

Sector: Consumer Discretionary  
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 431	
Price Target: Rs. 508	↑

↑ Upgrade ↔ No change ↓ Downgrade

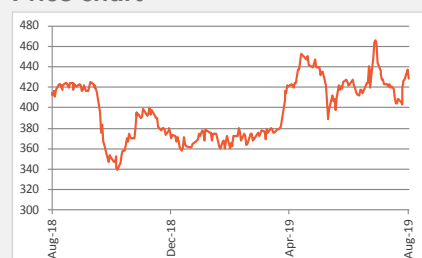
## Company details

Market cap:	Rs. 10,693 cr
52-week high/low:	Rs. 497/333
NSE volume: (No of shares)	1.1 lakh
BSE code:	530517
NSE code:	RELAXO
Sharekhan code:	RELAXO
Free float: (No of shares)	7.2 cr

## Shareholding (%)

Promoters	71.0
FII	3.4
DII	6.2
Others	19.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	-2.4	18.0	4.2
Relative to Sensex	3.1	1.1	17.0	4.9

Sharekhan Research, Bloomberg

Relaxo Footwear's (Relaxo) Q1FY2020 reported financials are not comparable on a y-o-y basis due to the implementation of Ind AS 116. Relaxo's revenue and operating profit grew by 15.4% each on a comparable basis, driven by strong volume growth and favourable product mix. Implementation of Ind AS 116 impacted PAT by ~Rs. 2 crore. Relaxo is expected to maintain its steady operating performance backed by sustained volume growth. We expect OPM to sustain at 14-15% in FY2020 on account of benign raw material prices and operating efficiencies. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 508.

## Key positives

- Revenue grew by 15.4% y-o-y to Rs. 648 crore, better than our expectation of Rs. 632 crore, mainly on account of good volume growth and a favourable product mix.
- Comparable GPM expanded by 47 BPS y-o-y because of softening raw-material prices
- The impact of implementation of Ind AS 116 on PAT was limited to Rs. 2 crore.

## Key negatives

- Comparable OPM stood flat at 14.8% as the benefit of softening input costs was offset by an increase in minimum wage rates

## Our Call

**Valuation:** We have broadly maintained our estimates for FY2020/ FY2021 as Q1FY2020 performance was largely in-line with expectation. The negative impact of Ind AS 116 on PAT in Q1 was around Rs. 2 crore. Roughly, we expect it to be around Rs. 8 crore for FY2020. We expect revenue and earnings to report a CAGR of 18% and 28%, respectively, over FY2019-FY2021. Proposed capacity expansion will help boost the volumes, thus, driving revenue growth. Given the company's strong business prospects and better earning visibility, we maintain our Buy recommendation on the stock with a revised PT of Rs. 508 (valuing it at 44x FY2021E earnings).

## Key Risks

Any slowdown in demand environment and heightened competition would threaten revenue growth.

## Valuation (Consolidated)

Particulars	FY17	FY18	FY19	FY20E	FY21E	Rs cr
Revenues	1,652	1,949	2,292	2,697	3,197	
OPM (%)	14.0	15.5	14.1	14.8	15.5	
Adjusted PAT	120	161	175	223	286	
% YoY growth	2.1	34.3	8.9	27.2	28.4	
Adjusted EPS (Rs.)	4.8	6.5	7.1	9.0	11.5	
P/E (x)	43.2	32.2	30.5	47.9	37.3	
P/B (x)	17.6	14.0	9.7	8.2	6.8	
EV/EBIDTA (x)	47.0	35.8	33.2	26.8	21.4	
RoNW (%)	21.9	23.6	18.8	18.5	19.9	
RoCE (%)	28.9	34.6	23.8	23.9	24.6	

Source: Company, Sharekhan Estimates

**Revenue grew strongly by 15.4% y-o-y, margins stood flat**

For Q1FY2020, Relaxo's revenue grew by 15.4% y-o-y to Rs. 648 crore, higher than our expectation of Rs. 632 crore, mainly on account of a favourable product mix and an increase in volumes. Gross margin increased by 47 BPS y-o-y to 54.1%, largely on account of softening raw material costs. Implementation of Ind AS 116 drove up operating profit by 28.4% y-o-y and OPM by 167 BPS to 16.4%. On a comparable basis, OPM stood flat at 14.8% (in-line with our expectation) as the lower raw material costs were offset by an increase in minimum wage rates. Comparable operating profit rose by 15.4% y-o-y to Rs. 95.7 crore on account of operating efficiencies. Post Ind AS 116, reported depreciation and finance costs in Q1FY2020 were significantly up at Rs. 26.6 crore and 4.7 crore, respectively as against Rs. 14 crore and Rs. 1.9 crore in Q1FY2019. Net impact of adoption of Ind AS 116 on reported PAT was Rs. 2 crore, which stood at Rs. 49.7 crore. On a comparable basis, PAT increased by 12.6% y-o-y to Rs. 51.8 crore, in-line with our expectation of Rs. 51.4 crore.

**Capacity expansion to add to revenue growth**

The capacity utilisation of Relaxo's existing plants stood at ~75% which rose up to ~90% in the peak season. The company is expected to enhance its current capacity by 1 lakh pairs, from 7.5 lakh pairs per day to 8.5 lakh pairs per day in its Bhiwadi plant in Rajasthan to meet the peak season demand. Total capex for the plant installation would amount to Rs. 90 crore, which will be funded through internal accruals. The proposed capacity expansion would take approximately three years.

Results (Standalone)					Rs cr	
Particulars	Q1FY20	Q1FY19	Y-o-Y (%)	Q4FY19	Q-o-Q (%)	
Net Revenue	648.3	562.0	15.4	635.7	2.0	
Raw-material cost	297.5	260.5	14.2	297.5	0.0	
Staff cost	72.4	64.8	11.7	67.0	8.1	
Other expenses	171.9	153.7	11.8	176.0	-2.3	
Total expenses	541.9	479.1	13.1	540.5	0.3	
Operating profit	106.4	82.9	28.4	95.2	11.8	
Other Income	1.2	2.4	-48.8	1.3	-6.8	
EBITDA	107.7	85.3	26.2	96.5	11.5	
Interest expenses	4.7	1.9	140.2	1.7	169.4	
Depreciation & Amortization	26.6	14.0	89.9	16.1	64.8	
PBT	76.4	69.4	10.2	78.7	-2.9	
Tax	26.7	23.4	14.0	24.3	9.9	
Adjusted PAT	49.7	46.0	8.3	54.4	-8.6	
Exceptional/ one off (net of taxes)	0.0	0.0	-	0.0	-	
Reported PAT	49.7	46.0	8.3	54.4	-8.6	
Diluted EPS	2.0	1.9	5.0	2.2	-8.6	
			<b>BPS</b>		<b>BPS</b>	
GPM (%)	54.1	53.6	47	53.2	91	
OPM (%)	16.4	14.7	167	15.0	144	

Source: Company; Sharekhan Research

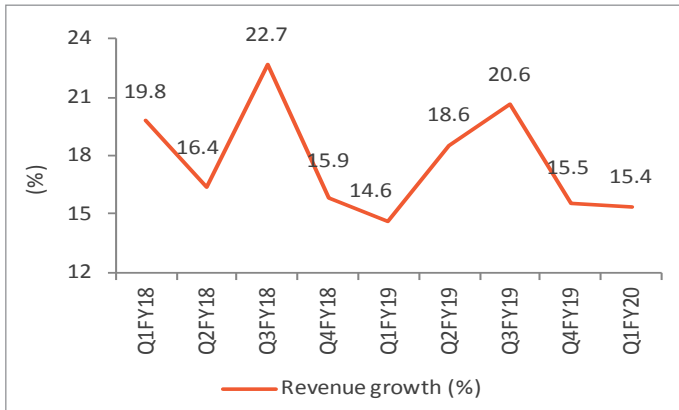
**Reported vs. Comparable (Standalone)**

Particulars	Q1FY20 (Reported)	Q1FY20 (Comparable)	Impact of Ind AS 116
Net Revenues	648.3	648.3	0.0
Operating profit	106.4	95.7	-10.7
Adjusted PAT	49.7	51.8	2.0
Adj. EPS	2.0	2.1	0.1
GPM (%)	54.1	54.1	-
OPM (%)	16.4	14.8	166

Source: Company; Sharekhan Research

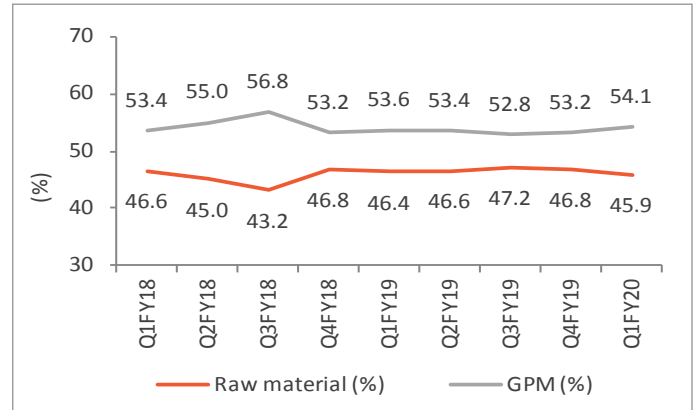
**Financials in charts**

**Revenue grew by 15.4% in Q1**



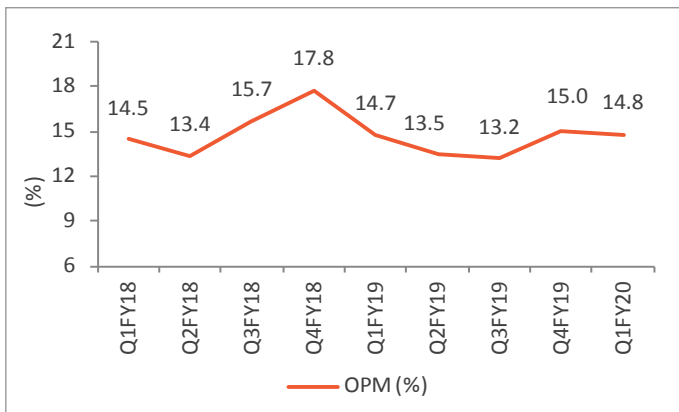
Source: Company, Sharekhan Research

**GPM expanded by 47 BPS y-o-y**



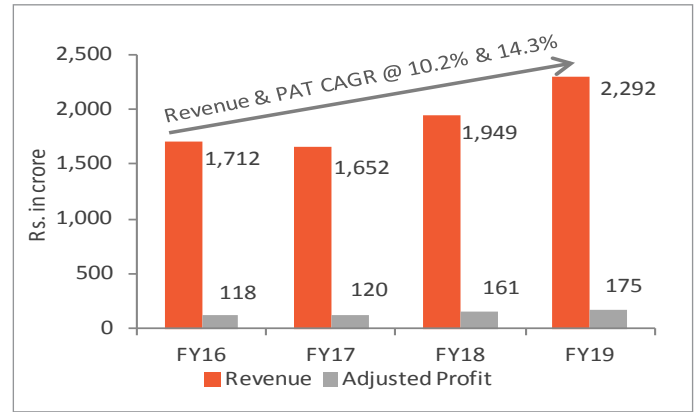
Source: Company, Sharekhan Research

**OPM stood flat on a comparable basis**



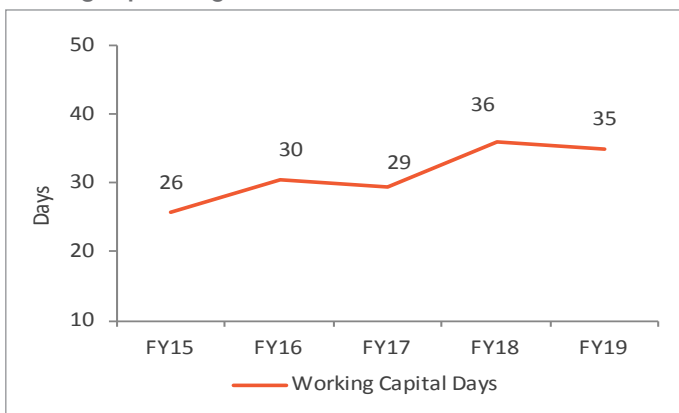
Source: Company, Sharekhan Research

**Revenue and PAT grew @ CAGR of 10.2% and 14.3%**



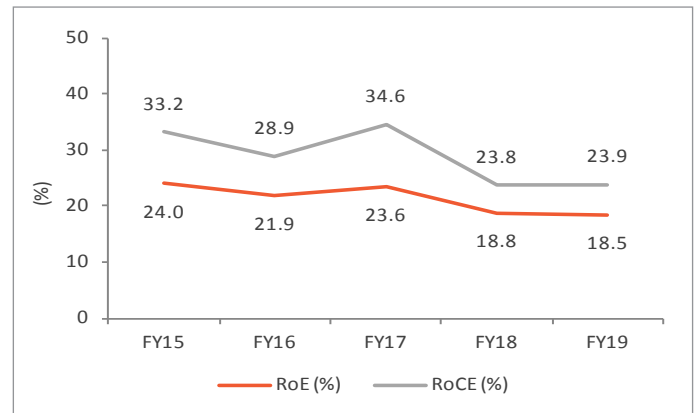
Source: Company, Sharekhan Research

**Working capital days remained stable**



Source: Company, Sharekhan Research

**Return ratios to remain in double digits**



Source: Company, Sharekhan Research

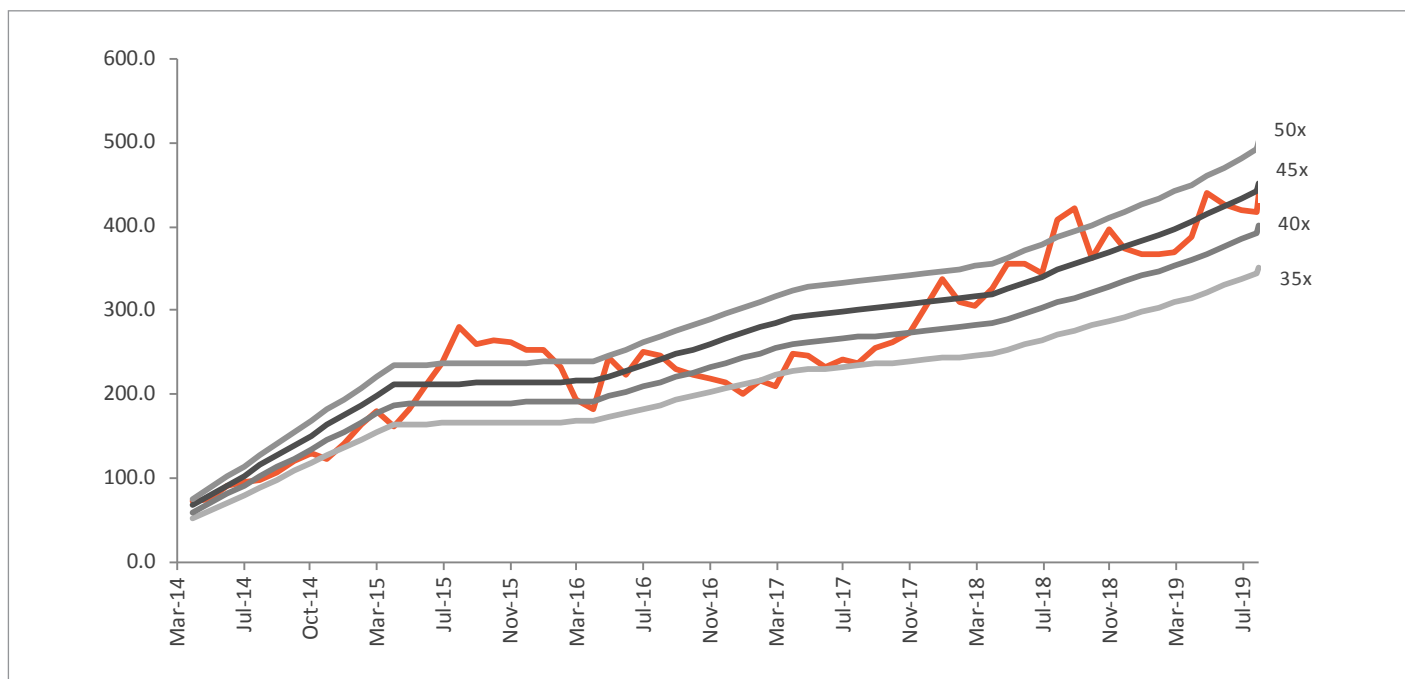
## Outlook

Relaxo posted a good set of numbers in Q1FY2020 with revenue and operating profit growing in double digits. This was despite a slowdown in the discretionary environment. We expect steady volume growth momentum in the near term and a gradual pick in the backdrop festive season. The company is expected to enhance its current capacity of 7.5 lakh pairs per day to 8.5 lakh pairs per day which will add to revenue growth. Improving product mix and benign input costs as well as price revision measures would help the company expand its margins. OPM is expected to sustain at 14-15% in FY2020. As regards the product mix, Sparx and Flite are growing faster than other divisions and are expected to sustain the growth momentum. The company is planning to introduce Sparx in eastern India in the coming quarters. The e-commerce channel is expected to grow at a fast pace. With ~75,000 identified relevant stores, the company has a distribution reach in approximately 35,000 to 40,000 stores. Relaxo has a 5% share in the footwear industry space and thus, has a huge scope for expansion going ahead. Moreover, a shift in consumer preference from unorganized to organized players teamed with innovation and increasing presence in the untapped markets will drive operating performance for Relaxo in the near to medium.

## Valuation

We have broadly maintained our estimates for FY2020/FY2021 as Q1FY2020 performance was largely in-line with expectation. The negative impact of Ind AS 116 on PAT in Q1 was around Rs. 2 crore. Roughly, we expect it to be around Rs. 8 crore for FY2020. We expect revenue and earnings to report a CAGR of 18% and 28%, respectively, over FY2019-FY2021. Proposed capacity expansion will help boost the volumes, thus, driving revenue growth. Given the company's strong business prospects and better earning visibility, we maintain our Buy recommendation on the stock with a revised PT of Rs. 508 (valuing it at 44x FY2021E earnings).

### One-year forward P/E (x)



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Bata	54.6	48.5	42.2	31.4	28.1	24.1	19.4	19.3	19.3
Khadim India	16.5	12.1	9.3	7.9	6.3	5.2	13.4	16.1	18.0
Relaxo Footwears	30.5	47.9	37.3	33.2	26.8	21.4	23.8	23.9	24.6

Source: Company, Sharekhan estimates

## About company

Relaxo is a leading footwear company in India with a turnover of over Rs. 2,000 crore. Headquartered in Delhi, the company has 10 manufacturing facilities across northern India with a capacity of over 7.5 lakhs units per day. It has a wide distribution reach of ~35,000-40,000 stores. Relaxo produces a wide range of footwear under its various brands Sparx, Bahamas, Flite, Schoolmate and Relaxo Hawaii. Bahamas and Flite cater to the young and fashionable target consumers, Sparx is marketed with durability as its USP whereas Schoolmate is brand specifically for school shoes.

## Investment theme

Relaxo has sustained double-digit volume growth in the last few quarters. With the implementation of GST, there is a shift from unbranded to branded products, which provides further scope for the company in the Rs. 55,000 crore-60,000 crore footwear market in India, of which ~50% is unbranded. Capacity expansion, investment behind its brands, sustained volume growth and increasing presence in untapped markets would be key growth drivers for Relaxo in the near to medium term.

## Key Risks

- ◆ Slowdown in discretionary demand: Any slowdown in the demand environment would affect revenue growth.
- ◆ Increased input costs: Any significant increase in rubber prices or crude oil derivatives would impact the profitability of the company
- ◆ Increased competition in highly penetrated categories: Heightened competition would act as a threat to revenue growth

## Additional Data

### Key management personnel

Ramesh Kumar Dua	Managing Director
Mukand Lal Dua	Executive Director and Chief Financial Officer
Nikhil Dua	Executive Director
Vikas Kumar Tak	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dua Ramesh Kumar	24.1
2	Dua Mukand Lal	20.4
3	VLS Securities Ltd	6.6
4	VL Finance	5.0
5	SBI Funds Management Pvt Ltd	4.2
6	Dua Lalita	3.8
7	Dua Usha	3.8
8	Dua Ritesh	3.8
9	Dua Gaurav	3.8
10	Dua Rahul	3.8

Source: Bloomberg

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by BNP PARIBAS

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