



## 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 Aug 08, 2023

16.36

## Low Risk

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

Source: Morningstar

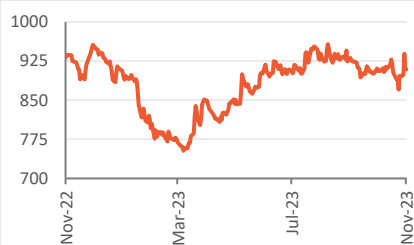
## Company details

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 22,626 cr |
| 52-week high/low:             | Rs. 974 / 749 |
| NSE volume:<br>(No of shares) | 1.0 lakh      |
| BSE code:                     | 530517        |
| NSE code:                     | RELAXO        |
| Free float:<br>(No of shares) | 7.2 cr        |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 71.3 |
| FII       | 3.5  |
| DII       | 8.5  |
| Others    | 16.7 |

## Price chart



## Price performance

| (%)                | 1m  | 3m   | 6m  | 12m  |
|--------------------|-----|------|-----|------|
| Absolute           | 0.3 | -2.7 | 8.0 | -2.5 |
| Relative to Sensex | 1.7 | -0.6 | 2.6 | -8.3 |

Sharekhan Research, Bloomberg

## Relaxo Footwear Ltd

Good Q2; momentum likely to continue

## Consumer Discretionary

Sharekhan code: RELAXO

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 909

Price Target: Rs. 1,080

## Summary

- Relaxo Footwear's (Relaxo's) Q2FY2024 performance mirrored Q1, with revenue growing by 7% y-o-y (volume growth of 23%; average realisation fell by 13%), EBITDA margin rose 392 bps y-o-y to 12.8%, leading to strong 97% y-o-y rise in PAT.
- Management eyes double-digit revenue growth in H2, (~15% volume growth), with EBITDA margin expected to be at 14%.
- We expect the company to clock a 12% and 37% revenue and PAT CAGR over FY2023-26E aided by focus on premiumisation, wider distribution, innovation and operating efficiencies.
- Stock trades at 98x/68x/57x its FY2024E/25E/26E earnings. We maintain a Buy rating with an unchanged PT of Rs. 1,080.

Relaxo's Q2FY2024 performance was largely in line with Q1, as double-digit volume growth drove revenue growth, while realisations declined y-o-y due to pricing actions taken in the past quarters. Further, sharp rise in margins led to a strong 97% y-o-y PAT growth to Rs. 44.2 crore. Revenue growth of 7% y-o-y to Rs. 715.3 crore was driven by 23.1% y-o-y volume growth to 4.8 crore pairs even as average realisation fell by 13% y-o-y to Rs. 147 per pair due to pricing actions taken in the past few quarters. Lower input prices aided in 897 bps y-o-y gross margin expansion to 57.9%, while higher employee and other expenses limited the rise in EBITDA margin to 392 bps y-o-y to 12.8%. In H1FY2024, revenue grew by 8.8% y-o-y to Rs. 1,454 crore and EBITDA margin rose by 280 bps y-o-y to 13.7%, leading to 64.6% y-o-y growth in PAT to Rs. 100.5 crore.

## Key positives

- Sales volumes rose 23.1% y-o-y to 4.8 crore pairs.
- Gross margin improved by 897 bps y-o-y to 57.9% aided by softening of input costs.
- PAT rose 97% y-o-y aided by 54% EBITDA growth and higher other income.

## Key negatives

- Revenue declined by 3.2% q-o-q.

## Management Commentary

- With market shares recovering, the company's focus going ahead would be on widening distribution, with greater emphasis on new channels and e-commerce. Management indicated that the company is cautious about EBO expansion and would rather focus on improving efficiencies at current outlets.
- The company would focus on premiumisation in Sparx (Rs. 1,000-1,500 MRP), Flite and Bahamas, with larger focus on Sparx within shoes category.
- With the season for closed wear beginning in Q3, November is expected to be better. The market has been challenging for closed footwear since the past seven months, and the company expects this category to pick up in the coming quarters.
- Management expects to clock double-digit growth in H2 (~15% volume growth), with EBITDA margin expected to be at 14% (marginal improvement from 13.7% in H1). Capacity utilisation in H1 stood at 63%, which is expected to marginally rise to ~65%.
- As raw material prices have largely stabilised, the company does not expect any further price correction in the coming months. Last pricing action was taken in September.

**Revision in earnings estimates:** We have fine-tuned our earnings estimates for FY2024E/25E as results were largely in line with estimates. However, we will re-look at the estimates depending on the volume growth momentum in the coming quarters. We have introduced FY2026 estimates through this note.

## Our Call

**View - Maintain Buy with an unchanged PT of Rs. 1,080:** Relaxo posted double-digit volume-led revenue growth for the third consecutive quarter in Q2FY2024 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 South Indian markets), Relaxo is well-poised to achieve a revenue and earnings CAGR of 12% and 37%, respectively, over FY2023-FY2026E. Stock is trading at 98x/68x/57x its FY2024E/25E/26E earnings. We maintain a Buy rating on the stock with an unchanged price target of Rs. 1,080.

## Key Risks

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                | FY23  | FY24E | FY25E | FY26E |
|----------------------------|-------|-------|-------|-------|
| Revenues                   | 2,783 | 3,021 | 3,518 | 3,952 |
| EBITDA margin (%)          | 12.1  | 14.7  | 16.5  | 16.8  |
| Adjusted PAT               | 154   | 231   | 333   | 393   |
| Adjusted diluted EPS (Rs.) | 6.2   | 9.3   | 13.4  | 15.8  |
| P/E (x)                    | -     | 97.7  | 67.8  | 57.4  |
| P/B (x)                    | 12.2  | 11.2  | 9.9   | 8.6   |
| EV/EBITDA (x)              | 67.4  | 51.2  | 38.9  | 33.8  |
| RoNW (%)                   | 8.5   | 11.9  | 15.4  | 16.0  |
| RoCE (%)                   | 11.9  | 19.6  | 22.2  | 20.9  |

Source: Company; Sharekhan estimates

## Good Q2 – Volume-led revenue growth; higher margins led to strong 97% PAT growth

Relaxo's revenues grew by 7% y-o-y to Rs. 715.3 crore, lower than our and average street expectation of Rs. 740-744 crore, largely driven by double digit volume growth (mainly in open footwear), while average realisation continued to moderate. The company sold 4.8 crore pairs in Q2FY2024 with volume growth standing at 23.1% y-o-y (on the base of a 15% decline in Q2FY2023). Average realisation per pair marginally improved by 1.4% q-o-q but fell 13% y-o-y to Rs. 147 per pair due to the pricing actions taken by the company in past few quarters. Lower input prices aided in 897 bps y-o-y expansion in gross margins to 57.9%, while higher employee costs and other expenses limited the rise in EBITDA margin to 392 bps y-o-y to 12.8%. EBITDA margin came in in-line our expectation of 12.6% and ahead of average street expectation of 11.8%. EBITDA grew by 54% y-o-y to Rs. 91.5 crore. This coupled with 86.2% y-o-y increase in other income led to 97% y-o-y growth in the PAT to Rs. 44.2 crore, largely in-line with our and average street expectation of Rs. 39-43 crore. In H1FY2024, revenues grew by 8.8% y-o-y to Rs. 1,454 crore and EBITDA margin rose by 280 bps y-o-y to 13.7%, leading to 64.6% y-o-y growth in PAT to Rs. 100.5 crore.

### Key conference call highlights

- ♦ **Expect ~15% volume growth in H2:** Volume growth during the quarter was largely driven by 20%+ volume growth in Sparx and Bahamas (open footwear). The company expect volume growth of ~15% in H2 on the back of upcoming festive season. Open footwear lost ~27% volume market share in the past year, that has been recovered.
- ♦ **Focus on distribution expansion continues:** With market shares recovering, the company's main focus now is on distribution expansion. Relaxo plans to continue to expand distribution network with focus on new channels and e-commerce. Currently, the company is present in 65,000 outlets out of the 1 lakh outlets in the country, with an aim to increase reach in the coming years. However, the management indicated that the company is cautious about EBO expansion and would rather focus on improving efficiencies at current outlets. Region wise, the North contributes 45%, followed by East at 22%, West at 18% and South at 15%.
- ♦ **Premiumisation strategy in select brands:** As per the management, Rs. 500+ ASP contribution to revenue is currently at 10%. The company would focus on premiumisation in Sparx (Rs. 1,000-1,500 MRP), Flite and Bahamas, with larger focus on Sparx within shoes category.
- ♦ **Good outlook for H2:** The management expects to clock double-digit growth in H2 (~15% volume growth), with EBITDA margin expected to be at 14% (marginal improvement from 13.7% in H1). Capacity utilisation in H1 stood at 63%, which is expected to marginally rise to ~65%.
- ♦ **Strong growth eyed in sportswear in the coming years:** Relaxo aims to grow sportswear category to Rs. 1,000 crore in 2-3 years led by initiatives undertaken such as distributor meet, etc. With the season for closed wear beginning in Q3, November is expected to be better for closed footwear. Market has been challenging for closed footwear since past seven months, and the company expects this category to pick up in the coming quarters.
- ♦ **Raw material prices stabilising:** The company has guided that raw material prices have largely stabilised. Thus, the company does not expect any further price correction in the coming months. Last pricing action was taken in September.

### Results (Standalone)

| Particulars                 | Q2FY24       | Q2FY23       | Y-o-Y %     | Q1FY24       | Q-o-Q %      |
|-----------------------------|--------------|--------------|-------------|--------------|--------------|
| <b>Net Revenue</b>          | <b>715.3</b> | <b>669.7</b> | <b>6.8</b>  | <b>738.8</b> | <b>-3.2</b>  |
| Raw-material cost           | 301.3        | 342.2        | -11.9       | 315.1        | -4.4         |
| Staff cost                  | 95.8         | 84.5         | 13.3        | 97.4         | -1.7         |
| Other expenses              | 226.7        | 183.6        | 23.5        | 218.8        | 3.6          |
| Total expenses              | 623.8        | 610.2        | 2.2         | 631.3        | -1.2         |
| <b>EBITDA</b>               | <b>91.5</b>  | <b>59.4</b>  | <b>54.0</b> | <b>107.6</b> | <b>-14.9</b> |
| Other Income                | 10.5         | 5.7          | 86.2        | 7.3          | 45.0         |
| Interest expenses           | 4.7          | 4.1          | 15.0        | 4.5          | 6.3          |
| Depreciation & Amortization | 36.9         | 30.5         | 21.0        | 34.6         | 6.8          |
| <b>Profit before Tax</b>    | <b>60.4</b>  | <b>30.4</b>  | <b>98.4</b> | <b>75.8</b>  | <b>-20.3</b> |
| Tax                         | 16.2         | 8.0          | -           | 19.5         | -16.8        |
| <b>Reported PAT</b>         | <b>44.2</b>  | <b>22.4</b>  | <b>97.3</b> | <b>56.3</b>  | <b>-21.5</b> |
| EPS                         | 1.8          | 0.9          | 97.3        | 2.3          | -21.5        |
|                             |              |              | <b>bps</b>  |              | <b>bps</b>   |
| GPM (%)                     | 57.9         | 48.9         | 897         | 57.4         | 52           |
| EBITDA Margin (%)           | 12.8         | 8.9          | 392         | 14.6         | -176         |
| NPM (%)                     | 6.2          | 3.3          | 283         | 7.6          | -145         |
| Tax rate (%)                | 26.8         | 26.4         | 40          | 25.7         | 114          |

Source: Company; Sharekhan Research

### Operational performance

| Particulars                           | Q2FY24 | Q2FY23 | Y-o-Y % | Q1FY24 | Q-o-Q % |
|---------------------------------------|--------|--------|---------|--------|---------|
| No of pairs sold (in crore)           | 4.8    | 3.9    | 23.1    | 5.1    | -5.9    |
| Average Realization per pair (in Rs.) | 147    | 169    | -13.0   | 145    | 1.4     |

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – 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.

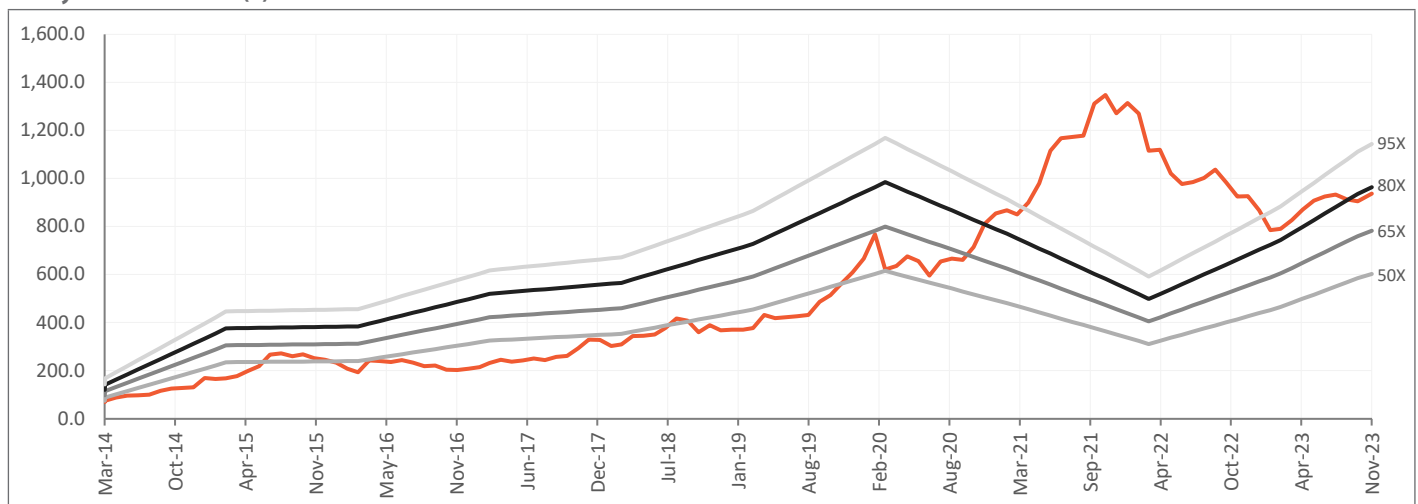
### ■ Company Outlook – Eyeing double-digit volume growth with margin recovery in FY2024

In H1FY2024, high single-digits (8.8%) y-o-y revenue growth coupled with 280 bps y-o-y EBITDA margin expansion led to 64.6% y-o-y PAT growth. Price correction undertaken in key brands in past few quarters and raw material prices stabilising led to improvement in sales volumes (up by 29% y-o-y) and profitability in H1FY2024 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, premiumisation in certain categories and sustained product additions remain long-term growth drivers.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,080

Relaxo posted double-digit volume-led revenue growth for the third consecutive quarter in Q2FY2024 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 Indian markets), Relaxo is well-poised to achieve a revenue and earnings CAGR of 12% and 37%, respectively, over FY2023-FY2026E. Stock is trading at 98x/68x/57x its FY2024E/25E/26E earnings. We maintain a Buy rating on the stock with an unchanged price target of Rs. 1,080.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

| Particulars      | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       |
|------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|                  | FY23    | FY24E | FY25E | FY23          | FY24E | FY25E | FY23     | FY24E | FY25E |
| Bata             | 62.6    | 52.7  | 40.7  | 25.3          | 22.1  | 18.2  | 12.5     | 14.1  | 16.7  |
| Relaxo Footwears | -       | 97.7  | 67.8  | 67.4          | 51.2  | 38.9  | 11.9     | 19.6  | 22.2  |

Source: Company, Sharekhan estimates

## 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 ~10.5 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 394 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 Website

### Top 10 shareholders

| Sr. No. | Holder Name                 | Holding (%) |
|---------|-----------------------------|-------------|
| 1       | SBI Funds Management        | 7.22        |
| 2       | VLS Securities Ltd          | 6.26        |
| 3       | VL Finance SASU             | 3.60        |
| 4       | Vanguard Group Inc          | 1.11        |
| 5       | UTI Asset Management Co Ltd | 0.69        |
| 6       | Blackrock Inc               | 0.45        |
| 7       | ICICI Prudential AMC        | 0.24        |
| 8       | UTI International Singapore | 0.20        |
| 9       | Dimensional Fund Advisors   | 0.19        |
| 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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