

Relaxo Footwears

Subdued demand and heatwave impacted Q1 sales

Relaxo Footwear's Q1FY25 print was in line with our estimates; Revenue grew 1.3%, though EBITDA/PAT declined 8.1%/21.3% YoY. Challenging macro and intense heatwave in the north saw subdued demand with 2% cut in volume (50mn pcs), though realizations improved by 3.4% on back of improving product mix. Our channel check indicate sticky food inflation and rising local competition/discounting impacting growth in the price sensitive segment. Even though the company's strategic initiatives such as, judicious price cuts and creating category-specific affordability to lift volumes, and with incremental contribution from 'Sparx' is expected to enhance ASP. Gross margin improved to 62.0% (+460bp). Higher staff cost (+12.5%) and other expenses (+16.6%), resulted in EBITDA margin to 13.2% (-135bp). With lower other income (-25.3%), PAT declined by 21.3%. We reckon Relaxo's growth is driven by, (1) selling directly on market places and E-com, (2) improving relation with MBO's by offering direct benefit to retailers, and (3) regaining market share from unorganized market. Though strong distribution reach and improving product mix through innovation we expect performance for Relaxo to improve. We maintain ADD rating, with TP of Rs950 (implying 65x FY26E EPS).

Challenging macros and intense heatwave in the north saw subdued demand

Relaxo reported Q1FY25 consol. revenue at Rs7.5bn (+1.3%) YoY. Slow economic recovery, lackluster demand post festive/wedding season and severe heatwave in the north saw subdued revenues and 2% cut in volume at 50mn pcs. Though realizations improved by 3.4% on back of improving product mix. As per our channel check sticky food inflation remain major concern, yet rising local competition/discounting impacting growth in the price sensitive segment. Even though the company's strategic initiatives such as, judicious price cuts and creating category-specific affordability to lift volumes, and with incremental contribution from 'Sparx' is expected to enhance ASP. Brand contribution for Sparx/Bahamas/Flite at 38%/25%/37%, though incremental contribution from 'Sparx' expected to enhance ASP. We believe with a strong value for money footwear range, capacity of 1.05mn pairs per day, and expanded distribution, especially in the south, Relaxo is set to gain substantial market share in the medium to long term.

Benign raw material cost led to gross margin improvement

In Q1FY25 benign raw material cost led to sharp increase in local competition driving higher trade discounting. Yet with higher contribution from 'Sparx' and strategic price hikes Relaxo improved its gross margin to 62.0% (+460bp). Higher staff cost (+12.5%) and other expenses (+16.6%), resulted in EBITDA margin decline to 13.2% (-135bp). With lower other income (-25.3%) PAT margins settled to 5.9% (-170bp) YoY. We believe worst is behind for the company as raw material prices remain stable, which is expected influence gross margin expansion. Though elevated ad spend partially offset operating margin in our view.

Valuation

We reckon Relaxo's growth strategy is driven by, (1) recovery in demand in rural areas to come with a lag, (2) regaining lost market share from unorganized players, (3) strong distribution and retail reach, and (4) improving brand recall value with doubling capacity of Sparx at Bhiwadi (Rajasthan). Though falling raw material prices, operational efficiencies coupled with premiumisation by increasing share in fast growing athleisure and sports category will further expand margins in our view. We remain optimistic on Relaxo's operational performance, and retain ADD rating with TP of Rs950 (implying 65x FY26E EPS). Risk: Any substantial slowdown in sales or a spike in RM cost would impact earnings estimates.

Financial and valuation summary

YE Mar (Rs mn)	1QFY25A	1QFY24A	YoY (%)	4QFY24A	QoQ (%)	FY24A	FY25E	FY26E
Revenues	7,482	7,388	1.3	7,472	0.1	29,141	33,867	38,780
EBITDA	989	1,076	(8.1)	1,204	(17.8)	4,066	5,163	6,416
EBITDA margin (%)	13.2	14.6	(135bp)	16.1	(290bp)	14.0	15.2	16.5
Adj. Net profit	444	564	(21.3)	614	(27.7)	2,005	2,740	3,626
Adj. EPS (Rs)	1.8	2.3	(21.3)	2.5	(27.7)	8.1	11.0	14.6
EPS growth (%)						29.8	36.7	32.4
PE (x)						107.5	76.1	57.5
EV/EBITDA (x)						51.1	38.5	30.8
PBV (x)						10.8	9.4	8.4
RoE (%)						10.4	13.0	15.4
RoCE (%)						11.1	13.6	16.0

Source: Company, Centrum Broking

Result Update

India I Footwear

31 July, 2024

ADD

Price: Rs869

Target Price: Rs950

Forecast return: 9%

Institutional Research

Market Data

Bloomberg:	RLXF IN
52 week H/L:	974/758
Market cap:	Rs216.3bn
Shares Outstanding:	248.9mn
Free float:	18.8%
Avg. daily vol. 3mth:	1,01,626
Source: Bloomberg	

Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	Unchanged
Source: Centrum Broking	

Shareholding pattern

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	71.3	71.3	71.3	71.3
FIIs	3.4	3.3	3.4	3.2
DII	9.5	9.3	8.9	8.5
Public/other	15.8	16.1	16.5	17.0
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY25	Actual Q1FY25	Variance (%)
Revenue	7,462	7,482	0.3
EBITDA	1,209	989	(18.2)
EBITDA margin %	16.2	13.2	-299bp
Other Income	67	54	(18.8)
Interest	43	49	13.0
Depreciation	363	391	7.7
PBT	870	603	-30.6
Tax	220	160	-27.5
Rep. PAT	650	444	-31.7
Adj. PAT	650	444	-31.7
Source: Bloomberg, Centrum Broking			



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Footwears

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	33,867	33,867	0.0	38,780	38,780	0.0
EBITDA	5,163	5,163	0.0	6,416	6,416	0.0
EBITDA margin %	15.2	15.2	0bp	16.5	16.5	0bp
Adj. PAT	2,740	2,740	0.0	3,626	3,626	0.0
Diluted EPS (Rs)	11.0	11.0	0.0	14.6	14.6	0.0

Source: Centrum Broking

Relaxo Footwears versus NIFTY Midcap 100

	1m	6m	1 year
RLXF IN	5.0	1.0	(8.2)
NIFTY Midcap 100	5.8	21.5	56.4

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
Pairs sold (mn nos)	225	253
ASP (Rs)	150	153
Gross Margins (%)	58.4	58.6

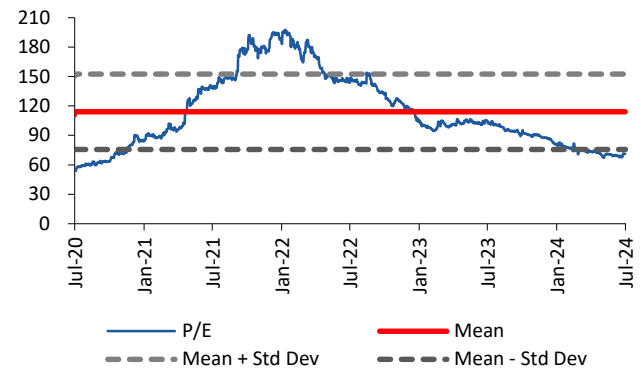
Source: Centrum Broking

Valuations

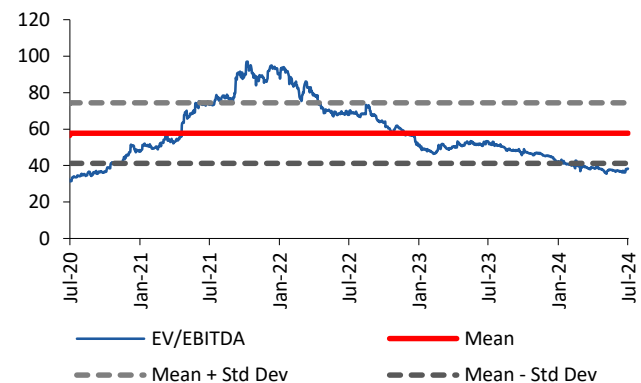
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Valuations	Rs/share
FY26E EPS	14.6
Target Multiple (X)	65
Target Price	950

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



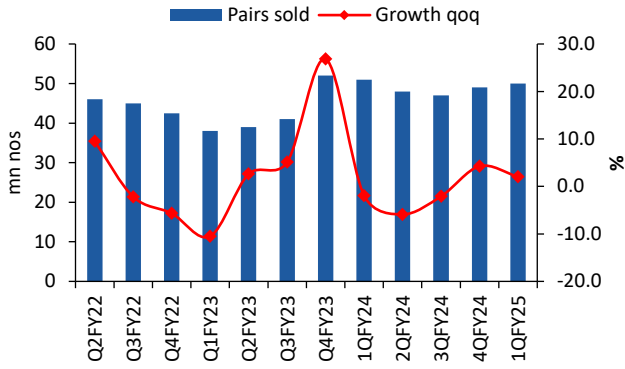
Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs bn)	CAGR (FY24-26E)			P/E (x)			EV/EBITDA (x)			RoE		
		Sales	EBITDA	EPS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Metro Brands	367.1	13.3	14.4	8.3	74.6	75.1	58.8	44.1	35.8	28.7	24.4	20.7	22.9
Bata India	205.7	12.1	16.8	23.3	57.8	49.8	38.0	21.8	18.5	15.3	20.5	21.8	24.6
Relaxo Footwear	216.9	15.4	25.6	34.5	104.0	76.1	57.5	49.4	38.5	30.8	10.4	13.0	15.4

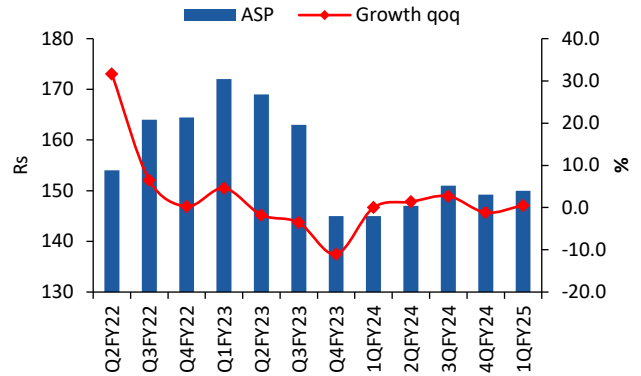
Source: Company, Centrum Broking

Exhibit 1: Quarterly volume trend



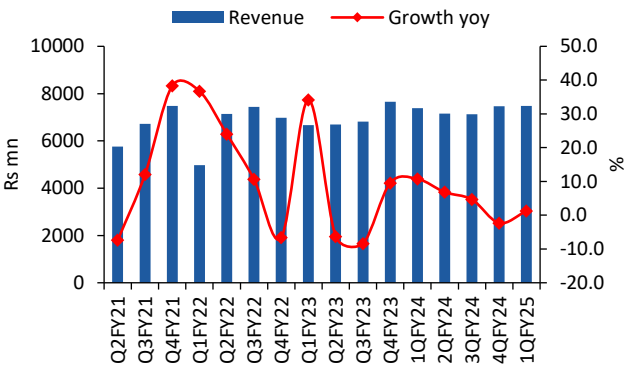
Source: Centrum Broking, Company Data;

Exhibit 2: Quarterly ASP trend



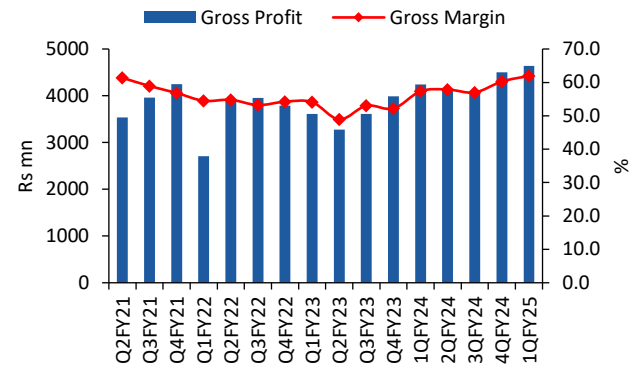
Source: Centrum Broking, Company Data;

Exhibit 3: Revenue and growth YoY



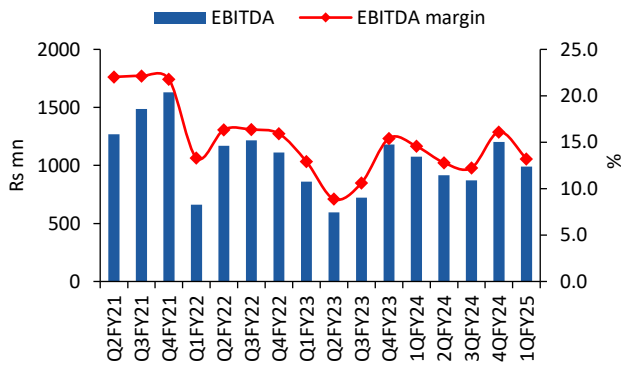
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly Gross profit trend



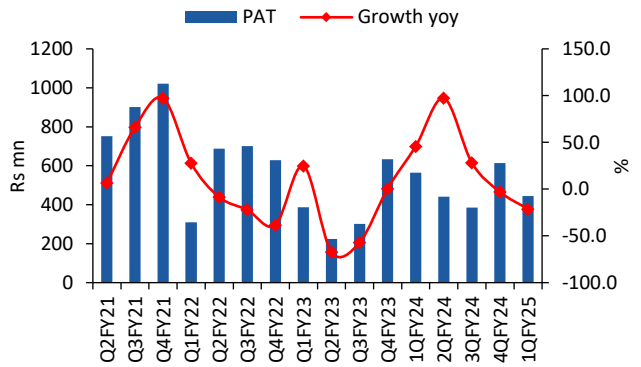
Source: Centrum Broking, Company Data

Exhibit 5: Quarterly EBITDA trend



Source: Centrum Broking, Company Data

Exhibit 6: Quarterly PAT trend



Source: Centrum Broking, Company Data

Exhibit 7: Quarterly P&L Trend

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Sales	7,144	7,435	6,982	6,672	6,697	6,810	7,649	7,388	7,153	7,127	7,472	7,482
YoY(%)	24.1	10.6	-6.6	34.2	-6.3	-8.4	9.6	10.7	6.8	4.7	-2.3	1.3
Cost of Goods Sold	3,230	3,480	3,195	3,063	3,422	3,199	3,660	3,150	3,013	3,065	2,968	2,847
Gross Profit	3,915	3,955	3,787	3,609	3,275	3,611	3,990	4,238	4,140	4,062	4,504	4,635
Gross Margins (%)	54.8	53.2	54.2	54.1	48.9	53.0	52.2	57.4	57.9	57.0	60.3	62.0
Employee Expenses	864	847	899	872	845	862	854	974	958	960	999	1,096
YoY(%)	17.4	3.7	0.6	18.3	-2.2	1.8	-5.0	11.7	13.3	11.4	17.0	12.5
Other Expenses	1,883	1,892	1,777	1,876	1,836	2,027	1,956	2,188	2,267	2,230	2,301	2,551
%sales	26.4	25.4	25.4	28.1	27.4	29.8	25.6	29.6	31.7	31.3	30.8	34.1
Total Expenses	5,976	6,219	5,871	5,810	6,102	6,088	6,470	6,312	6,238	6,255	6,269	6,493
EBITDA	1,168	1,216	1,111	861	594	723	1,180	1,076	915	872	1,204	989
EBITDA(%)	16.4	16.4	15.9	12.9	8.9	10.6	15.4	14.6	12.8	12.2	16.1	13.2
Depreciation	283	291	287	298	305	320	328	346	369	375	385	391
EBIT	885	926	824	563	289	403	852	730	546	497	819	598
EBIT(%)	12.4	12.4	11.8	8.4	4.3	5.9	11.1	9.9	7.6	7.0	11.0	8.0
Other Income	71	55	59	42	57	44	43	73	105	60	51	54
Interest Cost	36	41	39	69	41	41	41	45	47	48	47	49
PBT	919	940	844	536	304	406	854	758	604	508	823	603
PBT(%)	12.9	12.6	12.1	8.0	4.5	6.0	11.2	10.3	8.4	7.1	11.0	8.1
PAT	687	701	629	387	224	301	633	564	442	386	614	444
PAT(%)	9.6	9.4	9.0	5.8	3.3	4.4	8.3	7.6	6.2	5.4	8.2	5.9
EPS	2.8	2.8	2.6	1.6	1.0	1.2	2.6	2.3	1.8	1.6	2.5	1.8

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenues	26,533	27,828	29,141	33,867	38,780
Operating Expense	12,167	13,343	12,197	14,088	16,051
Employee cost	3,347	3,433	3,891	4,358	4,794
Others	6,861	7,694	8,987	10,259	11,519
EBITDA	4,158	3,358	4,066	5,163	6,416
Depreciation & Amortisation	1,135	1,251	1,475	1,623	1,728
EBIT	3,022	2,107	2,591	3,540	4,688
Interest expenses	153	192	187	194	202
Other income	237	186	289	332	382
PBT	3,106	2,100	2,693	3,677	4,867
Taxes	779	555	688	938	1,241
Effective tax rate (%)	25.1	26.4	25.6	25.5	25.5
PAT	2,327	1,545	2,005	2,740	3,626
Minority/Associates	0	0	0	0	0
Recurring PAT	2,327	1,545	2,005	2,740	3,626
Extraordinary items	0	0	0	0	0
Reported PAT	2,327	1,545	2,005	2,740	3,626

Ratios					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (%)					
Revenue	12.5	4.9	4.7	16.2	14.5
EBITDA	(16.1)	(19.2)	21.1	27.0	24.3
Adj. EPS	(20.2)	(33.6)	29.8	36.7	32.4
Margins (%)					
Gross	54.1	52.1	58.1	58.4	58.6
EBITDA	15.7	12.1	14.0	15.2	16.5
EBIT	11.4	7.6	8.9	10.5	12.1
Adjusted PAT	8.8	5.6	6.9	8.1	9.4
Returns (%)					
ROE	14.0	8.5	10.4	13.0	15.4
ROCE	14.6	9.3	11.1	13.6	16.0
ROIC	11.7	7.9	9.1	12.5	15.4
Turnover (days)					
Gross block turnover ratio (x)	2.4	2.1	1.9	1.9	1.9
Debtors	30	34	39	42	42
Inventory	164	169	174	162	156
Creditors	67	65	76	71	72
Net working capital	79	69	83	98	103
Solvency (x)					
Net debt-equity	0.0	0.0	0.0	(0.1)	(0.2)
Interest coverage ratio	27.1	17.5	21.8	26.6	31.7
Net debt/EBITDA	0.0	(0.2)	(0.2)	(0.6)	(0.7)
Per share (Rs)					
Adjusted EPS	9.4	6.2	8.1	11.0	14.6
BVPS	70.9	74.8	80.7	89.2	100.1
CEPS	14.0	11.3	14.0	17.6	21.6
DPS	2.5	2.5	3.0	2.9	3.9
Dividend payout (%)	26.7	40.2	37.1	26.7	26.7
Valuation (x)					
P/E	92.7	139.6	107.5	76.1	57.5
P/BV	12.2	11.6	10.8	9.4	8.4
EV/EBITDA	50.2	61.9	51.1	38.5	30.8
Dividend yield (%)	0.3	0.3	0.3	0.4	0.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Equity share capital	249	249	249	249	249
Reserves & surplus	17,352	18,302	19,762	21,871	24,575
Shareholders fund	17,601	18,551	20,011	22,120	24,824
Minority Interest	0	0	0	0	0
Total debt	200	0	185	185	185
Non Current Liabilities	1,416	1,476	1,696	1,711	1,829
Def tax liab. (net)	199	215	237	237	237
Total liabilities	19,416	20,241	22,130	24,254	27,076
Gross block	10,864	13,099	15,398	17,729	20,229
Less: acc. Depreciation	(3,171)	(3,860)	(5,335)	(6,958)	(8,686)
Net block	7,694	9,239	10,063	10,771	11,543
Capital WIP	1,452	878	325	325	325
Net fixed assets	9,469	10,436	10,615	11,323	12,095
Non Current Assets	2,488	2,576	4,060	2,986	3,201
Investments	1,693	2,006	829	829	829
Inventories	6,733	5,638	5,988	6,495	7,225
Sundry debtors	2,508	2,703	3,577	4,158	4,761
Cash & Cash Equivalents	126	740	977	3,132	4,384
Loans & advances	4	6	5	5	5
Other current assets	806	843	1,087	1,087	1,087
Trade payables	2,217	2,529	2,547	2,960	3,389
Other current liab.	1,901	1,926	2,061	2,401	2,721
Provisions	292	251	401	401	401
Net current assets	5,766	5,224	6,626	9,115	10,951
Total assets	19,416	20,241	22,130	24,254	27,076

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Profit Before Tax	3,106	2,100	2,693	3,677	4,867
Depreciation & Amortisation	1,135	1,251	1,475	1,623	1,728
Net Interest	141	137	61	(138)	(180)
Net Change – WC	(2,816)	1,101	(1,151)	739	(798)
Direct taxes	(839)	(555)	(668)	(938)	(1,241)
Net cash from operations	560	4,001	2,351	4,964	4,377
Capital expenditure	(1,395)	(1,852)	(2,494)	(2,331)	(2,500)
Acquisitions, net	0	0	0	0	0
Investments	1,519	(247)	1,269	0	0
Others	22	(486)	238	332	382
Net cash from investing	146	(2,585)	(986)	(1,999)	(2,118)
FCF	705	1,416	1,365	2,965	2,258
Issue of share capital	139	4	0	(631)	(922)
Increase/(decrease) in debt	200	(200)	185	0	0
Dividend paid	(621)	(622)	(622)	0	0
Interest paid	(153)	(192)	(186)	(194)	(202)
Others	(263)	(374)	(441)	15	118
Net cash from financing	(698)	(1,385)	(1,064)	(810)	(1,006)
Net change in Cash	7	32	301	2,155	1,252

Source: Company, Centrum Broking

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Source: Bloomberg

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