

Accumulate

Superlative margin performance. Maintain Positive bias

- Revenue jumped 12% YoY to Rs 6.7bn in Q3FY21 - came ahead of our estimate. Festive season, strong marriage season and re-opening of markets must have resulted in strong revenue growth.
- GM/EBITDA expanded by 110/520bps 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, going ahead.
- We have upward revised our FY21/22/23E EPS estimates to Rs 11.2/12.8/14.8 implying +21.5/7.4/8.8% revision in our estimates. We value the stock at 60x FY23E EPS to arrive at a TP of Rs 888. As the CMP does not support our rating, we are downgrading to Accumulate. We remain optimistic on overall business and anticipate improvement in revenue growth, going ahead. Any dip in stock price should be considered as buying opportunity.

Structural drivers in place to tackle challenging times

With 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 grew 12.0% YoY to Rs 6.7bn in Q3FY21. With lifting of Covid-19 led restrictions, the company witnessed strong pickup in demand in Q3. GM expanded 110bps to 58.9% due to benign RM prices. Further, 40/370bps decline in employee cost/ other expenses led to 520bps expansion in EBITDA margin to 22.1%. EBITDA grew 46.4% YoY to Rs 1,487mn- came ahead of our estimate. Other income almost doubled to Rs 39.6mn in Q3 due to lease rent waiver for rented premises. APAT increased 66.3% YoY to Rs 901mn – came ahead of our estimate.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	6,720	5,998	12.0	5,759	16.7
Total Expense	5,233	4,982	5.0	4,490	16.6
EBITDA	1,487	1,016	46.4	1,269	17.2
Depreciation	278	275	1.2	278	0.0
EBIT	1,209	741	63.1	991	22.0
Other Income	40	22	82.5	50	(21.4)
Interest	40	44	(8.9)	38	5.0
EBT	1,209	719	68.1	1,004	20.5
Tax	308	178	73.5	253	22.0
RPAT	901	542	66.3	751	19.9
APAT	901	542	66.3	751	19.9
			(bps)		(bps)
Gross Margin (%)	58.9	57.8	107	61.4	(246)
EBITDA Margin (%)	22.1	16.9	519	22.0	9
NPM (%)	13.4	9.0	437	13.0	36
Tax Rate (%)	25.5	24.7	79	25.2	33
EBIT Margin (%)	18.0	12.4	563	17.2	78

CMP	Rs 824
Target / Upside	Rs 888 / 8%
NIFTY	13,635

Scrip Details

Equity / FV	Rs 248mn / Rs 1
Market Cap	Rs 204bn
	USD 3bn
52-week High/Low	Rs 928/ 500
Avg. Volume (no)	2,55,088
Bloom Code	RLXF IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	25	12
Rel to NIFTY (%)	3	8	(1)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	71.0	71.0	71.0
MF/Banks/FIs	19.2	19.1	19.1
FIIIs	3.3	3.4	3.4
Public / Others	6.6	6.6	6.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	73.3	64.4	55.7
EV/EBITDA	41.9	37.2	32.1
ROE (%)	20.0	19.2	18.8
RoACE (%)	20.5	19.8	19.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	23,178	28,305	32,355
EBITDA	4,848	5,410	6,199
PAT	2,785	3,172	3,671
EPS (Rs.)	11.2	12.8	14.8

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EBITDA margins to remain elevated

Our recent channel checks have suggested that the demand for open footwear has started normalizing and other footwear also have started to witness traction. Relaxo has presence in both categories, is likely to continue to benefit in case of shift in trend. Further, with re-opening of transport services and vaccination, we expect offices and travelling would kick start soon. Hence we anticipate demand for open as well as closed footwears to remain strong going ahead. Further, less dependency on retail model vs distribution model would help the company to maintain margins, going ahead. However, we believe that the Q3FY21 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 +19% margins for Relaxo vs 14-16% reported historically.

Exhibit 1: Q3FY21 Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	6,720	6,238	7.7	Consumer demand pick-up was higher than our expectations
EBITDA	1,487	1,331	11.8	
EBITDA margin %	22.1	21.3	80 bps	RM costs and other expenses were lower than estimates
APAT	901	804	12.0	

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E			FY23E		
	New	Previous	Chg.(%)	New	Previous	Chg.(%)	New	Previous	Chg.(%)
Revenue	23,178	22,681	2.2	28,305	28,257	0.2	32,355	32,300	0.2
EBITDA	4,848	4,165	16.4	5,410	5,119	5.7	6,199	5,801	6.9
EBITDA Margin (%)	20.9	18.4	260 bps	19.1	18.1	100 bps	19.2	18.0	120 bps
PAT	2,785	2,292	21.5	3,172	2,954	7.4	3,671	3,372	8.8
EPS (Rs)	11.2	9.2	21.5	12.8	11.9	7.4	14.8	13.6	8.8

Source: Company, DART

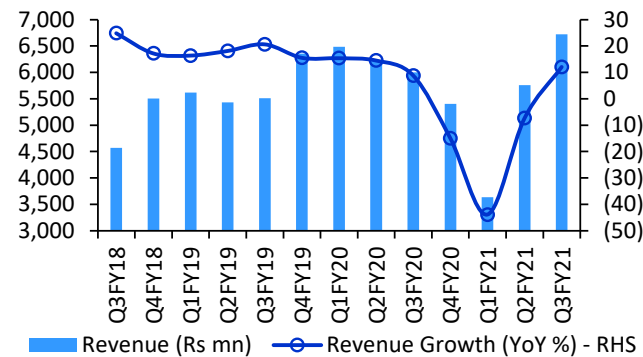
We have increased our revenue estimates for FY21E to factor in significant growth in Q3. Further, Q3 margins were significantly higher than our estimates, hence we revised margins for FY21 upwards. We believe that the company's margins would continue to remain high. However, our estimates factor in YoY decline in margins as few costs like A&P and freight would normalize going ahead. In line with the revision in EBITDA, we have revised APAT estimates.

Exhibit 3: 9M Performance

Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Sales	6,720	5,998	12.0	5,759	16.7	16,115	18,699	(13.8)
Expenditure	5,233	4,982	5.0	4,490	16.6	12,788	15,572	(17.9)
Raw Materials	2,761	2,529	9.2	2,224	24.1	6,805	8,220	(17.2)
Staff Cost	817	756	8.2	736	11.1	2,120	2,201	(3.7)
Other Expenditure	1,655	1,698	(2.5)	1,530	8.2	3,864	5,150	(25.0)
Operating Profit	1,487	1,016	46.4	1,269	17.2	3,326	3,128	6.4
Other Income	39.6	21.7	82.5	50.4	(21.4)	158.8	50.6	213.8
Interest	40.0	43.9	(8.9)	38.1	5.0	118.9	133.6	(11.0)
Depreciation	278	275	1.2	278	0.0	831	818	1.6
PBT	1,209	719	68.1	1,004	20.5	2,536	2,227	13.9
Tax	308	178	73.5	253	22.0	642	482	33.1
APAT	901	542	66.3	751	19.9	1,894	1,745	8.6
RPAT	901	542	66.3	751	19.9	1,894	1,745	8.6
			bps		bps			bps
Gross Margin (%)	58.9	57.8	110	61.4	(250)	57.8	56.0	170
Staff Cost (%)	12.2	12.6	(40)	12.8	(60)	13.2	11.8	140
Other Expenditure (%)	24.6	28.3	(370)	26.6	(190)	24.0	27.5	(360)
EBITDA(%)	22.1	16.9	520	22.0	10	20.6	16.7	390
Tax rate (%)	25.5	24.7	80	25.2	30	25.3	21.7	360
NPM (%)	13.4	9.0	440	13.0	40	11.8	9.3	240

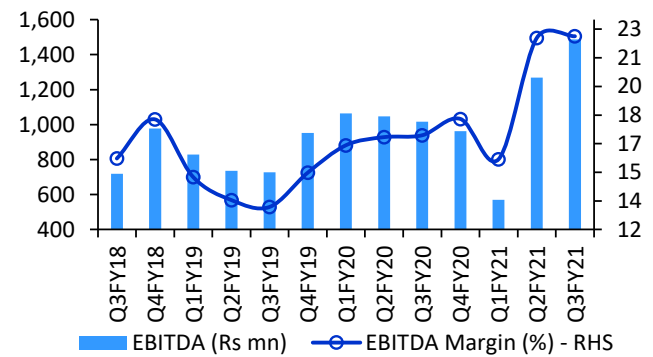
Source: Company, DART

Exhibit 4: Revenue Performance



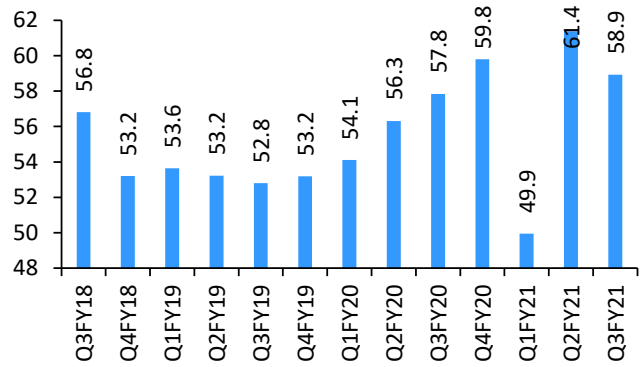
Source: Company, DART

Exhibit 5: EBITDA and EBITDA margin



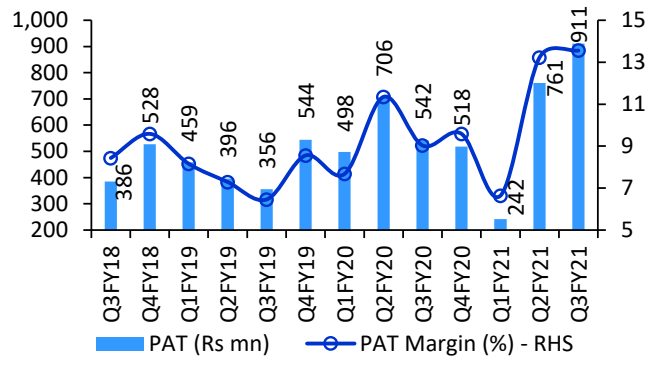
Source: Company, DART

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	23,178	28,305	32,355
Total Expense	20,015	18,331	22,895	26,156
COGS	10,393	9,741	11,782	13,450
Employees Cost	2,940	2,863	3,328	3,805
Other expenses	6,682	5,726	7,785	8,901
EBIDTA	4,090	4,848	5,410	6,199
Depreciation	1,094	1,149	1,200	1,325
EBIT	2,995	3,699	4,210	4,874
Interest	169	170	210	210
Other Income	91	210	230	230
Exc. / E.O. items	0	0	0	0
EBT	2,917	3,739	4,230	4,894
Tax	655	953	1,057	1,224
RPAT	2,263	2,785	3,172	3,671
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,263	2,785	3,172	3,671

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	14,851	17,614	20,875
Net Worth	12,723	15,099	17,862	21,123
Total Debt	191	191	191	191
Net Deferred Tax Liability	248	421	421	421
Total Capital Employed	13,162	15,711	18,474	21,735

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	9,626	12,812	16,454
Inventories	4,477	3,985	4,868	5,566
Receivables	1,721	2,214	2,705	3,092
Cash and Bank Balances	40	1,584	2,988	5,223
Loans and Advances	1,643	1,574	1,923	2,199
Other Current Assets	280	268	328	375
Less: Current Liabilities & Provisions	5,270	4,185	4,956	5,565
Payables	1,837	2,088	2,550	2,916
Other Current Liabilities	3,433	2,097	2,406	2,650
<i>sub total</i>				
Net Current Assets	2,892	5,441	7,856	10,889
Total Assets	13,162	15,711	18,474	21,735

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	56.9	58.0	58.4	58.4
EBIDTA Margin	17.0	20.9	19.1	19.2
EBIT Margin	12.4	16.0	14.9	15.1
Tax rate	22.4	25.5	25.0	25.0
Net Profit Margin	9.4	12.0	11.2	11.3
(B) As Percentage of Net Sales (%)				
COGS	43.1	42.0	41.6	41.6
Employee	12.2	12.4	11.8	11.8
Other	27.7	24.7	27.5	27.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	17.8	21.8	20.0	23.2
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	86	101	123
FA T/O	2.5	2.4	2.8	3.2
(D) Measures of Investment				
AEPS (Rs)	9.1	11.2	12.8	14.8
CEPS (Rs)	13.5	15.9	17.6	20.1
DPS (Rs)	2.6	1.7	1.7	1.7
Dividend Payout (%)	28.4	14.7	12.9	11.2
BVPS (Rs)	51.3	60.9	72.0	85.2
RoANW (%)	19.0	20.0	19.2	18.8
RoACE (%)	19.1	20.5	19.8	19.3
RoAIC (%)	23.6	27.1	28.4	30.5
(E) Valuation Ratios				
CMP (Rs)	824	824	824	824
P/E	90.3	73.3	64.4	55.7
Mcap (Rs Mn)	2,04,278	2,04,278	2,04,278	2,04,278
MCap/ Sales	8.5	8.8	7.2	6.3
EV	2,04,428	2,02,885	2,01,480	1,99,246
EV/Sales	8.5	8.8	7.1	6.2
EV/EBITDA	50.0	41.9	37.2	32.1
P/BV	16.1	13.5	11.4	9.7
Dividend Yield (%)	0.3	0.2	0.2	0.2
(F) Growth Rate (%)				
Revenue	5.2	(3.8)	22.1	14.3
EBITDA	26.1	18.5	11.6	14.6
EBIT	14.4	23.5	13.8	15.8
PBT	8.9	28.2	13.1	15.7
APAT	29.0	23.1	13.9	15.7
EPS	29.0	23.1	13.9	15.7
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,190	3,102	3,362	4,197
CFI	(1,159)	(1,149)	(1,548)	(1,553)
CFF	(2,014)	(410)	(410)	(410)
FCFF	2,032	1,959	1,814	2,644
Opening Cash	22	40	1,584	2,988
Closing Cash	40	1,584	2,988	5,223

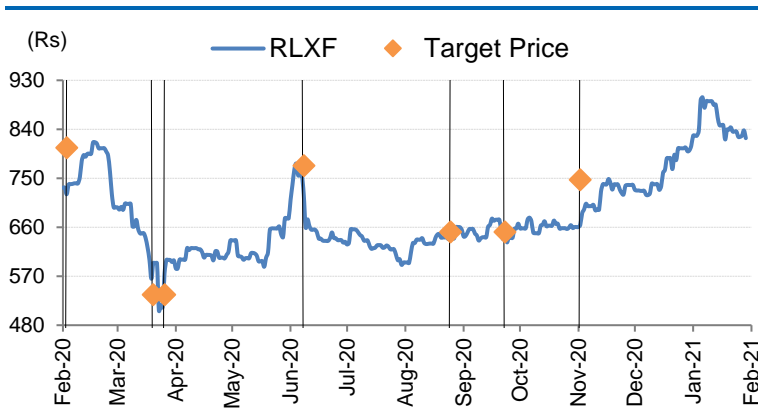
E – Estimates

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.)
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
Nov-20	Buy	747	664

*Price as on recommendation date

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