Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Relaxo Footwear

Weak Q2

Consumer Discretionary	Sharekhan code: RELAXO
Reco/View: Hold ↔	CMP: **Rs. 684** / Price Target: **Rs. 741** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Relaxo Footwers (Relaxo) posted 5% y-o-y revenue decline in Q2FY2025 due to a 10% y-o-y volume decline, while EBITDA margin stood flat y-o-y at 12.9% led by gross margin expansion and cost control measures. PAT fell by 17% y-o-y.
- Management expects to see volume recovery in November-December aided by a strong wedding season. Volume growth expected to be flat in FY2025 (H1 volume decline at 6%).
- Relaxo's decision not to cut prices and focus on quality might impact market share in the near term. Steps such as adding new distributors, launching new products, and cost optimization will help increase the market share in the coming quarters.
- Stock continues to trade at a premium valuation of 83x/65x/56x its FY25E/26E/FY27E earnings, respectively, which does not provide favourable risk-reward. Hence, we maintain a Hold rating with a revised PT of Rs. 741.

Relaxo reported mid-single digit revenue decline in Q2FY2025, while EBITDA margin stood flat y-o-y. Revenues declined by 5% y-o-y to Rs. 679 crore owing to muted demand sentiments and increased competition from low-priced unorganised players, which led to a 10.4% y-o-y decline in volumes. EBITDA margin stood flat y-o-y at 12.9% led by gross margin expansion and cost-control measures. Gross margins rose by 314 bps y-o-y to 61% aided by price increases taken in January 2024, decline in raw material costs, and higher inventory. EBITDA declined by 4.2% y-o-y to Rs. 88 crore and PAT fell by 16.9% y-o-y to Rs. 37 crore. In H1FY2025, revenues fell by 1.8% y-o-y to Rs. 1,428 crore, EBITDA margin declined by 62 bps y-o-y to 13.1% and PAT fell by 19.3% y-o-y to Rs. 81 crore.

Key positives

- Gross margins rose by 314 bps y-o-y to 61%.

Key negatives

- Volumes declined by 10.4% y-o-y.

Management Commentary

- Management indicated that October was not a good festive start but is hopeful of improvement in November-December aided by the strong wedding season.
- Volume fell by 10% in Q2 (6% in H1) due to sluggish demand and increased competition from lower-priced unorganised players, which led to down trading by consumers.
- The management indicated that the company will not reduce prices (or lower quality) to counter intensified competition. This might impact its market share in the near term. However, steps such as adding new distributors, launching new products, and cost optimization will help increase the market share in the coming quarters.
- Management stated that Sparx performed better than the other two brands – Flite and Bahamas. It is aiming for 8-10% growth in Sparx.
- Ad spends to be 1% lower in FY2025 at 3% versus 4% previously. The company has reduced advertisement spends but has increased spends on schemes, and sales and promotion, which will provide a trade push.
- Company incurred a capex of Rs. 49 crore in H1 and plans to spend another Rs. 50-60 crore in H2. Management indicated that the entire Rs. 100 crore capex is maintenance capex and there will be no capacity addition in FY2025.

Revision in earnings estimates - We have reduced our earnings estimates for FY2025 and FY2026 to factor in weak performance in Q2FY2025. We have introduced FY2027 estimates through this note.

Our Call

View – Maintain Hold with a revised PT of Rs. 741: Slowdown in mass-category consumption and increased competition led to sharp 10% y-o-y volume decline in Q2. 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 a premium valuation of 83x/65x/56x its FY25E/26E/FY27E earnings, respectively, 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 a revised price target of Rs. 741 (rolling over to September-26 earnings).

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	FY27E
Revenues	2,783	2,914	2,971	3,293	3,579
EBITDA margin (%)	12.1	14.0	14.1	15.2	15.9
Adjusted PAT	154	200	205	262	304
Adjusted diluted EPS (Rs.)	6.2	8.1	8.3	10.5	12.3
P/E (x)	-	84.7	82.9	64.8	55.8
P/B (x)	9.2	8.5	7.9	7.3	6.6
EV/EBITDA (x)	50.8	42.3	41.1	34.1	29.8
RoNW (%)	8.5	10.4	9.9	11.7	12.3
RoCE (%)	11.9	17.2	15.2	17.9	17.9

Source: Company; Sharekhan estimates

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		↔	

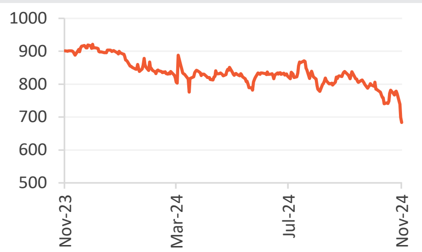
Company details

Market cap:	Rs. 17,027 cr
52-week high/low:	Rs. 950/675
NSE volume: (No of shares)	0.8 lakh
BSE code:	530517
NSE code:	RELAXO
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	71.3
FII	3.6
DII	10.0
Others	15.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.8	-14.0	-18.2	-24.1
Relative to Sensex	-8.6	-12.4	-24.9	-43.8

Sharekhan Research, Bloomberg