

Demand Environment Remains Subdued; Maintain HOLD
Est. Vs. Actual for Q3FY25: Revenue – MISS; EBITDA – BEAT; PAT – BEAT
Changes in Estimates post Q3FY25
FY25E/FY26E: Revenue: -3%/-6%; EBITDA: -8%/-11%; PAT: -13%/-16%
Recommendation Rationale

- **Disappointing performance:** The company reported disappointing results as demand remained subdued. Relaxo's revenue declined 6% YoY to Rs 667 Cr, missing estimates as volumes dipped 15% (vs. 10% dip in Q2FY25). However, the average realisation per pair rose 10% YoY to Rs 166. Gross margins remained flat, while EBITDA margins improved by 27 bps to 12.5%, driven by a ~10% YoY reduction in other expenses. Management reiterated that the ongoing implementation of the distribution management system will cause short-term disruptions but is expected to stabilize over the next 2-3 quarters.
- **Short-term strain to persist:** We remain cautious in the short to medium term due to 1) A sluggish demand environment, 2) Rising competition from unorganised players, and 3) fluctuations in operating costs, which impact profitability despite cost-saving efforts. Although the long-term outlook appears favourable with initiatives such as cost optimisation, BIS implementation supporting organised players, implementation of DMS and a premiumisation strategy focused on high-growth sports and athleisure categories, we believe the benefits from these positive factors will likely materialise with a delay.

Sector Outlook: Cautious
Company Outlook & Guidance: We maintain our HOLD rating on the stock as short and medium-term outlook remain weak.

Current Valuation: 57xDec'26 EPS (Earlier Valuation: 60xJun'26 EPS)
Current TP: Rs 550/share (Earlier TP: Rs 700)
Recommendation With a 0% upside from the CMP, we **maintain our HOLD rating on the stock.**
Financial Performance: The company's revenue declined 6% YoY, with volumes falling 15% to 4.0 Cr pairs, while ASP improved 10% to Rs 166 per pair. EBITDA decreased 4% YoY to Rs 83 Cr, with margins improving by 27 bps YoY to 12.5% due to a reduction in other expenses. PAT dropped 14% YoY to Rs 33 Cr in Q2FY25, impacted by higher depreciation expenses and interest costs.

Outlook: The company delivered a subdued performance in Q3FY25, and we remain cautious in the short to medium term due to 1) lack of signs of demand recovery, 2) rising competition from unorganised players, and 3) variability in operating costs impacting overall profitability despite cost-saving initiatives. We seek sustained signs of recovery; therefore, we maintain our HOLD rating on the stock.

Valuation & Recommendation: We **maintain our HOLD** rating with a revised TP of Rs 550/share.

Key Financials (Standalone)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	667	-1.8	-6.4	673	-0.9
EBITDA	83	-4.9	-4.3	73	13.8
EBITDA Margin (%)	12.5	-40 bps	27 bps	10.9	161 bps
Net Profit	33	-10.1	-14.4	26	28.2
EPS (Rs)	1.4	-10.1	-14.4	1.1	28.2

Source: Company, Axis Research

 (CMP as of 31st January 2025)

CMP (Rs)	549
Upside /Downside (%)	0%
High/Low (Rs)	949/525
Market cap (Cr)	13685
Avg. daily vol. (6m) '000 Shrs.	90
No. of shares (Cr)	24

Shareholding (%)

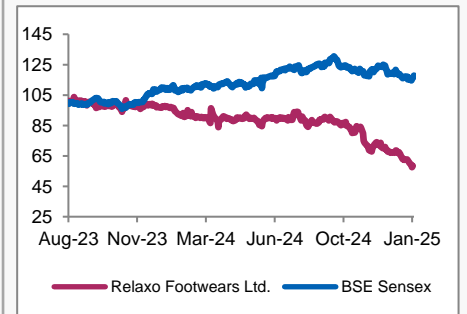
	Jun-24	Sep-24	Dec-24
Promoter	71.3	71.3	71.3
FII's	3.4	3.4	3.3
MFs / UTI	9.5	10.0	10.5
FIs/Banks	0.0	0.0	0.0
Others	15.9	15.4	14.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,897	3,103	3,356
EBITDA	384	444	495
Net Profit	172	214	250
EPS (Rs)	6.9	8.6	10.1
PER (x)	79.2	63.7	54.5
EV/EBITDA (x)	34.8	29.8	26.4
RoE (%)	8.2	9.7	10.5

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-3%	-6%
EBITDA	-8%	-11%
PAT	-13%	-16%

Relative Performance


Source: Ace Equity, Axis Securities

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Key Risks to Our Estimates and TP

- Increase in competitive intensity, prolonged demand recovery, RM inflation

Change in Estimates

	Old		New		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,998	3,305	2,897	3,103	-3%	-6%
EBITDA	419	499	384	444	-8%	-11%
PAT	198	255	172	214	-13%	-16%
EPS	8	10.3	6.9	8.6	-13%	-16%

Source: Company, Axis Securities

Results Review

Rs Cr	Q3FY24	Q2FY25	Axis Sec Est	Q3FY25	YoY (%)	QoQ %	Axis Sec Var
Net Sales	713	679	673	667	(6.4)	(1.8)	(0.9)
Gross Profit	406	415	385	381	(6.3)	(8.1)	(1.1)
Gross Margins %	57.0	61.0	57.2	57.1	10 bps	-392 bps	-10 bps
Staff Cost	96.0	106.2	99.9	96.0	(0.0)	(9.6)	(3.9)
Other Operating expenses	223.0	220.7	211.9	201.4	(9.7)	(8.7)	(4.9)
EBITDA	87	88	73	83	(4.3)	(4.9)	13.8
EBITDA margins (%)	12.2	12.9	10.9	12.5	27 bps	-40 bps	161 bps
Depreciation	38	40	40	40	7.2	1.1	0.1
Interest	5	5	5	5	11.4	8.0	7.0
Other Income	6	7	6	7	13.5	2.4	8.1
PBT	51	50	34	45	(12.2)	(10.0)	29.6
Tax (incl deferred)	12	13	9	12	(5.4)	(9.7)	33.8
PAT	39	37	26	33	(14.4)	(10.1)	28.2
PAT margins (%)	5.4	5.4	3.8	4.9	-46 bps	-46 bps	113 bps
EPS	1.6	1.5	1.1	1.4	(14.4)	(10.1)	28.2

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	2,914	2,897	3,103	3,356
Growth, %	4.7	-0.6	7.1	8.2
Raw material expenses	-1,220	-1,159	-1,205	-1,289
Employee expenses	-389	-405	-433	-472
Other Operating expenses	-899	-950	-1,022	-1,100
EBITDA (Core)	407	384	444	495
Growth, %	21.1	(5.5)	15.5	11.5
Margin, %	14.0	13.3	14.3	14.7
Depreciation	-147	-158	-166	-173
EBIT	259	226	278	322
Growth, %	23.0	(12.9)	23.2	15.7
Margin, %	8.9	7.8	9.0	9.6
Other Income	29	25	30	36
Non-recurring Items	0	0	0	0
Pre-tax profit	269	231	288	336
Tax provided	-69	-59	-73	-86
Profit after tax	200	172	214	250
Growth, %	29.8	(14.2)	24.4	16.9
Net Profit (adjusted)	200	172	214	250
Unadj. shares (Cr)	25	25	25	25
Wtdavg shares (Cr)	25	25	25	25

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Cash & bank	98	195	339	514
Debtors	358	356	381	412
Inventory	599	595	638	690
Loans & advances	1	1	1	1
Other current assets	109	109	109	109
Total current assets	1,246	1,339	1,550	1,808
Investments	25	25	25	25
Gross fixed assets	2,012	2,162	2,262	2,362
Less: Depreciation	-641	-800	-966	-1,139
Add: Capital WIP	33	33	33	33
Net fixed assets	1,404	1,396	1,330	1,257
Non-current assets	18	18	18	18
Total assets	2,714	2,798	2,943	3,128
Current liabilities	519	518	536	558
Provisions	19	19	19	19
Total current liabilities	539	537	555	577
Non-current liabilities	174	174	174	174
Total liabilities	713	711	729	751
Paid-up capital	25	25	25	25
Reserves & surplus	1,976	2,061	2,189	2,352
Shareholders' equity	2,001	2,086	2,213	2,377
Total equity & liabilities	2,714	2,798	2,943	3,128

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Pre-tax profit	269	231	288	336
Depreciation	147	158	166	173
Chg in working capital	-56	4	-50	-61
Total tax paid	-87	-59	-73	-86
Cash flow from operating activities	273	335	330	362
Capital expenditure	-313	-150	-100	-100
Chg in marketable securities	118	0	0	0
Cash flow from investing activities	-195	-150	-100	-100
Free cash flow	78	185	230	262
Equity raised/(repaid)	138	0	0	0
Dividend (incl. tax)	-62	-87	-87	-87
Cash flow from financing activities	76	-87	-87	-87
Net chg in cash	154	98	143	175

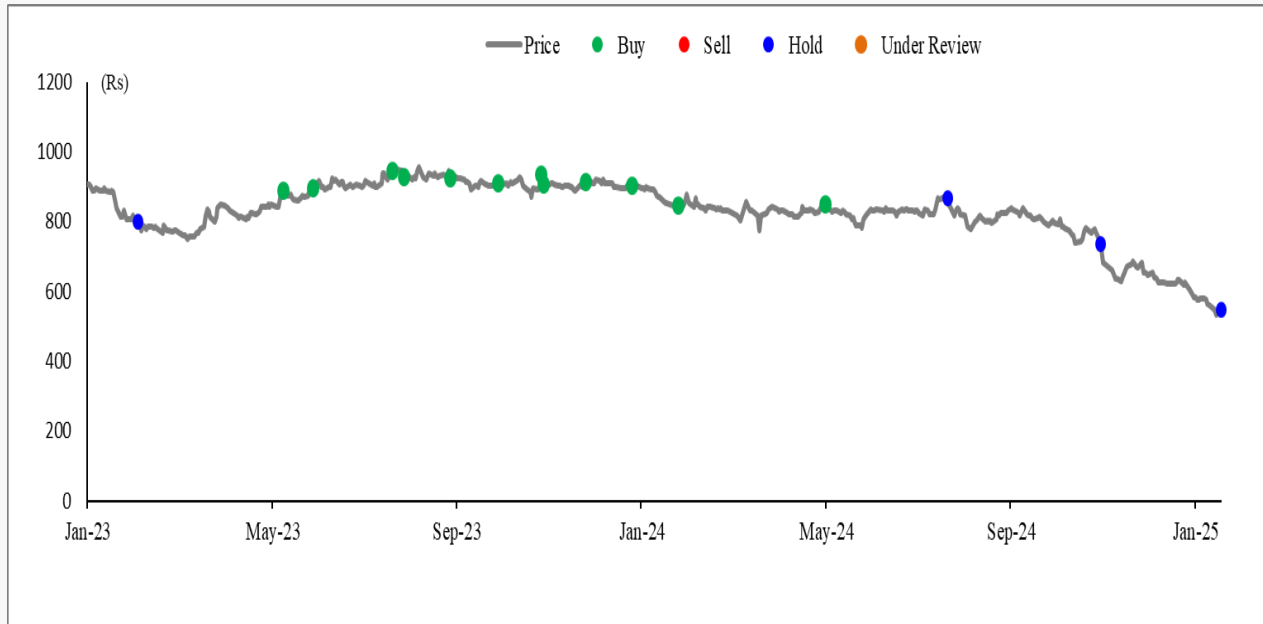
Source: Company, Axis Securities

Ratio Analysis
(%)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	8.1	6.9	8.6	10.1
Growth, %	29.8	(14.2)	24.4	16.9
Book NAV/share (INR)	80.6	84.0	89.1	95.7
FDEPS (INR)	8.1	6.9	8.6	10.1
CEPS (INR)	14.0	13.3	15.3	17.0
CFPS (INR)	8.3	12.5	12.1	13.1
DPS (INR)	2.5	3.5	3.5	3.5
Return ratios				
Return on assets (%)	8.4	7.0	8.2	9.0
Return on equity (%)	10.0	8.2	9.7	10.5
Return on capital employed (%)	10.4	8.6	10.0	10.9
Turnover ratios				
Asset turnover (x)	1.7	1.6	1.7	1.9
Sales/Total assets (x)	1.1	1.1	1.1	1.1
Sales/Net FA (x)	2.2	2.1	2.3	2.6
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	44.8	44.8	44.8	44.8
Inventory days	75.0	75.0	75.0	75.0
Payable days	37.1	36.8	37.2	37.4
Working capital days	68.4	68.3	69.6	71.0
Liquidity ratios				
Current ratio (x)	2.4	2.6	2.9	3.2
Quick ratio (x)	1.2	1.4	1.7	2.0
Interest cover (x)	13.9	11.5	13.5	14.9
Dividend cover (x)				
Total debt/Equity (%)	0.9	0.9	0.8	0.8
Valuation				
PER (x)	68.0	79.2	63.7	54.5
PEG (x) - y-o-y growth	2.3	(5.6)	2.6	3.2
Price/Book (x)	6.8	6.5	6.2	5.7
EV/Net sales (x)	4.6	4.6	4.3	3.9
EV/EBITDA (x)	33.1	34.8	29.8	26.4
EV/EBIT (x)	52.0	59.3	47.6	40.6

Source: Company, Axis Securities

Relaxo Footwear Price Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-23	HOLD	850	Result Update
15-May-23	BUY	980	Result Update
01-Jun-23	BUY	990	Top Picks
01-Jul-23	BUY	990	Top Picks
25-Jul-23	BUY	1,050	Result Update
01-Aug-23	BUY	1,050	Top Picks
01-Sep-23	BUY	1,050	Top Picks
03-Oct-23	BUY	1,050	Top Picks
01-Nov-23	BUY	1,050	Top Picks
06-Nov-23	BUY	1,020	Result Update
01-Dec-23	BUY	1,020	Top Picks
01-Jan-24	BUY	1,020	Top Picks
02-Feb-24	BUY	950	Result Update
13-May-24	BUY	950	Result Update
01-Aug-24	HOLD	815	Result Update
12-Nov-24	HOLD	700	Result Update
01-Feb-25	HOLD	550	Result Update

Source: Axis Securities

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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