Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Relaxo Footwears Limited

Stepping up the growth ladder

Consumer Discretionary	Sharekhan code: RELAXO	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 841**	
Price Target: **Rs. 1,005**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

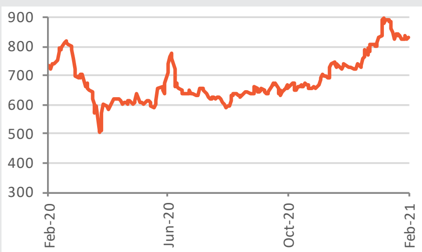
Company details

Market cap:	Rs. 20,878 cr
52-week high/low:	Rs. 928 / 493
NSE volume: (No of shares)	2.4 lakh
BSE code:	530517
NSE code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	70.9
FII	4.2
DII	7.1
Others	17.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.6	22.1	28.5	32.2
Relative to Sensex	4.7	-3.3	-8.0	16.4

Sharekhan Research, Bloomberg

Summary

- Relaxo Footwears (Relaxo's) Q3FY2021 revenue was exactly in-line with our expectation at Rs. 672 crore (grew by 12%y-o-y), led by improving demand across categories and geographies.
- Better product mix, benign input prices led to 107 bps expansion in gross margin; saving in selling and administrative expenses resulted in OPM expanding by 519 bps to 22%.
- Going ahead, demand is likely to improve due to reducing COVID-19 cases leading to increased mobility and improvement in economic activities.
- We have increased our estimates for FY2021/FY2022/FY2023 by 11%/9%/8% to factor higher margin trajectory. We maintain our Buy recommendation on the stock with a PT of Rs. 1,005.

Relaxo posted strong numbers in Q3FY2021.Revenue grew by 12% y-o-y to Rs. 672 crore, driven by sharply increasing mobility along with continuous improvement in economic activities. Demand conditions have started improving across categories and geographies.Gross margins expanded by 107 bps due to benign input costs and better product mix. Stringent cost-saving initiatives helped OPM expand to expand by 519 bps to 22.1% (expanded by 392 bps to 20.6% in 9MFY2021). Led by better operating efficiencies and higher other income, PAT grew by 66.3% y-o-y to Rs. 90.1 crore. Higher demand for value-for-money products will help the company sustain its strong growth in the coming quarters. We expect strong recovery in FY2022, driven by market share gains from unorganised players, higher presence in e-commerce channels, and 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 drivers. Raw-material prices have started moving up, but better revenue mix and cost-saving initiatives would help margins to remain around 20%. Lower working capital and strong cash flows remain one of the key strengths for the company.

Key positives

- Revenue grew by 12% y-o-y to Rs.672 crore, recovering from the decline of 7.4% in Q2.
- OPM expanded by 519 bps to 22.1%; second consecutive quarter of 22% margins.

Key negatives

- Rising input cost might put some pressure on gross margins ahead.

Our Call

View - Retained Buy with an unchanged PT of Rs. 930: We have increased our estimates for FY2021/FY2022/FY2023 by 11%/9%/8% to factor higher margin trajectory.With a strong portfolio of value-for-money footwear products and improving distribution reach, Relaxo is well poised to achieve revenue and earnings CAGR of 10% and 19% over FY2020-FY2023E. The stock is currently trading at 59.9x/50.3x its FY2022/FY2023E EPS. Strong earnings visibility and strengthening of balance sheet will keep valuations at premium levels. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,005.

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.

Valuations (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,292	2,410	2,222	2,858	3,230
OPM (%)	14.1	17.0	20.2	20.4	21.0
Adjusted PAT	175	226	257	348	415
% YoY growth	8.9	29.0	13.5	35.7	19.2
Adjusted diluted EPS (Rs.)	7.1	9.1	10.3	14.0	16.7
P/E (x)	119.0	92.3	81.3	59.9	50.3
P/B (x)	18.9	16.4	14.1	11.8	9.8
EV/EBIDTA (x)	64.6	51.4	46.5	35.3	30.0
RoNW (%)	18.8	19.0	18.6	21.4	21.3
RoCE (%)	23.8	27.4	25.6	29.0	26.9

Source: Company; Sharekhan estimates

Revenue grew by 12%, benign input costs and efficiencies boosted margins:

Relaxo posted strong numbers in Q3FY2021 with revenue growing by 12% y-o-y to Rs. 672 crore, driven by sharply increasing mobility along with continuous improvement in economic activities. Demand conditions have started improving across categories and geographies. The company has delivered a strong quarter with the combination of the strategies implemented along with investment in our strong brands, robust distribution network, and supply chain. Gross margin expanded by 107 bps due to benign input costs and better product mix. Savings in selling and administrative expenses resulted in OPM expanding by 519 bps to 22.1%. Led by better operating efficiencies, PAT grew by 66.3% y-o-y to Rs. 90.1 crore. Higher demand for value-for-money products will help the company sustain its strong growth in the coming quarters.

Volume growth to improve over FY2021-FY2023:

Relaxo's sales volume grew by ~10% over FY2017-FY2020, driven by strong portfolio of value-for-money portfolio, sustained new product addition based on consumer buying behaviour, and expansion in distribution reach (50,000+ retailers/MBOs). The company has eight manufacturing facilities with a capacity of 7.5lakh pair/day. The company is continuously focusing on optimising its operations through a dedicated line of manufacturing fast-moving SKUs and yield improvement. During 9MFY2021, Relaxo witnessed strong demand for open-ended shoes, which contributed significantly to overall sales volume. However, with receding scare of virus, demand for close-ended shoes will also improve in the coming quarters. Further, focus on expanding in the southern market and higher contribution from on-line sales would help in delivering better volume growth in the coming years.

Results (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Net Revenue	672.0	599.8	12.0	575.9	16.7
Raw-material cost	276.1	252.9	9.2	222.4	24.1
Staff cost	81.7	75.6	8.2	73.6	11.1
Other expenses	165.5	169.8	-2.5	153.0	8.2
Total expenses	523.3	498.2	5.0	449.0	16.6
Operating profit	148.7	101.6	46.4	126.9	17.2
Interest expenses	4.0	4.4	-8.9	3.8	5.0
Depreciation and Amortisation	27.8	27.5	1.2	27.8	0.0
PBT	120.9	71.9	68.1	100.4	20.5
Tax	30.8	17.8	73.5	25.3	22.0
Adjusted PAT	90.1	54.2	66.3	75.1	19.9
Exceptional / one off (net of taxes)	0.0	0.0	-	0.0	-
Reported PAT	90.1	54.2	66.3	75.1	19.9
EPS (Rs.)	3.6	2.2	66.3	3.0	19.9
			BPS		**BPS**
GPM (%)	58.9	57.8	107	61.4	-246
OPM (%)	22.1	16.9	519	22.0	9

Source: Company; Sharekhan Research

Outlook and Valuation

Sector outlook –Long-term growth prospects of the footwear industry are intact

India is the second largest footwear manufacturer after China, accounting for 9% of the world's market with 22billion pairs. The domestic market contributes ~90% to the overall footwear market in India. The domestic footwear market was badly affected by the lockdown during the pandemic (Q1 was the worst affected). Closure of retail stores and restriction to out-of-home mobility affected sales in Q1FY2021. However, with easing of lockdown norms and gradual opening of retail stores/malls, footwear sales gained some momentum in Q2 and Q3. With receding scare of virus, footwear demand should further improve in the coming quarters. Low per capita consumption at 1.66 pair p.a., lower share of exports, and higher unorganised play provide huge opportunity for top brands to scale up operations in the near to medium term.

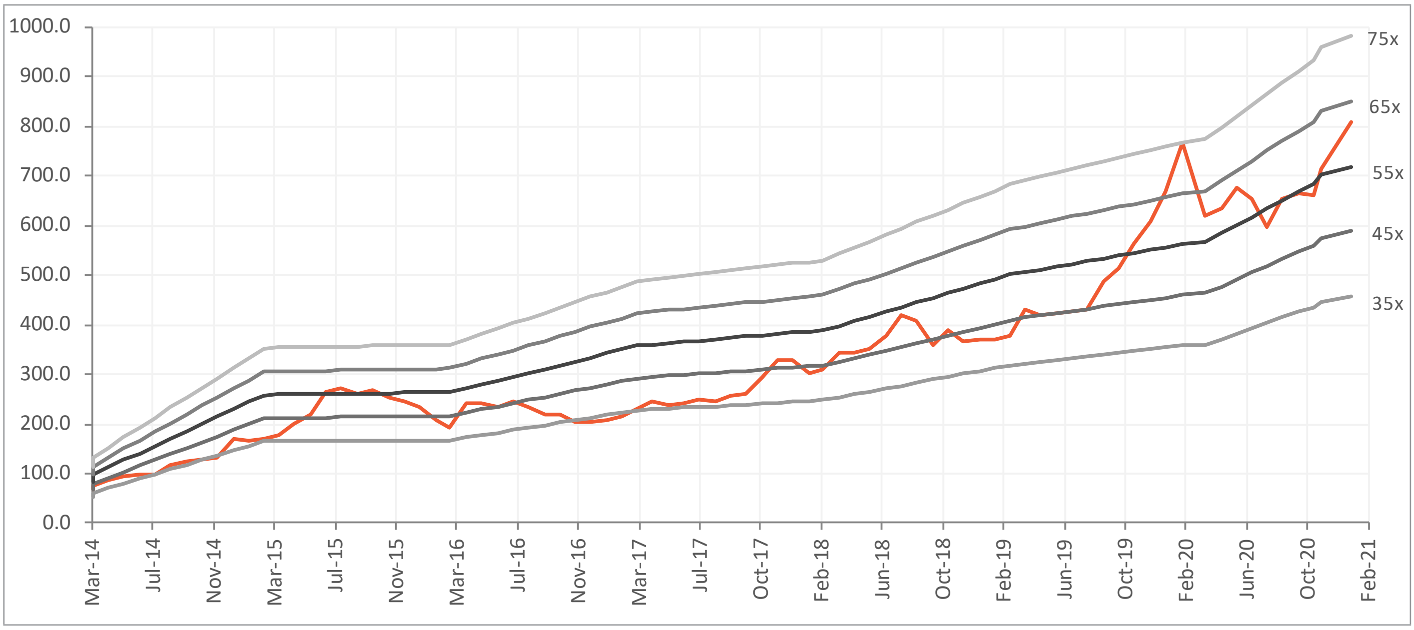
Company outlook – Growth to sustain in Q4FY2021; Margin to sustain

Value-for-money portfolio aided Relaxo to post strong recovery in Q3 with double-digit revenue growth. With receding scare of virus, we expect growth momentum to further improve in the coming quarters. We expect strong recovery in FY2022, driven by market share gains from unorganised players, higher presence in e-commerce channels, and 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 long-term growth drivers. Raw-material prices have started moving up, but better revenue mix and cost-saving initiatives would help margins to remain around 20%.

Valuation - Retained Buy with a revised target price of Rs. 1,005

We have increased our estimates for FY2021/FY2022/FY2023 by 11%/9%/8% to factor in higher margin trajectory. With a strong portfolio of value-for-money footwear products and improving distribution reach, Relaxo is well-poised to achieve revenue and earnings CAGR of 10% and 19%, respectively, over FY2020-FY2023E. The stock is currently trading at 59.9x/50.3x its FY2022/FY2023E EPS. Strong earnings visibility and strengthening of the balance sheet will keep valuations at premium. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,005.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bata	-	60.9	45.5	44.3	22.5	18.2	3.1	10.7	12.3
Relaxo Footwears	81.3	59.9	50.3	46.5	35.3	30.0	25.6	29.0	26.9

Source: Company, Sharekhan estimates

About company

New Delhi-based Relaxo is a leading footwear company with a turnover of over Rs. 2,400 crore. The company 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 396 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 registered sustained double-digit volume growth in the past 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 crore-60,000 crore Indian footwear market, of which ~50% is unbranded. Capacity expansion, investment on brands, steady volume growth, and improving presence in untapped markets along with increasing price differential in imported and domestic footwear as a result of 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 Website

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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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