

August 23, 2024

INITIATING & RESULT REPORT Q1 FY25 | Sector: Footwear

Relaxo Footwears Ltd

Expect 7% volume growth; Expensive valuations compel SELL rating!

Relaxo Footwears Ltd (RLXF) has built a robust position in the mass open footwear segment with a vast presence covering both trade & D2C channels. Notably, RLXF is the only company among its peers to manufacture 100% of its products in-house. We reckon RLXF should benefit from the premiumization trend with increasing penetration of the "Sparx" & "Flite" brands. We initiate coverage on Relaxo Footwears Ltd however, owing to premium valuations we assign a SELL rating to the stock.

Wide product assortment in the open footwear segment: RLXF, a Fortune 500 (India) company, has established itself as a pioneer in the mass segment (50%+ share of total footwear industry), open footwear category, offering quality products at affordable prices. The company's product portfolio includes rubber-based hawai slippers, EVA slippers, PU slippers, casual shoes, sports shoes, sandals, and school shoes across all customer segments in the mass & economy price categories. Being the market leader in the open footwear category and deriving ~80% revenues from the same has enabled RLXF to capture a volume share of ~7-8% (~20% share in organized, non-leather footwear). A resurgence in open footwear demand over the last 15-18 months (grown faster than closed footwear) has seen RLXF's volumes grow by 14%YoY in FY24.

Consolidation of the organized sector coupled with BIS implementation: With the organized segment to grow faster at ~13%CAGR Vs total footwear at ~8%CAGR, the share of organized footwear is expected to increase to ~40% of the total footwear industry. RLXF is poised to be one of the biggest beneficiary's owing to expected shift in consumer demand from unbranded to branded products. Moreover, implementation of BIS norms should further accelerate growth. RLXF has already implemented BIS across its supply chain. The company sources natural rubber from indigenous markets & imports EVA to manufacture footwear and no disruptions are expected relating to raw material procurement going forward.

Tailwinds from premiumization trend: Started as a manufacturer of rubber-based hawai slippers, RLXF launched its premium flagship brands 'Sparx' & 'Flite' in FY05. The two brands have been rapidly scaled up and as of FY24 contribute ~75% to RLXF's topline. Subsequently, the ASP increased from ~Rs48 in FY08 to ~Rs150 (lower on account of price cuts to push volume in subdued demand scenario with extremely volatile RM costs in the last 2-years) in FY24 at a ~7.4%CAGR. We reckon improving demand environment and a shift in consumer sentiment towards premium products will expand blended realizations which should lead to better gross margins of ~59-60%.

Fully integrated manufacturing with a wide distribution network: RLXF is the largest manufacturer of non-leather footwear in India with 9 facilities. Owing to increasing demand, the company expanded its capacity from 7.5lac pairs/day in FY19 to 10.5lac pairs/day in FY24. RLXF controls 100% of its manufacturing monitoring every stage from designing to packaging. The final products are distributed via company's vast network of ~650 distributors to 70,000+ retailers/MBOs. Additionally, the company operates 399 EBOs (~9% of sales) and sells products via e-commerce marketplaces (~10% of sales). North & East contribute to ~70% of sales however, RLXF has been strategically entering new geographies. The company commenced export in FY07 and as on Jun'24, RLXF derives ~4-5% of sales from exports to 34 countries.

Growing contribution of the S&A segment: The S&A segment is expected to be one of the fastest growing categories at ~15%CAGR. RLXF entered the segment with its Sparx brand in FY05 and has rapidly ramped it up. Sparx's contribution to revenue increased from ~4% in FY08 to ~38% in FY24 of which ~55-60% comes from closed footwear (S&A segment). Currently, the Sparx facility is operating at 55-60% utilization and the company continues to focus on growing the share of S&A segment going ahead.

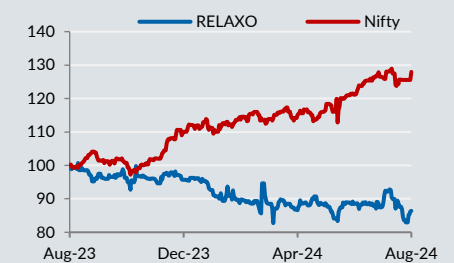
Rich valuations: We expect Revenue/EBITDA/PAT growth of 10%/16%/22%, respectively over FY24-FY26E. Historically, RLXF has traded at a premium multiple of P/E(x) of 90x (avg 1-year forward multiple), since FY18. At CMP, the stock trades at P/E(x) of 82x/68x on FY25E/FY26E EPS of Rs10/Rs12, respectively. We initiate coverage on Relaxo Footwears Ltd with a SELL rating, valuing the company at P/E(x) of 60x on FY26E EPS, for a target price of Rs 718.

Reco	: SELL
CMP	: Rs 811
Target Price	: Rs 718
Potential Return	: -11.4%

Stock data (as on Aug 23, 2024)

Nifty	24,823
52 Week h/l (Rs)	959 / 758
Market cap (Rs/USD mn)	201,416 / 2,401
Outstanding Shares (mn)	249
6m Avg t/o (Rs mn):	80
Div yield (%):	0.4
Bloomberg code:	RLXF IN
NSE code:	RELAXO

Stock performance



	1M	3M	1Y
Absolute return	-2.7%	-2.2%	-12.7%

Shareholding pattern (As of Jun'24 end)

Promoter	71.3%
FII+DII	12.9%
Others	15.8%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	29,141	31,505	35,116
YoY Growth	4.7	8.1	11.5
EBITDA	4,066	4,691	5,447
EBITDA (%)	14.0	14.9	15.5
PAT	2,005	2,469	2,979
YoY Growth	29.8	23.2	20.7
ROE	10.4	11.8	12.9
EPS	8.1	9.9	12.0
P/E	106.0	81.8	67.8
BV/Share	80.4	87.8	97.3
P/BV	10.6	9.2	8.3

UDIT GAJIWALA

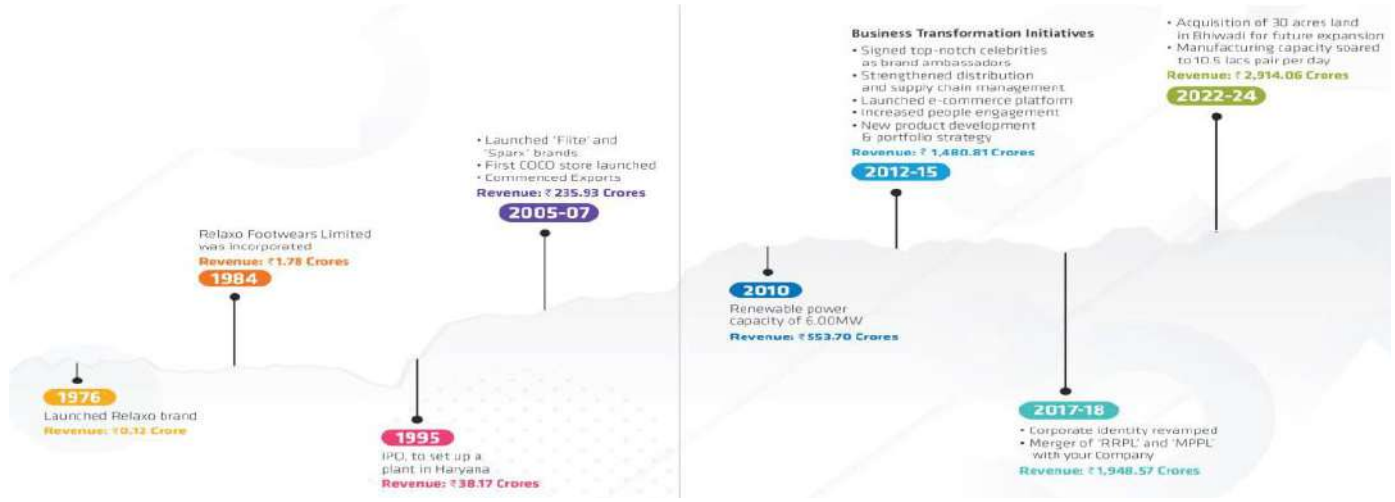
Lead Analyst

udit.gajiwala@ysil.in



SHALIN DAMANI, Associate

Exhibit 1: Journey over the years...



Source: Company, YES Sec

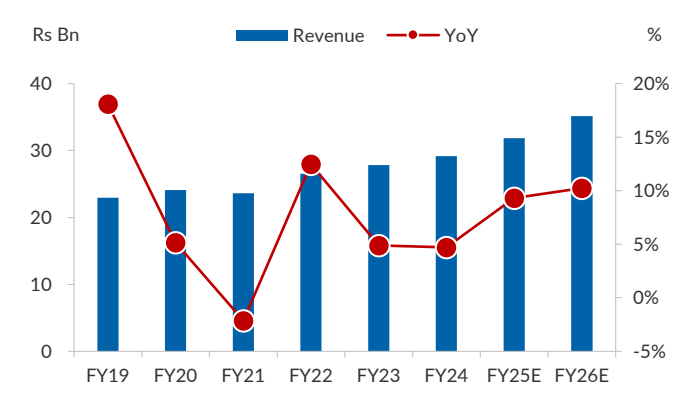
Exhibit 2: Flagship brands portfolio...



Source: Company, YES Sec

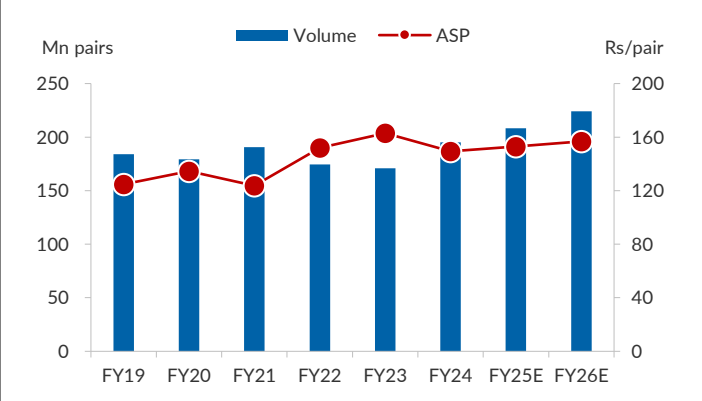
STORY IN CHARTS

Exhibit 3: Revenue to grow by 10% CAGR...



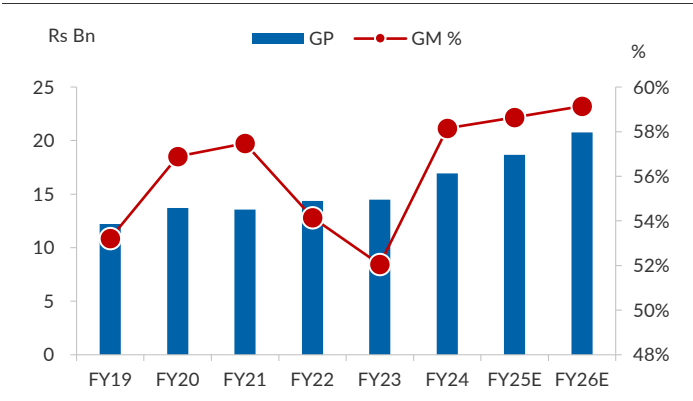
Source: Company, YES Sec

Exhibit 4: Volume to increase by 7% CAGR...



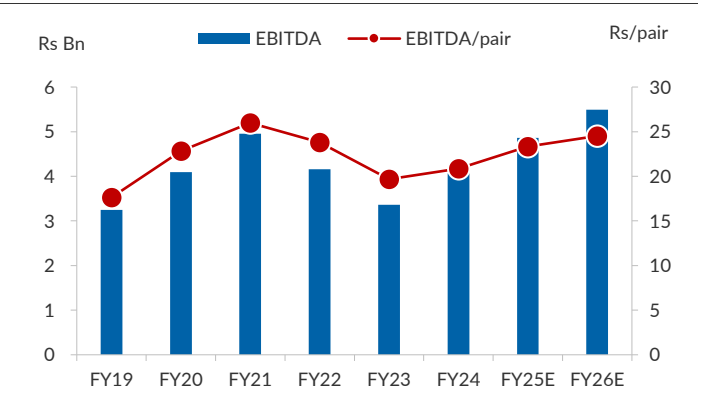
Source: Company, YES Sec

Exhibit 5: Gross margin to improve to 59%...



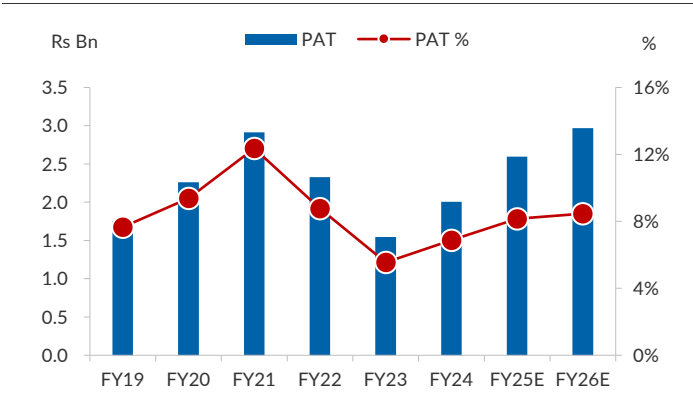
Source: Company, YES Sec

Exhibit 6: EBITDA margin to expand to 15.5%...



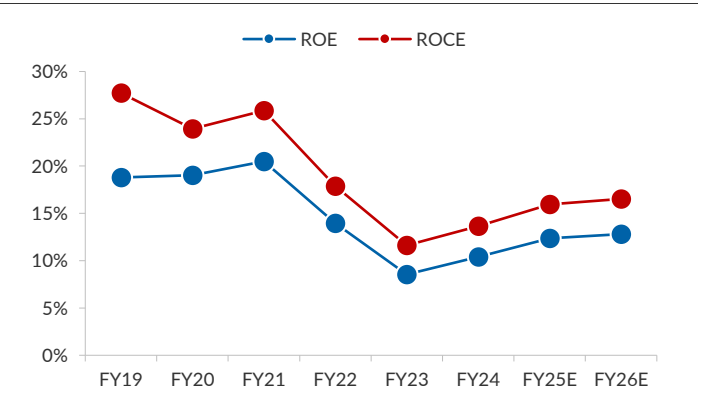
Source: Company, YES Sec

Exhibit 7: PAT to increase by 22% CAGR...



Source: Company, YES Sec

Exhibit 8: ROE & ROCE to improve...



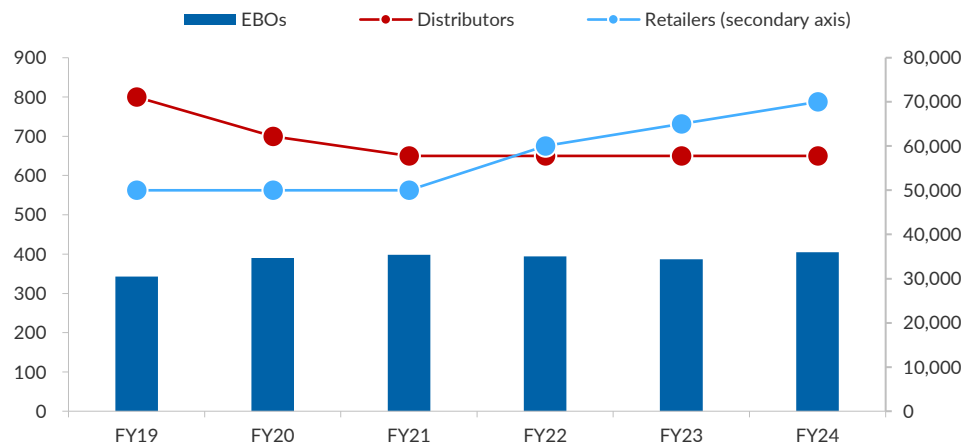
Source: Company, YES Sec

Exhibit 9: Volume and value market share...

Particulars	FY20	FY21	FY22	FY25E
Volumes (Mn pairs)	179.2	190.7	174.6	208.2
Volume Market Share	6.8%	11.4%	7.9%	6.8%
Sales (Rs bn)	24.1	23.6	26.5	31.5
Total Market Share	3.3%	4.9%	4.1%	3.0%
Branded Market Share	7.6%	10.7%	8.7%	6.0%
Organized Market Share	11.2%	14.9%	12.0%	7.9%

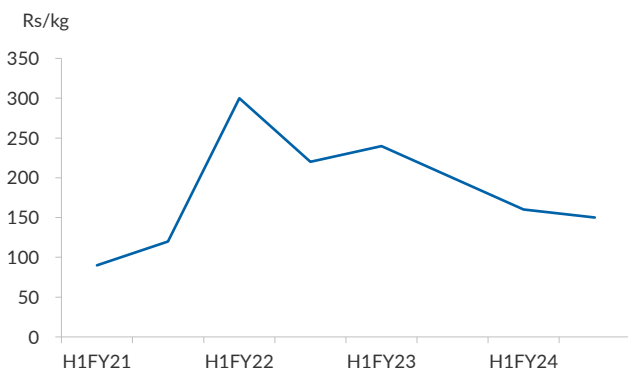
Source: YES Sec

Exhibit 10: Distribution network...



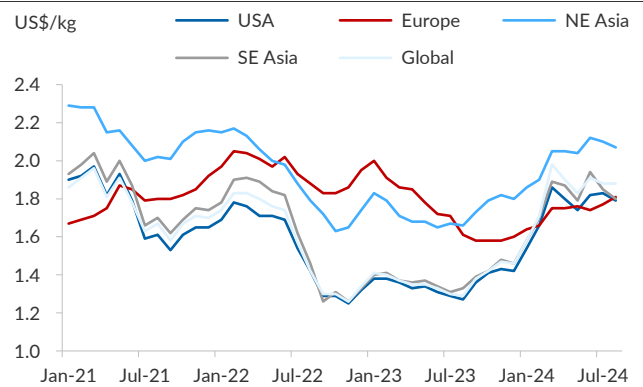
Source: Company, YES Sec

Exhibit 11: Downward movement in EVA prices...



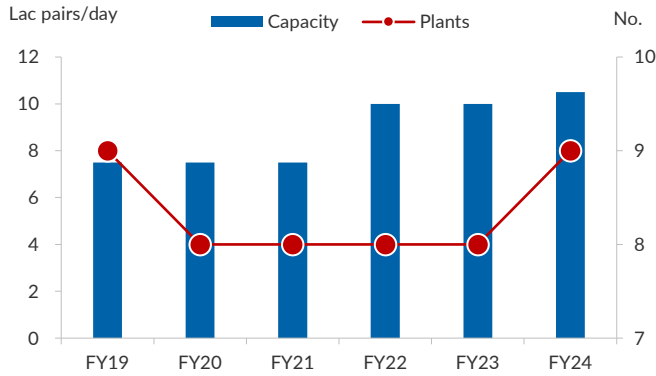
Source: Company, YES Sec

Exhibit 12: Natural rubber price trend...



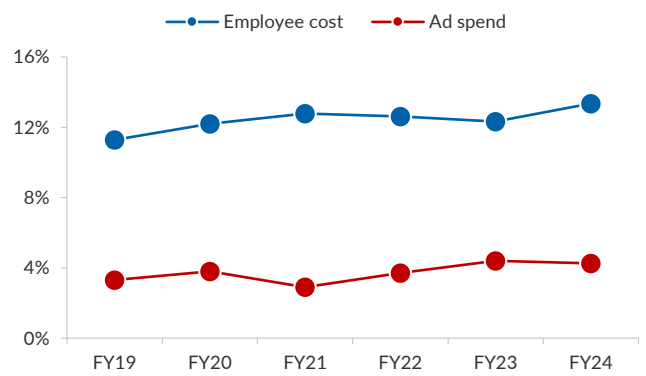
Source: Company, YES Sec

Exhibit 13: Capacities increased to 10.5lac pairs/day...



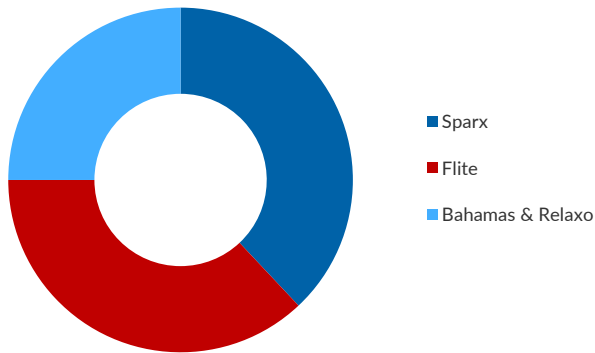
Source: Company, YES Sec

Exhibit 14: Employee & Ad spend trend...



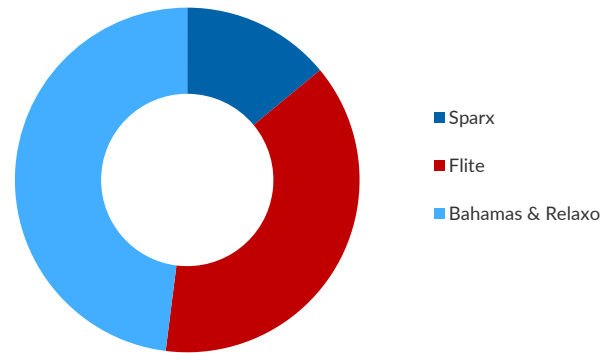
Source: Company, YES Sec

Exhibit 15: Brand wise revenue split...



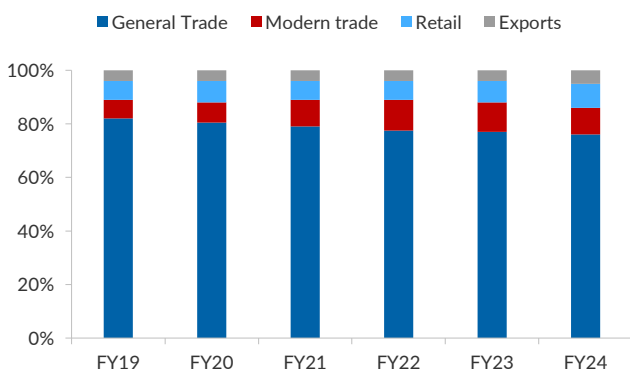
Source: Company, YES Sec

Exhibit 16: Brand wise volume split...



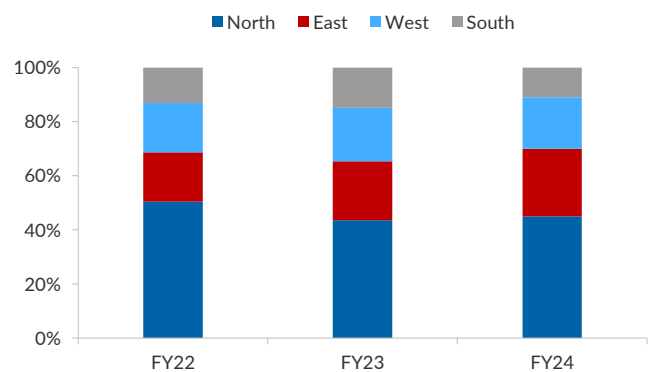
Source: Company, YES Sec

Exhibit 17: Channel wise revenue mix...



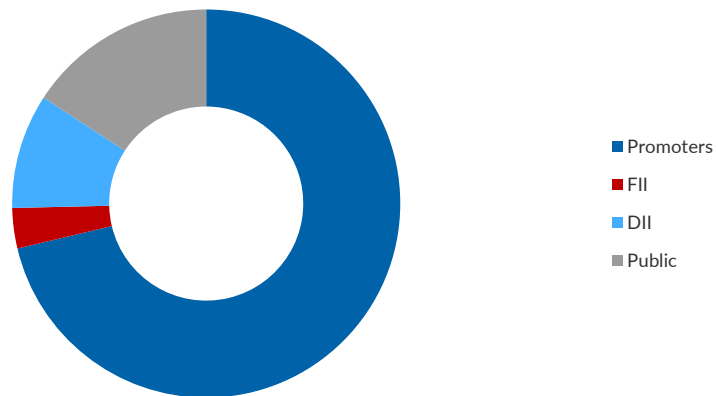
Source: Company, YES Sec

Exhibit 18: North & East contribute 70% to revenue...



Source: Company, YES Sec

Exhibit 19: Shareholding pattern...



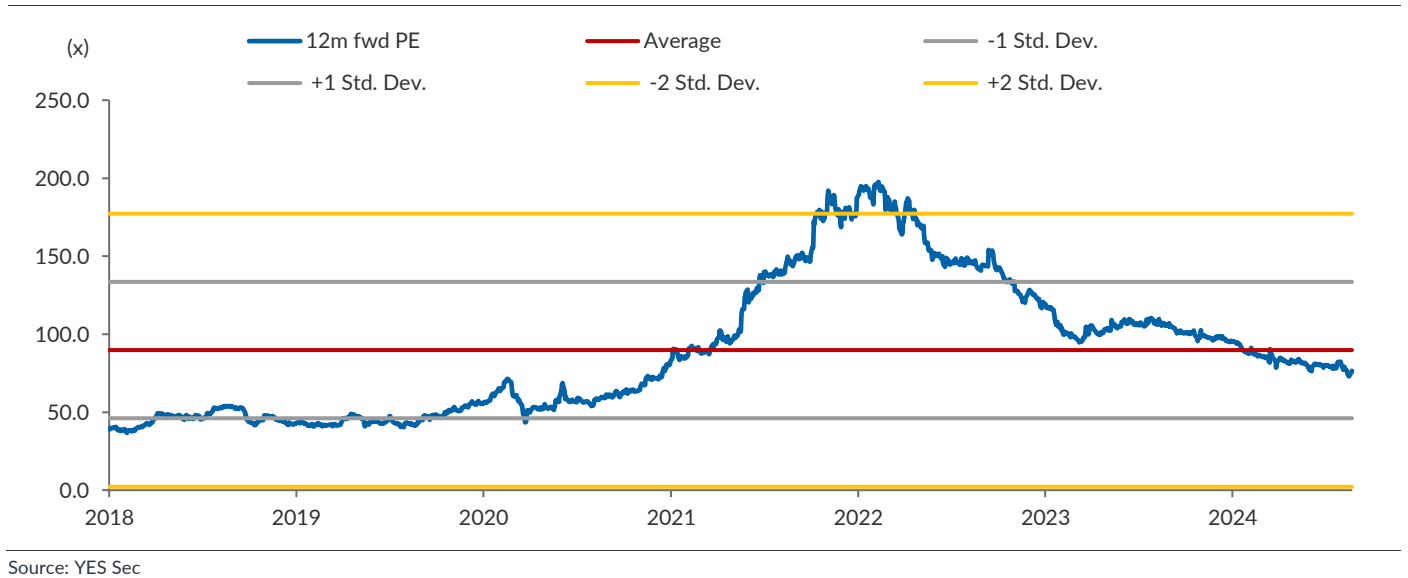
Source: Company, YES Sec

Exhibit 20: Management team...

Name	Designation	Brief
RAMESH KUMAR DUA	<i>Chairman & Managing Director</i>	48 years of experience in strategy, sales and marketing, production, and new product development in the footwear industry. Leading Relaxo to become the largest footwear manufacturer of India.
MUKAND LAL DUA	<i>Whole Time Director</i>	51 years of experience in manufacturing excellence in footwear industry. Providing cutting edge impetus to new product development and quality control.
NIKHIL DUA	<i>Whole Time Director</i>	28 years of experience in production, new product development and has deep knowledge of product mix in Footwear Industry. Studied from International School of Modern Shoe-making, Czech Republic.
GAURAV KUMAAR DUA	<i>Whole Time Director</i>	23 years of experience in sales and marketing in footwear industry. Joined in 2001 and is heading sales & marketing and has been instrumental in revenue growth.
SUSHIL BATRA	<i>Executive Director & Chief Financial Officer</i>	33 years of experience in Finance, Taxation and Strategic Planning. Joined in 2007 as CFO and was elevated to Board in 2024.
RITESH DUA	<i>Executive Vice President - Finance</i>	MBA having over 24 years of experience in Finance, HR & IT.
RAHUL DUA	<i>Executive Vice President - Manufacturing</i>	Graduate having over 14 years of experience in Manufacturing.
HR SAPRA	<i>Senior Vice President - Materials</i>	BE having over 51 years of experience in Materials & Procurement.
SURENDER BANSAL	<i>Vice President - Sales</i>	MBA having over 36 years of experience in leading Footwear and Petrochemical companies.
SHRAVAN KUMAR SINGH	<i>Vice President - Product Development</i>	Graduate & Diploma holder in Footwear Designing having an overall 29 years of experience.
NITIN DUA	<i>Executive Vice President - Retail</i>	MBA having over 20 years of experience in Retail Business.
ASHISH SRIVASTAVA	<i>Vice President - Human Resources</i>	MBA having over 26 years of experience in HR, Industrial Relations & Administration.
SACHIN CHHABRA	<i>Vice President - Marketing</i>	MBA having over 21 years of marketing experience in leading FMCG, Telecom, Real Estate & Building Material companies.
ANKIT JAIN	<i>Company Secretary & Compliance Officer</i>	FCS having over 16 years of experience in Manufacturing, Real Estate & Infrastructure companies.

Source: Company, YES Sec

Exhibit 21: 1-year forward P/E



RESULT HIGHLIGHTS

Exhibit 22: Quarterly snapshot

Particulars (Rs mn)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq	FY23	FY24	% yoy
Revenue	7,649	7,388	7,153	7,127	7,472	7,482	1.3	0.1	27,828	29,141	4.7
Expenditure	6,470	6,313	6,238	6,255	6,269	6,493	2.9	3.6	24,470	25,075	2.5
- RM	3,660	3,151	3,013	3,065	2,968	2,847	(9.7)	(4.1)	13,343	12,197	(8.6)
- Staff Cost	854	974	958	960	999	1,096	12.5	9.7	3,433	3,891	13.4
- Other cost	1,956	2,188	2,267	2,230	2,301	2,551	16.6	10.8	7,694	8,987	16.8
Operating Profit	1,180	1,076	915	872	1,204	989	(8.0)	(17.8)	3,358	4,066	21.1
OPM(%)	15.4	14.6	12.8	12.2	16.1	13.2	-134 bps	-289 bps	12.1	14.0	189 bps
Other Income	43	73	105	60	51	54	(25.3)	7.3	186	289	55.4
Depreciation	328	346	369	375	385	391	13.1	1.7	1,251	1,475	17.9
Interest	41	45	47	48	47	49	9.6	4.9	192	187	(2.9)
PBT	854	758	604	508	823	603	(20.4)	(26.7)	2,100	2,693	28.2
Tax	221	195	162	123	209	160	(17.9)	(23.6)	556	688	23.8
PAT	633	563	442	386	614	444	(21.2)	(27.7)	1,545	2,005	29.8
OCI	2	5	8	6	2	5	8.2	194.4	20	21	7.7
Reported PAT	635	568	450	392	616	449	(21.0)	(27.1)	1,564	2,026	29.5

Source: Company, YES Sec

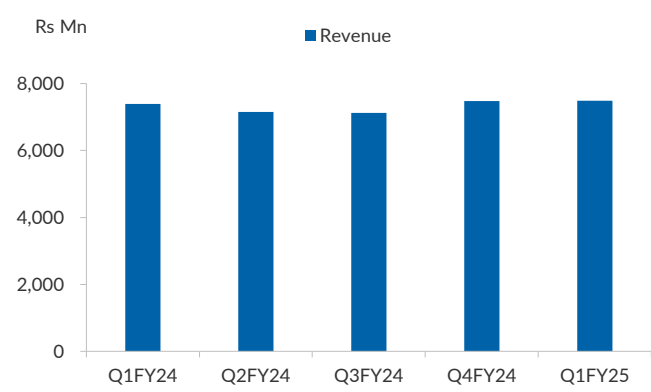
Exhibit 23: Operational Highlights

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq	FY23	FY24	% yoy
Volume (Mn pairs)	52.0	51.0	48.0	47.0	50.0	50.0	(2.0)	-	170.8	194.9	14.1
ASP (Rs/pair)	147.1	144.9	149.0	151.6	149.4	149.6	3.3	0.1	162.9	149.5	(8.2)
EBITDA/pair (Rs)	22.7	21.1	19.1	18.5	24.1	19.8	(6.2)	(17.8)	19.7	20.9	6.1
EBO count	387	389	394	399	405	399	2.6	(1.5)	387	405	4.7

Source: Company, YES Sec

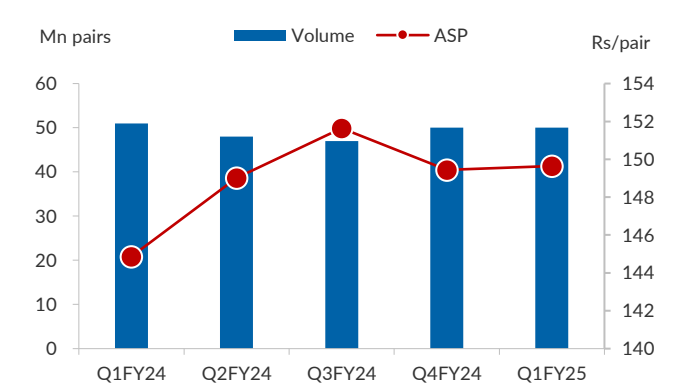
QUARTERLY TRENDS

Exhibit 24: Revenue remained flattish YoY...



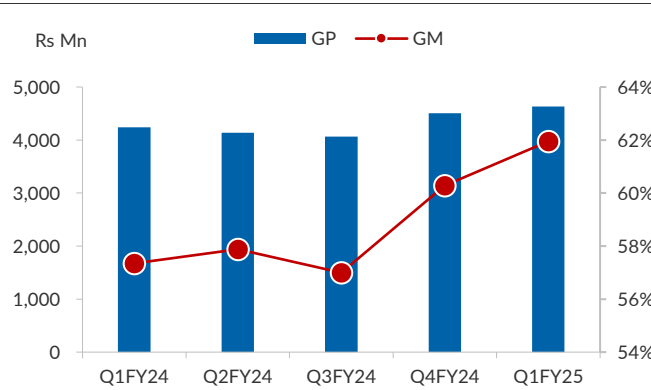
Source: Company, YES Sec

Exhibit 25: ASP grew to Rs150/pair...



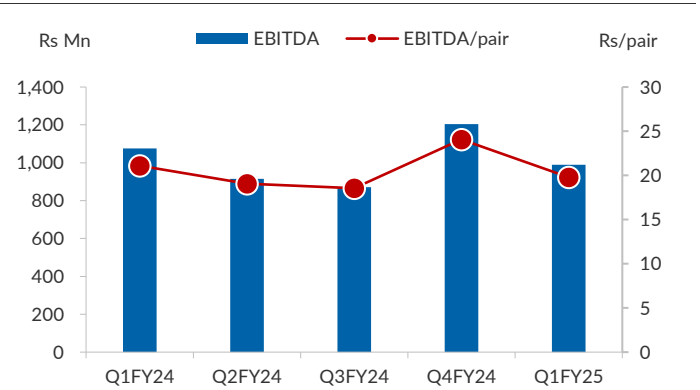
Source: Company, YES Sec

Exhibit 26: Gross margin expanded to 62%...



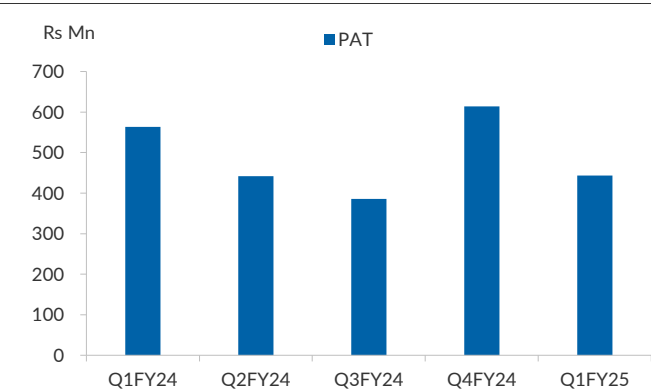
Source: Company, YES Sec

Exhibit 27: EBITDA/pair stood at Rs19.8...



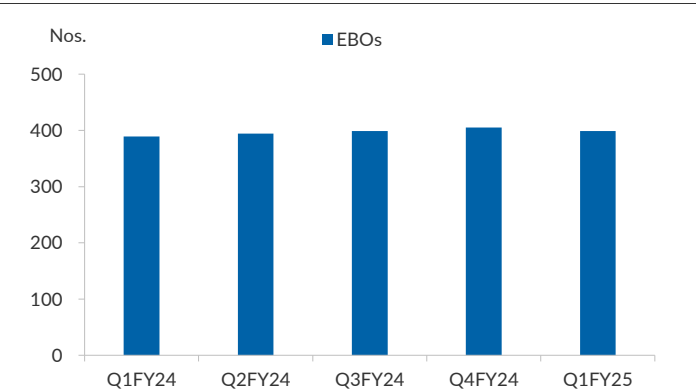
Source: Company, YES Sec

Exhibit 28: PAT came in at Rs444Mn...



Source: Company, YES Sec

Exhibit 29: Company operates 399 EBOs...



Source: Company, YES Sec

FINANCIALS

Exhibit 30: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	26,533	27,828	29,141	31,505	35,116
Growth (%)	12.5%	4.9%	4.7%	8.1%	11.5%
EBITDA	4,158	3,358	4,066	4,691	5,447
EBITDA margin (%)	15.7%	12.1%	14.0%	14.9%	15.5%
Growth (%)	-16.1%	-19.2%	21.1%	15.4%	16.1%
Depreciation & Amortization	1,135	1,251	1,475	1,537	1,714
Other income	237	186	289	342	459
EBIT	3,259	2,293	2,880	3,495	4,192
EBIT margin (%)	12.3%	8.2%	9.9%	11.1%	11.9%
Interest	153	192	187	203	219
PBT	3,106	2,100	2,693	3,292	3,972
Tax	779	555	688	823	993
Net profit	2,327	1,545	2,005	2,469	2,979
Net profit margin (%)	8.8%	5.6%	6.9%	7.8%	8.5%
EPS	9.3	6.2	8.1	9.9	12.0
Growth (%)	-20.4%	-33.6%	29.8%	23.2%	20.7%

Source: Company, YES Sec

Exhibit 31: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	249	249	249	249	249
Reserves	17,352	18,302	19,762	21,609	23,966
Total Shareholders' Funds	17,601	18,551	20,011	21,858	24,215
Liabilities					
Borrowings	200	0	185	185	185
Lease Liabilities	1,540	1,641	1,864	2,021	2,276
Trade Payables	2,217	2,529	2,547	2,720	2,996
Others	2,267	2,228	2,532	2,648	2,831
Total Equity and Liabilities	23,826	24,948	27,139	29,433	32,503
Non-Current Assets					
PPE	7,694	9,239	10,063	9,667	9,337
CWIP	1,452	878	325	325	325
Intangibles	324	319	227	124	22
Right of Use	1,893	1,956	3,429	3,390	3,333
Others	595	620	632	632	632
Current Assets					
Inventories	6,733	5,638	5,988	6,397	7,043
Trade Receivables	2,508	2,703	3,577	3,868	4,311
Cash	126	740	977	3,021	5,356
Others	2,503	2,855	1,922	2,010	2,144
Total Assets	23,826	24,948	27,139	29,433	32,503

Source: Company, YES Sec

Exhibit 32: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	3,106	2,100	2,693	3,292	3,972
Depreciation & Amortization	1,135	1,251	1,475	1,537	1,714
Finance cost	153	192	187	203	219
(Incr)/Decr in Working Capital	(2,815)	1,101	(1,151)	(372)	(641)
Taxes	(839)	(555)	(668)	(823)	(993)
Cash from ops.	560	4,001	2,351	3,838	4,272
(Incr)/ Decr in PP&E	(1,377)	(1,769)	(2,486)	(500)	(600)
Cash Flow from Investing	146	(2,585)	(989)	(500)	(600)
Payment of Lease	(263)	(374)	(441)	(468)	(495)
Interest	(153)	(192)	(186)	(203)	(219)
Cash Flow from Financing	(698)	(1,385)	(1,064)	(1,294)	(1,337)
Incr/(Decr) in cash	8	32	298	2,044	2,335
Cash and cash equivalents at beginning of year	63	71	101	977	3,021
Cash and cash equivalents at end of year	71	103	399	3,021	5,356

Source: Company, YES Sec

Exhibit 33: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	12.5%	4.9%	4.7%	8.1%	11.5%
EBITDA growth	-16.1%	-19.2%	21.1%	15.4%	16.1%
EBIT growth	-20.2%	-29.7%	25.6%	21.4%	19.9%
PAT growth	-20.2%	-33.6%	29.8%	23.2%	20.7%
Profitability ratios (%)					
EBITDA margin	15.7%	12.1%	14.0%	14.9%	15.5%
EBIT margin	12.3%	8.2%	9.9%	11.1%	11.9%
PAT margin	8.8%	5.6%	6.9%	7.8%	8.5%
RoCE	17.9%	11.6%	13.7%	15.2%	16.6%
RoE	14.0%	8.5%	10.4%	11.8%	12.9%
Per share values					
EPS	9.3	6.2	8.1	9.9	12.0
CEPS	13.9	11.2	14.0	16.1	18.9
BVPS	70.7	74.5	80.4	87.8	97.3
Valuation ratios (x)					
P/E	111.4	136.8	106.0	81.8	67.8
P/CEPS	74.9	75.6	61.1	50.4	43.0
P/B	14.7	11.4	10.6	9.2	8.3
EV/EBITDA	62.4	62.7	52.1	42.4	36.1
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	0.0	(0.0)	(0.0)	(0.1)	(0.2)
Net debt/EBITDA	0.0	(0.2)	(0.2)	(0.6)	(0.9)
Int coverage	21.3	11.9	15.4	17.2	19.1
NWC days					
Receivables	35	35	45	45	45
Inventory	202	154	179	179	179
Payables	67	69	76	76	76

Source: Company, YES Sec

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Analyst signature

Analyst signature

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