

Relaxo Footwears Ltd

Volumes decline sharply, downgrade earnings; maintain SELL!

Result Synopsis

Relaxo Footwears Ltd (RLXF), registered a weak performance for Q3FY25. Company's revenue declined by 6%YoY & 2%QoQ to Rs6.67Bn. However, the only cheer was the improvement in ASP from Rs152/Rs158 per pair in Q3FY24/Q2FY25 respectively to Rs167 per pair in Q3FY25. This improvement in realization cushioned the blow caused by 15%YoY decline in volume during the quarter (2-years volume CAGR stood at -1%). Volumes were under pressure owing to soft demand coupled with enhanced competitive pressure. For 9MFY25, volumes degrew by 9%YoY and ASP improved by 6% over similar period. Hence, overall revenue declined marginally by 3%YoY.

Gross margins came in at 57% Vs 57%/61% in Q3FY24/Q2FY25 respectively. However, EBITDA margins improved marginally to 12.5% Vs 12.2% in Q3FY24 and largely remained steady on sequential basis. The operating margins were steady owing to reduction in other expenses which as as%sales came in at 30.2% as compared to 31.3%/32.5% in Q3FY24/Q2FY25 respectively. For 9MFY25, gross margins came in at 60% Vs 57% in 9MFY24 and operating margins stood at 12.9% Vs 13.2% in 9MFY24. During the quarter, company opened up 7 new stores taking the total EBO count to 410. Cumulatively, for 9MFY25, RLXF opened up 11 new EBOs.

Our View

The performance in Q3FY25 was below our estimates by 8%/12%/22% on Revenue/EBITDA/PAT front respectively. Consequently, we have revised our estimates for FY25E/FY26E/FY27E downwards. Going ahead, we expect Volume/ASP growth of 3%/4% respectively over FY24-FY27E which should lead to revenue growth of 7% over similar period. With better realizations, we reckon operating margins to improve gradually to 13.1% over FY26E-FY27E respectively. We have revised our EPS estimate downwards for FY25E/FY26E/FY27E by 28%/19%/15% respectively, largely owing to lower volume growth Vs earlier expectations. On account of lower growth expectations, we have revalued the company at P/E(x) of 50x on FY27E EPS, arriving at a target price of Rs473. Hence, we retain our SELL rating on the stock.

Result Highlights

- Volumes declined by 15%YoY to 40Mn pair, (2-year CAGR stood flattish). ASP improved by 10%YoY over similar period to Rs167/pair.
- Revenue for the quarter stood at Rs6.67Bn, a degrowth of 6.4%YoY & 2%QoQ.
- Operating margins came in at 12.5% Vs 12.2%/12.9% in Q3FY24/Q2FY25 respectively, which was below our est by 50bps & 80bps below consensus est. EBITDA stood at Rs834Mn, a decline of 4%YoY & 5%QoQ.
- Net profit stood at Rs330Mn, a degrowth of 14.4%YoY and 10%QoQ.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,669	7,270	7,463	(8.3)	(10.6)	
EBITDA	834	945	993	(11.8)	(16.0)	
EBITDA Margin (%)	12.5	13.0	13.3	-50 bps	-80 bps	Below our estimates.
Adjusted PAT	330	422	441	(21.8)	(25.2)	

Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 550
Target Price	: Rs 473
Potential Return	: -14.0%

Stock data (as on Feb 03, 2025)

Nifty	23,315
52 Week h/l (Rs)	949 / 525
Market cap (Rs/USD mn)	136,779 / 1,570
Outstanding Shares (mn)	249
6m Avg t/o (Rs mn):	66
Div yield (%):	0.5
Bloomberg code:	RLXF IN
NSE code:	RELAXO

Stock performance



	1M	3M	1Y
Absolute return	-11.2%	-28.1%	-33.0%

Shareholding pattern (As of Dec'24 end)

Promoter	71.3%
FII+DII	13.8%
Others	14.9%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	473	636

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	7.1	8.1	9.5
EPS (Old)	9.9	10.0	11.1
% change	-28.1%	-19.0%	-14.8%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	30,194	32,966	35,992
YoY Growth	3.6	9.2	9.2
EBITDA	3,898	4,335	4,702
EBITDA (%)	12.9	13.1	13.1
PAT	1,777	2,016	2,354
YoY Growth	-11.3	13.5	16.7
ROE	8.6	9.2	10.0
EPS	7.1	8.1	9.5
P/E	77.1	67.9	58.2
BV/Share	85.0	90.6	97.6
P/BV	6.5	6.1	5.6

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Exhibit 2: Quarterly Snapshot:

Rs mn	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% yoy	% qoq	9M FY24	9M FY25	% yoy
Revenue	7,153	7,127	7,472	7,482	6,794	6,669	(6.4)	(1.8)	21,669	20,945	(3.3)
Expenditure	6,238	6,255	6,269	6,493	5,917	5,835	(6.7)	(1.4)	18,806	18,245	(3.0)
- RM	3,013	3,065	2,968	2,847	2,648	2,861	(6.7)	8.0	9,229	8,356	(9.5)
- Staff Cost	958	960	999	1,096	1,062	960	(0.0)	(9.6)	2,892	3,118	7.8
- Other cost	2,267	2,230	2,301	2,551	2,207	2,014	(9.7)	(8.7)	6,685	6,772	1.3
Operating Profit	915	872	1,204	989	877	834	(4.3)	(4.9)	2,862	2,700	(5.7)
OPM(%)	12.8	12.2	16.1	13.2	12.9	12.5	11 bps	-32 bps	13.2	12.9	-32 bps
Other Income	105	60	51	54	66	68	13.5	2.4	238	189	(20.7)
Depreciation	369	375	385	391	398	402	7.2	1.1	1,090	1,191	9.2
Interest	47	48	47	49	50	54	11.4	8.0	140	153	8.7
PBT	604	508	823	603	496	446	(12.2)	(10.0)	1,870	1,545	(17.4)
Tax	162	123	209	160	128	116	(5.4)	(9.7)	479	404	(15.7)
PAT	442	386	614	444	367	330	(14.4)	(10.1)	1,391	1,141	(18.0)
OCI	8	6	2	5	8	6	-	(14.7)	19	19	(0.5)
Reported PAT	450	392	616	449	375	337	(14.2)	(10.2)	1,410	1,160	(17.7)
Adjusted PAT	442	386	614	444	367	330	(14.4)	(10.1)	1,391	1,141	(18.0)

Source: Company, YES Sec

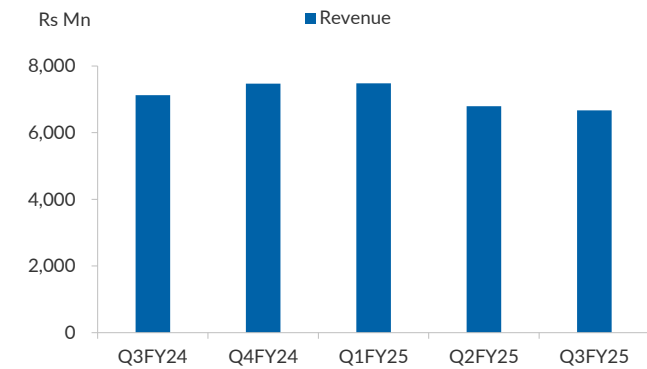
Exhibit 3: Operational Numbers:

	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% yoy	% qoq	9M FY24	9M FY25	% yoy
Volume (Mn pairs)	48.0	47.0	50.0	50.0	43.0	40.0	(14.9)	(7.0)	146	133	(8.9)
ASP (Rs/pair)	149	152	149	150	158	167	9.9	5.5	148	157	6.1
GP/pair (Rs)	86.3	86.4	90.1	92.7	96.4	95.2	10.2	(1.3)	85.2	94.7	11.1
EBITDA/pair (Rs)	19.1	18.5	24.1	19.8	20.4	20.8	12.4	2.3	19.6	20.3	3.5

Source: Company, YES Sec

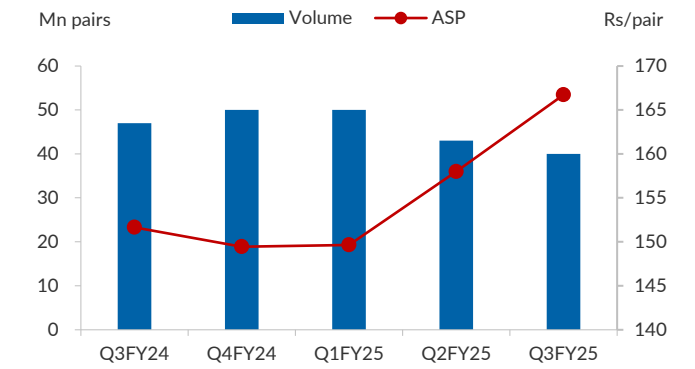
QUARTERLY TRENDS

Exhibit 4: Revenue declined by 6%YoY...



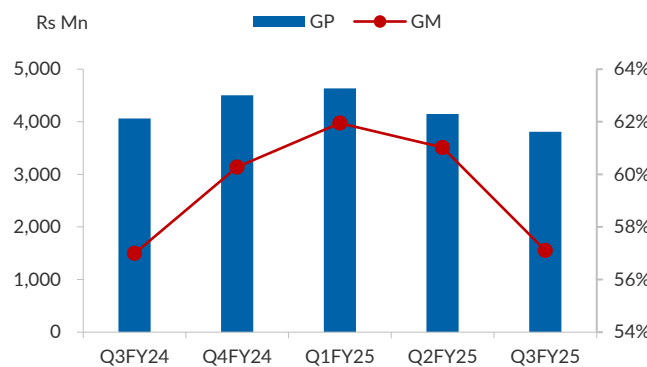
Source: Company, YES Sec

Exhibit 5: Improving ASP



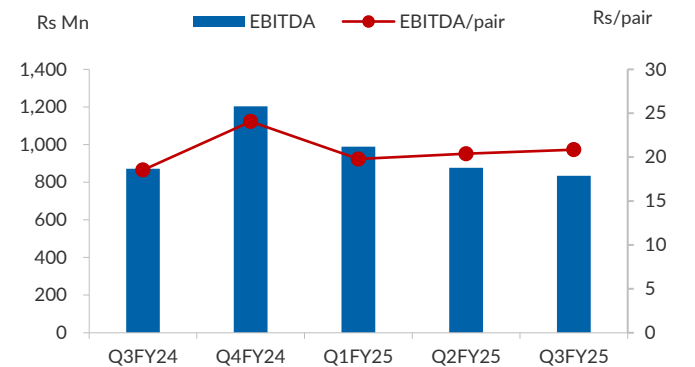
Source: Company, YES Sec

Exhibit 6: Gross margins came in at 57.1%...



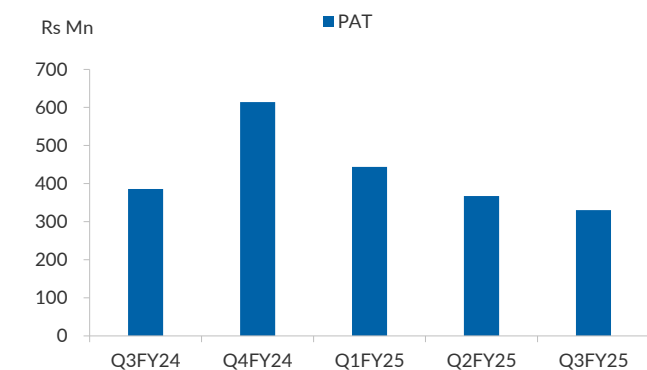
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Exhibit 7: Operating margins remained flattish



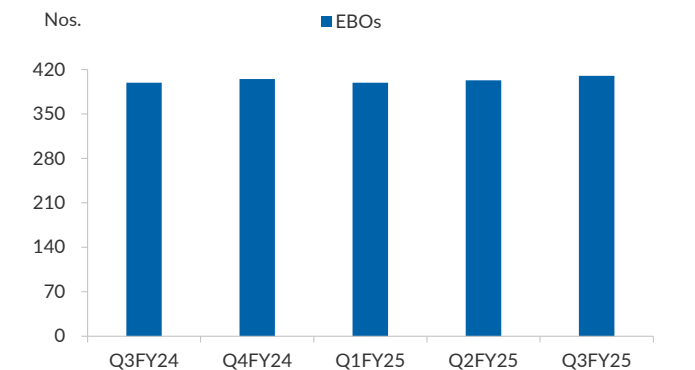
Source: Company, YES Sec

Exhibit 8: Net profit degred by 14%YoY



Source: Company, YES Sec

Exhibit 9: 7-new EBOs commenced in Q3FY25



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales	27,828	29,140	30,194	32,966	35,992
COGS	13,343	12,197	11,474	12,527	13,677
COGS %sales	47.9	41.9	38.0	38.0	38.0
GP	14,485	16,943	18,720	20,439	22,315
GP%	52.1	58.1	62.0	62.0	62.0
EBITDA	3,358	4,065	3,898	4,335	4,702
EBITDA%	12.1	14.0	12.9	13.1	13.1
Depreciation	1,251	1,475	1,588	1,766	1,807
Finance Cost	192	187	199	211	229
Other Income	186	289	257	330	472
PBT	2,100	2,692	2,369	2,688	3,138
Tax	555	688	592	672	785
PAT	1,545	2,004	1,777	2,016	2,354
PAT%	5.6	6.9	5.9	6.1	6.5

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	249	249	249	249	249
Reserves	18,302	19,762	20,917	22,310	24,042
Equity	18,551	20,011	21,165	22,559	24,291
Liabilities					
Borrowings	0	185	185	185	185
Lease	1,641	1,864	1,896	2,151	2,378
Payables	2,529	2,547	2,396	2,616	2,856
Others	2,228	2,532	2,431	2,578	2,738
Total Equity & Liab	24,948	27,139	28,073	30,089	32,448
Assets					
Gross Block	13,099	14,689	15,189	15,789	16,389
Acc Dep	3,860	4,626	5,573	6,555	7,575
Net Block	9,239	10,063	9,616	9,234	8,814
CWIP	878	325	325	325	325
Right of Use	1,956	3,429	3,390	3,458	3,523
Other non-current assets	939	859	856	853	850
Inventory	5,638	5,988	5,633	6,150	6,715
Receivables	2,703	3,577	3,707	4,047	4,419
Cash & Bank	740	977	2,586	3,957	5,624
Loans	6	5	5	5	5
Other current assets	2,849	1,916	1,955	2,059	2,172
Total Assets	24,948	27,139	28,073	30,089	32,448

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,100	2,692	2,369	2,688	3,138
Depreciation	1,251	1,475	1,588	1,766	1,807
Finance cost	192	187	199	211	229
(Incr)/Decr in Working Capital	1,101	(1,151)	434	156	102
Taxes	(555)	(668)	(592)	(672)	(785)
Cash from ops.	4,001	2,351	3,998	4,149	4,492
(Incr)/ Decr in PP&E	(1,769)	(2,486)	(1,000)	(1,350)	(1,350)
Cash Flow from Investing	(2,585)	(989)	(1,100)	(1,450)	(1,450)
Lease payment	(374)	(441)	(468)	(495)	(523)
Interest paid	(192)	(186)	(199)	(211)	(229)
Cash Flow from Financing	(1,385)	(1,064)	(1,289)	(1,328)	(1,374)
Incr/(Decr) in cash	32	298	1,609	1,371	1,668
Cash and cash equivalents at beginning of year	71	101	977	2,586	3,957
Cash and cash equivalents at end of year	103	398	2,586	3,957	5,624

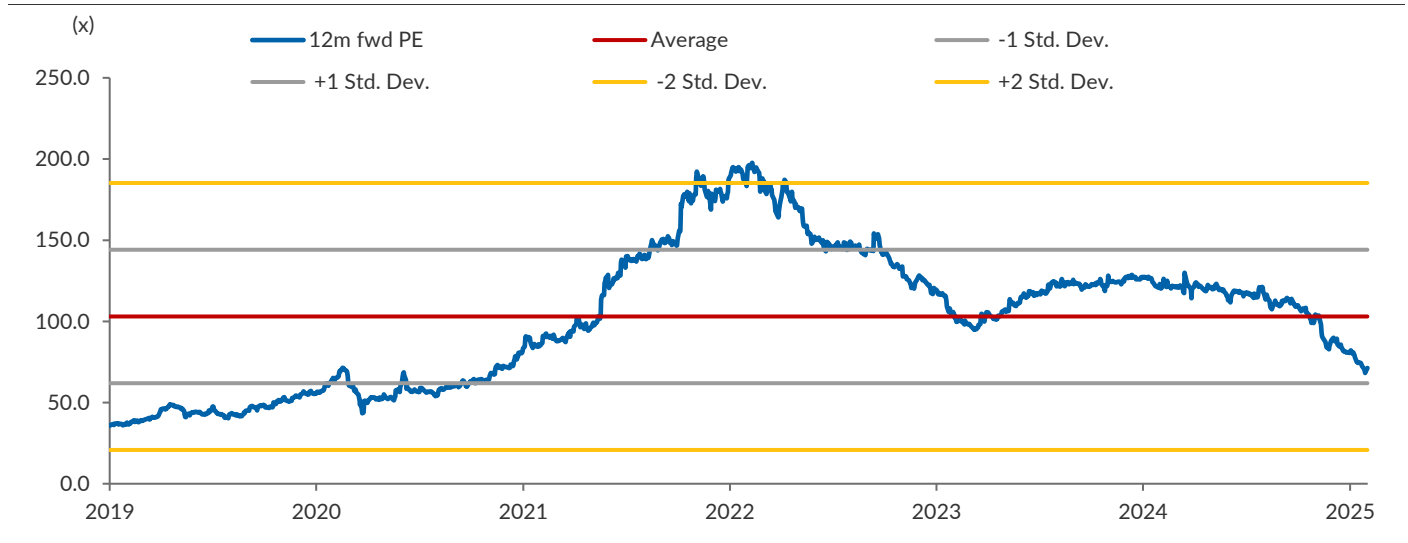
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth Matrix (%)					
Revenue growth	4.9%	4.7%	3.6%	9.2%	9.2%
EBITDA growth	-19.2%	21.1%	-4.1%	11.2%	8.5%
EBIT growth	-29.7%	25.6%	-10.8%	12.9%	16.2%
PAT growth	-33.6%	29.7%	-11.3%	13.5%	16.7%
Profitability ratios (%)					
GP margin	52.1%	58.1%	62.0%	62.0%	62.0%
EBITDA margin	12.1%	14.0%	12.9%	13.1%	13.1%
EBIT margin	8.2%	9.9%	8.5%	8.8%	9.4%
PAT margin	5.6%	6.9%	5.9%	6.1%	6.5%
RoCE	11.6%	13.6%	11.4%	12.1%	13.1%
RoE	8.5%	10.4%	8.6%	9.2%	10.0%
Per share values					
EPS	6.2	8.1	7.1	8.1	9.5
BVPS	74.5	80.4	85.0	90.6	97.6
Valuation ratios (x)					
P/E	147.6	106.1	77.1	67.9	58.2
P/B	12.3	10.6	6.5	6.1	5.6
EV/EBITDA	67.7	52.1	34.5	30.7	28.0
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)
Int coverage	11.9	15.4	12.9	13.8	14.7
NWC days					
Receivables	35	45	45	45	45
Inventory	154	179	179	179	179
Payables	69	76	76	76	76

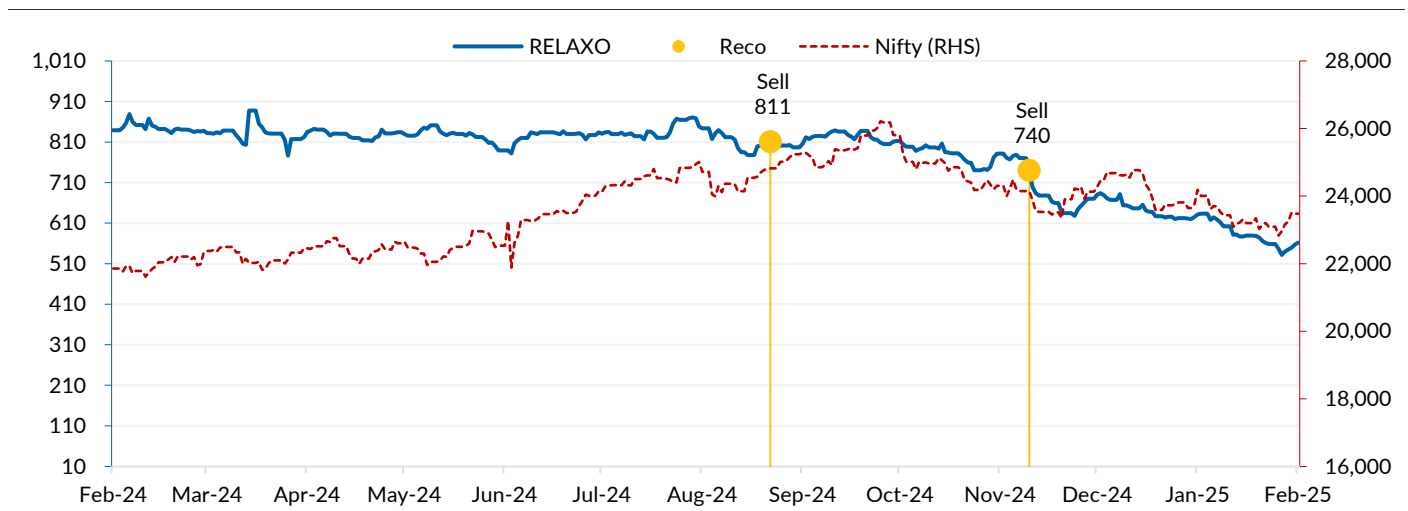
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: YES Sec

Recommendation Tracker



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2	Research Analyst or his/her relative or YSIL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the research report	No
3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSIL has received any compensation from the subject company in the past twelve months	No
6	YSIL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSIL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSIL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSIL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSIL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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