

Relaxo Footwears (RELF00)

CMP: ₹ 1235

Target: ₹ 1330 (8%)

Target Period: 12 months

HOLD

January 31, 2022

Material price hike impacts volume trajectory

About the stock: Relaxo is India's leading footwear manufacturing company, boasting of largest capacity of 10.0 lakh pairs per day. It is a dominant player in the open footwear space (~80% of sales), with its strong portfolio of brands ('Flite', 'Bahamas', 'Sparx', 'Relaxo).

- Market leader in value priced segment selling ~19 crore pairs annually
- Relaxo has, over the years, maintained balance sheet prudence with controlled working capital cycle (NWC days: 60 days), healthy asset turns of 2.5x and generating RoCE of 20%+

Q3FY22 Results: Higher inflationary raw material pressure hampered profitability.

- Revenue grew 11% YoY to ₹ 743.5 crore. Growth was mainly price led as realisations were up 22% YoY to ₹ 164/per pair. Volume declined 10% YoY
- On account of input cost inflation (crude based) and a significantly higher base, gross margins contracted 570 bps YoY (down 160 bps QoQ) to 53.2%. EBITDA margins declined 577 bps YoY (flattish QoQ) to 16.4%
- PAT for the quarter declined 22% YoY (up 2% QoQ) to ₹ 70.1 crore

What should investors do? Relaxo has been an exceptional performer with the stock price appreciating at ~ 41% CAGR in the last five years.

- We continue to remain structurally positive. However, due to recent run-up in the stock and near term headwinds (higher RM prices, its impact on volumes), we reiterate **HOLD** on the stock and await better entry price point

Target Price and Valuation: We value Relaxo at ₹ 1330 i.e. 65x FY24E EPS

Key triggers for future price performance:

- Robust FCF generation (~₹ 705 crore in FY22-24E) and profitable revenue growth will be the key triggers for sustaining premium valuations
- Despite selling ~19 crore pairs, Relaxo's current market share is <10%. Given its robust balance sheet and strong brand patronage, we believe there is enough headroom for long-term growth & market share gains
- While the north region remains the main fortress for the company (50%+ revenues), west and south remain relatively underpenetrated markets. Relaxo has geo-tagged ~100000 outlets (currently present in ~50000 outlets), which signifies immense opportunity to penetrate in new territories
- We model in revenue and earnings CAGR of 19% and 20%, respectively, in FY21-24E with higher RoCE of ~30%

Alternate Stock Idea: Apart from Relaxo, in our retail coverage we also like Bata.

- Bata India has a strong b/s, diversified branded product portfolio and pan India network, which would enable sustained long term profitable growth
- BUY with target price of ₹ 2380



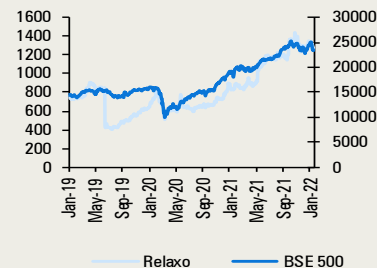
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	30,640.4
Total Debt (FY21) (₹ crore)	-
Cash & investment (FY21) (₹ crore)	345.9
EV (₹ crore)	30,294.5
52 Week H / L	1447 / 810
Equity Capital (₹ crore)	24.8
Face Value (₹)	1.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	70.9	70.9	70.9	70.9	70.8
FII	3.7	3.9	3.5	3.6	3.8
DII	7.0	7.0	7.3	7.2	7.1
Others	18.5	18.2	18.3	18.4	18.3

Price Chart



Recent event & key risks

- Gross margin contraction owing to higher input costs
- Key Risk:** (i) Re-imposition of lockdown can lower sales (ii) Higher than expected margins

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Key Financial Summary

Financials	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	2,410.5	2,359.2	7.0%	2,791.8	3,377.0	4,003.8	19.3%
EBITDA	409.0	495.5	15.0%	449.5	607.9	772.7	16.0%
Adjusted PAT	226.3	291.6	19.0%	259.4	377.4	499.3	19.6%
P/E (x)	135.4	105.2		118.1	81.2	61.4	
EV/Sales (x)	12.7	12.9		10.8	8.9	7.5	
EV/EBITDA (x)	75.0	61.2		67.2	49.5	38.8	
RoCE (%)	23.9	26.0		20.9	26.3	29.7	
RoE (%)	17.8	18.5		14.9	19.0	21.6	

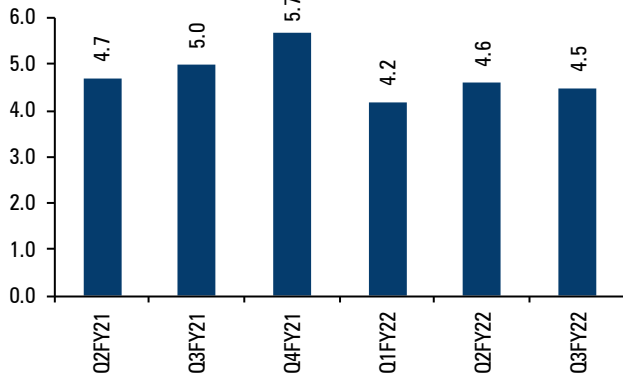
Source: Company, ICICI Direct Research

Key takeaways of recent quarter

- Relaxo reported steady double digit revenue growth of 11% YoY to ₹ 743.5 crore. The growth was mainly price led (up 22% YoY to ₹ 164/piece) as the company had alluded to a further hike in ASP to combat significantly higher RM prices
- Higher footwear prices impacted the demand during the quarter as volumes declined ~10% YoY to 4.5 crore pairs. Furthermore, demand for open footwear (80%+ revenue contribution) has seen some moderation
- On account of input cost inflation and a significantly higher base, gross margins contracted 570 bps YoY (down 160 bps QoQ) to 53.2%. Employee and other expenses increased 4% and 14% YoY to ₹ 85 crore and ₹ 189 crore, respectively. Subsequently, EBITDA margins declined 577 bps YoY (flattish QoQ) to 16.4%. Absolute EBITDA de-grew 18% YoY to ₹ 121.6 crore (up 4% QoQ)
- Owing to unprecedented increase in RM prices, EBITDA margins in 9MFY22 were at 15.6% (vs. 20.6% YoY). In the previous year, RM prices were benign, which had resulted in significantly higher gross margins. With calibrated price hikes, improvement in product mix, we expect EBITDA margins to improve gradually in FY23-24E. Factoring in the recent Q3FY22 performance, we revise our earnings estimates downwards by 9%, 7% for FY23, FY24E, respectively. We expect the company to report EBITDA margins of ~19% in FY24E (vs. 21% in FY21)
- As customers get accustomed to the recent price hikes, we expect volumes to stabilise in the near term. We build in revenue CAGR of 19% in FY21-24E, driven by 8% volume growth and 11% realisation growth. To capture the long term growth opportunities in the mass footwear category, the company has increased its production capacity by 33% to 10 lakh pairs per day. Relaxo continues to have robust cash & investments worth ₹ 214 crore (as on H1FY22) to fund capex and working capital requirements

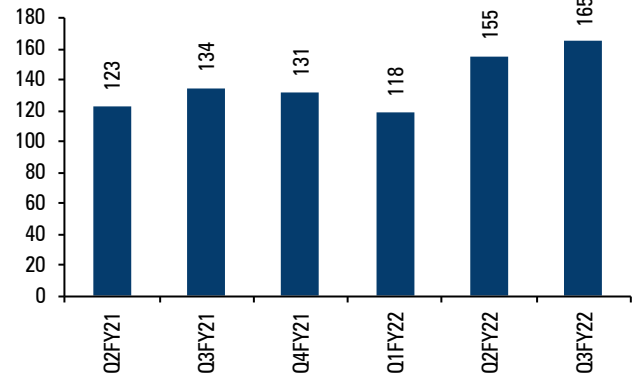
Financial story in charts

Exhibit 1: Quarterly volume trend (crore pairs)



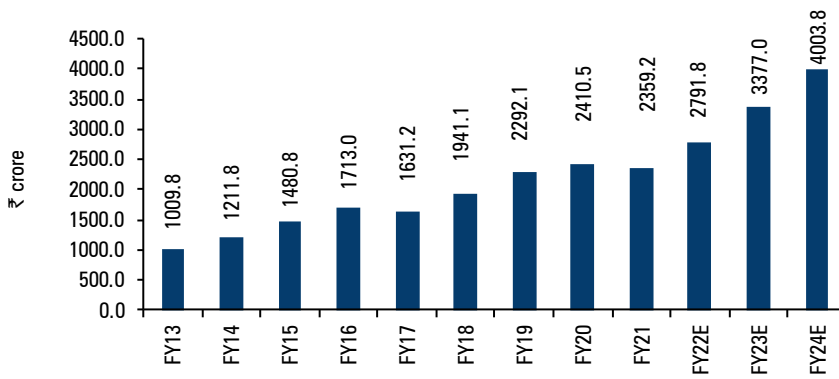
Source: Company, ICICI Direct Research

Exhibit 2: Realisation trend (₹/ pair)



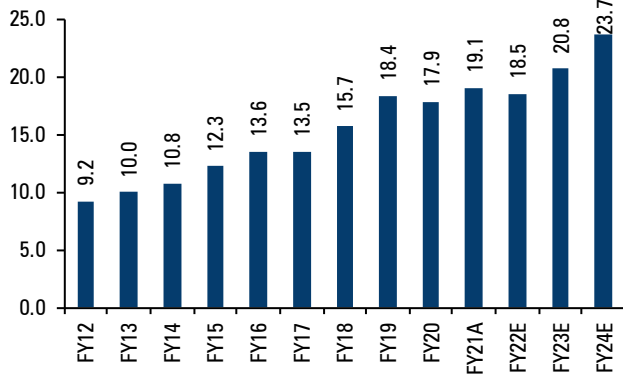
Source: Company, ICICI Direct Research

Exhibit 3: Revenue trend



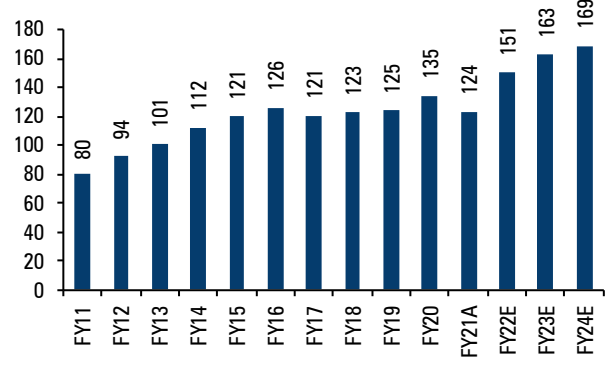
Source: Company, ICICI Direct Research

Exhibit 4: Volume trend (crore pairs)



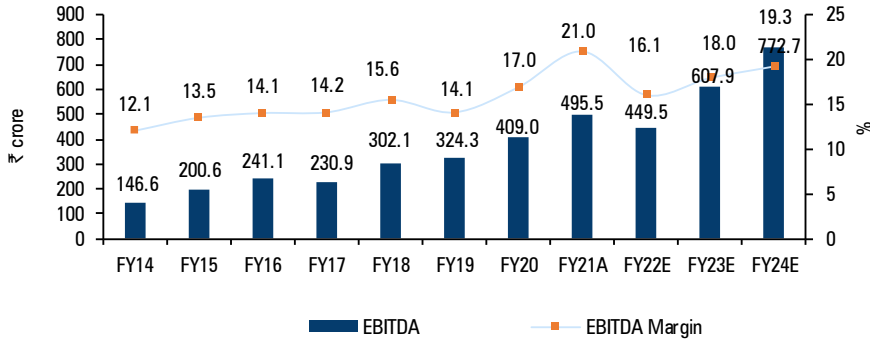
Source: Company, ICICI Direct Research

Exhibit 5: Realisation trend (₹/pair)



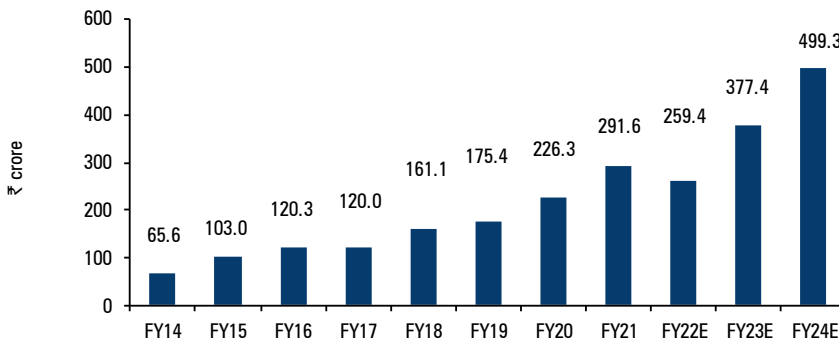
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



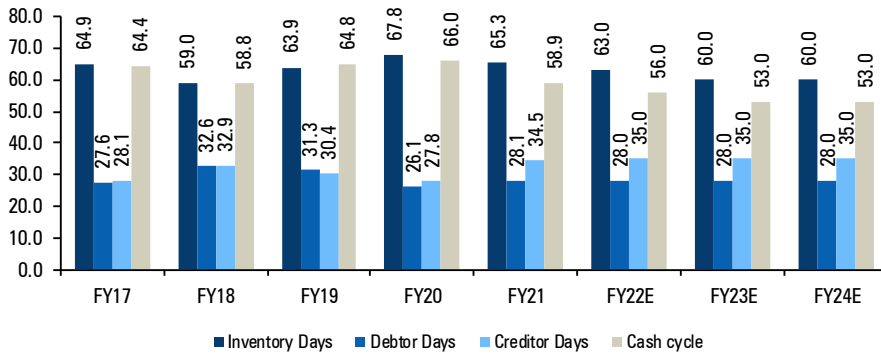
Source: Company, ICICI Direct Research

Exhibit 7: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 8: Net working capital days



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Net Sales	2,359.2	2,791.8	3,377.0	4,003.8
Growth (%)	(2.1)	18.3	21.0	18.6
Total Raw Material Cost	1,003.3	1,284.2	1,536.5	1,781.7
Gross Margins (%)	57.5	54.0	54.5	55.5
Employee Expenses	301.4	335.0	391.7	456.4
Other Expenses	559.0	723.1	840.9	992.9
Total Operating Expenditure	1,863.7	2,342.3	2,769.1	3,231.0
EBITDA	495.5	449.5	607.9	772.7
EBITDA Margin	21.0	16.1	18.0	19.3
Interest	17.1	17.5	17.9	20.2
Depreciation	110.0	115.2	123.6	135.3
Other Income	22.8	30.0	38.0	50.0
Exceptional Expense	-	-	-	-
PBT	391.2	346.7	504.4	667.2
Total Tax	99.6	87.3	126.9	167.9
Profit After Tax	291.6	259.4	377.4	499.3

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	291.6	259.4	377.4	499.3
Add: Depreciation	110.0	115.2	123.6	135.3
Net Increase in Current Assets	56.0	-112.6	-141.3	-177.6
Net Increase in Current Liabilities	62.0	45.8	57.0	61.0
CF from operating activities	519.6	307.9	416.8	517.9
(Inc)/dec in Investments	-338.0	-13.3	0.0	0.0
(Inc)/dec in Fixed Assets	-123.3	-119.8	-120.0	-180.0
Others	-13.4	16.5	0.0	0.0
CF from investing activities	-474.7	-116.6	-120.0	-180.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-19.2	0.0	0.0	0.0
Others	-22.2	-128.3	-170.7	-215.2
CF from financing activities	-41.3	-128.3	-170.7	-215.2
Net Cash flow	3.6	62.9	126.1	122.8
Opening Cash	4.1	7.7	70.6	196.7
Closing Cash	7.7	70.6	196.7	319.5

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Equity Capital	24.8	24.8	24.8	24.8
Reserve and Surplus	1,547.6	1,716.2	1,961.5	2,286.1
Total Shareholders funds	1,572.4	1,741.0	1,986.3	2,310.9
Total Debt	-	-	-	-
Non Current Liabilities	164.0	164.0	164.0	164.0
Source of Funds	1,736.4	1,905.1	2,150.4	2,474.9
Gross block	975.3	1,095.3	1,215.3	1,395.3
Less: Accum depreciation	254.2	332.0	417.1	512.0
Net Fixed Assets	721.1	763.3	798.2	883.3
Capital WIP	112.2	112.0	112.0	112.0
Intangible assets	39.1	39.1	39.1	39.1
Investments	338.2	351.5	351.5	351.5
Inventory	422.1	481.9	555.1	658.2
Cash	7.7	70.6	196.7	319.5
Debtors	181.5	214.2	259.1	307.1
Loans & Advances & Other CA	146.1	166.2	189.3	215.9
Total Current Assets	757.3	932.9	1,200.3	1,500.7
Creditors	222.8	267.7	323.8	383.9
Provisions & Other CL	216.6	217.5	218.3	219.3
Total Current Liabilities	439.4	485.2	542.2	603.2
Net Current Assets	318.0	447.7	658.1	897.5
LT L& A, Other Assets	207.9	191.4	191.4	191.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,736.4	1,905.0	2,150.3	2,474.9

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	11.7	10.5	15.2	20.1
Cash EPS	16.2	15.1	20.2	25.6
BV	63.3	70.2	80.1	93.1
DPS	0.0	3.7	5.3	7.0
Cash Per Share	0.3	2.8	7.9	12.9
Operating Ratios (%)				
EBITDA margins	21.0	16.1	18.0	19.3
PBT margins	16.6	12.4	14.9	16.7
Net Profit margins	12.4	9.3	11.2	12.5
Inventory days	65.3	63.0	60.0	60.0
Debtor days	28.1	28.0	28.0	28.0
Creditor days	34.5	35.0	35.0	35.0
Return Ratios (%)				
RoE	18.5	14.9	19.0	21.6
RoCE	26.0	20.9	26.3	29.7
RoIC	34.6	27.7	36.5	41.7
Valuation Ratios (x)				
P/E	105.2	118.1	81.2	61.4
EV / EBITDA	61.2	67.2	49.5	38.8
EV / Sales	12.9	10.8	8.9	7.5
Market Cap / Revenues	13.0	11.0	9.1	7.7
Price to Book Value	19.5	17.6	15.4	13.3
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.8	1.9	2.0
Quick Ratio	0.7	0.8	0.8	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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