

### Relaxo Footwears

**BUY**

**CMP ₹650**

#### Revenue zooms on celebrity power, strong product portfolio

Relaxo Footwears Ltd (RFL) has tasted success by roping in celebrities (like Salman Khan, Akshay Kumar, Katrina Kaif etc.) to build its brand image and increase product visibility even as competition has stayed away from investing in celebrity endorsement. As a result, revenues have tripled in last five years in a fragmented footwear market. RFL has a strong differentiated portfolio of slippers and shoes catering to the middle income population. Most organized players are either absent or have limited product offerings in this segment of the value chain which has further boosted sales. Consequently, volumes and realizations have witnessed ~16%/23% cagr over FY09-14. We expect RFL to maintain the growth momentum and have built in ~23% revenue cagr over FY14-17.

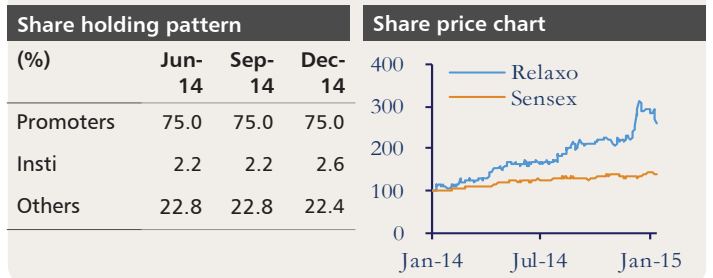
#### Product Premiumisation, falling crude to aid margins

With increasing urbanization and changing aspirations and lifestyle preferences, the propensity to purchase high end products by the Indian consumer has also increased considerably. To address this shift RFL has begun to focus on premiumisation of high value products. Steep fall in crude oil prices has reduced the cost of one of the key inputs 'PU' which is used in manufacturing soles for shoes. Prices of rubber, another key raw material, have come off considerably from ₹155/kg in Dec 2013 to ~₹115/kg currently. Benign RM costs along with premiumisation of high value products, would lead to improvement in overall margin profile of the company. However, we believe adspends will continue at the current rate. Consequently, we estimate 100bps expansion in OPM over FY15-17.

#### Strong financial and attractive valuations

The company has been generating strong operating cashflows which has enabled it to invest in new manufacturing and warehousing facilities. RFL's ROE/ROCE has improved from ~22%/17.5% to ~27%/26% during FY11-14. With earnings expected to clock ~39% cagr over FY14-17, return ratios are also likely to improve to ~32%/42%. Gearing remains comfortable at 0.6x. The stock trades at an attractive P/E of ~22x on FY17 earnings while the industry trades in the range of 25-35x. Recommend BUY.

Sector: Consumer Discretionary		Sector View: Positive	
Sensex:	29,094	BSE code:	530517
52 Week h/l (₹):	750/224	NSE code:	RELAXO
Market cap (₹cr):	3,899	FV (₹):	1



#### Financial summary

Y/e 31 Mar (₹ m)	FY14	FY15E	FY16E	FY17E
Revenues	12,118	14,787	18,287	22,721
yoy growth (%)	20.0	22.0	23.7	24.2
Operating profit	1,466	1,886	2,446	3,140
OPM (%)	12.1	12.8	13.4	13.8
Reported PAT	656	928	1,281	1,754
yoy growth (%)	46.5	41.4	38.0	36.9
EPS (₹)	10.9	15.5	21.3	29.2
P/E (x)	59.4	42.0	30.4	22.2
Price/Book (x)	14.1	10.8	8.2	6.2
EV/EBITDA (x)	27.7	21.4	16.2	12.3
Debt/Equity (x)	0.6	0.4	0.2	0.1
RoE (%)	26.7	29.1	30.6	31.7
RoCE (%)	25.7	29.6	35.0	40.6

Source: Company, India Infoline Research