



Relaxo Footwear Ltd

FY24 begins on right footing

Consumer Discretionary

Sharekhan code: RELAXO

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 947

Price Target: Rs. 1,080



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	✗	↔	✗

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2023

16.36

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 23,581 cr
52-week high/low:	Rs. 1,105/749
NSE volume: (No of shares)	1.2 lakh
BSE code:	530517
NSE code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	71.3
FII	3.2
DII	8.3
Others	17.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.2	12.2	13.6	-4.2
Relative to Sensex	-1.2	2.8	3.4	-24.3

Sharekhan Research, Bloomberg

Summary

- Relaxo Footwear's (Relaxo's) Q1FY2024 numbers met expectations, with revenue/PAT growing by 10.7%/45.6% y-o-y and EBITDA margin expansion at 165 bps y-o-y. The company sold 5.1 crore pairs during the quarter (higher by 34.2% y-o-y).
- As open footwear volumes improve, the company is expected to deliver double-digit volume-led revenue growth in FY2024. Over the next 2-3 years, growth is expected to be driven by distribution expansion, higher share of close-ended footwear and a better mix.
- Management expects raw material prices to fall further, which will drive up EBITDA margins to ~15-16% in FY2025 from 12% in FY2023.
- Stock trades at 68.2x its FY2025E earnings. We maintain a Buy rating with a revised PT of Rs. 1,080.

Relaxo's Q1FY2024 performance was largely in line with our as well as street's expectation with strong PAT growth mainly led by a rise in EBITDA margins and lower interest cost. Revenue growth came in at 10.7% y-o-y to Rs. 739 crore driven by volume growth of 34.2% y-o-y. The company sold 5.1 crore pairs in Q1FY2024 against 3.8 crore pairs sold in Q1FY2023. Average realization per pair came in at Rs. 145 versus Rs. 172 in Q1FY2023 (decline of 15.7% y-o-y) due to pricing actions taken by the company in the past few quarters. Softening of input prices helped gross margins rise by 326 bps y-o-y, while increase in EBITDA margin was limited to 165 bps y-o-y to 14.6% due to higher other expenses. PAT grew by 45.6% y-o-y to Rs. 56.3 crore led by 24.9% y-o-y growth in EBITDA to Rs. 107.6 crore, higher other income (up by 74% y-o-y) and lower interest cost (down by 35% y-o-y).

Key positives

- Sales volumes improved by 34.2% y-o-y to 5.1 crore pairs.
- Gross margin improved by 326 bps y-o-y to 57.4%.
- PAT rose 46% y-o-y aided by 25% EBITDA growth, higher other income and lower interest cost.

Key negatives

- Revenue declined by 3.4% q-o-q.

Management Commentary

- The company witnessed significant growth in both open and closed footwear categories in Q1FY2024.
- All the company's channels have seen encouraging progress during the quarter.
- Management expects further softening of raw material prices in the upcoming quarters, which will help boost margins.

Revision in earnings estimates - We have fine-tuned our earnings estimates for FY2024/25E to factor in little better than expected volume growth in Q1FY2024.

Our Call

View: Maintain Buy with a revised PT of Rs. 1,080 – Relaxo posted double-digit volume-led revenue growth for the second consecutive quarter in Q1FY2024 aided by pricing actions taken by the company in the core portfolio. Gradual improvement in volumes and easing of inflationary pressures with the correction in key input prices would help to improve margin profile in the coming quarters. With a strong portfolio of value-for-money footwear products, enhanced capacity of 10 lakh pairs per day, and distribution expansion (especially in southern markets), Relaxo is well-poised to achieve a revenue and earnings CAGR of 14% and 49%, respectively, over FY2023-FY2025E. Stock is trading at 68.2x its FY2025E earnings. We maintain a Buy rating on the stock with a revised price target of Rs. 1,080.

Key Risks

Any demand slowdown or a spike in key input prices would act as key risks to our earnings estimates in the near term.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenues	2,653	2,783	3,117	3,630
EBITDA margin (%)	15.7	12.1	14.5	16.4
Adjusted PAT	233	154	233	345
Adjusted diluted EPS (Rs.)	9.4	6.2	9.4	13.9
P/E (x)	-	-	-	68.2
P/B (x)	13.4	12.7	11.6	10.2
EV/EBITDA (x)	56.8	70.1	52.4	39.4
RoNW (%)	14.0	8.5	12.0	15.9
RoCE (%)	17.5	11.9	19.9	22.8

Source: Company; Sharekhan estimates

Good Q1 – Revenues and EBITDA margins rise

Relaxo Footwears' (Relaxo's) revenue increased by 10.7% y-o-y to Rs. 738.8 crore, slightly lower than our and average street expectation of Rs. 747-752 crore driven by the strong recovery in volumes across open footwear. The company sold 5.1 crore pairs in Q1FY2024 with volume growth standing at 34.2% y-o-y (on a base of a 10% decline in Q1FY2023). Average realisation per pair stood flat q-o-q by was lower by 15.7% y-o-y to Rs. 145 due to the pricing actions taken by the company in past few quarters. Gross margins improved by 326 bps y-o-y to 57.4% aided by softening of input costs. However, higher other expenses limited the rise in EBITDA margins to 165 bps y-o-y to 14.6%. EBITDA margin came in-line with our and average street expectation of 14.5-14.7%. EBITDA grew by 24.9% y-o-y to Rs. 107.6 crore. This coupled with higher other income and lower interest costs, led to a 45.6% y-o-y growth in the adjusted PAT to Rs. 56.3 crore, in-line with our and average street expectation of Rs. 54-56 crore.

Results (Standalone)

	Rs cr				
Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Net Revenue	738.8	667.2	10.7	764.9	-3.4
Raw-material cost	315.1	306.3	2.9	366.0	-13.9
Staff cost	97.4	87.2	11.7	85.4	14.1
Other expenses	218.8	187.6	16.6	195.6	11.8
Total expenses	631.3	581.0	8.6	647.0	-2.4
EBITDA	107.6	86.1	24.9	118.0	-8.8
Other Income	7.3	4.2	74.3	4.3	68.3
Interest expenses	4.5	6.9	-35.1	4.1	8.0
Depreciation & Amortization	34.6	29.8	15.9	32.8	5.6
Profit before Tax	75.8	53.6	41.4	85.4	-11.3
Tax	19.5	14.9	30.4	22.1	-12.0
Reported PAT	56.3	38.7	45.6	63.3	-11.0
EPS	2.3	1.6	45.6	2.6	-11.0
			Bps		Bps
GPM (%)	57.4	54.1	326	52.2	520
EBITDA Margin (%)	14.6	12.9	165	15.4	-87
NPM (%)	7.6	5.8	183	8.3	-65
Tax rate (%)	25.7	27.8	-216	25.9	-22

Source: Company, Sharekhan Research

Operational performance

	Rs cr				
Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
No of pairs sold (in crore)	5.1	3.8	34.2	5.2	-1.9
Average Realization per pair (in Rs.)	145	172	-15.7	145	0.0

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Long-term growth prospects intact

India is the second-largest footwear manufacturer with consumption of ~26 billion pairs after China with ~42 billion pairs. The domestic market makes up ~90% of India's overall footwear market. The sector holds an important place in Make in India Initiative and thus has been chosen as a Champion sector. In the near term, demand is expected to be subdued owing to continued extraordinary inflation hitting consumers' discretionary spends. However, low per capita consumption at 1.9 pairs per annum, footwear now being considered as an important fashion accessory rather than a necessity, the growing trend of premiumisation in the Indian footwear industry and the shift to branded footwear provide a huge opportunity for top brands to scale up operations in the medium-long term. The Indian footwear market is expected to post a CAGR of 15-17% over FY2022-FY2025E compared to global market growth of 5.5% CAGR over CY2021-CY2025.

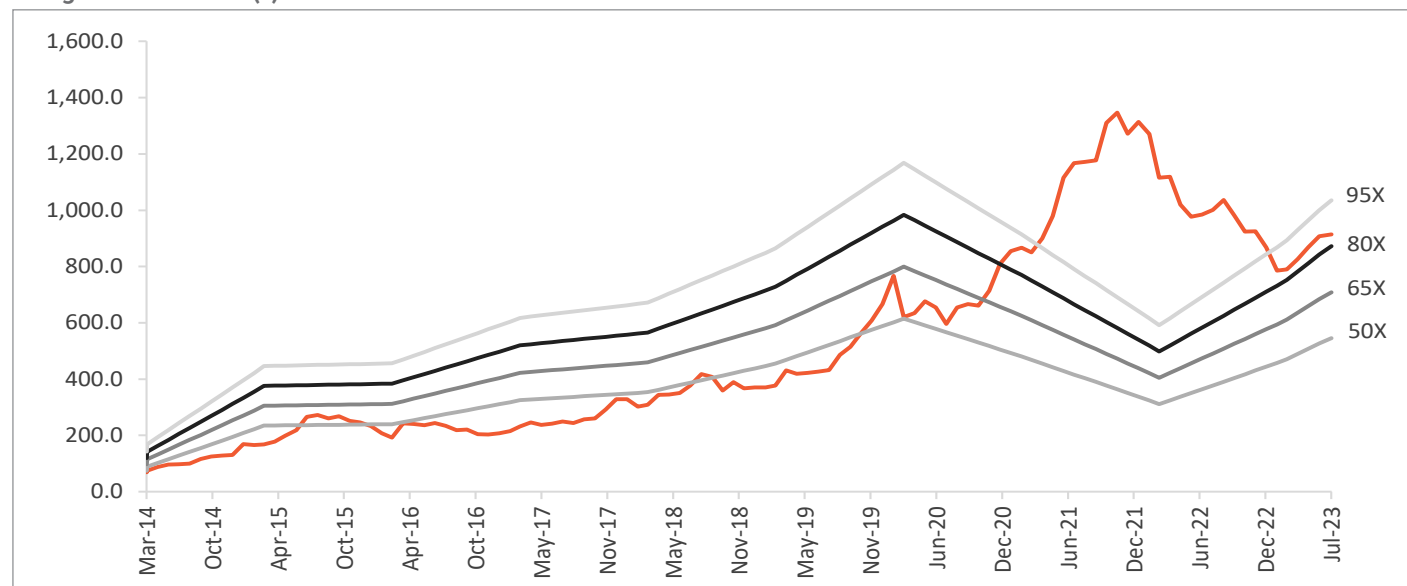
Company outlook - Eyeing double-digit volume growth with margin recovery in FY2024

Relaxo's Q1FY24 performance was in-line with expectation with volume-led revenue growth at 10.7% y-o-y, EBITDA margin expansion of 165 bps y-o-y and PAT growth at 45.6% y-o-y. Price correction undertaken in key brands in past few quarters and raw material prices stabilising led to improvement in sales volumes (up by 34% y-o-y) and profitability in Q1FY2024 and the management expects the momentum to continue. With a revamped pricing strategy and strong focus on e-commerce and branding of the products, the company expects double-digit volume growth and recovery in margins in FY2024. Lower per capita consumption in India, Relaxo's under-penetration in the South Indian market, focus on the exclusive branded outlet (EBO) model for key brands and sustained product additions remain long-term growth drivers.

Valuation - Maintain Buy with a revised PT of Rs. 1,080

Relaxo posted double-digit volume-led revenue growth for the second consecutive quarter in Q1FY2024 aided by pricing actions taken by the company in the core portfolio. Gradual improvement in volumes and easing of inflationary pressures with the correction in key input prices would help to improve margin profile in the coming quarters. With a strong portfolio of value-for-money footwear products, enhanced capacity of 10 lakh pairs per day, and distribution expansion (especially in southern markets), Relaxo is well-poised to achieve a revenue and earnings CAGR of 14% and 49%, respectively, over FY2023-FY2025E. Stock is trading at 68.2x its FY2025E earnings. We maintain a Buy rating on the stock with a revised price target of Rs. 1,080.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Bata	67.7	47.8	37.6	27.3	21.6	17.8	12.5	16.1	18.4
Relaxo Footwears	-	-	68.2	70.1	52.4	39.4	11.9	19.9	22.8

Source: Company; Sharekhan Research

About company

Relaxo is a leading footwear company with annual turnover of close to Rs. 2,800 crore. The company has eight manufacturing facilities across northern India with a capacity to produce ~10 lakh pairs per day. The company sells close to 17 crore pairs per annum through its wide distribution network of over 65,000 retailers/ Multi-Brand Outlets, ~650 distributors, and 389 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 unique selling proposition (USP), whereas Schoolmate is specifically for school shoes. The company also exports its products to ~30 countries and has an overseas office in Dubai.

Investment theme

Relaxo's revenue reported a CAGR of ~7% with volume CAGR of 2% over FY2018-FY2023. Inflationary environment and GST rate hike on footwear below Rs. 1,000 per pair affected the company's performance in the near term. However, the long-term growth prospects of the domestic footwear sector are intact. With the implementation of GST, there is a shift from unbranded to branded products, which provides further scope for the company in the Rs. 55,000-60,000 crore Indian footwear market, of which ~50% is unbranded. The management has identified 4-5 levers, which are expected to drive growth for the company including higher contribution from e-commerce channel, expansion in closed footwear, increased export contribution, adoption of the EBO model and steady growth momentum maintained in the open footwear category.

Key Risks

- ♦ **Slowdown in discretionary demand:** Any slowdown in demand would affect revenue growth.
- ♦ **Increased competition in highly penetrated categories:** Heightened competition would threaten revenue growth.
- ♦ **Increased input costs:** Any significant increase in rubber prices or that of crude oil derivatives would affect profitability.

Additional Data

Key management personnel

Pankaj Shrimali	Chairman
Sushil Batra	Chief Financial Officer
Ramesh Kumar Dua	Managing Director
Ankit Jain	Company Secretary And Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management	7.04
2	VLS Securities Ltd	6.26
3	VL Finance SASU	3.60
4	Vanguard Group Inc	0.92
5	UTI Asset Management Co Ltd	0.71
6	Blackrock Inc	0.40
7	UTI International Singapore	0.23
8	Dimensional Fund Advisors	0.19
9	ICICI Prudential AMC	0.18
10	Norges Bank	0.16

Source: Bloomberg

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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 deteriorating 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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