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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,028**	
Price Target: **Rs. 1,150**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

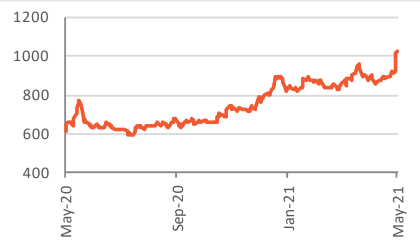
Company details

Market cap:	Rs. 20,878 cr
52-week high/low:	Rs. 1079 / 578
NSE volume: (No of shares)	xxxx lakh
BSE code:	530517
NSE code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	70.9
FII	3.9
DII	7.0
Others	18.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.2	20.0	39.2	67.4
Relative to Sensex	11.3	20.3	26.3	7.2

Sharekhan Research, Bloomberg

Stock Update

Relaxo Footwears Limited

Strong quarter

Consumer Discretionary | Sharekhan code: RELAXO | Result Update

Summary

- Relaxo Footwears (Relaxo) posted strong performance in Q4FY2021, with revenue and PAT growing by 38% and 107%, respectively, on account of strong sequential recovery in sales (also supported by low base of Q4FY2020).
- Despite a 43% decline in revenue in Q1FY2021, the company ended the fiscal with almost flat revenue at Rs. 2,359.2 crore; OPM expanded by 404 bps to 21.0%; Better working capital management led to Rs. 345 crore cash and cash equivalent on books.
- Near-term performance likely to be affected by COVID-19 led uncertainties. However, medium-term outlook is intact, as focus on improving penetration in southern markets, new product addition, and shift from non-branded to branded remain key growth levers.
- Good financial track record, improving cash flows, and better growth prospects ahead make it a better pick in the branded retail space. We maintain Buy on the stock with a revised PT of Rs. 1,150.

Relaxo posted strong performance in Q4FY2021. Revenue grew by 38% y-o-y (11.3% q-o-q) to Rs. 747.7 crore and PAT grew by 107.3% y-o-y to Rs. 107.4 crore during the quarter. Despite the 297 bps decline in gross margin, operating profit margin (OPM) improved by 399 bps y-o-y to 21.8%, led by operating efficiencies and better operating leverage. Relaxo started FY2021 on a disrupted note with revenue declining by 43%, as stores were closed during the lockdown and lesser intercity mobility affected sales. However, the company saw sequential improvement in the performance with easing of lockdown norms. Further, value for money product portfolio and large options aided the company to see faster pick-up in sales (especially in tier 2 and 3 towns). OPM improved by 404 bps to 21.0%, led by better efficiencies, cost-saving media, and promotional expenses. Though the second wave of COVID-19 is likely to have an impact on near-term performance, higher demand for value-for-money products will help the company see faster recovery in the post COVID-19 world. We expect strong recovery in FY2023, driven by market share gains from unorganised players, value for money product portfolio with increasing options, and improving penetration on the e-commerce platform. Lower per capita consumption in India, Relaxo's lower penetration in South Indian market, and sustained product additions remain long-term growth drivers. Strong relationship with dealers/distributors and improving liquidity position (have close to Rs. 350 crore of cash on books) bring confidence in management of quickly sailing through the tough time. We expect OPM to sustain at 20%-21% in the near term.

Key positives

- Revenue grew by 38% y-o-y and 11% q-o-q
- OPM expanded by 399 bps despite dip in gross margins; third consecutive quarter of close to 22% OPM.
- Cash from operations stood at Rs. 513.2 crore compared with Rs. 318 crore in FY2020.

Key negatives

- Gross margin decreased by 297 bps y-o-y to 56.8% due to rising input prices.

Our Call

View - Retained Buy with a revised PT of Rs. 1,150: We have reduced our earnings estimates for FY2022 by 3.5% to factor in near-term uncertainties, while we have marginally revised our estimates upwards for FY2023 to factor in strong recovery in the post COID-19 era. With a strong portfolio of value-for-money footwear products and expansion in distribution reach (especially in southern markets), Relaxo is well poised to achieve revenue and earnings CAGR of 17.7% and 20%, respectively, over FY2021-FY2023E. The stock is currently trading at 76.0x/58.0x its FY2022/FY2023E EPS. Strong earnings visibility and strengthening of balance sheet will keep valuations at premium levels. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,150.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenues	2,292	2,410	2,359	2,720	3,268
OPM (%)	14.1	17.0	21.0	20.7	21.5
Adjusted PAT	175	226	305	335	440
% YoY growth	*8.9*	*29.0*	*34.8*	*10.0*	*31.1*
Adjusted diluted EPS (Rs.)	7.1	9.1	12.3	13.5	17.7
P/E (x)	145.3	112.7	83.6	76.0	58.0
P/B (x)	23.1	20.0	16.2	13.9	11.6
EV/EBIDTA (x)	78.9	62.7	51.3	45.0	35.9
RoNW (%)	18.8	19.0	21.4	19.7	21.8
RoCE (%)	23.8	27.4	29.5	25.5	27.6

Source: Company; Sharekhan estimates

Revenue grew by 38%, efficiencies and better operating leverage led to margin expansion

Relaxo's revenue grew by 38.3% y-o-y to Rs. 747.7 crore (11.3% sequentially). Higher input prices resulted in a 297 bps decline in gross margins to 56.8%. OPM expanded by 399 bps due to better operating leverage and efficiencies. Operating profit grew by 69.3% y-o-y to Rs. 162.9 crore. This along with higher other income led to 107% growth in reported PAT to Rs. 107.4 crore.

Volume growth to improve over the medium term

Relaxo's sales volume grew by ~10% over FY2017-FY2020, driven by strong portfolio of value-for-money portfolio, sustained new product addition based on consumer buying behaviour, and expansion in distribution reach (50,000+ retailers/MBOs). The company has eight manufacturing facilities with a capacity of 7.5 lakh pairs/day. The company is continuously focusing on optimising its operations through a dedicated line of manufacturing fast-moving SKUs and yield improvement. During FY2021, Relaxo witnessed strong demand for open-ended shoes, which contributed significantly to overall sales volume. The second wave is likely to have an impact on the near term, but management is confident of strong recovery in performance because of strong value-for-money product portfolio and improving distribution reach. Further, focus on expanding in the southern market and higher contribution from on-line sales would help in delivering better volume growth in the coming years.

Results — Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Net Revenue	747.7	540.6	38.3	672.0	11.3
Raw-material cost	322.8	217.3	48.5	276.1	16.9
Staff cost	89.4	73.9	21.0	81.7	9.4
Other expenses	172.6	153.2	12.7	165.5	4.3
Total expenses	584.8	444.4	31.6	523.3	11.8
Operating profit	162.9	96.2	69.3	148.7	9.5
Other Income	6.9	4.0	72.7	4.0	74.0
Interest expenses	0.0	3.5	-100.0	4.0	-100.0
Depreciation and Amortisation	27.0	27.6	-2.5	27.8	-3.0
PBT	142.8	69.0	106.8	120.9	18.1
Tax	35.4	17.2	105.6	30.8	15.0
Adjusted PAT	107.4	51.8	107.3	90.1	19.2
Exceptional/ one off (net of taxes)	0.0	0.0	-	0.0	-
Reported PAT	107.4	51.8	107.3	90.1	19.2
EPS (Rs.)	4.3	2.1	107.3	3.6	19.2
			bps		**bps**
GPM (%)	56.8	59.8	-297	58.9	-209
OPM (%)	21.8	17.8	399	22.1	-35

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook - Long-term growth prospects of the footwear industry are intact

India is the second largest footwear manufacturer after China, accounting for 9% of the world's market with 22 billion pairs. The domestic market contributes ~90% to the overall footwear market in India. The domestic footwear market was badly affected by the lockdown during the pandemic (Q1 was the worst affected). Closure of retail stores and restriction to out-of-home mobility affected sales in Q1FY2021. However, with easing of lockdown norms and gradual opening of retail stores/malls, footwear sales gained some momentum in Q2 and Q3. The beginning of FY022 is expected to be uncertain, but strong vaccination programme and dropping cases would help in strong recovery prior to the festive season. Low per capita consumption at 1.66 pair p.a., lower share of exports, and higher unorganised play provide a huge opportunity for top brands to scale up operations in the near to medium term.

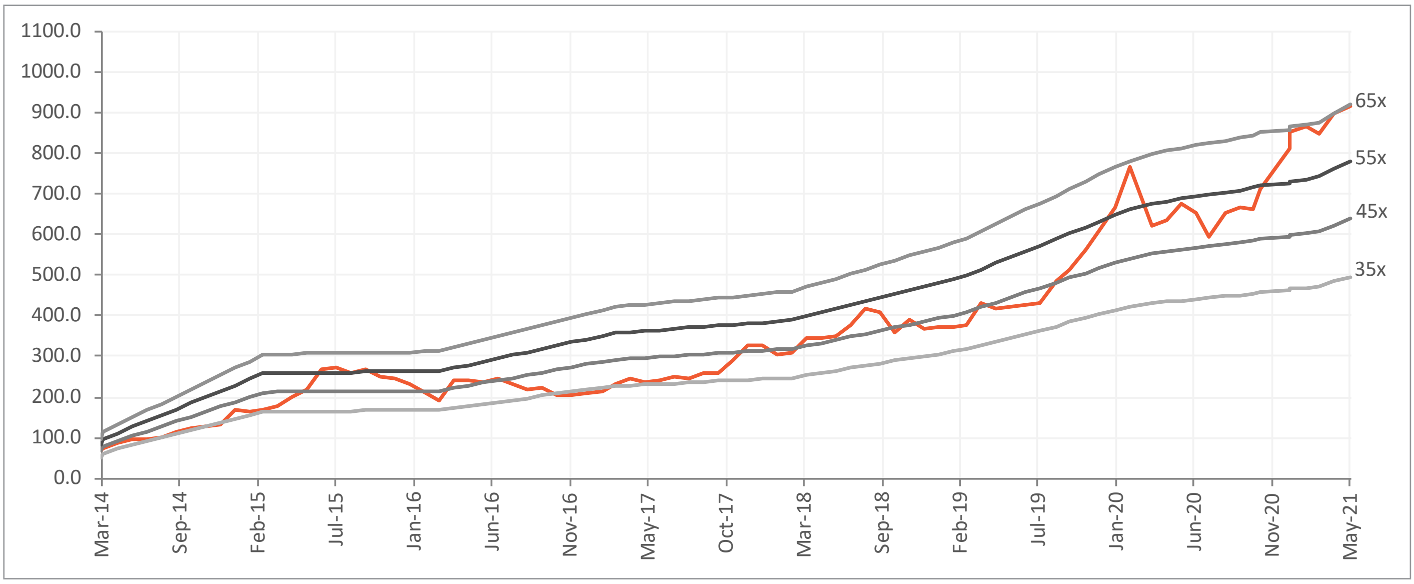
■ Company outlook - Medium-term outlook remains stable

Value-for-money portfolio aided Relaxo to post strong recovery post disrupted Q1, helping FY2021 to remain flat on a y-o-y basis. We expect strong recovery in FY2023, driven by market share gains from unorganised players, higher presence in e-commerce channels, and higher demand for value-for-money products. Lower per capita consumption in India, Relaxo's lower penetration in the South Indian market, and sustained product additions remain long-term growth drivers. Raw-material prices have moved up, but better revenue mix and cost-saving initiatives would help margins to remain at 20%-21%.

■ Valuation - Retained Buy with a revised PT of Rs. 1,150

We have reduced our earnings estimates for FY2022 by 3.5% to factor in near-term uncertainties, while we have marginally revised our estimates upwards for FY2023 to factor in strong recovery in the post COVID-19 era. With a strong portfolio of value-for-money footwear products and expansion in distribution reach (especially in southern markets), Relaxo is well poised to achieve a revenue and earnings CAGR of 17.7% and 20% over FY2021-FY2023E. The stock is currently trading at 76.0x/58.0x its FY2022/FY2023E EPS. Strong earnings visibility and strengthening of the balance sheet will keep valuations at premium levels. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,150.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bata	-	62.0	43.8	50.5	22.2	17.5	1.5	10.4	12.5
Relaxo Footwears	83.6	76.0	58.0	51.3	45.0	35.9	29.5	25.5	27.6

Source: Company, Sharekhan estimates

About company

New Delhi-based Relaxo is a leading footwear company with a turnover of over Rs. 2,400 crore. The company has eight manufacturing facilities across northern India with a capacity of over 7.5 lakh pairs per day. The company sells close to 180 million pairs per annum through its wide distribution network of over 50,000 retailers, ~700 distributors, and 396 exclusive brand outlets (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 USP, whereas Schoolmate is specifically for school shoes.

Investment theme

Relaxo has registered sustained double-digit volume growth in the past few quarters. 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 crore-60,000 crore Indian footwear market, of which ~50% is unbranded. Capacity expansion, investment on brands, steady volume growth, and improving presence in untapped markets along with increasing price differential in imported and domestic footwear as a result of hike in customs duty would be key growth drivers in the near to medium term.

Key Risks

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

Additional Data

Key management personnel

Ramesh Kumar Dua	Managing Director
Sushil Batra	Chief Financial Officer
Vikas Kumar Tak	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	VLS Securities Ltd.	6.6
2	VL Finance	4.0
3	SBI Funds Management Pvt. Ltd.	4.0
4	Capital Group Cos Inc.	1.0
5	UTI Asset Management Co. Ltd.	0.7
6	ICICI Prudential Asset Management	0.6
7	Vanguard Group	0.6
8	DSP Investment Managers Pvt. Ltd.	0.5
9	Daiwa Asset Management India Pvt. Ltd.	0.3
10	Principal Financial Group Inc.	0.3

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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