

Gradually marching towards normalcy levels

Relaxo reported steady Q2FY21 results with strong profitability growth and revenues gradually inching towards pre-Covid levels. Revenue for the quarter fell 7% YoY to ₹ 575.9 crore (up 58% QoQ). It has seen robust demand for low ticket size products like slippers/open sandals (~80% of product portfolio) that led to overall volume growth of 2% YoY in Q2FY21. On the back of benign RM prices and lower other expenses like marketing spends/trade discounts, EBITDA margins expanded significantly by 520 bps YoY to 22.0%. The management, however, has indicated that current margins are not sustainable owing to upward trend in RM prices and certain overheads reverting back with normalcy in sales. Other income grew 2.1x YoY to ₹ 5.0 crore (₹ 1.9 crore pertains to lease rent waiver). Ensuing PBT increased 35% YoY to ₹ 100.4 crore. Owing to lower tax rate in the base quarter (25% vs. 3.8% in Q2FY20), PAT growth was restricted to 7% YoY to ₹ 75.1 crore. Given the dominant presence in Tier II/III cities and being the market leader in value priced segment (in terms of volumes), Relaxo is well placed to further consolidate its market share. The company's operations are almost at pre-Covid levels, having robust liquidity position.

Product mix suited to capture change in consumer preference

As most people are working from home, sales of sandals, flip flops have seen a significant surge in demand. Relaxo being a dominant player in the aforesaid categories, through its strong portfolio of brands ('Flite', 'Bahamas', 'Hawaii') has witnessed a swift recovery in volumes and captured market share from unorganised players in H1FY21. While sale of shoes continues to be laggards (sports, canvas), green shoots are visible with gradual opening up of the economy. Further, on festive demand trends, healthy traction has been seen in October in most regions except Kerala. Relaxo, over the years, has established a healthy distribution network, with 800+ distributors catering to ~50000 retailers. Relaxo has geo-tagged ~100000 outlets that signifies an immense opportunity to penetrate new territories through appointing new distributors, dealers. Also, it has strengthened its e-commerce platform by leveraging partnerships with major players and expects share to rise 300-400 bps YoY to 12% by FY21E.

Valuation & Outlook

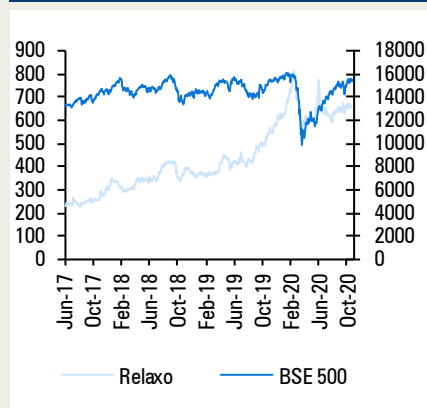
Better working capital management has resulted in strong OCF generation worth ₹ 289.3 crore in H1FY21 (CFO/EBITDA: 157%). Furthermore, lower capex requirements (₹ 33 crore in H1FY21 vs. ₹ 74 crore in H1FY20) has significantly strengthened liquidity position of Relaxo with cash & investments worth ₹ 256 crore as on September 30, 2020. Over the years, Relaxo has maintained balance sheet prudence with controlled working capital cycle (NWC days: 65 days), healthy asset turn of 2.5x and generating RoCE of 20%+. We roll over our estimates to FY23E and bake in revenue and earnings CAGR of 10% & 16%, respectively, in FY20-23E. Relaxo, through its strong balance sheet and brand patronage, is expected to tide over the current situation better than small peers. Hence, we reiterate **BUY** rating on the stock with a revised target price of ₹ 765 (previous TP: ₹ 715).



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	16,498.7
Total Debt (FY20) (₹ crore)	19.2
Cash (FY20) (₹ crore)	4.1
EV (₹ crore)	16,513.7
52 Week H / L	830 / 388
Equity Capital (₹ crore)	24.8
Face Value (₹)	1.0

Price Chart



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Key Financial Summary

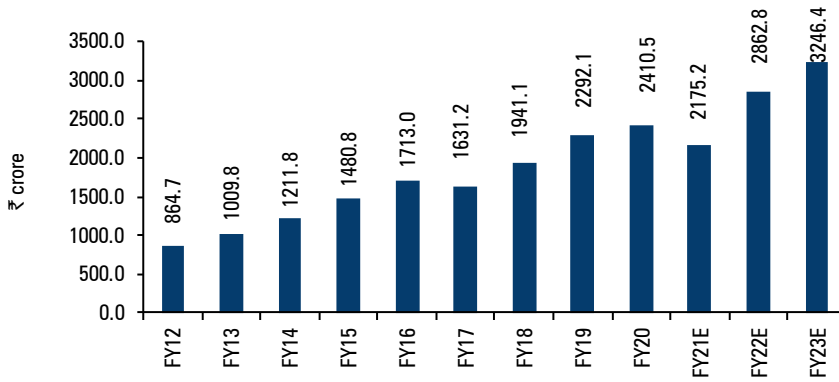
₹ crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,410.5	2,175.2	2,862.8	3,246.4	10.4%
EBITDA	409.0	378.5	523.9	597.3	13.5%
Adjusted PAT	226.3	198.1	304.3	350.2	15.7%
P/E (x)	72.9	83.3	54.2	47.1	
EV/Sales (x)	6.9	7.5	5.7	5.0	
EV/EBITDA (x)	40.4	43.4	31.3	27.1	
RoCE (%)	23.9	19.2	25.1	24.9	
RoE (%)	17.8	13.7	18.2	18.1	

Conference call highlights

- The management indicated that strong demand was witnessed for open footwear (~80% of revenues), while closed shoes such as sports, canvas were still under pressure. On the brand front, Hawaii, Flite, Bahamas have performed better than Sparx
- The company added six new EBOs in H1FY21 with revenue share of EBOs at ~ 5%
- Exports contributed ~4% of sales while e-commerce contributed ~10% of total revenues (10% YoY growth) in Q2FY21. The company expects share of e-commerce to increase 300-400 bps YoY in FY21E to 12%. The margins in e-commerce are similar to other trade channels
- The company's open footwear category witnessed strong demand and was higher than existing supply. Relaxo lost some sales in H1FY21 because of significant pent up demand and unavailability of capacity in the particular category
- The management indicated that current EBITDA margins (~22%) are not sustainable owing to expected increase in marketing spends, trade discounts and higher RM prices, going ahead. The company aims to achieve EBITDA margin of ~18% in FY21E (100 bps higher YoY)
- On the volume growth front, volumes have revived with Q2FY21 volume growth of 2%, for H1FY21. Volume growth was -13%
- The management believes that due to work from home culture gaining higher acceptance, it is resulting in a change in consumer preference towards open footwear/slipper. Demand for the same is expected to sustain for the next two years
- In region wise revenue performance, north & east regions performed relatively better than west and southern markets, which continued to remain sluggish
- On competitive intensity, the management believes the company has gained market share in H1FY21 owing to supply side issues faced by smaller unorganised players
- On footwear category wise, open footwear comprises around 80% of revenues while closed footwear contributes ~20% of total revenues (volume share: 10%). Sparx brand contributes ~ 30% of revenue
- On festive demand trends, good demand has been witnessed in October in most regions, except Kerala
- On the capacity expansion front, the company is planning to increase its capacity by 1 lakh pairs per day by end of FY21E. The capex for FY21 is expected to be ~₹ 100 crore
- Relaxo has focused on enhancing its distribution network and has increased number of dealers and distributors owing to strong pent up demand
- Bahamas brand (premium category) has shown strong growth, which has led to better gross margins
- On the multi brand retail outlets network, the company is currently servicing 50000 outlets and aims to add 5-10% new outlets to its network every year with a medium to long term target to reach ~100000 outlets

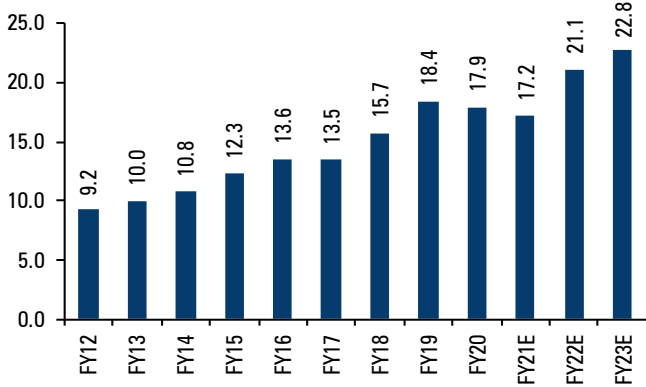
Financial story in charts

Exhibit 1: Revenue trend



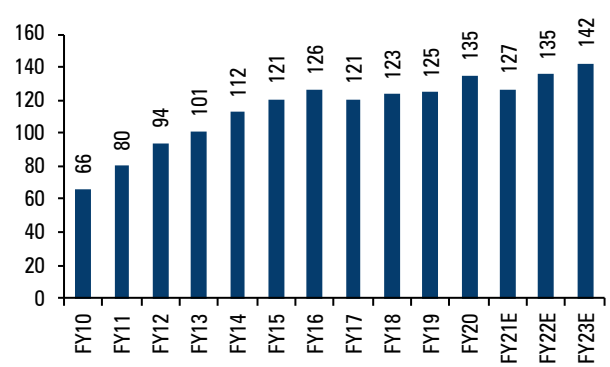
Source: Company, ICICI Direct Research

Exhibit 2: Volume trend (crore pairs)



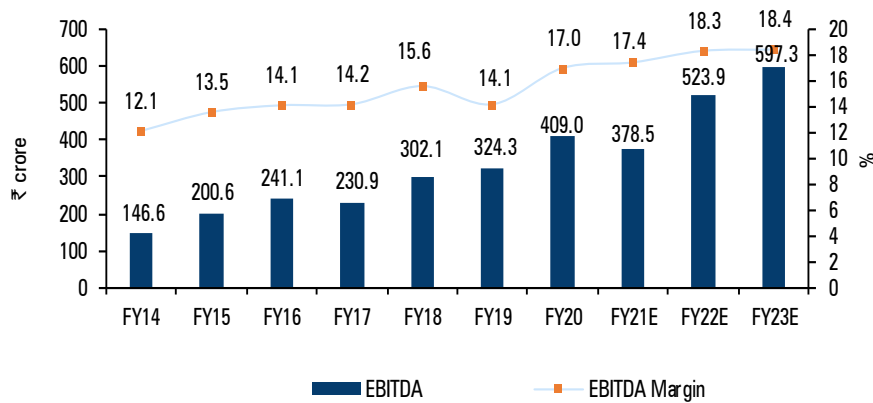
Source: Company, ICICI Direct Research

Exhibit 3: Realisation trend (per pair)



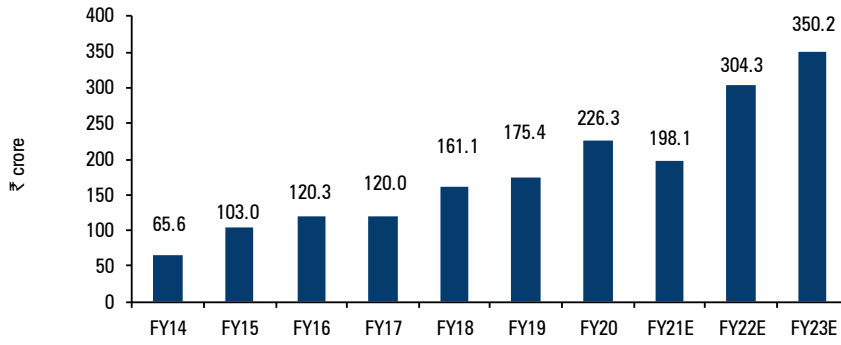
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



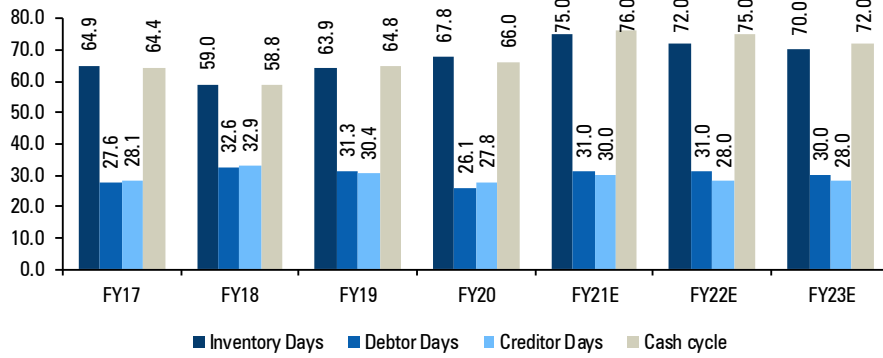
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Net working capital days



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss Statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Net Sales	2,410.5	2,175.2	2,862.8	3,246.4
Growth (%)	5.2	(9.8)	31.6	13.4
Total Raw Material Cost	1,039.3	946.2	1,259.6	1,421.9
Gross Margins (%)	56.9	56.5	56.0	56.2
Employee Expenses	294.0	285.0	337.8	363.6
Other Expenses	668.2	565.6	741.5	863.5
Total Operating Expenditure	2,001.5	1,796.7	2,338.9	2,649.1
EBITDA	409.0	378.5	523.9	597.3
EBITDA Margin	17.0	17.4	18.3	18.4
Interest	16.9	18.4	16.5	17.9
Depreciation	109.4	113.4	115.6	126.5
Other Income	9.1	18.0	15.0	15.0
Exceptional Expense	-	-	-	-
PBT	291.7	264.7	406.7	467.9
Total Tax	65.5	66.6	102.4	117.8
Profit After Tax	226.3	198.1	304.3	350.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash Flow Statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	226.3	198.1	304.3	350.2
Add: Depreciation	109.4	113.4	115.6	126.5
Net Increase in Current Assets	-70.6	-46.0	-207.0	-117.0
Net Increase in Current Liabilities	24.3	-3.8	42.1	30.7
CF from operating activities	289.4	261.7	255.1	390.5
(Inc)/dec in Investments	0.0	-1.3	0.0	0.0
(Inc)/dec in Fixed Assets	-116.0	-96.2	-100.0	-100.0
Others	-1.0	-3.2	0.0	0.0
CF from investing activities	-117.0	-100.6	-100.0	-100.0
Inc / (Dec) in Equity Capital	12.4	0.0	0.0	0.0
Inc / (Dec) in Loan	-92.8	10.8	-10.0	0.0
Others	-90.0	-67.7	-110.3	-125.5
CF from financing activities	-170.5	-56.9	-120.3	-125.5
Net Cash flow	1.9	104.2	34.8	164.9
Opening Cash	2.2	4.1	108.2	143.0
Closing Cash	4.1	108.3	143.0	308.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Equity Capital	24.8	24.8	24.8	24.8
Reserve and Surplus	1,247.6	1,415.9	1,644.2	1,906.8
Total Shareholders funds	1,272.4	1,440.8	1,669.0	1,931.6
Total Debt	19.2	30.0	20.0	20.0
Non Current Liabilities	172.1	172.1	172.1	172.1
Source of Funds	1,463.7	1,642.9	1,861.2	2,123.8
Gross block	947.3	1,047.3	1,147.3	1,247.3
Less: Accum depreciation	197.2	272.6	354.1	442.6
Net Fixed Assets	750.1	774.7	793.2	804.7
Capital WIP	43.8	40.0	40.0	40.0
Intangible assets	42.8	42.8	42.8	42.8
Investments	0.2	1.5	1.5	1.5
Inventory	447.7	447.0	564.7	622.6
Cash	4.1	108.2	143.0	308.0
Debtors	172.1	184.7	243.1	266.8
Loans & Advances & Other CA	185.8	219.9	250.8	286.2
Total Current Assets	809.7	959.9	1,201.7	1,483.6
Creditors	183.8	178.8	219.6	249.0
Provisions & Other CL	193.6	194.8	196.1	197.3
Total Current Liabilities	377.4	373.6	415.7	446.4
Net Current Assets	432.3	586.3	786.0	1,037.2
LT L& A, Other Assets	194.5	197.7	197.7	197.7
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,463.7	1,642.9	1,861.2	2,123.8

Source: Company, ICICI Direct Research

Exhibit 10: Key Ratios

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	9.1	8.0	12.3	14.1
Cash EPS	13.5	12.6	16.9	19.2
BV	51.3	58.1	67.3	77.9
DPS	2.6	1.2	3.1	3.5
Cash Per Share	0.2	4.4	5.8	12.4
Operating Ratios (%)				
EBITDA margins	17.0	17.4	18.3	18.4
PBT margins	12.1	12.2	14.2	14.4
Net Profit margins	9.4	9.1	10.6	10.8
Inventory days	67.8	75.0	72.0	70.0
Debtor days	26.1	31.0	31.0	30.0
Creditor days	27.8	30.0	28.0	28.0
Return Ratios (%)				
RoE	17.8	13.7	18.2	18.1
RoCE	23.9	19.2	25.1	24.9
RoIC	24.1	20.0	27.1	29.4
Valuation Ratios (x)				
P/E	72.9	83.3	54.2	47.1
EV / EBITDA	40.4	43.4	31.3	27.1
EV / Sales	6.9	7.5	5.7	5.0
Market Cap / Revenues	6.8	7.6	5.8	5.1
Price to Book Value	13.0	11.5	9.9	8.5
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.1	0.0	0.0
Current Ratio	2.1	2.3	2.5	2.6
Quick Ratio	0.9	1.1	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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