

## Volumes yet to stabilise post steep price hikes

**About the stock:** Relaxo is India's leading footwear manufacturing company, boasting of largest capacity of 10.0 lakh pairs per day. Relaxo 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 over the years has maintained balance sheet prudence with controlled working capital cycle, healthy asset turns of 2.5x and generating RoCE of 20%+.

**Q1FY23:** Miss on our/consensus estimates due to lower volumes and higher opex

- On a favourable base, revenue grew by 34% YoY to ₹ 667.2 crore (down 4% QoQ). Growth mainly driven by realisation (~41% YoY) due to favourable product mix and price hike (~25%). Volumes de-grew 5% QoQ to 4.0 crore pairs
- Gross margins remained flattish on YoY and sequential basis, however owing to negative operating leverage, EBITDA margins stood at multi-year lows at 12.9% (down 40 bps YoY, 300 bps QoQ).
- PAT for the quarter declined by 38% YoY (down 10% QoQ) to ₹ 62.92 crore

**What should investors do?** Relaxo has been an exceptional performer with stock price appreciating at ~35% CAGR in last five years

- Relaxo has witnessed ~25% decline in share price on a YTD basis owing to unprecedented inflation scenario (35% of its RM are based on crude derivatives) and uncertainties on the demand outlook. We remain structurally positive on the business model given its strong brand salience in tier II/III towns and healthy balance sheet to weather the crisis. However, premium valuations and near term headwinds may cap upsides. Hence, we reiterate **HOLD** rating on the stock with a revised target price.

**Target Price and Valuation:** We value Relaxo at ₹ 1060 i.e. 65x FY24E EPS

**Key triggers for future price performance:**

- Despite selling ~18 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 ~60000 outlets) which signifies immense opportunity to penetrate in new territories
- We model in revenue CAGR of 16% in FY22-24E

**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 w
- BUY with target price of ₹ 2170



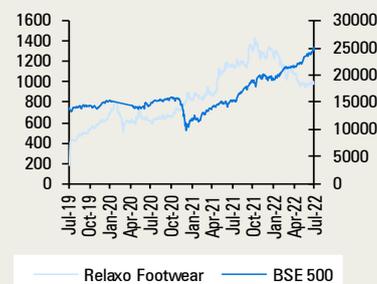
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	24,561.9
Total Debt (FY22) (₹ crore)	20.0
Cash & investment (FY22) (₹ crore)	206.8
EV (₹ crore)	24,375.2
52 Week H / L	1447 / 925
Equity Capital (₹ crore)	24.9
Face Value (₹)	1.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	70.9	70.9	70.8	70.8	70.8
FII	3.5	3.6	3.8	3.2	3.2
DII	7.3	7.2	7.1	6.9	7.1
Others	18.3	18.4	18.3	19.1	19.0

### Price Chart



### Key risks

**Key Risk:** (i) Faster than expected recovery in volumes can aid revenue growth (ii) Higher RM cost could subdue margins

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### Key Financial Summary

Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,410.5	2,359.2	2,653.3	10.0%	2,977.0	3,567.6	16.0%
EBITDA	409.0	495.5	415.8	12.0%	464.4	660.0	26.0%
Adjusted PAT	226.3	291.6	232.7	14.0%	263.9	406.0	32.1%
P/E (x)	108.6	84.3	105.9		93.4	60.7	
EV/Sales (x)	10.2	10.3	9.2		8.1	6.7	
EV/EBITDA (x)	60.1	48.9	58.9		52.1	36.5	
RoCE (%)	23.9	26.0	18.3		19.2	25.6	
RoE (%)	17.8	18.5	13.2		13.7	18.5	

## Key takeaways of Q1FY23 results

- Relaxo reported weak revenue growth, as steep price hikes continued to weigh on the demand for open footwear. The normalisation of consumer footfalls and opening up of schools, colleges and offices has led to increased demand for closed footwear while the demand for open footwear has been lower than it was in the pandemic period. Average realisations per pair increased 41% YoY to ~₹ 167/pair, driven by change in product mix and price hikes (~25%).
- In the previous four quarters, average quarterly volumes have declined to <4.5 crore pairs after hitting an all-time quarterly high of 5.7 crore pairs in Q4FY21. Relaxo in FY21 had recorded its highest sales volume (19.1 crore pairs) as the pandemic led restrictions had given a fillip to demand for open footwear (slippers & sandals). However, as restrictions eased from Q2FY22 onwards, demand for open footwear (~80% of sales) started to moderate. Also, as more than 35% of the RM are crude based derivatives, sharp inflation has impacted volumes especially for Hawaii categories.
- On the positive side, brand Sparx is performing well as demand for sports and athleisure category continues to be profound. The brand contributes ~38% to revenues with closed shoes contributing ~60%. The management indicated that presently capacity of sports shoes/sandals is almost fully utilised (capacity: 50000 pairs per day). Hence, it has proposed to add another 50000 sports shoes capacity per day to cater to the strong demand. We expect overall revenues to grow at CAGR of 16% in FY22-24, which would be driven by enhanced product mix (realisation CAGR 9%). Volumes to grow at a moderate pace of 7% during the same period.
- Company has taken four price hikes in FY22 amounting to ~ 25% increase YoY which is the highest in its history in a single year. While the current price hike should be adequate to maintain current level of gross margins (53-55%), company continues to monitor the dynamic situation and will take appropriate action keeping in mind the competitive pricing strategy. For the quarter company maintained its gross margin levels, however owing to negative operating leverage (other expenses as % to sales increased 267 bps QoQ), EBITDA margins contracted 301 bps QoQ to 12.9%. Absolute EBITDA declined 23% QoQ to ₹ 86.1 crore. With raw material prices stabilising and as customers get accustomed to new price levels, we expect EBITDA margins to improve in the ensuing quarters and exit FY23 with flattish YoY margins (15.6%). We expect trajectory to improve by 290 bps in FY24 to 18.5%, translating into EBITDA CAGR of 26% in FY22-24E.

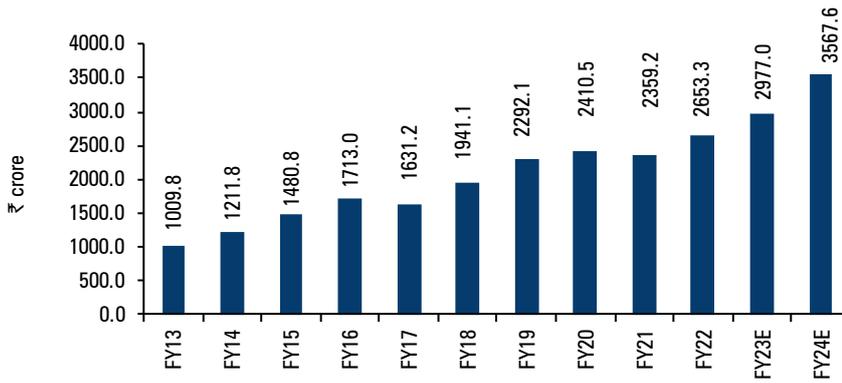
**Exhibit 1: Variance Analysis**

	<b>Q1FY23</b>	<b>Q1FY22</b>	<b>YoY (%)</b>	<b>Q4FY22</b>	<b>QoQ (%)</b>	<b>Comments</b>
Revenue	667.2	497.1	34.2	698.2	-4.4	YoY growth mainly realisation driven. Volumes expected to have declined
Raw Material Expens	306.3	226.2	35.4	319.5	-4.1	
Gross Profit	360.9	270.9	33.2	378.7	-4.7	
Gross Profit Margin	54.1	54.5	-40 bps	54.2	-15 bps	Gross margins stable as company had built in low cost inventory and also undertaken price hikes
Employee exp	87.2	73.7	18.3	89.9	-3.0	
Other Exp	187.6	131.1	43.1	177.7	5.6	
EBITDA	86.1	66.2	30.1	111.1	-22.5	
EBITDA Margin (%)	12.9	13.3	-40 bps	15.9	-301 bps	Owing to negative operating leverage, EBITDA margins declined by 300 bps QoQ
Depreciation	29.8	27.5	8.7	28.7	4.0	
Other Income	4.2	5.3	-20.9	5.9	-29.4	
Interest	6.9	3.7	84.2	3.9	76.2	
Exceptional Income	-	-		-		
PBT	53.6	40.3	33.1	84.4	-36.5	
Tax Outgo	14.9	9.3	60.5	21.5	-30.7	
PAT	38.7	31.0	24.9	62.9	-38.6	

Source: Company, ICICI Direct Research

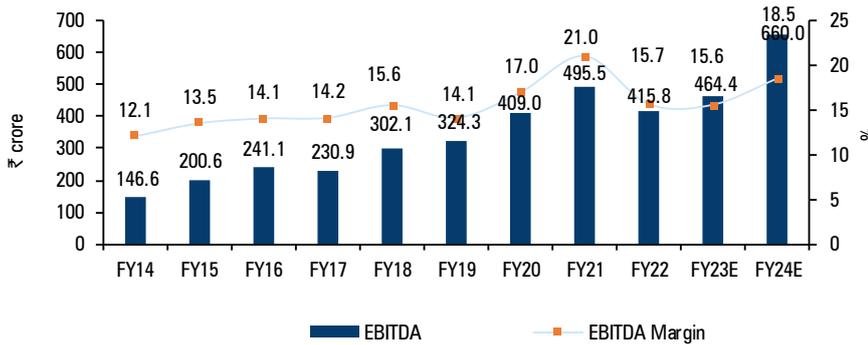
## Financial story in charts

Exhibit 2: Revenue growth trend



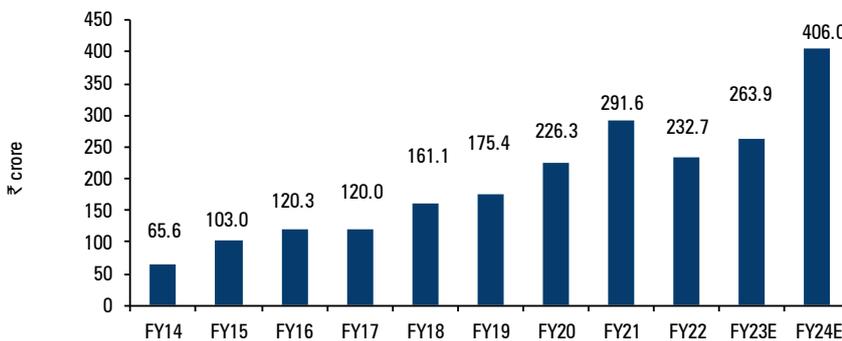
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin Trend



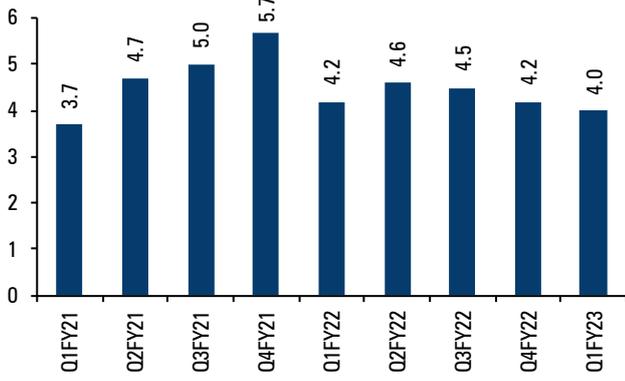
Source: Company, ICICI Direct Research

Exhibit 4: Net profit trend



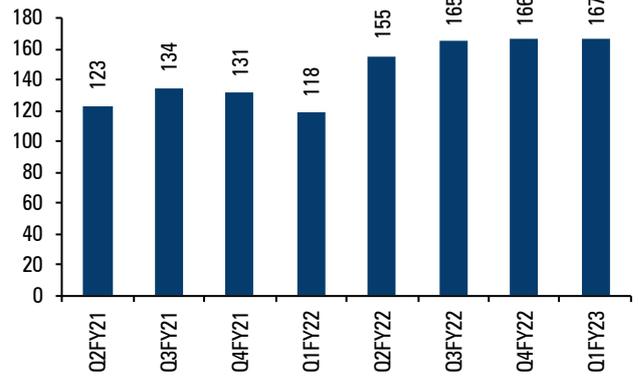
Source: Company, ICICI Direct Research.

Exhibit 5: Quarterly volume trend (crore pairs)



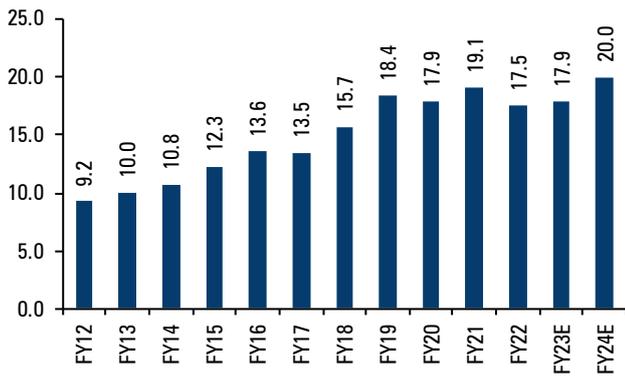
Source: Company, ICICI Direct Research

Exhibit 6: Realisation trend (₹/pair)



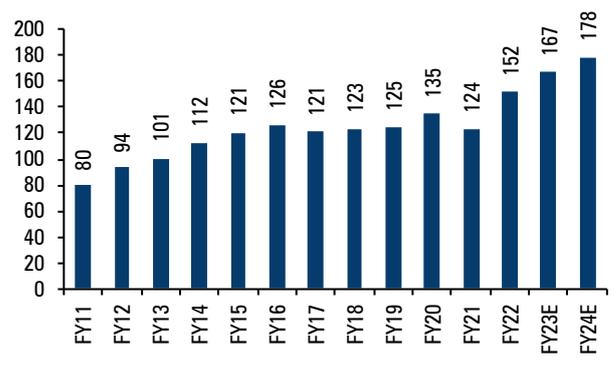
Source: Company, ICICI Direct Research

Exhibit 7: Annual volume trend (crore pairs)



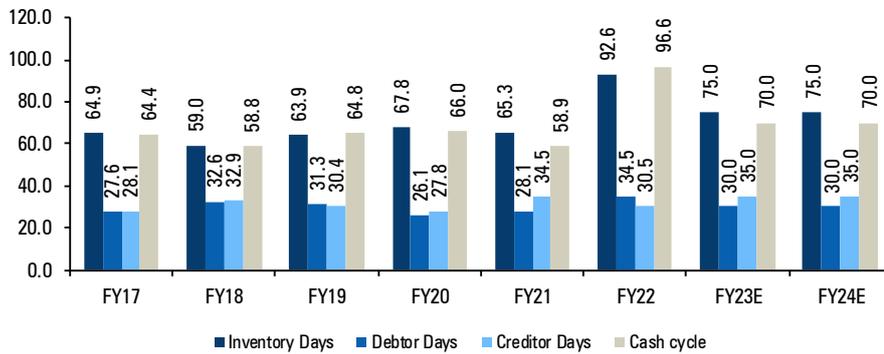
Source: Company, ICICI Direct Research

Exhibit 8: Realisation trend (₹/pair)



Source: Company, ICICI Direct Research

Exhibit 9: Net working capital cycle



Source: Company, ICICI Direct Research.

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	2,359.2	2,653.3	2,977.0	3,567.6
Growth (%)	(2.1)	12.5	12.2	19.8
Total Raw Material Cost	1,003.3	1,216.7	1,369.4	1,587.6
Gross Margins (%)	57.5	54.1	54.0	55.5
Employee Expenses	301.4	334.7	351.3	406.7
Other Expenses	559.0	686.1	791.9	913.3
Total Operating Expenditure	1,863.7	2,237.5	2,512.6	2,907.6
<b>EBITDA</b>	495.5	415.8	464.4	660.0
EBITDA Margin	21.0	15.7	15.6	18.5
Interest	17.1	15.3	17.9	20.2
Depreciation	110.0	113.5	123.9	132.2
Other Income	22.8	23.7	30.0	35.0
Exceptional Expense	-	-	-	-
PBT	391.2	310.6	352.6	542.6
Total Tax	99.6	77.9	88.8	136.6
<b>Profit After Tax</b>	291.6	232.7	263.9	406.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	291.6	232.7	263.9	406.0
Add: Depreciation	110.0	113.5	123.9	132.2
Net Increase in Current Assets	56.0	-271.6	54.9	-184.5
Net Increase in Current Liabilities	62.0	-12.2	64.7	57.6
<b>CF from operating activities</b>	<b>519.6</b>	<b>62.5</b>	<b>507.4</b>	<b>411.3</b>
(Inc)/dec in Investments	-338.0	143.9	-107.2	45.0
(Inc)/dec in Fixed Assets	-123.3	-150.5	-109.8	-107.0
Others	-13.4	1.7	9.1	0.0
<b>CF from investing activities</b>	<b>-474.7</b>	<b>-4.8</b>	<b>-208.0</b>	<b>-62.0</b>
Inc / (Dec) in Equity Capital	0.0	0.1	0.0	0.0
Inc / (Dec) in Loan	-19.2	20.0	-20.0	0.0
Others	-22.2	-72.8	-130.9	-182.5
<b>CF from financing activities</b>	<b>-41.3</b>	<b>-52.8</b>	<b>-150.9</b>	<b>-182.5</b>
Net Cash flow	3.6	4.9	148.5	166.8
Opening Cash	4.1	7.7	12.6	161.0
<b>Closing Cash</b>	<b>7.7</b>	<b>12.6</b>	<b>161.0</b>	<b>327.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	24.8	24.9	24.9	24.9
Reserve and Surplus	1,547.6	1,735.0	1,906.5	2,170.5
Total Shareholders funds	1,572.4	1,759.9	1,931.4	2,195.4
Total Debt	-	20.0	-	-
Non Current Liabilities	164.0	173.9	173.9	173.9
<b>Source of Funds</b>	<b>1,736.4</b>	<b>1,953.8</b>	<b>2,105.3</b>	<b>2,369.2</b>
Gross block	975.3	1,099.6	1,219.6	1,349.6
Less: Accum depreciation	254.2	330.2	415.6	507.4
Net Fixed Assets	721.1	769.4	804.0	842.2
Capital WIP	112.2	145.2	135.0	112.0
Intangible assets	39.1	32.4	32.4	32.4
Investments	338.2	194.3	301.5	256.5
Inventory	422.1	673.3	611.7	733.1
Cash	7.7	12.5	161.0	327.8
Debtors	181.5	250.8	244.7	293.2
Loans & Advances & Other CA	146.1	97.2	110.0	124.6
Total Current Assets	757.3	1,033.7	1,127.3	1,478.6
Creditors	222.8	221.7	285.5	342.1
Provisions & Other CL	216.6	205.5	206.4	207.4
Total Current Liabilities	439.4	427.2	491.9	549.5
Net Current Assets	318.0	606.5	635.4	929.1
LT L& A, Other Assets	207.9	206.1	197.1	197.1
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,736.4</b>	<b>1,953.8</b>	<b>2,105.3</b>	<b>2,369.2</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	11.7	9.3	10.6	16.3
Cash EPS	16.2	13.9	15.6	21.6
BV	63.3	70.7	77.6	88.2
DPS	0.0	2.5	3.7	5.7
Cash Per Share	0.3	0.5	6.5	13.2
<b>Operating Ratios (%)</b>				
EBITDA margins	21.0	15.7	15.6	18.5
PBT margins	16.6	11.7	11.8	15.2
Net Profit margins	12.4	8.8	8.9	11.4
Inventory days	65.3	92.6	75.0	75.0
Debtor days	28.1	34.5	30.0	30.0
Creditor days	34.5	30.5	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	18.5	13.2	13.7	18.5
RoCE	26.0	18.3	19.2	25.6
RoIC	34.6	20.8	25.5	35.2
<b>Valuation Ratios (x)</b>				
P/E	84.3	105.9	93.4	60.7
EV / EBITDA	48.9	58.9	52.1	36.5
EV / Sales	10.3	9.2	8.1	6.7
Market Cap / Revenues	10.4	9.3	8.3	6.9
Price to Book Value	15.6	14.0	12.8	11.2
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	1.7	2.4	2.0	2.1
Quick Ratio	0.7	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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