

Healthy execution revs up operational performance

Relaxo Footwears continues to successfully march towards normalcy with strong execution and healthy margins. Revenue for Q3FY21 grew 12% YoY to ₹ 672.0 crore (up 17% QoQ). It witnessed robust demand for low ticket sized products like slippers/open sandals (~80% of product portfolio). Strong distribution network encompassing mainly tier II/III cities supported in sharp revenue recovery. Relaxo continued to benefit from benign raw material prices with gross margins improving 110 bps YoY to 58.9% (down 250 bps QoQ). However, the management remains cautious on the upward movement of RM prices. On account of positive operating leverage and tight leash on operating overheads (employee, other expense as a percentage to sales fell 44 bps, 368 bps YoY, respectively), EBITDA margins expanded significantly by 520 bps YoY to 22.1%. Absolute EBITDA grew 46% YoY to ₹ 148.7 crore. Other income grew 82% YoY to ₹ 4.0 crore (₹ 1.7 crore pertains to lease rent waiver). On the back of robust operational performance, PAT for the quarter grew 66% YoY to ₹ 90.1 crore. Given the robust balance sheet and being the market leader in value priced segment (in terms of volumes), Relaxo is well placed to further consolidate its market share and emerge stronger post pandemic.

Product mix suited to capture change in consumer preference

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

Valuation & Outlook

Resilient performance during challenging times builds our confidence in the business model and ability to gain market share. Though we believe current gross margins (59-61%) may not be sustainable in nature, we expect EBITDA margin improvement to sustain driven by operating leverage and cost control measures. Factoring in the performance of Q3FY21, we revise our earnings estimates upwards by ~7% for FY22/23E. We bake in revenue, earnings CAGR of 12%, 20%, respectively, in FY20-23E. Over the years, Relaxo has maintained balance sheet prudence with controlled working capital cycle (NWC days: 65 days), healthy asset turns of 2.5x and generating RoCE of 20%+. We believe robust FCF generation (~₹ 590 crore in FY21-23E), and sharp improvement in RoIC (to cross 30% in FY22E) will be the key triggers for sustaining premium valuations. Hence, we upgrade the stock to **BUY** (from HOLD) with a revised target price of ₹ 950 (previous TP: ₹ 890).

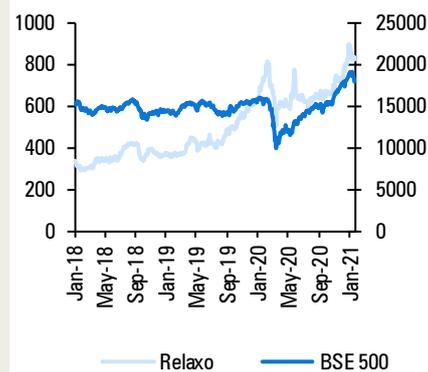
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	20,418.6
Total Debt (FY20) (₹ crore)	19.2
Cash (FY20) (₹ crore)	4.1
EV (₹ crore)	20,433.7
52 Week H / L	927 / 493
Equity Capital (₹ crore)	24.8
Face Value (₹)	1.0

Key Risks

- Inability to pass on any significant increase in raw material price (crude oil based products like EVA, PU, rubber) can negatively impact margins
- Increased level of competition from new entrants as well as unorganised players can impact profitability metric for footwear industry

Price Chart



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

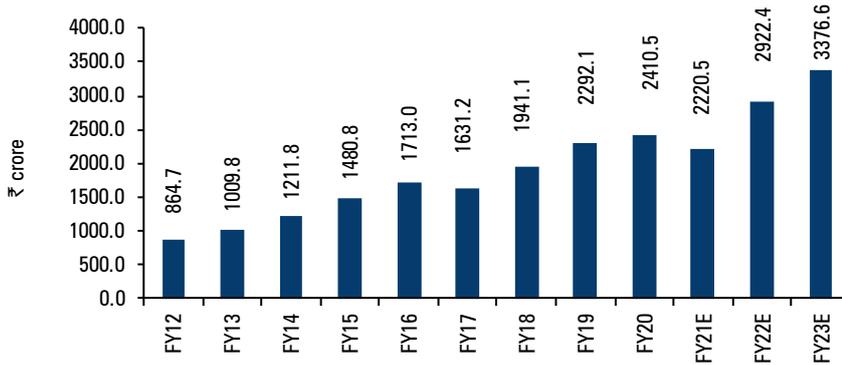
Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,410.5	2,220.5	2,922.4	3,376.6	11.9%
EBITDA	409.0	433.0	564.0	655.1	17.0%
Adjusted PAT	226.3	238.9	333.0	393.4	20.2%
P/E (x)	90.2	85.5	61.3	51.9	
EV/Sales (x)	8.5	9.1	6.9	5.9	
EV/EBITDA (x)	50.0	46.9	35.8	30.6	
RoCE (%)	23.9	22.4	26.4	26.6	
RoE (%)	17.8	16.2	19.3	19.5	

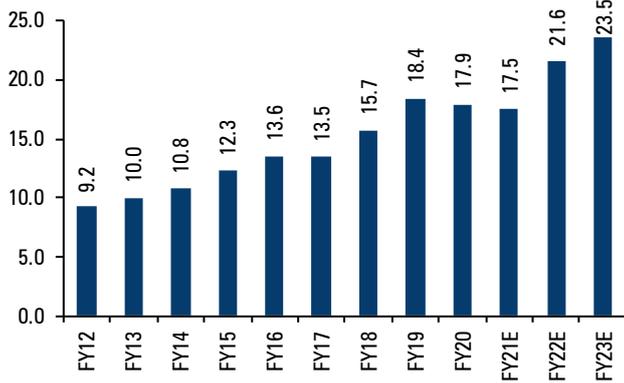
Financial story in charts

Exhibit 1: Revenue trend



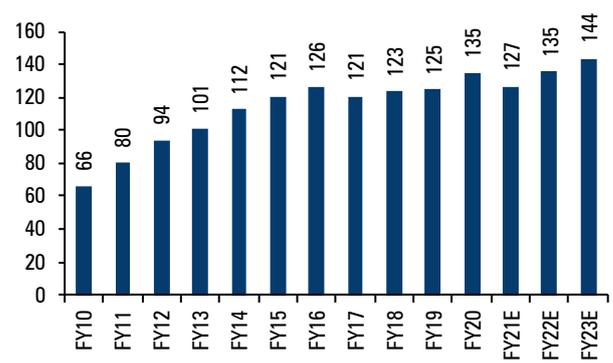
Source: Company, ICICI Direct Research

Exhibit 2: Volume trend (crore pairs)



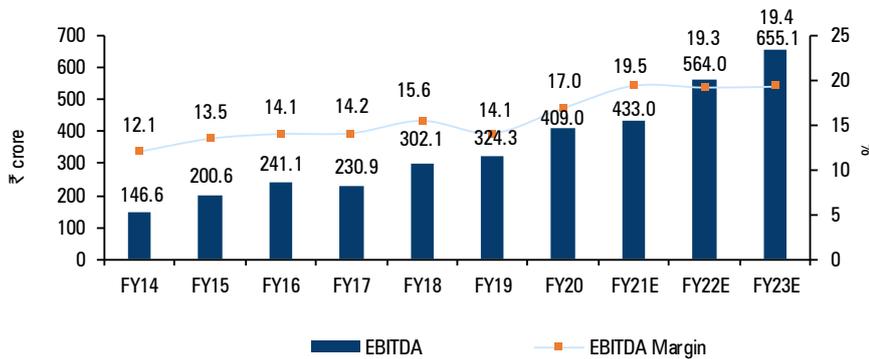
Source: Company, ICICI Direct Research

Exhibit 3: Realisation trend (per pair)



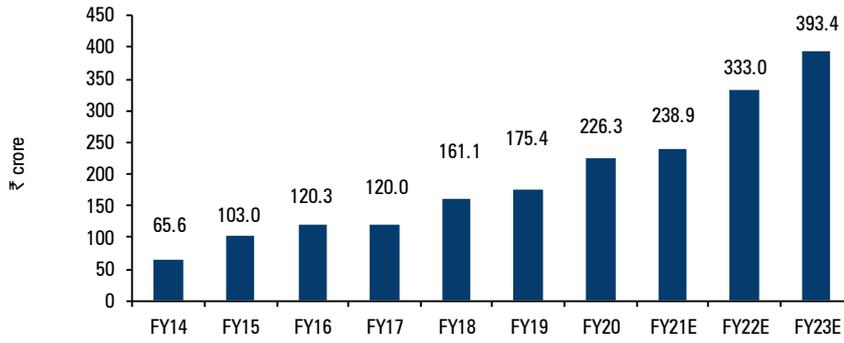
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



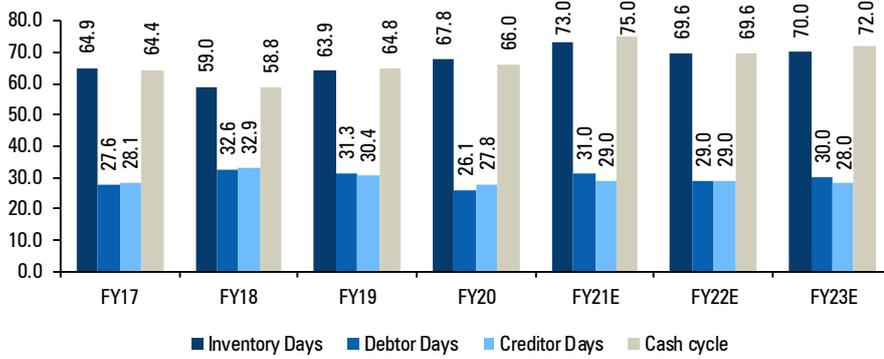
Source: Company, ICICI Direct Research

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	2,220.5	2,922.4	3,376.6
Growth (%)	5.2	(7.9)	31.6	15.5
Total Raw Material Cost	1,039.3	937.1	1,262.5	1,458.7
Gross Margins (%)	56.9	57.8	56.8	56.8
Employee Expenses	294.0	290.9	344.8	391.7
Other Expenses	668.2	559.6	751.1	871.2
Total Operating Expenditure	2,001.5	1,787.5	2,358.4	2,721.5
EBITDA	409.0	433.0	564.0	655.1
EBITDA Margin	17.0	19.5	19.3	19.4
Interest	16.9	18.4	16.5	17.9
Depreciation	109.4	113.4	117.5	126.5
Other Income	9.1	18.0	15.0	15.0
Exceptional Expense	-	-	-	-
PBT	291.7	319.2	445.0	525.7
Total Tax	65.5	80.3	112.0	132.3
Profit After Tax	226.3	238.9	333.0	393.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash Flow Statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	226.3	238.9	333.0	393.4
Add: Depreciation	109.4	113.4	117.5	126.5
Net Increase in Current Assets	-70.6	-47.0	-187.6	-171.0
Net Increase in Current Liabilities	24.3	-6.1	57.0	28.1
CF from operating activities	289.4	299.1	319.9	377.0
(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	-73.8	-119.3	-136.3
CF from financing activities	-170.5	-63.0	-129.3	-136.3
Net Cash flow	1.9	135.5	90.6	140.7
Opening Cash	2.2	4.1	139.6	230.2
Closing Cash	4.1	139.6	230.2	370.8

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	1,450.6	1,700.3	1,995.4
Total Shareholders funds	1,272.4	1,475.4	1,725.2	2,020.2
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	1,677.6	1,917.3	2,212.3
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	444.1	557.3	647.6
Cash	4.1	139.6	230.2	370.8
Debtors	172.1	188.6	232.2	277.5
Loans & Advances & Other CA	185.8	219.9	250.8	286.2
Total Current Assets	809.7	992.2	1,270.4	1,582.1
Creditors	183.8	176.4	232.2	259.0
Provisions & Other CL	193.6	194.8	196.1	197.3
Total Current Liabilities	377.4	371.2	428.3	456.4
Net Current Assets	432.3	621.0	842.1	1,125.7
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	1,677.6	1,917.3	2,212.3

Source: Company, ICICI Direct Research

Exhibit 10: Key Ratios

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	9.1	9.6	13.4	15.9
Cash EPS	13.5	14.2	18.2	21.0
BV	51.3	59.5	69.5	81.4
DPS	2.6	1.4	3.4	4.0
Cash Per Share	0.2	5.6	9.3	14.9
Operating Ratios (%)				
EBITDA margins	17.0	19.5	19.3	19.4
PBT margins	12.1	14.4	15.2	15.6
Net Profit margins	9.4	10.8	11.4	11.6
Inventory days	67.8	73.0	69.6	70.0
Debtor days	26.1	31.0	29.0	30.0
Creditor days	27.8	29.0	29.0	28.0
Return Ratios (%)				
RoE	17.8	16.2	19.3	19.5
RoCE	23.9	22.4	26.4	26.6
RoIC	24.1	24.1	30.3	32.4
Valuation Ratios (x)				
P/E	90.2	85.5	61.3	51.9
EV / EBITDA	50.0	46.9	35.8	30.6
EV / Sales	8.5	9.1	6.9	5.9
Market Cap / Revenues	8.5	9.2	7.0	6.0
Price to Book Value	16.0	13.8	11.8	10.1
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	2.4	2.7
Quick Ratio	0.9	1.1	1.1	1.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number - INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.