



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Relaxo footwears Q1FY24 consolidated revenues came in at ₹739 Cr, up 10.7% YoY and -3.4% QoQ.
- PBIDT for Q1FY24 stood at ₹108 Cr, up 24.9% YoY and down 5.3% QoQ.
- PBIDTM for Q1FY24 came at 14.6%, +170 bps YoY and -80 bps QoQ.
- PAT for Q1FY24 stood at ₹56 Cr, up 45.6% YoY and down 11% QoQ.
- No of pairs sold came in at ₹5.1 Cr, up 34.2% YoY

2. MANAGEMENT COMMENTARY:

- Expect double-digit growth in the coming quarters with volume growth of 30% in Q2 and 20-25% in FY24.
- Expect profit margins to improve in coming quarters on further softening of raw material prices.
- For FY24, the average realisation is likely to be ~₹160-₹165 per pair.
- It expects to generate ₹1,000 crore in 2-3 years from its sports category from the current levels of ₹400 crore.
- Looking to further scale up its online partners like Ajio, Tata Cliq, among others

3. CONCALL SUMMARY

- Over the last few years, they continued to incur capex with an annual outflow of ~₹100-₹150 cr. Capex related outflows are likely to continue going forward.
- All the company's channels have seen encouraging progress during the quarter.
- Witnessed significant growth in both open and closed footwear categories in Q1FY2024.

4. CAPEX UPDATE:

- In FY24-25, capex is likely to be ~₹80 cr-₹100 cr. This will be mainly towards routine capex pertaining to molds, repairs and infrastructure development. These capex are likely to be funded through internal accruals, thus keeping the company's free cash flows under check.

5. VALUATION AND OUTLOOK:

The company is aiming to aiming double-digit growth rate for the next few quarters.

With a strong growth outlook, we initiate a "BUY" rating on the stock and value the stock at 12.4x FY25 EPS to arrive at the target of 1119.

RECOMMENDATION - BUY

CMP – 953

TARGET – 1,119(+17.4%)

Industry	Footwear
NSE CODE	RELAXO
BSE CODE	530517
Market Cap (₹ Cr)	23,713.9
Shares Outstanding (in Cr)	24.9
52 wk High/Low (₹)	1107/748
P/E	137.8
P/BV	12.4
Face Value (₹)	1.00
Book Value (₹)	76.8
EPS (FY23) (₹)	6.2
Dividend Yield (%)	0.26
Debt / Equity	0.00
Interest Coverage	4.63

SHAREHOLDING PATTERN

	Jun 23	Mar 23	Dec 22
Promoters	71.27	71.25	71.02
MF/ DII	8.30	7.92	7.45
FII/FPI	2.87	2.82	2.99
Retail & Others	17.52	17.98	18.35
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

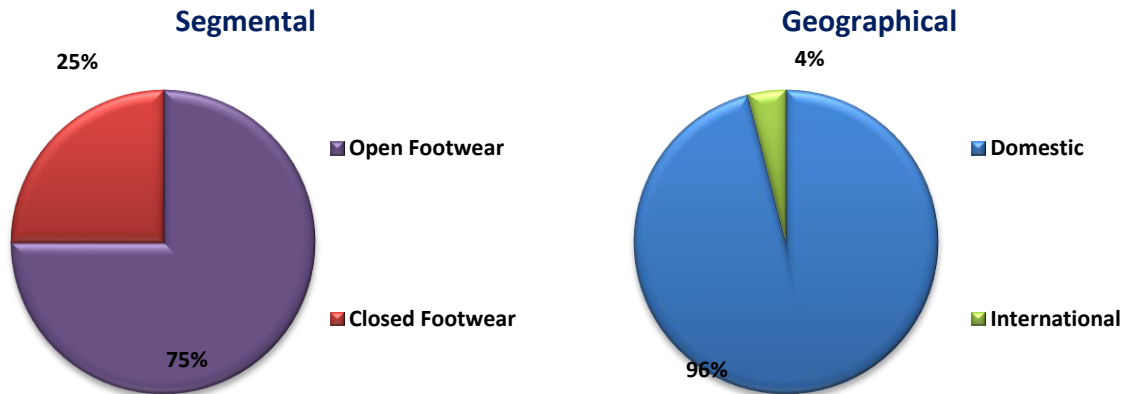
Y/E March	2023	2024E	2025E
Crete			
Sales	2783	3423	4210
Sales Gr. (%)	4.9	23	23
EBITDA	354	548	674
EBITDA %	12.8	16	16
PAT	154	264	311
EPS (₹)	6.21	10.6	12.4
EPS Gr. (%)	-33.6	70	17
Valuation			
P/E (x)	137	110	90

Historical & Industrial Val Ratios

Historical P/E	90
Industry P/E	99
Historical P/B	13.7
Industry P/B	9.7



Revenue Mix (FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

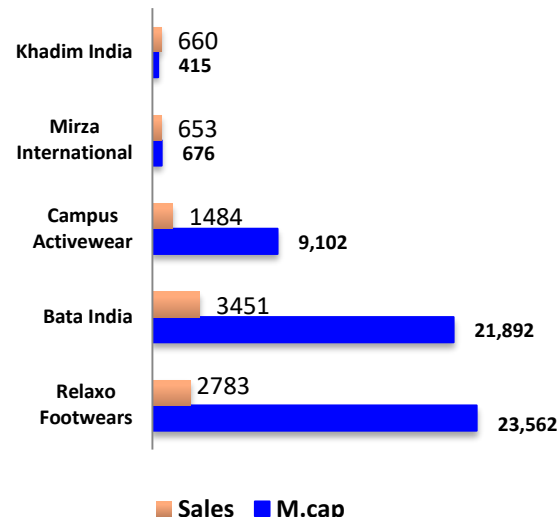
Y/E March	FY22		FY23		FY24		FY23	FY24E*		
	Q3	Q4	Q1	Q2	Q3	Q4			Q1	Q2E*
Net sales	744	698	667	670	681	765	739	871	2,783	3,423
YoY change (%)	10.6	-6.6	34.2	-6.3	-8.4	9.6	10.7	30	5	23
Total Expenditures	622	587	581	610	609	647	631	731	2,447	2,875
EBITDA	122	111	86	59	72	118	108	140	336	547
YoY growth (%)	-18.2	-31.8	30.2	-49.3	-40.6	6.2	25	134	-20	63
Margins (%)	16	15.9	12.9	8.9	10.6	15	15	16	12.1	16
Depreciation	29	29	30	31	32	33	35	35	125	171
Interest	4	4	7	4	4	4	4	4	19	20
Other income	5	6	4	6	4	4	7	7	19	23
PBT	94	84	54	30	41	85	76	100	192	356
Rate (%)	25	25	28	26	26	26	26	26	26	26
Tax	24	22	15	8	10	22	20	26	50	92.7
Adjusted PAT	70	63	39	22	31	63	56	74	142	263.8
EPS in Rs	2.8	2.5	1.6	0.9	1.2	2.54	2.26	2.97	6.21	10.6

Source: Company, Hem Securities Research.

INDUSTRY OVERVIEW

- India is the second-largest producer and consumer of footwear in the world. The Indian footwear market is segmented into four categories: (i) leather, (ii) non-leather, (iii) sports and (iv) slipper & sandals.
- Rapid urbanisation, higher disposable income, growing younger population, wide usability of e-commerce and growth in the Indian fashion and lifestyle market is likely to propel growth over the long term.
- The footwear industry is one of the focused areas under the 'Make in India' initiative of the Government of India. Thus, the future potential of the footwear industry seems to be promising, particularly for established and organized brands.
- The Government has permitted 100% FDI (Foreign Direct Investment) through automatic route for the sector.
- The global footwear industry is now focusing on the non-leather footwear segment. About ~86% of the global footwear consumption is expected to come from non-leather by volume. Thereby providing ample growth opportunities for India as it is now gaining traction in the production of non-leather footwear.
- China and Vietnam control ~75% of the world's footwear market. India is looking to counter this dominance and is trying to position India as a premier non-leather footwear manufacturer in the global market. Already a leader in the traditional leather sector, it is now gaining steady ground in the production of non-leather footwear.

KEY PLAYERS in Footwear space



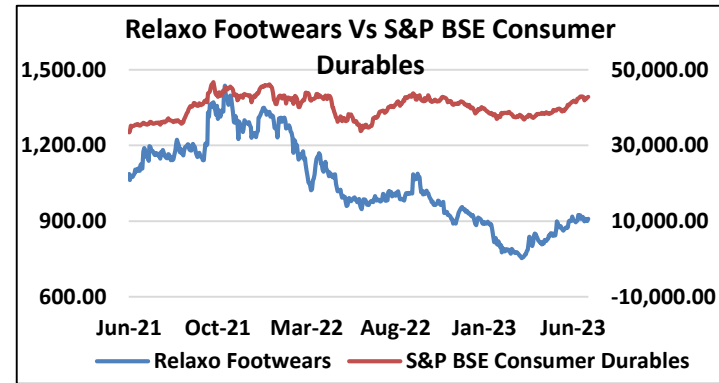
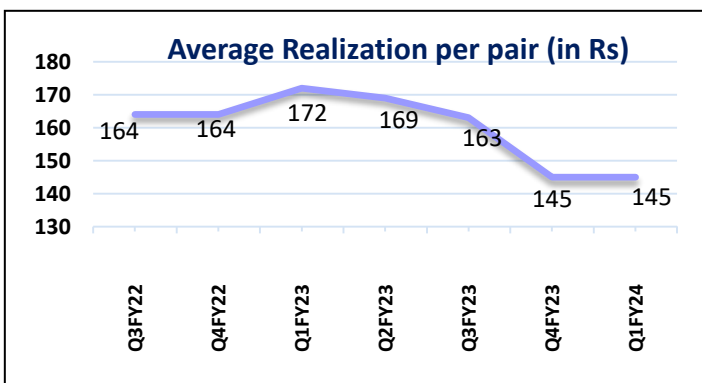
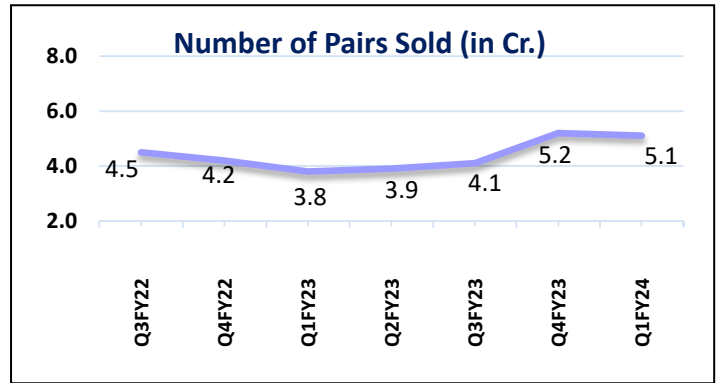
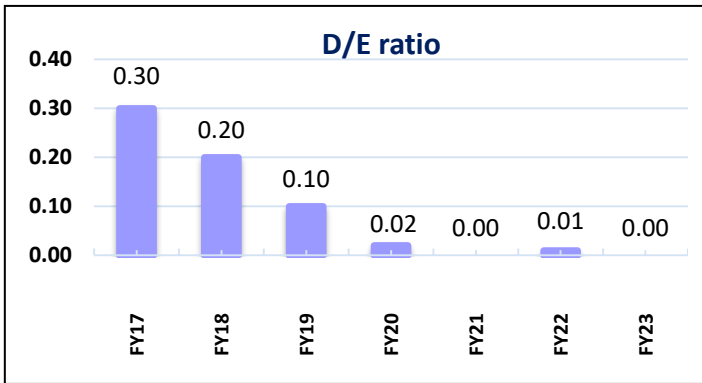
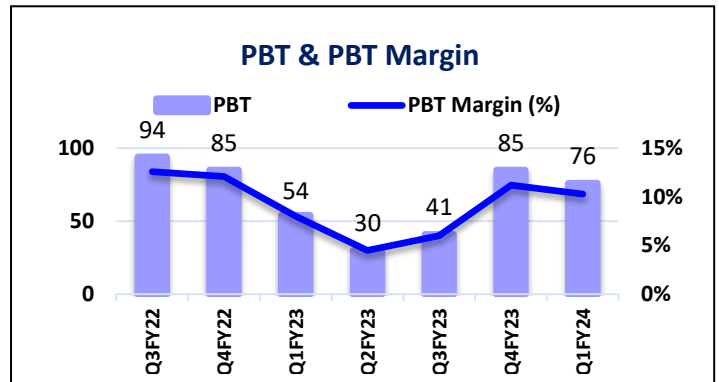
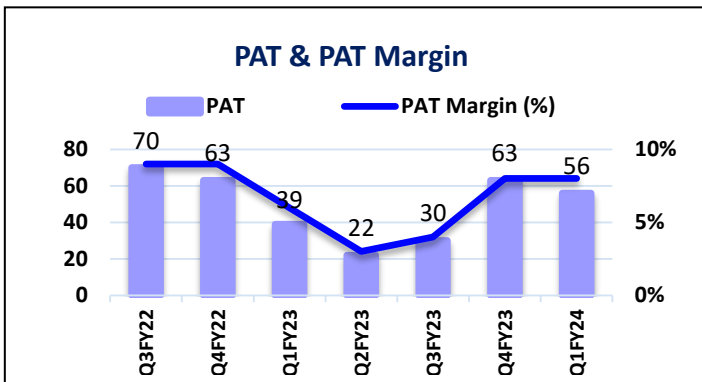
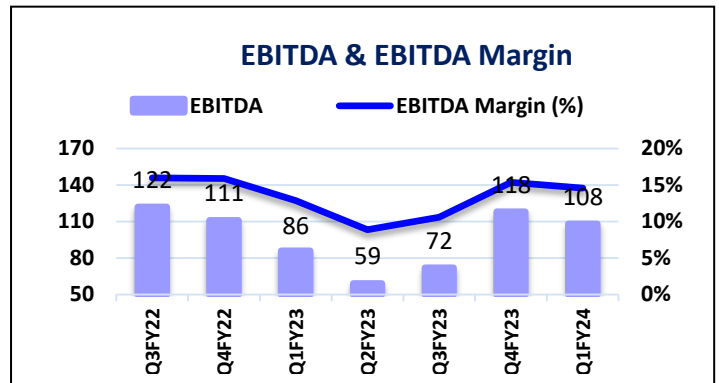
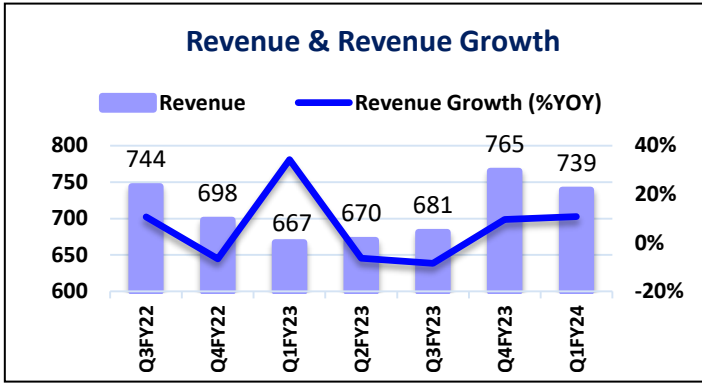
PEER PERFORMANCE

(₹ Cr)

Particulars	Relaxo Footwears Ltd.	Bata India Ltd.	Campus Activewear Ltd.	Mirza International Ltd.	Khadim India Ltd.
Market Cap	23,562	21,892	9,102	676	415
Net Sales	2,783	3,451	1,484	653	660
EBITDA	336	804	254	66	588
PAT	154	323	117	26	17
EBITDA MARGIN %	12.1	24.4	17	10	11
PAT MARGIN %	5.1	9.4	7.8	4	2.6
ROCE %	11.6	33.7	23.1	6.6	10.5
ROE %	8.6	19.9	23.9	4.1	8.1
P/E TTM	137	67.9	77.7	15.3	23.7
P/B TTM	12.7	15.3	11.4	1.3	1.8
Current Ratio	2.5	1.96	1.6	1.9	1.4
Dividend Yield %	0.3	0.8	0.0	0.0	0.0
Int Coverage	14.8	46	6.5	5.6	1.8
EPS TTM(₹)	6.9	25.1	3.8	3.6	9.7
3 Y Sales CAGR%	5.0	4.0	33.0	-20	-5



STORY IN CHARTS





INVESTMENT RATIONALE:

- The company's ability to capture market share from unorganised players, its financial stability and growing presence in the small ticket size non-leather footwear gives visibility of earnings growth over the next few years. The company remains the market leader in the value-priced segment (in terms of volumes) and is well placed to gain market share from unorganised and small players (~65%-70% of the total footwear industry).
- The management's focus remains on sustaining market share and top-line growth. It is targeting double digit volume growth for FY24 and the EBITDA margins are expected to be in the range of 15%-16% in the longer term.
- It expects to generate ₹1,000 cr in 2-3 years from its sports category from the current levels of ₹400 cr.
- The current capacity of Sparx is ~50,000 pairs which the company is looking to increase to 1,00,000 pairs a day. This is likely to be operational by FY24.
- In the long run it is looking to take the overall share of closed footwear to 30%.
- The company will continue to invest in brand building initiatives, which is a part of its long term strategy.
- It is looking to grow its e-commerce segment by 15% over the next two to three years from the current levels of 11%. It is looking to further scale up its online partners like Ajio, Tata Cliq, among others.
- North India continues to remain its major market, however, it has also started focusing on market expansion in the West and South regions through the appointment of new distributors and dealers. It is also expanding its presence in the international markets.
- It has streamlined its already strong distribution network by adopting a well-diversified distribution strategy which includes modern formats like e-commerce, large format store and exclusive stores, which is likely to generate better volume growth.

RISK / NEGATIVE FACTORS:

- Any demand slowdown or a spike in key input prices would act as key risks to our earnings estimates in the near term.
- Increased competition due to the presence of a large number of small-to-medium-sized players may constrain its pricing power.

COMPANY RECAP

- Relaxo Footwears Ltd., headquartered in New Delhi, is one of the largest players in the non-leather footwear market in India and currently manufactures Hawai rubber slippers, EVA (ethylene vinyl acetate) and PU (polyurethane) based slippers, sports shoes and sandals. The company was incorporated in September 1984 as Relaxo Footwears Private Ltd. by Mr.Mool Chand Dua.
- The company started as a single product (Hawai slippers) and has over the years been successful in diversifying into higher-value products in its portfolio. It has a portfolio of 9 brands viz. Relaxo, Flite, Sparx, Boston, Mary Jane, Casualz, Kids Fun, and Bahamas.
- Currently, it has a total capacity of ~10 lakh pairs per day. It sells its products through distributors, exclusive brand outlets (EBO), exports and e-commerce/modern trade channels. Its distribution channel comprises more than 65,000 retailers and multi-brand outlets (MBO), ~650 distributors and 389 EBOs.
- It has eight state of the art manufacturing facilities, five in Bahadurgarh (Haryana), two in Bhiwadi (Rajasthan), and one in Haridwar (Uttarakhand). Additionally, the company has also developed its international markets and exports to more than ~30 countries in Asia, Middle East, Europe, Australia, Africa, South America and Oceania.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

Y/E March	2020	2021	2022	2023	2024E	2025E	(₹ Cr)
Revenue from operations	2,410	2,359.2	2,653.3	2,783	3,423.1	4,210.4	
Growth YoY (%)	5.2	-2.1	12.5	5%	23%	23%	
Total Expenditure	1999	1,862.1	2,235.7	2,447	2,875.4	3,536.7	
(%) of sales	82.9	78.9	84.3	87.9	84.0	84	
EBITDA	411.4	497.1	417.6	336	547.7	673.7	
EBITDA Growth (%)	24	23.6	-15.1	-20%	63%	23%	
EBITDA Margin (%)	17.4	22.0	16.6	12.1%	16%	16%	
Depreciation	109.4	110.0	113.5	125	171.2	210.5	
EBIT	311	409.9	327.8	211	376.5	463.1	
EBIT Growth (%)	12.3	31.8	-20.0	-36%	78%	23%	
Net Interest Expenses	19.3	18.7	17.2	19	20	20	
Other Income	9.1	22.8	23.7	19	23	23	
Earnings before Taxes	291.7	391.2	310.6	192	356.5	420.1	
EBT Margin (%)	12.1	16.6	11.7	7%	10%	10%	
Tax-Total	65.5	99.6	77.9	49.9	92.7	109.2	
Rate of tax (%)	22.4	25.5	25.1	26.0	26.0	26.0	
Net Profit	226.3	291.6	232.7	142.1	263.8	310.9	
PAT Growth (%)	29	28.9	-20.2	-39%	86%	18%	
PAT Margin (%)	9.4	12.4	8.8	5.1%	7.7%	7.4%	
Minority Interest	0.0	0.00	0.0	0.0	0.0	0.0	
Adjusted PAT	226.3	291.6	232.7	142.1	263.8	310.9	
EPS	9.1	11.7	9.3	6.2	10.6	12.4	
EPS Growth (%)	28.9	28.8	-20.4	-33.6%	69.9%	17.8%	

Balance Sheet

Y/E March	2020	2021	2022	2023
Share Capital	25	25	25	24
Reserves	1248	1548	1735	1830
Net Worth	1273	1573	1760	1854
Borrowings	139	144	174	164
Other Liabilities	430	459	448	476
Total Liabilities & Equity	1841	2176	2383	2495
Fixed Assets	981	938	987	1151
CWIP	46	118	149	88
Investments	0	338	194	225
Other Assets	814	782	1052	1030
Total Assets	1841	2176	2383	2495

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2020	2021	2022	2023
Profitability and return ratios				
Net profit margin (%)	9.4	12.4	8.8	5.1
EBITDA margin (%)	17.4	22.0	16.6	12.0
EBIT margin (%)	12.9	17.4	12.4	7.6
ROE (%)	19.2	20.6	14.0	8.6
ROCE (%)	24.8	28.6	19.6	11.6
Working Capital & liquidity ratios				
Payables (Days)	62.4	74.0	66.7	69
Inventory (Days)	62.9	67.3	75.3	154
Receivables (Days)	29.9	27.3	29.7	35
Current Ratio (x)	1.9	2.4	2.6	2.5
Valuations Ratios				
EV/sales (x)	6.2	9.2	10.0	8.5
EV/EBITDA (x)	35.3	41.8	60.1	70.4
P/E (x)	65.5	74.5	113.9	
P/BV (x)	11.7	13.9	15.1	
Dividend Yield (%)	0.2	0.3	0.2	0.3
Return on Assets (%)	13.1	14.5	10.2	6.3
Leverage Ratio				
Debt/Equity (x)	0.02	0.00	0.01	0.0

Cash Flow Statement

Y/E March	2020	2021	2022	2023
CF from Operating activities (A)	319	513	56	400
CF from Investing Activities (B)	-116	-453	15	-258
CF from Financing Activities (C)	-203	-56	-70	-138
Net Cash Flow	0	4	1	4
Add: Opening Bal.	2	2	6	7
Closing Balance	2	6	7	11

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
28/7/23	BUY	1119 (++)17.4%

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Name of the Research Analyst: AARUSHI LUNIA

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