Sharekhan
by BNP PARIBAS

Relaxo Footwears

Good show in tough times

Sector: Consumer Discretionary
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 597**	
Price Target: **Rs. 825**	↔

↑ Upgrade ↔ No change ↓ Downgrade

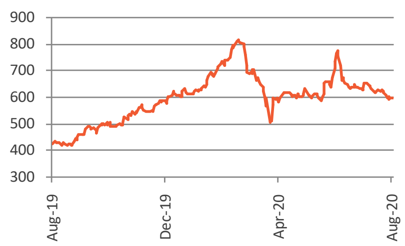
Company details

Market cap:	Rs. 14,820 cr
52-week high/low:	Rs. 830/410
NSE volume: (No of shares)	1.8 lakh
BSE code:	530517
NSE code:	RELAXO
Sharekhan code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	71.0
FII	3.3
DII	6.7
Others	19.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.0	-1.7	-17.3	36.4
Relative to Sensex	-11.5	-18.2	-9.9	35.8

Sharekhan Research, Bloomberg

Relaxo Footwears Limited (Relaxo) posted good numbers in Q1FY2021 with revenue declining by just 44% y-o-y despite NIL sales in the first 45 days of the quarter. Gross margins were affected by an unfavourable product mix but stringent cost-saving initiatives stemmed the fall in OPM to just 73 bps. Gradual opening of lockdown would help in recovery in the footwear demand. Demand for open footwear category (slippers, hawai chappals) started picking-up post easing of the lockdown. The company expects other segments to recover gradually post steady opening of key markets. Though FY2021 is expected to be subdued, we expect a strong recovery in FY2022. We expect Relaxo to see early recovery post normalisation of the lockdown because – 1) It will gain market share from unorganised players, 2) of a higher presence on e-commerce platform and 3) of higher demand for value-for-money products. Lower per capita consumption in India, Relaxo's lower penetration in the South Indian market and sustained product additions remain the long-term growth catalysts. Benign input prices would support overall margins in FY2021, while higher sales realisation due to good traction to premium products would help margin expansion to sustain in FY2022.

Key positives

- Revenue declined by just 44% despite NIL sales in the first 45 days of the quarter.
- Stringent cost-saving initiatives and efficiencies limited the decline in OPM to just 73 bps despite a significant fall in gross margins.

Key negatives

- Unfavourable product mix dragged down gross margins by 416 bps to 49.9%.

Our Call

View - Retained Buy with an unchanged PT of Rs. 825: We expect the footwear category to see early recovery post normalisation of the pandemic situation as it falls in the lower end of the discretionary price pyramid. The management has maintained its thrust on improving penetration in the southern market, expand its product portfolio through relevant new launches and improve profitability in long run. We expect Relaxo's revenue and PAT to clock a CAGR of 10% and 20% over FY2020-22. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 825.

Key Risks

Any slowdown in recovery in sales or a spike in key input prices would act as a key risk to our earnings estimates in the near term.

Valuation (Standalone) — **Rs cr**

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,949	2,292	2,410	2,413	2,948
OPM (%)	15.5	14.1	17.0	17.3	18.9
Adjusted PAT	161	175	226	229	328
% y-o-y growth	34.3	8.9	29.0	1.4	42.8
Adjusted diluted EPS (Rs.)	6.5	7.1	9.1	9.2	13.2
P/E (x)	92.0	84.5	65.5	64.6	45.2
P/B (x)	19.5	13.4	11.6	10.2	8.6
EV/EBIDTA (x)	49.5	46.0	36.6	35.7	26.3
RoNW (%)	23.6	18.8	19.0	16.8	20.6
RoCE (%)	34.6	23.8	27.4	23.2	28.8

Source: Company; Sharekhan estimates

Revenue declined by 44% y-o-y, unfavourable mix dent margins: Revenue declined by 44% y-o-y to Rs. 363.6 crore, much better than our expectation of Rs. 223.7 crore. There were NIL sales in the first 45 days of the quarter due to lockdowns but strong recovery was witnessed post the easing of lockdown norms resulting in just a 44% y-o-y decline in sales despite restriction on out-of-home travel. Gross margins declined by 416 bps y-o-y to 49.9%, largely on account of an unfavourable revenue mix. However, stringent cost saving initiatives and efficiencies (largely lower advertisement and promotional spends) led OPM to decline by just 73 bps to 15.7%. Operating profit fell by 46.4% y-o-y to Rs. 57 crore. Other income stood at Rs. 6.9 crore in Q1FY2021 as against Rs. 1.2 crore in Q1FY2020 which included lease rental waiver/reduction of Rs. 5 crore agreed by lessors for rented premises. Lower revenue caused profit before tax (PBT) to decline by 57.7% y-o-y to Rs. 32.3 crore. However, lower tax incidence limited the decline in reported PAT to 51.3%, which came in at Rs. 24.2 crore in Q1FY2021 as against Rs. 49.7 crore in Q1FY2020.

Enough headroom in the Indian footwear industry: India is the second-largest footwear producer after China accounting for ~9% of the overall market of ~22 billion pairs. India exports only 10% of the current production whereas ~90% is sold in the domestic markets. The Indian footwear industry is expected to reach ~Rs. 1 lakh crore by 2021. Per capita footwear consumption in India stands at just ~1.66 pairs per annum as compared to global average of ~3 pairs per annum and developed countries' consumption of 6-7 pairs per annum, which provides a huge scope for growth in the Indian footwear industry. Moreover, consumer buying behaviour is changing rapidly due to urbanisation, higher penetration of the Internet and growing awareness/consciousness about trends, which has made footwear turn into a fashion accessory than a necessity. Consistent efforts by the government such as hike in customs duty on imported footwear, a special package of Rs. 2,600 crore for the upliftment of the industry and GST will help the organised footwear industry to report strong growth in the medium to long term.

Other key highlights:

- Q1FY2021 was affected by the lockdown extended till first week of May, but, strong recovery was seen post the easing of lockdown.
- The company has started operations in most manufacturing plants.
- Demand for open footwear has improved during the period as out-of-home consumption products continued to be impacted.
- The company continued to strengthen its e-commerce footprint by leveraging partnerships with major e-commerce players to provide a safer alternative to customers for ordering.
- Relaxo continues to support and provide assistance to dealers, distributors and customers across India.
- The company does not have any long-term debt on its books and the working capital cycle was stable at 29 days in FY2020.

Results (Standalone) Rs cr

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net Revenue	363.6	648.3	-43.9	540.6	-32.7
Raw-material cost	182.0	297.5	-38.8	217.3	-16.3
Staff cost	56.7	72.4	-21.7	73.9	-23.2
Other expenses	67.9	171.9	-60.5	153.2	-55.7
Total expenses	306.6	541.9	-43.4	444.4	-31.0
Operating profit	57.0	106.4	-46.4	96.2	-40.7
Other Income	6.9	1.2	-	4.0	72.4
EBITDA	63.9	107.7	-40.6	100.2	-36.2
Interest expenses	4.1	4.7	-12.4	3.5	16.2
Depreciation & Amortization	27.5	26.6	3.6	27.6	-0.5
PBT	32.3	76.4	-57.7	69.0	-53.2
Tax	8.1	26.7	-69.7	17.2	-53.0
Reported PAT	24.2	49.7	-51.3	51.8	-53.2
EPS	1.0	2.0	-51.3	2.1	-53.2
			bps		bps
GPM (%)	49.9	54.1	-416	59.8	-985
OPM (%)	15.7	16.4	-73	17.8	-211

Source: Company; Sharekhan Research

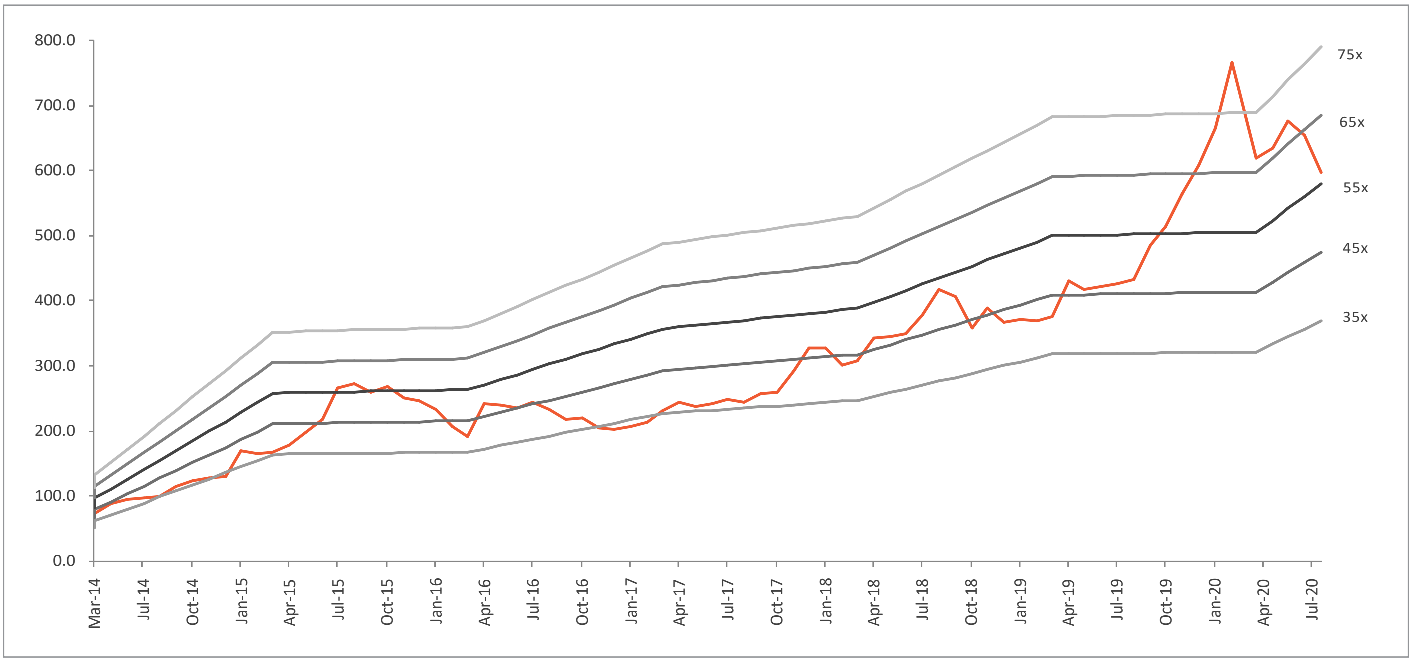
Outlook

FY2021 to be affected by lockdown; long-term growth prospects intact: Q1FY2021 performance was better than anticipated in view of NIL business in first 45 days of the quarter. Second half of Q1FY2021 saw substantial improvement with strong demand for open footwear products. Though FY2021 is expected to be subdued, we expect a strong recovery in FY2022. We expect Relaxo to see early recovery post normalisation of lockdown, as it will gain market share from unorganised players, increase presence on e-commerce platform and due to higher demand for value-for-money products. Lower per capita consumption in India, Relaxo's minimal penetration in the South Indian market and sustained product additions remain the long-term growth catalysts. Benign input prices would support overall margins in FY2021, while higher sales realisation due to good traction to premium products would help margin expansion to sustain in FY2022.

Valuation

Retained Buy with an unchanged PT of Rs. 825: We expect the footwear category to see early recovery post normalisation of the pandemic situation as it falls in the lower end of the discretionary price pyramid. The management has maintained its thrust on improving penetration in the southern market, expand its product portfolio through relevant new launches and improve profitability in long run. We expect Relaxo's revenue and PAT to clock a CAGR of 10% and 20% over FY2020-22. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 825.

One-year forward P/E (x)



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bata	49.3	56.0	33.7	18.3	19.9	14.1	15.0	9.7	12.8
Relaxo Footwears	65.5	64.6	45.2	36.6	35.7	26.3	27.4	23.2	28.8

Source: Company, Sharekhan estimates

About company

New Delhi-based Relaxo is a leading footwear company with a turnover of over Rs. 2,000 crore. It has eight manufacturing facilities across northern India with a capacity of over 7.5 lakh pairs per day. The company sells close to 180 million pairs per annum through its wide distribution network of over 50,000 retailers, ~700 distributors and 390 exclusive brand outlets (EBOs). Relaxo produces a wide range of footwear under nine brands including Sparx, Bahamas, Flite, Schoolmate and Relaxo Hawaii selling over 10,000 SKUs. Bahamas and Flite cater to the young and fashionable target consumers, while Sparx is marketed with durability as its USP whereas Schoolmate is specifically for school shoes.

Investment theme

Relaxo has clocked sustained double-digit volume growth in the last few quarters. With the implementation of GST, there is a shift from unbranded to branded products, which provides further scope for the company in the Rs. 55,000-60,000 crore Indian footwear market, of which ~50% is unbranded. Capacity expansions, investment on brands, steady volume growth and increasing presence in untapped markets along with increasing price differential in the imported and domestic footwear as a result of a hike in customs duty would be key growth drivers in the near to medium term.

Key Risks

- Slowdown in discretionary demand: Any slowdown in demand would affect revenue growth.
- Increased input costs: Any significant increase in rubber prices or those of crude oil derivatives would affect profitability.
- Increased competition in highly penetrated categories: Heightened competition would threaten revenue growth.

Additional Data

Key management personnel

Ramesh Kumar Dua	Managing Director
Sushil Batra	Chief Financial Officer
Vikas Kumar Tak	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	VLS Securities Ltd	6.6
2	VL Finance	4.0
3	SBI Funds Management Pvt Ltd	4.0
4	Capital Group Cos Inc	1.0
5	UTI Asset Management Co Ltd	0.7
6	ICICI Prudential Asset Management	0.6
7	Vanguard group	0.6
8	DSP Investment Managers Pvt Ltd	0.5
9	Daiwa Asset Management India Pvt Ltd	0.3
10	Principal Financial Group Inc	0.3

Source: Bloomberg

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;