

Buy

Superlative margin performance. Upgrade to Buy

- Revenue declined 7% YoY to Rs 5.8bn in Q2FY21 - came ahead of our estimate. Lockdown in select geographies resulted in drop in revenues. Nevertheless, recovery in Q2 was better than our expectation.
- GM/EBITDA expanded by 510/520bps mainly due to benign RM prices and improved operating efficiencies during the quarter. Going ahead, the margins would remain high versus peers 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 upward revised our FY21E EPS estimates to Rs 9.2 (+9.6%) and FY22E EPS estimates to Rs 11.9 (+0.7%). We have introduced FY23E EPS estimates at Rs 13.6. We value the stock at 55x FY23E EPS to arrive at a TP of Rs 747. Upgrade to Buy.

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 down trading, 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.

Results exceed our estimates

Revenue declined 7.4% YoY to Rs 5.8bn in Q2FY21 - was ahead of our estimate. With easing of Covid led restrictions, the company witnessed pickup in demand in Q2 with 2% volume growth. Operations are almost at pre-Covid levels. A 510bps/130bps decline in RM/other expenses respectively was partially offset by 120bps increase in staff costs. Consequently, EBITDA margin improved 520bps to 22.0%. EBITDA grew 21.2% YoY to Rs 1,269mn - came ahead of our estimate. Surge in other income was due to lease rent waiver for rented premises. ETR for Q2FY21 was not comparable with Q2FY20 as the company had recognized full impact of new tax regime in Q2FY20. APAT increased 6.5% YoY to Rs 751mn

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	5,759	6,218	(7.4)	3,636	58.4
Total Expense	4,490	5,171	(13.2)	3,066	46.5
EBITDA	1,269	1,047	21.2	570	122.6
Depreciation	278	278	0.1	275	1.0
EBIT	991	770	28.8	295	235.8
Other Income	50	17	205.5	69	(26.7)
Interest	38	43	(11.6)	41	(6.6)
EBT	1,004	743	35.1	323	210.5
Tax	253	38	571.5	81	211.7
RPAT	751	705	6.5	242	210.1
APAT	751	705	6.5	242	210.1
			(bps)		(bps)
Gross Margin (%)	61.4	56.3	506	49.9	1143
EBITDA Margin (%)	22.0	16.8	519	15.7	635
NPM (%)	13.0	11.3	170	6.7	638
Tax Rate (%)	25.2	5.1	2010	25.1	10
EBIT Margin (%)	17.2	12.4	483	8.1	909

CMP	Rs 660
Target / Upside	Rs 747 / 13%
NIFTY	11,669

Scrip Details

Equity / FV	Rs 248mn / Rs 1
Market Cap	Rs 164bn
	USD 2bn
52-week High/Low	Rs 830/ 500
Avg. Volume (no)	2,19,388
Bloom Code	RLXF IN

Price Performance

	1M	3M	12M
Absolute (%)	0	11	21
Rel to NIFTY (%)	(2)	5	22

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	71.0	71.0	71.0
MF/Banks/FIs	19.9	19.2	19.1
FIIIs	3.0	3.3	3.4
Public / Others	6.2	6.6	6.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	71.5	55.4	48.6
EV/EBITDA	39.1	31.6	27.5
ROE (%)	16.8	18.6	18.1
RoACE (%)	17.4	19.2	18.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	22,681	28,257	32,300
EBITDA	4,165	5,119	5,801
PAT	2,292	2,954	3,372
EPS (Rs.)	9.2	11.9	13.6

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EBITDA margins to remain elevated

We expect down trading post re-opening of lockdown mainly due to economic uncertainties and job losses during the pandemic. In addition, work from home policies and restricted travel would lead to higher sales of informal footwear (open slippers, floaters) than formal. In light of expected down trading, Relaxo has better product offering at the bottom of the pyramid (~2/3rd revenue) compared to other players like Bata. In addition, operating leverage continues to remain a key positive for Relaxo. Less dependency on retail model vs distribution model would help the company to maintain margins, going ahead. However, we believe that the Q2FY21 margins are not sustainable as RM prices have started increasing. We expect margins to normalize hereon but would remain on the higher side compared to historical performance. We have estimated +18% margins for Relaxo vs 14-16% reported historically.

Improvement led by North and East region

The recovery was led by North and East regions as most of the states opened up faster compared to rest of India. However, West and South posted significant decline as Maharashtra and Kerala remained closed for a longer period. Despite close down of high growth markets, Relaxo posted 2% volume growth, implying strong performance.

Exhibit 1: Q2FY21 Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	5,759	5,347	7.7	Higher than estimates due to lesser than expected impact of lockdown
EBITDA	1,269	917	38.4	
EBITDA margin %	22.0	17.2	490	Variation as RM costs were lower than estimates
APAT	751	517	45.4	Cascading effect of higher EBITDA

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	22,681	22,681	-	28,257	28,257	-
EBITDA	4,165	3,897	6.9	5,119	5,092	0.5
EBITDA Margin (%)	18.4	17.2	120	18.1	18	10
PAT	2,292	2,091	9.6	2,954	2,934	0.7
EPS (Rs)	9.2	8.4	9.6	11.9	11.8	0.7

Source: Company, DART

Though Q2FY21 revenue was a beat, we have maintained our revenue forecast as current estimates factors in improvement in H2FY21. However, we have upward revised our margin estimates as Q2FY21 margins were significantly higher than our consideration. In line with the revision in EBITDA and margin, we have revised our EPS estimates.

Exhibit 3: Half Yearly Performance

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Sales	5,759	6,218	(7.4)	3,636	58.4	9,395	12,701	(26.0)
Expenditure	4,490	5,171	(13.2)	3,066	46.5	7,555	10,589	(28.7)
Raw Materials	2,224	2,716	(18.1)	1,820	22.2	4,044	5,692	(28.9)
Staff Cost	736	722	1.9	567	29.7	1,303	1,446	(9.9)
Other Expenditure	1,530	1,733	(11.7)	679	125.4	2,209	3,452	(36.0)
Operating Profit	1,269	1,047	21.2	570	122.6	1,839	2,111	(12.9)
Other Income	50.4	16.5	205.5	68.8	(26.7)	119	29	312.5
Interest	38.1	43.1	(11.6)	40.8	(6.6)	78.9	89.7	(12.0)
Depreciation	278	278	0.1	275	1.0	553	543	1.8
PBT	1,004	743	35.1	323	210.5	1,327	1,508	(12.0)
Tax	253	38	571.5	81	211.7	334	305	9.5
APAT	751	705	6.5	242	210.1	993	1,203	(17.4)
RPAT	751	705	6.5	242	210.1	993	1,203	(17.4)
			bps		bps			bps
Gross Margin (%)	61.4	56.3	510	49.9	1,140	57.0	55.2	180
Staff Cost (%)	12.8	11.6	120	15.6	(280)	13.9	11.4	250
Other Expenditure (%)	26.6	27.9	(130)	18.7	790	23.5	27.2	-370
EBITDA(%)	22.0	16.8	520	15.7	640	19.6	16.6	300
Tax rate (%)	25.2	5.1	2,010	25.1	10	25.1	20.2	490
NPM (%)	13.0	11.3	170	6.7	640	10.6	9.5	110

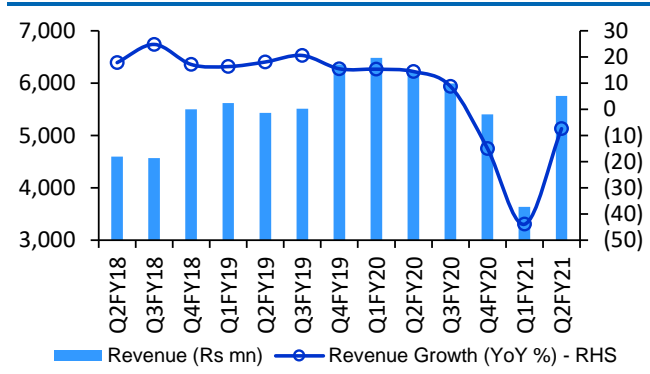
Source: Company, DART

Conference Call Key Takeaways

- There was a delay in commencing production amidst high demand scenario which impacted Q2 revenue to some extent. In October'20, company witnessed good recovery in sales with festive demand.
- EBO's totaled 396 at the end of H1FY21, contributed ~5% of revenue. The company added 6 new stores during H1. Company plans to end FY21E with 400 stores. Pressure on EBO's remains due to low footfalls .
- Exports are picking up with opening up of markets and contribute 4% of revenue.
- The company witnessed good demand pickup in rural in Q2FY21. Number of dealers and distributors has increased in order to cater to rising demand of open footwear.
- While closed Sparx footwear hampered performance, Hawaii, Flite and Bahamas open footwear exhibited strong growth. Sparx contributed ~1/3rd of revenue in Q2. As per the management, demand for open footwear is likely to be resilient for next 2-3 years, with new work from home policies.
- E-com (~10% contribution) grew 10% YoY in Q2FY21. Company targets ~10-12% contribution from E-com for next 6-12 months.
- Volume growth in Q2FY21 was 2% (value de-growth 7%) while that of H1FY21 it was -13% (value de-growth 26%). The difference in value and volume growth was due to mix change as low value open footwear were high selling.
- Raw material costs are currently benign but are likely to inch upwards in Q4. Company may review prices if there is significant increase in RM costs.

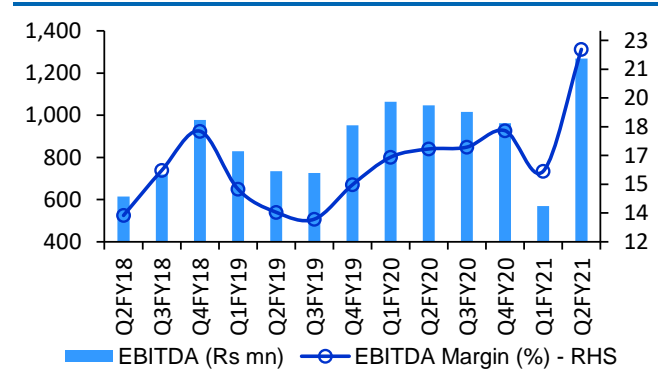
- EBITDA margins are likely to improve in FY21E compared to previous year. However, it is not expected to sustain at Q2 levels of 22% due to anticipated increase in advertisement, brand building, travel costs, RM etc in H2FY21.
- Relaxo has 700 distributors and +50K MBO's across India. However, the footwear universe in India includes 100K MBO's, as per the management. Relaxo targets to grow MBO reach by double digits every year.
- The share of closed footwear in Relaxo's portfolio is 10% in volume terms and 20% in value terms.
- The company did not witness demand of school shoes yet.
- Company expects to incur capex of ` 1bn in FY21E, same range as previous years.
- Relaxo has increased the amount of deposit from distributors in last 6 months. Security amount is similar for new and existing distributor.

Exhibit 4: Revenue Performance



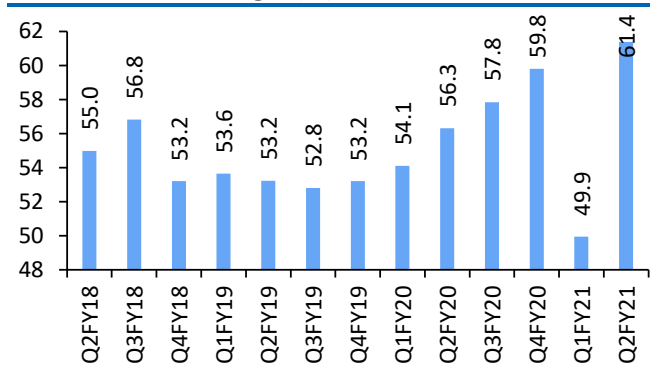
Source: Company, DART

Exhibit 5: EBITDA and EBITDA margin



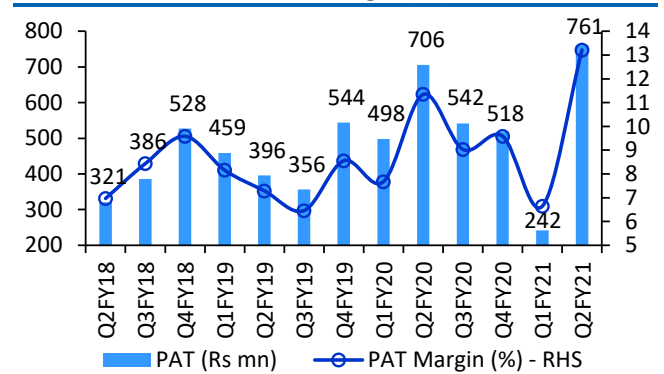
Source: Company, DART

Exhibit 6: Gross margin (%)



Source: Company, DART

Exhibit 7: Net Profit and Margin (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	24,105	22,681	28,257	32,300
Total Expense	20,015	18,516	23,138	26,499
COGS	10,393	9,479	12,044	13,814
Employees Cost	2,940	2,802	3,323	3,799
Other expenses	6,682	6,236	7,772	8,885
EBIDTA	4,090	4,165	5,119	5,801
Depreciation	1,094	1,149	1,200	1,325
EBIT	2,995	3,016	3,919	4,476
Interest	169	170	210	210
Other Income	91	210	230	230
Exc. / E.O. items	0	0	0	0
EBT	2,917	3,056	3,939	4,496
Tax	655	764	985	1,124
RPAT	2,263	2,292	2,954	3,372
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,263	2,292	2,954	3,372

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	248	248	248	248
Minority Interest	0	0	0	0
Reserves & Surplus	12,475	14,358	16,902	19,865
Net Worth	12,723	14,606	17,150	20,113
Total Debt	191	191	191	191
Net Deferred Tax Liability	248	421	421	421
Total Capital Employed	13,162	15,218	17,762	20,725

Applications of Funds

Net Block	9,830	9,781	10,081	10,256
CWIP	438	482	530	583
Investments	2	7	7	7
Current Assets, Loans & Advances	8,161	9,058	12,093	15,436
Inventories	4,477	3,900	4,860	5,557
Receivables	1,721	2,166	2,700	3,087
Cash and Bank Balances	40	1,189	2,286	4,223
Loans and Advances	1,643	1,540	1,920	2,195
Other Current Assets	280	262	327	374
Less: Current Liabilities & Provisions	5,270	4,110	4,949	5,557
Payables	1,837	2,043	2,546	2,911
Other Current Liabilities	3,433	2,067	2,403	2,646
<i>sub total</i>				
Net Current Assets	2,892	4,948	7,144	9,879
Total Assets	13,162	15,218	17,762	20,725

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	56.9	58.2	57.4	57.2
EBIDTA Margin	17.0	18.4	18.1	18.0
EBIT Margin	12.4	13.3	13.9	13.9
Tax rate	22.4	25.0	25.0	25.0
Net Profit Margin	9.4	10.1	10.5	10.4
(B) As Percentage of Net Sales (%)				
COGS	43.1	41.8	42.6	42.8
Employee	12.2	12.4	11.8	11.8
Other	27.7	27.5	27.5	27.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	17.8	17.7	18.7	21.3
Inventory days	68	63	63	63
Debtors days	26	35	35	35
Average Cost of Debt	31.8	89.0	109.9	109.9
Payable days	28	33	33	33
Working Capital days	44	80	92	112
FA T/O	2.5	2.3	2.8	3.1
(D) Measures of Investment				
AEPS (Rs)	9.1	9.2	11.9	13.6
CEPS (Rs)	13.5	13.9	16.8	18.9
DPS (Rs)	2.6	1.7	1.7	1.7
Dividend Payout (%)	28.4	17.9	13.9	12.1
BVPS (Rs)	51.3	58.9	69.2	81.1
RoANW (%)	19.0	16.8	18.6	18.1
RoACE (%)	19.1	17.4	19.2	18.6
RoAIC (%)	23.6	22.2	26.6	28.0
(E) Valuation Ratios				
CMP (Rs)	660	660	660	660
P/E	72.4	71.5	55.4	48.6
Mcap (Rs Mn)	1,63,779	1,63,779	1,63,779	1,63,779
MCap/ Sales	6.8	7.2	5.8	5.1
EV	1,63,930	1,62,782	1,61,684	1,59,747
EV/Sales	6.8	7.2	5.7	4.9
EV/EBITDA	40.1	39.1	31.6	27.5
P/BV	12.9	11.2	9.5	8.1
Dividend Yield (%)	0.4	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	5.2	(5.9)	24.6	14.3
EBITDA	26.1	1.8	22.9	13.3
EBIT	14.4	0.7	29.9	14.2
PBT	8.9	4.8	28.9	14.2
APAT	29.0	1.3	28.9	14.2
EPS	29.0	1.3	28.9	14.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,190	2,707	3,055	3,900
CFI	(1,159)	(1,149)	(1,548)	(1,553)
CFF	(2,014)	(410)	(410)	(410)
FCFF	2,032	1,563	1,507	2,347
Opening Cash	22	40	1,189	2,286
Closing Cash	40	1,189	2,286	4,223

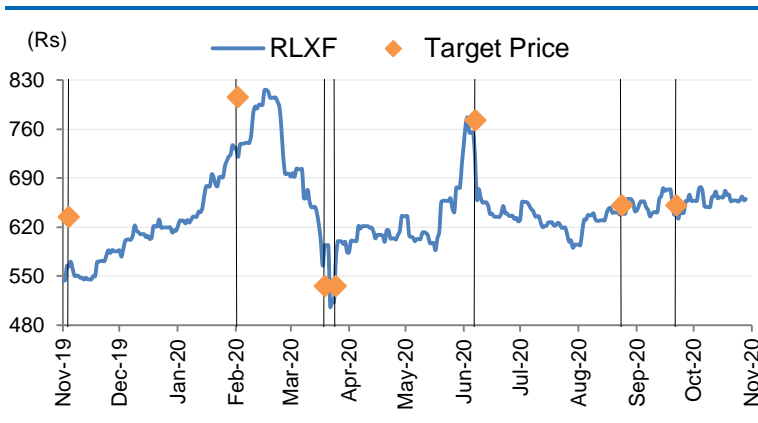
E – Estimates

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.)
Nov-19	Accumulate	635	564
Feb-20	Accumulate	806	721
Mar-20	Sell	536	594
Mar-20	Sell	536	575
Jun-20	Accumulate	773	720
Aug-20	Accumulate	651	640
Sep-20	Accumulate	651	649

*Price as on recommendation date

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