Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

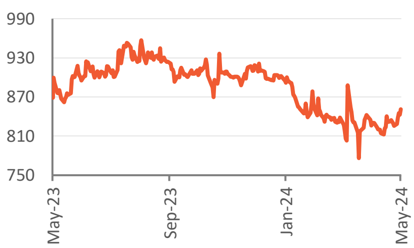
Company details

Market cap:	Rs. 21,191 cr
52-week high/low:	Rs. 974 / 763
NSE volume: (No of shares)	0.9 lakh
BSE code:	530517
NSE code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	71.3
FII	3.6
DII	9.3
Others	15.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	-0.1	-6.0	-2.0
Relative to Sensex	5.6	-1.6	-18.0	-19.3

Sharekhan Research, Bloomberg

Stock Update

Result Update

Relaxo Footwear Ltd

Weak Q4

Consumer Discretionary	Sharekhan code: RELAXO

Reco/View: Hold ↔	CMP: **Rs. 851**	Price Target: **Rs. 935** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Relaxo Footwers' (Relaxo's) Q4FY2024 performance was weak with revenues and PAT falling by 2.3% and 3% y-o-y, respectively. EBIDTA margins improved by 68 bps y-o-y to 16.1%.
- Implementation of BIS norms affected sales volumes in Q4 (decreased by ~4%). A good pick-up has been seen in sales volume since beginning of Q1FY2025.
- The management has guided for double-digit revenue growth and EBIDTA margins at 15-16% in FY2025.
- Stock continues to trade at a premium valuation of 79x/64x its FY2025E/26E earnings, which does not provide favourable risk-reward. Hence, we maintain a Hold on the stock with an unchanged PT of Rs. 935.

Relaxo posted weak show in Q4FY2024 as demand conditions continued to remain under pressure, leading to ~4% decline in volume. Revenue fell by 2.3% y-o-y to Rs. 747 crore owing to 3.8% y-o-y decline in volume to 5 million pairs while realisation grew by 2.8% y-o-y to Rs. 149 per pair. Revenues missed our and the street's average expectation of Rs. 783-791 crore. Softening of input costs aided in 812 bps y-o-y gross margins improvement to 60.3%. However, EBITDA margin improved by just 68 bps y-o-y to 16.1% (versus expectations of 14.2%), due to higher other expenses. EBITDA grew by 2% y-o-y to Rs. 120 crore, while PAT fell by 3% y-o-y to Rs. 61 crore mainly due to higher depreciation. PAT beat ours and the average street expectation of Rs. 55-56 crore. In FY2024, revenue grew by 4.7% y-o-y to Rs. 2,914 crore, EBITDA margin expanded by 189 bps y-o-y to 14% and PAT grew by 29.8% y-o-y to Rs. 201 crore.

Key positives

- Gross margins rose by 812 bps y-o-y to 60.3%; EBITDA margin at 16.1% beat estimates.

Key negatives

- Volume declined by 3.8% y-o-y.

Management Commentary

- In Q4FY2024, the sales volume was affected by implementation of BIS (large impact on the sales was in January 2024).
- The company has seen good pick-up in sales since beginning of Q1FY2025. Implementation of BIS norms has resulted in the improvement in the quality of footwear available in the market and will provide competition to unorganised players.
- The company has undertaken a major digital initiative for directly connecting with the retailers through the 'Relaxo Parivaar' app. In a short timeframe, it has achieved an industry leading retailer connect through the app and expects this to grow further in the coming year.
- Recovery in discretionary demand (especially in tier-3 and -4 towns), launch of DMS and improving connect with retailers will help the company to achieve double digit revenue growth in FY2025 and years ahead.
- Gross margins will stay at 58-60% and EBIDTA margins at 15-16% in the near term. Raw material prices are stable. The company would not opt for any substantial price hike in the near term.
- Ratio of open-ended to close-ended footwear currently stands at 80:20. The company expects the contribution of close-ended footwear to improve with high demand for sport shoes category. Ratio of open-ended to close-ended shoes is expected to stand at 75:25 in the coming years.

Revision in earnings estimates: We have reduced our earnings estimates for FY2025 and FY2025 to factor in lower sales volume than earlier expected.

Our Call

View – Maintain Hold with an unchanged PT of Rs. 935: Slowdown in consumption in the mass category affected Relaxo's performance in FY2024. However, long-term growth prospects are strong, driven by strong portfolio of value-for-money footwear products, enhanced capacity of 10 lakh pairs per day and distribution expansion (especially in South Indian markets). Also, gradual improvement in volumes and correction in key input prices would help improve margin profile in the coming years. Stock trades at premium valuation of 79x/64x its FY2025E/26E earnings, which does not provide a favourable risk-reward. Considering the current weak demand environment and premium valuation, we retain our Hold recommendation on the stock with an unchanged PT of Rs. 935.

Key Risks

Any improvement in demand, which is higher than our expectation or a spike in key input prices would act as key risks to our earnings estimates in the near term.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenues	2,783	2,914	3,185	3,511
EBITDA margin (%)	12.1	14.0	15.8	16.6
Adjusted PAT	154	200	269	328
Adjusted diluted EPS (Rs.)	6.2	8.1	10.8	13.2
P/E (x)	-	-	78.5	64.4
P/B (x)	11.4	10.6	9.6	8.6
EV/EBITDA (x)	63.2	52.5	42.3	36.3
RoNW (%)	8.5	10.4	12.8	14.0
RoCE (%)	11.9	17.2	19.5	19.5

Source: Company; Sharekhan estimates

Revenue down by 2% y-o-y; EBITDA margin beat expectations

Relaxo's revenue decreased by 2.3% y-o-y to Rs. 747 crore, lower than our and average street expectation of Rs. 783-791 crore. Sales volumes fell 3.8% y-o-y to 5 million pairs while realisation grew by 2.8% y-o-y to Rs. 149 per pair. Gross margins improved by 812 bps y-o-y to 60.3% led by softening of input costs. However, EBITDA margin improved by just 68 bps y-o-y to 16.1%, due to higher other expenses. EBIDTA margin came in better than ours and the average street expectation of 14.2%. EBITDA grew by 2% y-o-y to Rs. 120 crore, while PAT fell by 3% y-o-y to Rs. 61 crore mainly due to higher depreciation. PAT came in better than our and average street expectation of Rs. 55-56 crore. In FY2024, revenues grew by 4.7% y-o-y to Rs. 2,914 crore, EBITDA margin expanded by 189 bps y-o-y to 14% and PAT grew by 29.8% y-o-y to Rs. 201 crore. FY2024 sales volume rose by 14% y-o-y to 19.5 million pairs while realisation fell by 8.1% y-o-y to Rs. 148 per pair. The board recommended a final dividend of Rs. 3 per share for FY2024.

Key conference call highlights

- **Uptick in open footwear aided volume growth in FY2024:** BIS norms were implemented in January'24 which impacted volumes in Q4. Full year volume growth of 14% can be largely attributed to strong growth in the open footwear. Inventory pile-up has now normalised and things have started picking up. The company expects to improve market share aided by consolidation.
- **Eyeing double-digit revenue growth for 2-3 years:** Relaxo took up certain initiatives in FY2024 such as – 1. Revamp of Distributor Management System, 2. Enhancing retailer connect through Relaxo Parivaar app (reaching 50,000 outlets currently, aims to increase it to 1,00,000), and 3. Direct selling to consumers using 'Brand as a Seller' model on all major e-Commerce platforms, which will help to penetrate and grow better. It expects to register double-digit revenue growth for next two-three years.
- **Margin guidance:** Management has guided for 58-60% gross margin and 15-16% EBITDA margin for FY2025. Advertisement spends stood at 9% of sales in FY2024 and is expected to remain at same level.
- **Diversified product mix:** In terms of type of footwear, closed footwear contributed 20% and open footwear contributed 80% to FY2024 revenue. Relaxo expects closed footwear to grow faster than open for the next 3-4 years. Brand-wise, Relaxo/Bahamas contributed 25%, Flite contributed 37% and Sparx's contribution was 38% (60% closed and 40% open) in value terms. The company is aiming to achieve good growth in Sparx in the coming years.
- **Distribution:** Contribution from e-commerce is currently at 9-10%. Relaxo has more than 400 EBOs at present and is planning to add 50-60 outlets going ahead.
- **Capex:** The company incurred a capex of Rs. 248 crore in FY2024, including Rs. 127 crore for land purchase in Bhiwadi, Rajasthan. Current capacity utilisation is 65% at the company level and 55% for closed footwear.
- **International:** Exports contribute ~4.5% to sales and the company is getting good traction in key markets.

Results (Standalone) **Rs cr**

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Net Revenue	**747.2**	**764.9**	**-2.3**	**712.7**	**4.8**
Raw-material cost	296.8	366.0	-18.9	306.5	-3.2
Staff cost	99.9	85.4	17.0	96.0	4.0
Other expenses	230.1	195.6	17.6	223.0	3.2
Total expenses	626.9	647.0	-3.1	625.5	0.2
EBITDA	**120.4**	**118.0**	**2.0**	**87.2**	**38.1**
Other Income	5.1	4.3	17.1	6.0	-15.5
Interest expenses	4.7	4.1	12.8	4.8	-3.5
Depreciation & Amortization	38.5	32.8	17.4	37.5	2.6
Profit before Tax	**82.3**	**85.4**	**-3.7**	**50.8**	**61.9**
Tax	20.9	22.1	-5.5	13.1	60.0
Reported PAT	**61.4**	**63.3**	**-3.0**	**37.8**	**62.6**
EPS	2.5	2.6	-3.0	1.5	62.6
			bps		bps
GPM (%)	60.3	52.2	812	57.0	328
EBITDA Margin (%)	16.1	15.4	68	12.2	388
NPM (%)	8.2	8.3	-6	5.3	292
Tax rate (%)	25.4	25.9	-49	25.7	-30

Source: Company; Sharekhan Research

Operational performance

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
No of pairs sold (in crore)	5.0	5.2	-3.8	4.7	6.4
Average Realization per pair (in Rs.)	149	145	2.8	151	-1.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Long-term growth prospects intact

India is the second-largest footwear manufacturer with a 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 the 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 to long term. The Indian footwear market is expected to post a CAGR of 15-17% over FY2022-FY2025E as compared to global market growth of 5.5% CAGR over CY2021-CY2025.

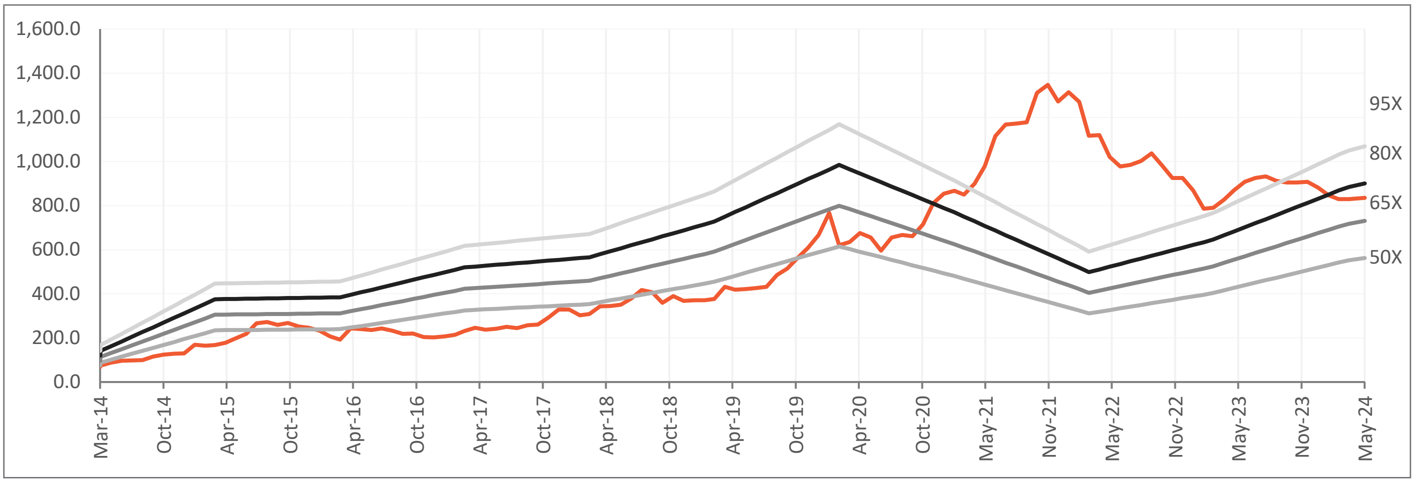
■ Company Outlook – Near term outlook bleak; Long term prospects intact

Relaxo posted decent performance in FY2024, with revenue growing in mid-single digits, while a 190 bps y-o-y expansion in EBITDA margin led to a ~30% y-o-y growth in PAT. Demand conditions continued to remain subdued, however, price cuts aided volume growth in FY2024, with volume rising by 14%, while realisation declined by 8%. We expect the stress on mass category consumption to continue for the next few quarters and hence any material recovery is likely to take time. However, lower per capita footwear consumption in India, Relaxo's under-penetration in the South Indian market, focus on exclusive branded outlet (EBO) model for key brands, premiumisation in certain categories and sustained product additions remain long-term growth drivers.

■ Valuation – Maintain Hold with an unchanged PT of Rs. 935

Slowdown in consumption in the mass category affected Relaxo's performance in FY2024. However, long-term growth prospects are strong, driven by strong portfolio of value-for-money footwear products, enhanced capacity of 10 lakh pairs per day and distribution expansion (especially in South Indian markets). Also, gradual improvement in volumes and correction in key input prices would help improve margin profile in the coming years. Stock trades at premium valuation of 79x/64x its FY2025E/26E earnings, which does not provide a favourable risk-reward. Considering the current weak demand environment and premium valuation, we retain our Hold recommendation on the stock with an unchanged PT of Rs. 935.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bata India	55.8	46.7	40.2	21.6	19.1	16.4	11.8	13.2	14.1
Relaxo Footwears	-	78.5	64.4	52.5	42.3	36.3	17.2	19.5	19.5

Source: Company, Sharekhan estimates

About company

Relaxo is a leading footwear company with annual turnover of close to Rs. 3,000 crore. The company has nine manufacturing facilities across northern India with a capacity to produce ~10.5 lakh pairs per day. The company sells close to 20 crore pairs per annum through its wide distribution network of over 70,000 retailers/Multi-Brand Outlets, ~650 distributors, and 405 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 preposition (USP), whereas Schoolmate is specifically for school shoes. The company also exports its products to ~32 countries and has an overseas office in Dubai.

Investment theme

Relaxo's revenue reported a CAGR of ~5% with volume CAGR of 1% over FY2019-FY2024. 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

Ramesh Kumar Dua	Chairman & Managing Director
Sushil Batra	Chief Financial Officer
Ankit Jain	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management	8.08
2	VLS Securities Ltd	6.26
3	VL Finance SASU	3.60
4	Vanguard Group Inc	1.12
5	UTI Asset Management Co Ltd	0.72
6	Blackrock Inc	0.49
7	ICICI Prudential AMC	0.22
8	UTI International Singapore	0.21
9	Norges Bank	0.16
10	Dimensional Fund Advisors	0.15

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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