

Relaxo Footwears Ltd

Bloomberg Code: RLXF IN

India Research - Stock Broking

HOLD

Positioned in a Sweet Spot in Indian Footwear Industry

Relaxo has enormous advantage because of its market positioning in the Indian Footwear Industry. It is mostly present in value segment where there is not much competition except VKC and Paragon who are based in southern markets where relaxo has very less exposure. With most of the domestic companies concentrating on mass and mid segments and international players such as Nike, Puma and Reebok concentrating on premium segment, there is no real threat for relaxo as far as competition is concerned.

Consistent increase in realization on the back of better product mix:

Realizations have grown at CAGR of 13% over the past 9 years and has tripled from Rs. 40 per pair in FY06 to Rs.120 in FY15E during the same period. Relaxo has launched products which cover the entire value chain starting from Hawaii slippers for mass segment and Boston for premium segment along with products for women and kids.

Increase in consumer spending because of growing middle class segment:

Consumer spending in India is expected to accelerate in next decade as more number of people is expected to come under middle income class segment. India's consumer spending on clothing & footwear segment is expected to reach \$225bn by 2020 compared to \$59bn in 2010 implying CAGR growth rate of 15%.

Valuation and Outlook

Relaxo, with its improving product mix and aggressive advertising, is moving up the value chain and becoming strong pan India player. By signing up leading celebrities from bollywood for promoting their products, the company has build its brands and strengthening its distribution network and venturing into e-commerce channels to push the sales. At CMP of Rs. 848 per share, the stock is trading at 29x FY17E EPS. We value the company at 32.2x and arrive at target price of Rs. 924 with an upside potential of 9% with "HOLD" rating.

Key Risks

1. Increase in raw material prices.
2. Slowdown in consumer spending.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15	FY16E	FY17E
Net Sales	10,098	12,118	14,810	17,941	21,822
EBITDA	1,098	1,466	2,007	2,507	3,158
EBITDA Margin (%)	10.9	12.1	13.5	14.0	14.5
Adj. Net Profit	448	656	1,031	1,302	1,722
EPS (Rs.)	7.5	10.9	17.2	21.7	28.7
RoE (%)	23.2	26.7	32.0	30.3	30.0
PE (x)	14.0	27.0	49.4	39.1	29.5

Source: Company, Karvy Research

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Recommendation (Rs.)

CMP (as on Jun 03, 2015)	848
Target Price	924
Upside (%)	9

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	50865 / 833
52-wk High/Low (Rs.)	888 / 365
3M Avg. daily volume (mn)	0.03
Beta (x)	0.5
Sensex/Nifty	26837 / 8135
O/S Shares(mn)	60
Face Value (Rs.)	1.0

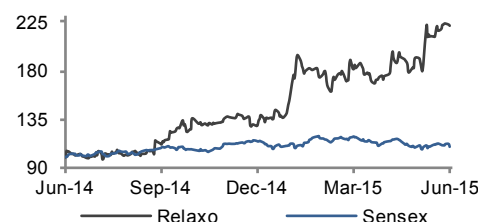
Shareholding Pattern (%)

Promoters	75.0
FII	2.4
DII	0.4
Others	22.2

Stock Performance (%)

	1M	3M	6M	12M
Absolute	17	23	67	124
Relative to Sensex	17	36	77	107

Relative Performance*



Source: Bloomberg; *Index 100

Analysts

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs.mn)

	FY15	FY16E	FY17E
Net sales	14,810	17,941	21,822
Optg. Exp (Adj for OI)	12,803	15,434	18,664
EBITDA	2,007	2,507	3,158
Depreciation	399	484	592
Interest Expense	185	182	161
Other Income	4	7	8
PBT	1,427	1,847	2,414
Tax	396	545	691
Adj. PAT	1,031	1,302	1,722
Profit & Loss Ratios			
EBITDA margin (%)	13.5	14.0	14.5
Net Profit margin (%)	7.0	7.3	7.9
P/E (x)	49.4	39.1	29.5
EV/EBITDA (x)	20.3	16.2	12.9
Dividend yield (%)	0.1	0.1	0.1

Source: Company, Karvy Research

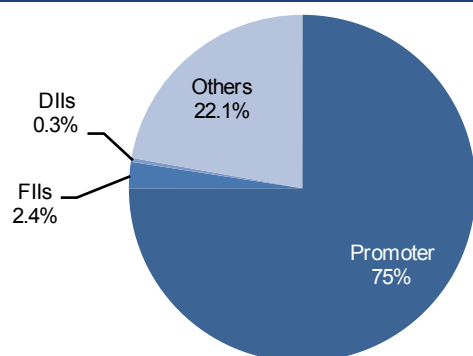
Balance Sheet (Rs.mn)

	FY15	FY16E	FY17E
Total Assets	8,429	9,890	11,569
Net Fixed Assets	4,480	5,127	5,912
Current Assets	3,569	4,376	5,258
Other Assets	380	387	399
Total Liabilities	8,429	9,890	11,569
Net Worth	3,678	4,912	6,565
Debt	1,445	1,345	1,145
Current Liabilities	2,962	3,269	3,465
Deferred Tax	343	363	394

Balance Sheet Ratios

RoE (%)	32.0	30.3	30.0
RoCE (%)	33.2	33.6	35.0
Net Debt/Equity(x)	0.4	0.3	0.2
Equity/Total Assets(x)	0.4	0.5	0.6
P/BV (x)	13.8	10.4	7.8

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern


Source: Company, Karvy Research

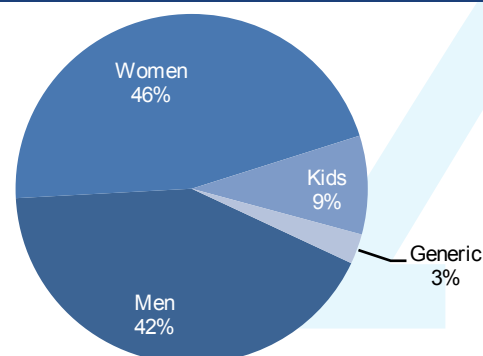
Company Background

Relaxo Footwear has established itself as one of the most stalwart, quality conscious and avant-garde footwear companies in the Indian economy today. Today, the company manufactures over 3 lakh pairs of footwear per day, which approximately adds up to over 10 mn pairs per year. Each pair is given thorough attention by the dedicated and skilled employees working at the 9 state-of-the-art manufacturing units in northern India. Relaxo has slowly evolved as a company which offers products across the value chain and has consistently launched new products to capture the market share and service all the segments such as men, women & kids. Relaxo has also been strengthening its distribution network by adding more dealers, retail stores and entering into e-commerce channels to service the online customers.

Cash Flow (Rs.mn)

	FY15	FY16E	FY17E
PBT	1,427	1,847	2,414
Depreciation	399	484	592
Interest (net)	179	176	155
Tax	(363)	(502)	(635)
Changes in WC	(504)	(341)	(339)
Others	3	3	4
CF from Operations	1,141	1,668	2,191
Capex	(1,256)	(1,076)	(1,366)
Investment	0	0	0
Others	15	15	15
CF from Investing	(1,241)	(1,061)	(1,351)
Change in Equity	0	0	0
Change in Debt	329	(114)	(279)
Dividends	(241)	(238)	(217)
CF from Financing	88	(352)	(496)
Change in Cash	(12)	255	344

Source: Company, Karvy Research

Exhibit 3: Product Segmentation (Genderwise)*


Source: Company, Karvy Research, * Based on online product offerings

Celebrity endorsements helping to build brand & capturing mind share

Relaxo has signed up leading bollywood celebrities to build its brands. The popularity of the celebrity' leads to develop emotional connect with consumers and drives them to choose the particular brand. Relaxo has crafted its strategy by roping in brand ambassadors such as Salman Khan, Akshay Kumar & Sonakshi Sinha who are apt for its products to gain market share and withstand the competition. North India is the main market for Relaxo and with leading brand ambassadors, the company is better positioned to push it's products across India and be full fledged pan India player.

Exhibit 4: Product Features and Brand Personality

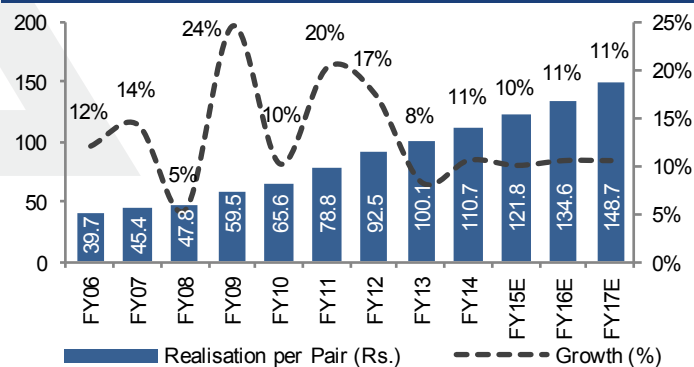
Brand	Celebrity	Fit
Hawaii - Hi Fashion Slippers	Salman Khan	Strength, toughness & Style
Sparx	Akshay Kumar	Sturdy & Sporty
Flite	Sonakshi Sinha	Trendy & Casualwear

Source: Company, Karvy Research

Consistent Increase in realization on the back of better product mix

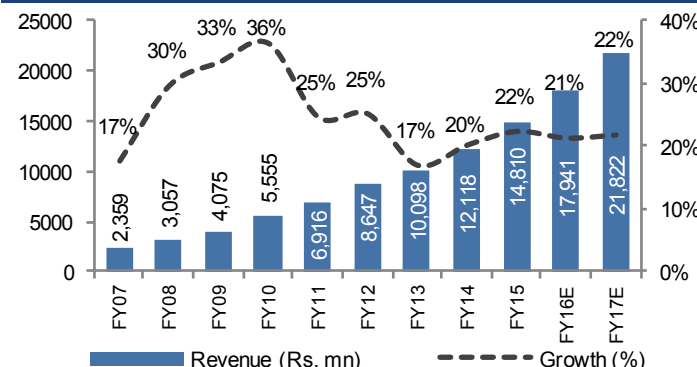
Realizations have grown at CAGR of 13% over the past 9 years and has tripled from Rs. 40 per pair in FY06 to ~ Rs.120 in FY15E during the same period. Relaxo has launched products which cover the entire value chain starting from Hawaii slippers for mass segment and Boston for premium segment along with products for women and kids. Relaxo is focusing more on premium products and is launching premium products such as Flite & Sparx along with value added products under Hawaii brands to mark up the realizations. Revenue contribution from Hawaii has been gradually declining over the years and brands like Sparx and Flite are growing at faster pace. Brands like Flite, Mary Jane & Elena were launched exclusively for women targeting the working and fashionable women. Schoolmate & Kids fun brands address the kids market, with Schoolmate offers formal shoes for kids and Kids fun brand which are colorful and casualwear. With change in product mix towards middle and premium segments, realizations are expected to reach Rs.148 per pair in FY17E.

Exhibit 5: Realisation per Pair & Growth



Source: Company, Karvy Research

Exhibit 6: Revenue & Growth



Source: Company, Karvy Research

Exhibit 7: Relaxo Product Positioning

BRANDS	PRODUCT FEATRES	TARGET CUSTOMERS	POSITIONING
Hawaii	Durability, designs and basicwear	Daily/ Casual	Value (Rs.60-150)
Flite	Trendy & Colorful	Fashionable women	Mass (Rs.150-800)
Mary jane	Classy & Comfort	Working women professional	Mid/premium (Rs.800-3500)
Sparx	Sturdy & Sporty designs	Youth	Mass (Rs.150-800)
Boston	Leather footwear & Classy looks	Premium segment	Mid/premium (Rs.800-3500)
Schoolmate	Comfort	School going students	Mass (Rs.150-800)
Kids fun	Colorful & Stylish	Kids	Mass (Rs.150-800)

Source: Company, Karvy Research

Relaxo Positioned in Sweet Spot in Indian Footwear Industry

Relaxo has enormous advantage because of its market positioning in the Indian footwear industry. It is mostly present in value segment where there is not much competition except VKC and Paragon who are based in southern markets where relaxo has very less exposure. With most of the domestic companies concentrating on mass and mid segments and international players such as Nike, Puma and Reebok are concentrating on premium segment, there is no real threat for relaxo as far as competition is concerned. Relaxo has competitive edge over for other players to capture the minds of customers and pave the way for brand recall through endorsing celebrities such as Salman Khan, Akshay Kumar and Sonakshi Sinha for its products. The company's aggressive ad spends have helped the company to gain its brand value in market and to sustain the revenue growth. Ad spends as % of sales is higher for relaxo because of aggressive promotional activities compared to other organized players. Relaxo has the lowest realization per pair compared to other players in the industry because of its target customers who prefer value products. Relaxo has opted to move up the value chain to mass & mid segments by building brands through celebrity endorsements and launching products under brands which fetch higher realizations.

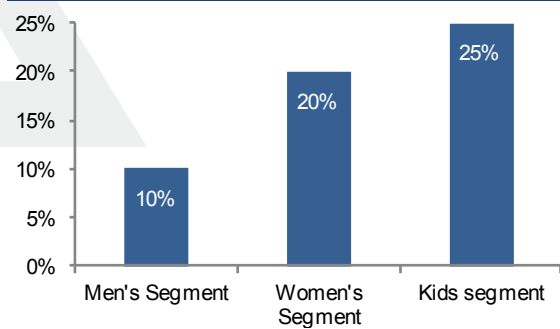
Exhibit 8: Relaxo Market Positioning In Indian Footwear Industry

COMPANY	PRODUCT PRICE RANGE OFFERED (Rs.)	POSITIONING	NO. OF PAIRS SOLD (IN LACS)	AVG REALISATION PER PAIR (Rs.)	ADV & SELLING EXP PER PAIR	NO. OF BRANDS
Relaxo	70-2000	Value to mid	1076	111	4	4
Bata	200-6000	Mass to premium	500	440	3	14
Liberty	150- 3500	Mass to mid	113	427	6	12
Mirza	1300-3900	Premium	57	1240	23	3
Metro	500-20000	Mass to luxury		1300	-	19
Khadims	150-3500	Mass to mid		-	-	11

Source: Company, Karvy Research

Women & Kids footwear segments to drive the growth for the Indian footwear industry

Exhibit 9: Segment Growth Rate (%)



Source: Company, Karvy Research

Industry is expected to grow at CAGR of 15% over the next 10 years on the back of rising middle class income people and higher consumer spending. The number of women working is estimated to increase fourfold to an estimated 45-50 mn in the age group of 20-40 years in urban India by 2020. Female economy is expected to grow at rapid pace in India which is expected to be one of the major factors behind growth of Indian footwear industry. By 2020, working women population will reach 158 mn and earn \$900 bn with per capita income of \$5792 compared to 134 mn working women with earnings \$280 bn and per capita income of \$2089 in 2010. Company has highest product offerings for women with 46% of the total offering to catch it up with market trend where women segment is growing faster than the men's segment.

Exhibit 10: Footwear Market Segmentation

	Global (%)	US (%)	China (%)	Brazil (%)	India (%)
Men's footwear	34	26	36	22	55
Women's footwear	53	56	53	57	30
Kids footwear	12	18	11	21	15

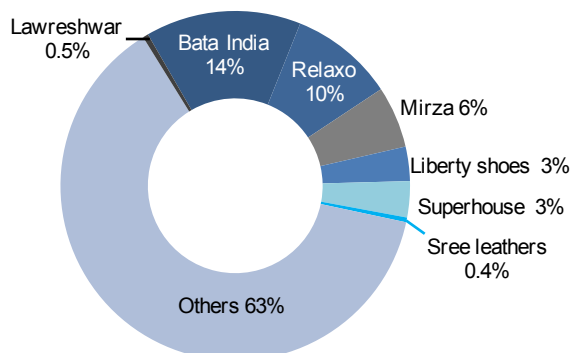
Source: Euro Monitor, Karvy Research

Globally, women's footwear market accounts for 53% of the footwear industry, followed by 34% men's segment and 12% kids footwear according to Euro monitor. However, the situation is different in India where men's segment has 55% share and women's & kids segments represent the remaining 45% share. Factors such as rising disposable incomes, change in preferences towards branded products and rise in number of working women are expected to drive the consumption of women's footwear. Kids market is growing rapidly as number of working parents increase as a result spending on kids increases. With more than 400 mn children in India and more than 27 mn new born every year, kids market is expected to grow at 25%, faster than other segments.

Organized players to benefit from rapid increase in consumer spending

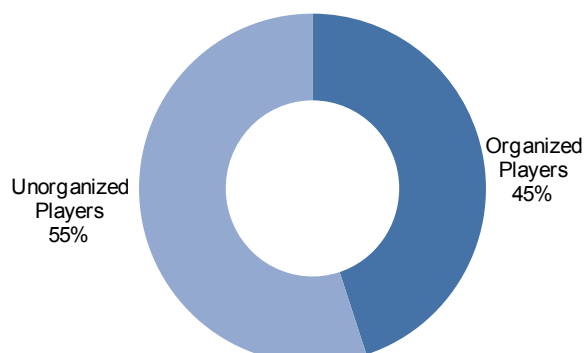
Relaxo has 10% market share in organized segment and is expected to capture higher pie on the back of strong brand recall created by celebrity endorsement for its products. With customers aspiring for fashionable products along with brand consciousness will help the organized sector to grow faster than the industry. Young population, increase in number of working women, rising income levels, penetration into Tier II & Tier III cities increased brand awareness & Urbanization are expected to drive the organized market in forthcoming years.

Exhibit 11: Organised Players Market Share



Source: Company, Karvy Research

Exhibit 12: Industry Segmentation 2014



Source: Company, Karvy Research

Increase in consumer spending because of growing middle class segment

Consumer spending in India is expected to accelerate in next decade as more number of people are expected to come under middle class income segment. India's consumer spending on clothing & footwear segment is expected to reach \$225 bn by 2020 compared to \$59 bn in 2010 implying CAGR growth rate of 15%. The per capita consumption of footwear in China increases as household income level rises.

Exhibit 13: Per Capita Footwear Annual Consumption in China

Lowest Income	Low Income	Lower Middle Income	Middle Income	Upper middle Income	High Income	Highest Income	National Average
1.99	2.75	2.89	3.04	3.25	3.6	4.12	3.01

Source: China Statistics Handbook, Karvy Research

It is evident from the below table, higher the per capita income, higher the per capita consumption of footwear and correlation is very strong @ 0.97 which indicates the two variables are perfectly correlated. Lowest income category in China has per capita consumption of footwear at 1.99 and highest income has per capita footwear consumption of 4.12. Countries like US & UK have more than 7 pairs of per capita consumption compared to emerging economies where per capita consumption is 2-3 pairs.

Exhibit 14: Per Capita Income Vs. Per Capita Consumption of Footwear - 2014

COUNTRIES	USA	EU	UK	JAPAN	BRAZIL	CHINA	INDONESIA	INDIA	VIETNAM
Per Capita Income (\$)	53750	39350	37970	37550	14750	11850	9270	5350	5070
Per Capita Pairs	7.5	5.9	7.1	5.4	3.9	3.1	2.1	1.8	1.7

Source: World Bank, Karvy Research

Exhibit 15: Distribution of Indian Household by Income in Mn

Annual gross house hold income in \$		2000		2010		2020	
Elite	Above 37000	2	1%	4	2%	11	4%
Affluent	18500-37000	3	2%	10	4%	26	9%
Aspirers	7500-18400	11	6%	34	14%	66	23%
Next bn	3300-7400	47	25%	72	30%	103	36%
Strugglers	Below 3300	124	66%	121	51%	80	28%

Source: National Council for Applied Economic Research Income Models; Euro Monitor, Karvy Research

As per Ministry of Statistics and Programme Implementation (MoSPI) data, on an average Indian consumer spends 1.2% of its total spending on footwear and going forward with more than 100 mn people coming under the middle income category will lead to additional spending on footwear and their annual spending will be approximately around \$6-\$15. Relaxo is positioned well to capture this market as they are moving up the value chain fast and concentrating on the mass and mid segments. Footwear spending as % of total consumer expenditure has been on the rise from 0.9% in 1994 to 1.3% in 2012 for rural and 0.9% to 1.2% for Urban people during the same period. We expect the spending on footwear to increase as per capita income increases. We can see the consumer spending on clothing & footwear is expected to reach \$225 bn in 2020 from \$59 bn in 2010 growing at CAGR of 14.3%.

Exhibit 16: Trends in Consumption in India (%) Since 1994-2012

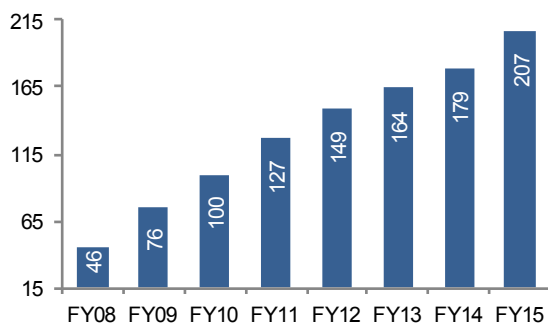
Item Group	Rural						Urban					
	1994	2000	2005	2010	2012	Trend	1994	2000	2005	2010	2012	Trend
Food	63.2	59.4	55	53.6	48.6	↓	54.7	48.1	42.5	40.7	38.5	↓
Pan, Tobacco & Intoxicants	3.2	2.9	2.7	2.2	2.4	↓	2.3	1.9	1.6	1.2	1.4	↓
Fuel & Light	7.4	7.5	10.2	9.5	9.2	↑	6.6	7.8	9.9	8.0	7.6	↑
Clothing & Bedding	5.4	6.9	4.5	4.9	6.3	↑	4.7	6.1	4.0	4.7	5.3	↑
Footwear	0.9	1.1	0.8	1.0	1.3	↑	0.9	1.2	0.7	0.9	1.2	↑
Misc	17.3	19.6	23.4	24	26.1	↑	27.5	31.3	37.2	37.8	39.7	↑
Durable Goods	2.7	2.6	3.4	4.8	6.1	↑	3.3	3.6	4.1	6.7	6.3	↑

Source: MOSPI, Karvy Research

Exhibit 17: Indian Consumer Spending Trend

Category	Spending in \$ bn (2010)	Spending in \$ bn (2020)	% CAGR Growth Rate	% Segment Share in Spending (2010)	% Segment Share in Spending (2020)
Food	328	895	10.6	33.1	25.0
Housing & Consumer Durables	186	752	15.0	18.8	21.0
Transportation & Communication	168	664	14.7	17.0	18.5
Education & Leisure	71	296	15.3	7.2	8.3
Clothes & Footwear	59	225	14.3	6.0	6.3
Health	49	183	14.1	4.9	5.1
Others	129	570	16.0	13.0	15.9

Source: Euro Monitor, National Sample Survey Office, Karvy Research

Strong Distribution Network & Engaging in E-commerce Channels
Exhibit 18: Retail Stores


Source: Company, Karvy Research

Relaxo derived majority of its revenues from northern region and now expanding its distribution network focusing on southern & western regions to gain market share. The company has been consistently increasing its Fully Owned Retail Outlets (FORO) and has added 28 outlets in FY15 to reach 207 outlets. However, the contribution from FORO is less than 10% to its overall sales as majority of the sales is through distribution network. Relaxo has started selling its products through E-commerce portals such as Snap deal, Shop clues, e-bay etc. and through its own online portal (www.shopatrelaxo.com).

Exhibit 19: Models Offered by RELAXO in Online Format

Brands	No. of Models	Price Range (Rs.)	Men	Women	Kids	All	Total
Flite	34	145-350	11	16		7	34
Flite Pu Fashion	15	150-330	3	12			15
Mary Jane	117			117			117
	31	400-500					
	40	500-1000					
	45	1000-1500					
	1	1599					
Bahamas	6	250	6				6
Sparx	150		104	27	16	3	150
	31	250-500					
	43	500-1000					
	54	1000-1500					
	16	1500-2000					
	6	2000-2500					
Hawaii	7	76-115	4	2	1		7
Boston	33		32			1	33
	3	700-800					0
	10	1000-1500					0
	13	1500-2000					0
	4	2500-3000					
	3	3500					
Hi Fashion	18	130-165	8	9	1		18
Schoolmate	11	250-350			11		11
Kidsfun	7	500			7		7

Source: Company, Karvy Research

Excise Duty Cut Positive for Organized Players Such as Relaxo

Government has reduced the excise duty rate from 12% to 6% for value of pairs ranging from Rs. 500 – 1000. For the products ranging below Rs. 500, excise duty has been exempted from FY12-13 itself. With the effect of duty reduction, net benefit for the consumer for the products ranging from Rs.500-1000 will be Rs.30-60. Earlier duty for a pair of footwear worth Rs.500 was Rs.60 and now it's Rs.30; and for the product worth Rs.1000 duty was Rs.120 and now it's been reduced to Rs.60.

Exhibit 20: Excise duty cut positive for organized players such as Relaxo

Slabs (per pair)	From FY10-11	From FY11-12	From FY12-13	From FY15-16
Less than Rs.250	Nil	Nil	-	-
Ranged Rs.250 – Rs.750	4%	5%	-	-
More than Rs.750	10%	10%	-	-
Less than Rs.500	-	-	Nil	Nil
More than Rs.500	-	-	12%	-
Ranged Rs.500 – Rs.1000	-	-	-	6%
More than Rs.1000	-	-	-	12%
Abatements for the above levels				
	Ranged (Rs.250 - Rs.750); 35% abatement		More than Rs.500	More than Rs.500
	More than Rs.750; 40% abatement		35% abatement	25% abatement

Source: Budget Documents, Karvy Research

Exhibit 21: Business Assumptions

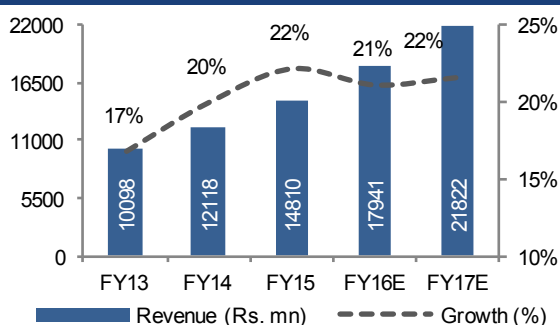
Y/E Mar (Rs. Mn)	FY14	FY15	FY16E	FY17E	Comments
Revenues					
Revenue	12,118	14,810	17,941	21,822	We expect volume to grow at CAGR of 8.5% and realisations to grow at CAGR of 10.5% for the period FY15E-17E.
Revenue Growth (%)	18.9	23.2	20.0	22.0	
EBITDA	1,466	2,007	2,507	3,158	EBITDA margins were expected to improve on the back of lower input cost and premiumisation of the product.
EBITDA Margins (%)	12.1	13.5	14.0	14.5	
PAT (normalized)	656	1,031	1,302	1,722	We can expect growth of PAT at CAGR 29.3% for FY15E-17E and simultaneous increase in the EPS.
EPS	10.9	17.2	21.7	28.7	
Net CFO	1,249	1,141	1,668	2,191	We expect healthy operating cash flows in future which will help the company to fund its capex.
Net Debt	1,143	1,445	1,345	1,145	
Free Cash Flow	538	(115)	592	825	

Source: Company, Karvy Research

Exhibit 22: Karvy vs Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs.mn)				
FY16E	17,941	17,943	0.0	We expect the revenue to grow at a CAGR of 21.4% for FY15E-17E.
FY17E	21,822	22,047	(1.0)	
EBITDA (Rs.mn)				
FY16E	2,507	2,416	3.6	We expect the EBITDA margins to improve on back of improved product mix and subdued input cost.
FY17E	3,158	3,001	5.0	
EPS (Rs.)				
FY16E	21.7	20.9	3.9	We expect the finance costs to decline in the next couple of years which will boost EPS.
FY17E	28.7	27.8	3.3	

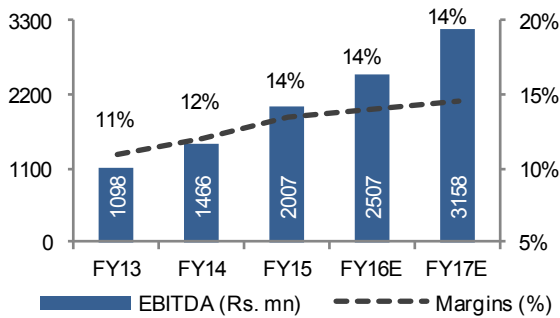
Source: Bloomberg, Karvy Research

Revenues on consistent growth path
Exhibit 23:


Source: Company, Karvy Research

Relaxo revenues grew at CAGR of 24.6% for the period FY10-14, aided by volume and higher contribution from value added products such as Flite and Sparx which fetch higher realizations. Volumes grew at CAGR of 9.5% and realizations grew by 13.2% during the same period. For FY15-17E, revenues are expected to grow at CAGR of 21.4% and brands such as Flite and Sparx growing at faster pace. Realizations are expected to reach Rs. 148 per pair in FY17E compared to Rs. 111 in FY14.

Exhibit 24: EBITDA margins to improve

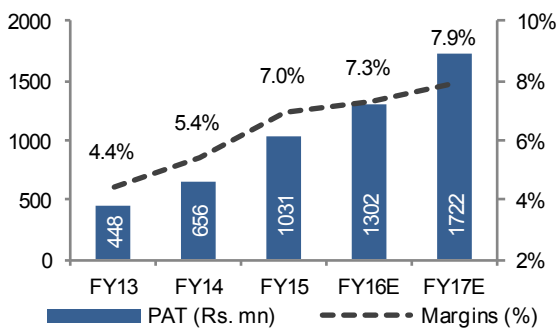


Source: Company, Karvy Research

EBITDA is expected to grow at CAGR of 25.5% for FY15 to FY17E and margins are likely to improve by 150 bps to 15% in FY17E on the back of better product mix and lower raw material costs. EBITDA margins have been consistently increasing from 10.39% in FY11 to 13.55% in FY15. EBITDA grew at CAGR of 28.3% in the past five years.

Bottom line to grow at CAGR of 28% during FY15-17E

Exhibit 25:

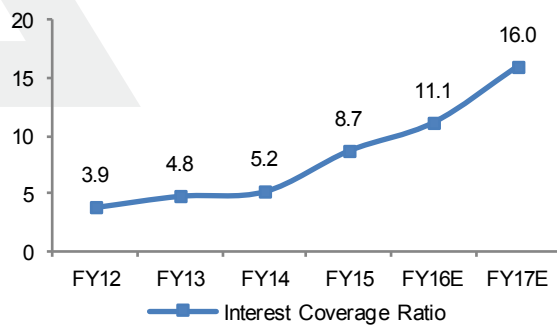


Source: Company, Karvy Research

Net profit margins are expected to improve by 100 bps to 8% by FY17E compared to 7% in FY15. We expect PAT to grow at CAGR of 29.3% during FY15-17E and over the period FY10-14 it grew at CAGR of 22.3%. Bottom line is boosted by strong revenue growth and margin expansions.

Strengthening Interest Coverage Ratio

Exhibit 26:

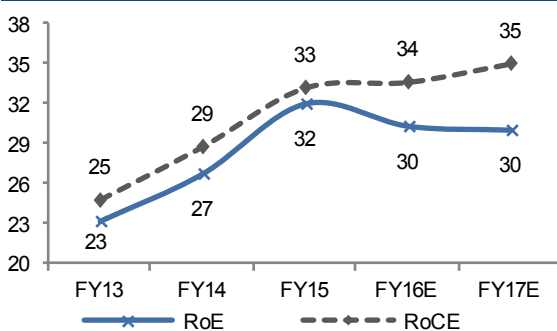


Source: Company, Karvy Research

We expect the interest expenses to decline going forward on the back of improving cash flows which helps the company to reduce the debt. Interest coverage has been on rise on the back of strong topline growth and margin improvement. Interest coverage ratio has increased from 3.2x in FY 11 to 8.7x in FY15 and is expected to strengthen further to 16.0x in FY17E.

Robust Return Ratios

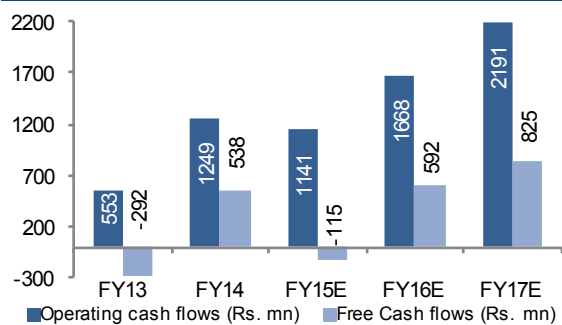
Exhibit 27:



Source: Company, Karvy Research

Relaxo return ratios are healthy over the years and we expect to improve going forward. RoE has improved from 22% in FY11 to 27% in FY14 and we expect RoE to reach 30% in FY17E.

Healthy operating and Free cash flows

Exhibit 28:


Strong revenue growth and expansion in margins are expected to generate strong cash flow over the couple of years. Cash flows are improving on the back of bottom line expansion.

Source: Company, Karvy Research

Sensitivity Analysis

Exhibit 19: Sensitivity of earnings and target prices for % of cost of raw material price movement

	Base Assumption	Change in Raw Material Price					
		-5%	-3%	-1%	1%	3%	5%
EBITDA Margin (%)							
FY16E	14.0	16.0	15.2	14.4	13.6	12.7	11.9
FY17E	14.5	16.6	15.7	14.9	14.1	13.2	12.4
EPS (Rs.)							
FY16E	21.7	26.1	24.3	22.6	20.8	19.1	17.3
FY17E	28.7	34.2	32.0	29.8	27.6	25.4	23.2
Target price	924	1100	1030	959	889	819	749
Change in TP		19.0	11.4	3.7	(3.8)	(11.4)	(19.0)

Source: Company, Karvy Research

Exhibit 20: Company Snapshot (Ratings)

	Low					High
	1	2	3	4	5	
Quality of Earnings				✓		
Domestic Sales				✓		
Exports	✓					
Net Debt/Equity			✓			
Working Capital requirement			✓			
Quality of Management				✓		
Depth of Management				✓		
Promoter				✓		
Corporate Governance				✓		

Source: Company, Karvy Research

Valuation & Outlook

Relaxo, with its improving product mix and aggressive advertising, is moving up the value chain and becoming strong pan India player. By signing up leading celebrities from Bollywood for promoting their products, the company has build its brands and strengthening its distribution network and venturing into e-commerce channels to push the sales. At CMP of Rs. 848, the stock is trading at 29x FY17E EPS. We value the company at 32.2x and arrive at target price of Rs. 924 with an upside potential of 9% with "HOLD" rating.

Exhibit 21: PE Band


Source: Company, Karvy Research

Exhibit 22: PB Band


Source: Company, Karvy Research

Exhibit 23: EV/EBITDA


Source: Company, Karvy Research

Exhibit 24 (a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Relaxo	848	50,865	13.1	20.3	16.2	12.9	27.0	49.4	39.1	29.5	10.9	17.2	21.7	28.7
Bata India	1027	65,935	19.6	19.0	17.1	13.6	38.2	28.9	28.3	21.9	29.7	35.6	36.3	47.0
Liberty	222	3,781	8.1	11.9	8.7	7.2	18.6	22.4	20.0	14.1	7.8	9.9	11.1	15.7

Source: Karvy Research, Bloomberg

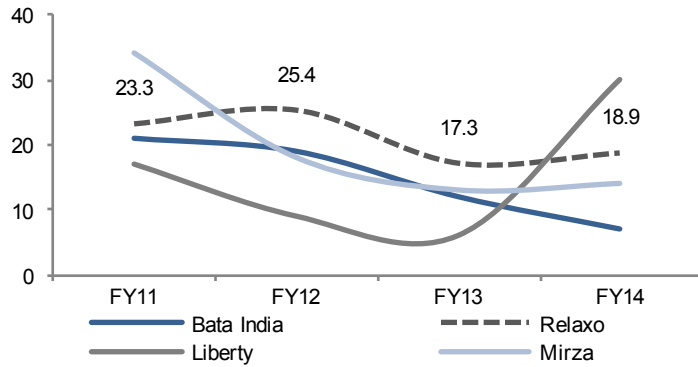
Exhibit 24 (b): Comparative Valuation Summary

	CAGR % (FY15-17E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY14	FY15	FY16E	FY17E	3m	6m	12m	FY14	FY15	FY16E	FY17E
Relaxo	21.4	25.5	29.3	26.7	32.0	30.3	30.0	23.0	67.0	124.0	12,118	14,810	17,941	21,822
Bata India	5.0	12.8	15.6	23.4	24.8	22.0	24.0	(18.9)	(18.7)	(11.0)	24,234	28,030	26,125	30,918
Liberty	20.7	28.2	25.7	9.7	10.7	12.9	16.3	(19.5)	(9.8)	37.2	5,008	5,239	6,510	7,635

Source: Karvy Research, Bloomberg

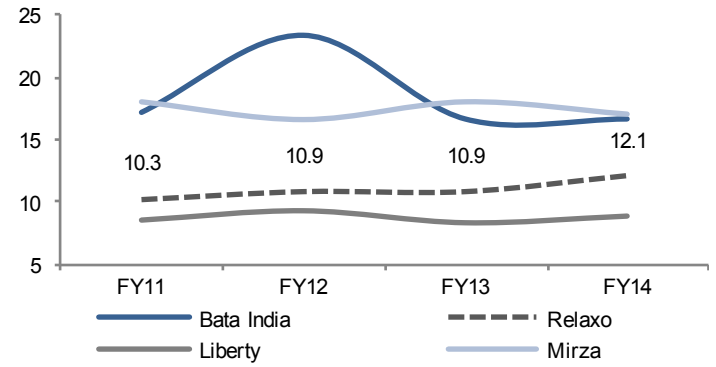
Peer Comparison

Exhibit 25: Revenue Growth (%)



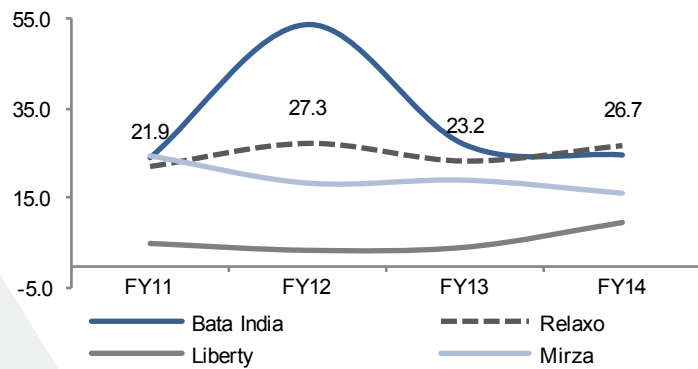
Source: Company, Karvy Research

Exhibit 26: EBITDA Margin (%)



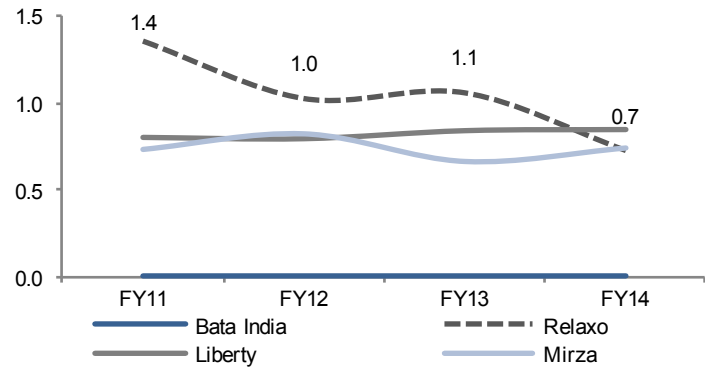
Source: Company, Karvy Research

Exhibit 27: RoE (%)



Source: Company, Karvy Research

Exhibit 28: Debt Equity Ratio



Source: Company, Karvy Research

Key Risks

1. Increase in raw material prices.
2. Slowdown in consumer spending.

Financials

Exhibit 29: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	10,098	12,118	14,810	17,941	21,822
Growth (%)	16.8	20.0	22.2	21.1	21.6
Operating Expenses	9,000	10,653	12,803	15,434	18,664
EBITDA	1,098	1,466	2,007	2,507	3,158
Growth (%)	16.5	33.5	36.9	24.9	26.0
Depreciation & Amortization	255	312	399	484	592
Other Income	11	28	4	7	8
EBIT	854	1,182	1,612	2,029	2,575
Interest Expenses	177	227	185	182	161
PBT	677	955	1,427	1,847	2,414
Tax	229	299	396	545	691
Adjusted PAT	448	656	1,031	1,302	1,722
Growth (%)	12.4	46.5	57.0	26.3	32.3

Source: Company, Karvy Research

Exhibit 30: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15E	FY16E	FY17E
Cash & Bank Balances	30	57	45	301	645
Sundry Debtors	360	682	837	923	1,099
Inventory	1,594	1,640	2,487	2,954	3,309
Loans & Advances	147	127	121	119	119
Investments	1	1	1	1	1
Gross Block	4,601	5,304	6,570	7,655	9,032
Net Block	3,267	3,658	4,480	5,127	5,912
CWIP	237	242	258	267	280
Miscellaneous	234	161	200	198	205
Total Assets	5,870	6,568	8,429	9,890	11,569
Current Liabilities & Provisions	1,892	2,312	2,962	3,269	3,465
Debt	1,502	1,143	1,445	1,345	1,145
Other Liabilities	332	348	343	363	394
Total Liabilities	3,726	3,803	4,750	4,977	5,004
Shareholders Equity	60	60	60	60	60
Reserves & Surplus	2,084	2,706	3,618	4,852	6,505
Total Networth	2,144	2,766	3,678	4,912	6,565
Minority Interest	-	-	-	-	-
Total Networth & Liabilities	5,870	6,568	8,429	9,890	11,569

Source: Company, Karvy Research

Exhibit 31: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	677	955	1,427	1,847	2,414
Depreciation	255	312	399	484	592
Interest	177	227	185	182	161
Tax Paid	(209)	(276)	(363)	(502)	(635)
Inc/dec in Net WC	(347)	32	(504)	(341)	(339)
Other Income	(2)	(8)	(9)	(9)	(8)
Other non cash items	2	8	6	6	6
Cash flow from operating activities	553	1,249	1,141	1,668	2,191
Inc/dec in capital expenditure	(844)	(711)	(1,256)	(1,076)	(1,366)
Inc/dec in investments	0	0	0	0	0
Others	13	14	15	15	15
Cash flow from investing activities	(831)	(697)	(1,241)	(1,061)	(1,351)
Inc/dec in borrowings	502	(270)	329	(114)	(279)
Issuance of equity	0	0	0	0	0
Dividend paid	(21)	(28)	(56)	(56)	(56)
Interest paid	(177)	(227)	(185)	(182)	(161)
Others	(9)	12	0	(0)	(0)
Cash flow from financing activities	294	(513)	88	(352)	(496)
Net change in cash	16	39	(12)	255	344

Source: Company, Karvy Research

Exhibit 32: Key Ratios

YE Mar (%)	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	10.9	12.1	13.5	14.0	14.5
EBIT Margin (%)	8.5	9.8	10.9	11.3	11.8
Net Profit Margin (%)	4.4	5.4	7.0	7.3	7.9
Dividend Payout ratio (%)	5.4	4.6	5.8	4.6	3.5
Net Debt/Equity	0.7	0.4	0.4	0.3	0.2
RoE (%)	23.2	26.7	32.0	30.3	30.0
RoCE (%)	24.7	28.7	33.2	33.6	35.0

Source: Company, Karvy Research

Exhibit 33: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	7.5	10.9	17.2	21.7	28.7
DPS (Rs.)	0.4	0.5	1.0	1.0	1.0
BV (Rs.)	35.7	46.1	61.3	81.9	109.4
PE (x)	14.0	27.0	49.4	39.1	29.5
P/BV (x)	23.7	18.4	13.8	10.4	7.8
EV/EBITDA (x)	37.1	27.8	20.3	16.2	12.9
EV/Sales (x)	0.9	1.6	2.8	2.3	1.9

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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