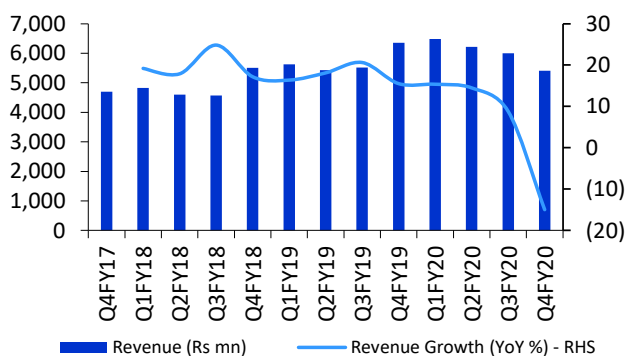
We have revised our revenues estimates to factor in the lockdown and anticipated slowdown in the market. However, we expect margins to expand driven by calibrated price hikes and low RM prices. In line with the improvement in EBITDA, we anticipate increase in APAT.

Key Concall Highlights

- Raw material costs will continue to remain benign in Q1FY21E. Management expects gross margin to sustain at FY20 levels (~57%) in FY21E.
- Volume decline in Q4FY20 was ~18-20%. Company was growing in double digits till mid March before lockdown.
- Company would have delivered 12% value growth with ~5-6% volume growth had Covid not happened.
- Volume de-grew 2.6% YoY to 179.2mn in FY20. Volume degrowth was on account of lockdown as well as product mix (higher selling of premium product in FY20). Realization increased 8% YoY to Rs 135 with price hikes in new and existing products. ASP is likely to decrease in FY21E due to expected higher sales of low value products, however, gross margins are likely to sustain.
- Relaxo's overall market share is ~4-5%. South and West were growing in double digits, share of premium is higher in these markets. Company is also focusing on West Bengal market and witnessing good momentum there.
- Capacity utilization is currently ~70%.
- Management stated that business will continue to remain challenging till lockdown opens in South and West. Only 50% of Relaxo's markets are currently operational.
- Value footwear like open slippers are currently in high demand. Two third of revenue is generated from this category. Contribution from school shoes is insignificant.
- Exit contribution from E-commerce channel was 7-8% as of March'20. It is currently contributing 10% to Relaxo's business.

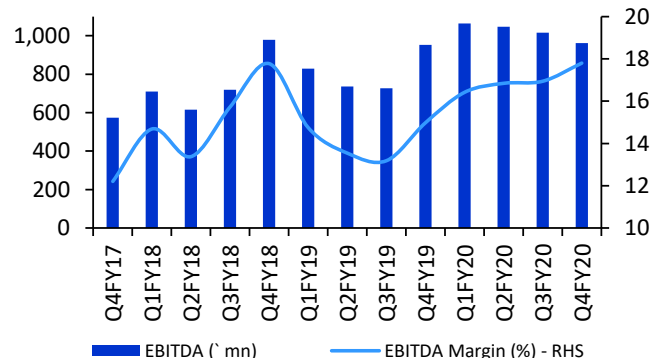
- **Value mix in FY20:** Hawai-Relaxo (25%), remaining is Sparx and Flite in equal contribution.
- **Volume mix in FY20:** Hawai-Relaxo (~40%), remaining is Sparx and Flite.
- Relaxo's sports shoe segment contribution is ~5-10%. Compared to Hawai, realization is much higher from this segment
- Company expects to incur capex of ₹ 1bn in FY21E. Out of this, 50% would be allocated for a civil construction of new plant and remaining for moulds and machinery. New designs are expected in winter.
- Import duty hike will not have a noticeable impact on Relaxo.
- Organized segment caters to ~45% of the market currently.
- Total EBO count stands at 390 at the end of FY20 (370 at the end of H1FY20).
- ~20% of the business is from premium products.
- As per the management, rural is picking up faster than urban.
- Company is not facing challenges in sourcing raw materials. Key RM are EVA followed by PU and Natural Rubber. EVA and PU are imported from 7 to 8 countries.
- Relaxo has 700 distributors and +50K retailers and MBO's across India. Company will continue to penetrate new markets and develop distribution as in the past.
- Company's inventory stands at 60 days.

Exhibit 3: Revenue Performance



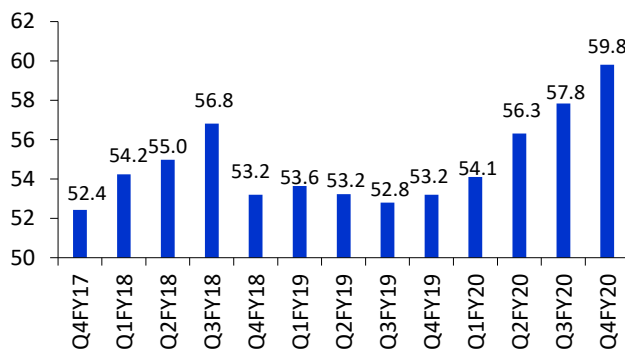
Source: DART, Company

Exhibit 4: EBITDA and EBITDA margin



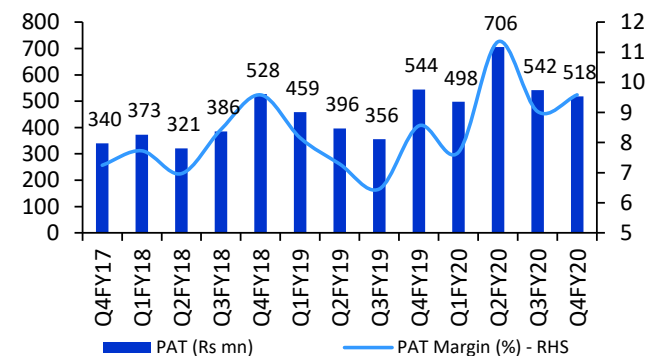
Source: DART, Company

Exhibit 5: Gross margin (%)



Source: DART, Company

Exhibit 6: Net Profit and Margin (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	22,921	24,105	26,164	29,883
Total Expense	19,678	20,015	21,469	24,336
COGS	10,723	10,393	11,172	12,781
Employees Cost	2,587	2,940	3,102	3,336
Other expenses	6,368	6,682	7,195	8,220
EBIDTA	3,243	4,090	4,694	5,547
Depreciation	624	1,094	1,150	1,200
EBIT	2,619	2,995	3,545	4,347
Interest	69	169	200	210
Other Income	130	91	140	180
Exc. / E.O. items	0	0	0	0
EBT	2,680	2,917	3,485	4,317
Tax	925	655	906	1,122
RPAT	1,755	2,263	2,579	3,195
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,755	2,263	2,579	3,195

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	124	248	248	248
Minority Interest	0	0	0	0
Reserves & Surplus	10,927	12,475	14,644	17,429
Net Worth	11,051	12,723	14,892	17,677
Total Debt	869	1,664	1,664	1,664
Net Deferred Tax Liability	344	248	421	421
Total Capital Employed	12,263	14,635	16,977	19,762

Applications of Funds

Net Block	8,493	9,871	9,882	10,182
CWIP	114	438	482	530
Investments	2	2	7	7
Current Assets, Loans & Advances	6,823	8,120	11,240	14,237
Inventories	3,824	4,477	4,500	5,140
Receivables	2,226	1,721	2,500	2,856
Cash and Bank Balances	22	40	2,205	3,915
Loans and Advances	174	1,602	1,733	1,980
Other Current Assets	577	280	303	346
Less: Current Liabilities & Provisions	3,169	3,797	4,634	5,193
Payables	1,909	1,837	2,357	2,693
Other Current Liabilities	1,260	1,960	2,277	2,501
sub total				
Net Current Assets	3,654	4,324	6,606	9,043
Total Assets	12,263	14,635	16,977	19,762

E – Estimates (Note: Relaxo issued bonus shares in the ratio 1:1 in June'19)

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	53.2	56.9	57.3	57.2
EBIDTA Margin	14.1	17.0	17.9	18.6
EBIT Margin	11.4	12.4	13.5	14.5
Tax rate	34.5	22.4	26.0	26.0
Net Profit Margin	7.7	9.4	9.9	10.7
(B) As Percentage of Net Sales (%)				
COGS	46.8	43.1	42.7	42.8
Employee	11.3	12.2	11.9	11.2
Other	27.8	27.7	27.5	27.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	38.0	17.8	17.7	20.7
Inventory days	61	68	63	63
Debtors days	35	26	35	35
Average Cost of Debt	5.7	13.3	12.0	12.6
Payable days	30	28	33	33
Working Capital days	58	65	92	110
FA T/O	2.7	2.4	2.6	2.9
(D) Measures of Investment				
AEPS (Rs)	7.1	9.1	10.4	12.9
CEPS (Rs)	9.6	13.5	15.0	17.7
DPS (Rs)	0.9	2.6	1.7	1.7
Dividend Payout (%)	12.4	28.4	15.9	12.8
BVPS (Rs)	44.6	51.3	60.0	71.3
RoANW (%)	18.8	19.0	18.7	19.6
RoACE (%)	16.8	18.1	17.6	18.5
RoAIC (%)	24.2	22.3	24.1	28.4
(E) Valuation Ratios				
CMP (Rs)	720	720	720	720
P/E	101.8	79.0	69.3	55.9
Mcap (Rs Mn)	1,78,672	1,78,672	1,78,672	1,78,672
MCap/ Sales	7.8	7.4	6.8	6.0
EV	1,79,518	1,80,296	1,78,131	1,76,421
EV/Sales	7.8	7.5	6.8	5.9
EV/EBITDA	55.4	44.1	37.9	31.8
P/BV	16.2	14.0	12.0	10.1
Dividend Yield (%)	0.1	0.4	0.2	0.2
(F) Growth Rate (%)				
Revenue	18.1	5.2	8.5	14.2
EBITDA	7.4	26.1	14.8	18.2
EBIT	5.7	14.4	18.3	22.6
PBT	10.0	8.9	19.5	23.9
APAT	8.9	29.0	14.0	23.9
EPS	8.9	29.0	14.0	23.9
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,235	3,079	3,606	3,826
CFI	(589)	(1,161)	(1,210)	(1,548)
CFF	(664)	(1,900)	(410)	(410)
FCFF	321	1,918	2,401	2,278
Opening Cash	40	22	40	2,205
Closing Cash	22	40	2,027	4,073

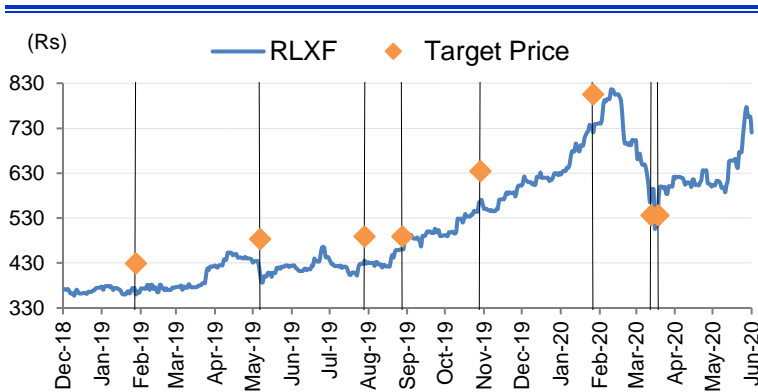
E – Estimates (Note: Relaxo issued bonus shares in the ratio 1:1 in June'19)

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	BUY	430	360
May-19	BUY	484	402
Aug-19	BUY	490	436
Sep-19	BUY	490	462
Nov-19	Accumulate	635	564
Feb-20	Accumulate	806	721
Mar-20	Sell	536	594
Mar-20	Sell	536	575

*Price as on recommendation date

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