

Relaxo Footwears

HOLD

NSR stabilized, operating margin deteriorated

Summary

Relaxo Footwears Ltd's (Relaxo) Q1FY25 results were below consensus and our estimates on key parameters. The company reported yet another quarter of sales volume decline amid improved NSR. Increase in raw material prices and other expenses weighed on operating margin. The company reported nominal revenue increase during the quarter, largely due to weak consumer sentiments driven by election related disruptions and severe heat conditions in many parts of India. Net sales was marginally up by 1.3%YoY to Rs7,482mn, while EBITDA was down by 8% YoY to Rs989mn. EBITDA margin was down by 134bps over Q1FY24 to 13.2%. The company reported net profit of Rs444mn, down by 21.2% YoY. We have cut our net sales/PAT estimates by 4%/6% and 7%/7% over FY25E/FY26E respectively. We will be watchful of volume growth and margins recovery in near future. Maintain HOLD with a revised TP of Rs864 (earlier Rs920), assigning 65x PER on FY26E.

Key Highlights and Investment Rationale

- Another quarter of sales volume decline:** Relaxo's sales volume was at ~50mn pair, down by 2% YoY, while NSR improved by 3.3% YoY to Rs150/pair. The management decided not to pass on the higher costs to consumers in the current subdued market conditions, which has impacted the profitability in Q1FY25. We anticipate double digit net sales growth, primarily driven by volume and stabilized NSR in near term.
- Operating margin recovery to be watched, HOLD with a TP of Rs864:** Relaxo's subdued volume in Q1FY25 was marred by unfavorable market dynamics and we believe gradual recovery should be seen in upcoming quarters. The company's scale of operations, extensive distribution network and strong footing in low-mid priced footwear bodes well for long term earnings growth. HOLD with a TP of Rs864.

TP	Rs864
CMP	Rs845
Potential upside/downside	2%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	1.3	2.2	(9.5)
Rel to Sensex	0.1	(7.4)	(32.7)

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	10.3	13.3
Consensus	10.4	13.3
% difference	(1.0)	-

Key Stock Data

Bloomberg / Reuters	RLXF IN /RLXO.BO
Sector	Footwear
Shares o/s (mn)	249
Market cap. (Rs mn)	210,229
3-m daily avg Trd value(Rs mn)	8.5
52-week high / low	Rs974 / 760
Sensex / Nifty	80,982 / 24,718

Shareholding Pattern (%)

Promoters	71.3
FII	3.4
DII	9.5
Public	15.8

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	26,533	27,828	29,141	33,016	37,067
Change (yoy, %)	12	5	5	13	12
EBITDA	4,158	3,358	4,066	4,927	5,897
Change (yoy, %)	(16.1)	(19.2)	21.1	21.2	19.7
EBITDA Margin(%)	15.7	12.1	14.0	14.9	15.9
Adj.PAT	2,328	1,545	2,058	2,570	3,307
EPS (Rs)	9.4	6.2	8.3	10.3	13.3
Change (yoy, %)	(20.3)	(33.7)	33.2	24.9	28.7
PE(x)	90.3	136.2	102.2	82	64
Dividend Yield (%)	0.3	0.4	0.4	0.5	0.7
EV/EBITDA (x)	50.2	61.8	51.3	42.1	34.9
RoE (%)	14.0	8.5	10.7	12.5	15.0
RoCE (%)	16.9	11.2	13.0	15.9	18.7

Source: IDBI Capital Research

Archana Gude

archana.gude@idbicapital.com
+91-22-4069 1938

Sarthak Awasthi

sarthak.awasthi@idbicapital.com
+91-22-4069 1839

Exhibit 1: Q1FY25 Result Analysis

Particulars (Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Total revenues	7,482	7,472	0.1	7,388	1.3
Total expenditure	6,493	6,269	3.6	6,313	2.9
EBIDTA	989	1,204	(17.8)	1,076	(8.0)
<i>EBIDTA margin(%)</i>	<i>13.2</i>	<i>16.1</i>	<i>-289bps</i>	<i>14.6</i>	<i>-134bps</i>
Depreciation	391	385	1.7	346	13.1
Interest cost	49	47	4.9	45	9.6
Other income	54	51	7.3	73	(25.3)
PBT	603	823	(26.7)	758	(20.4)
Tax	160	209	(23.6)	195	(17.9)
Adj. net profit	444	614	(27.7)	563	(21.2)
Adj. EPS (INR)	1.8	2.5	(27.7)	2.3	(21.2)

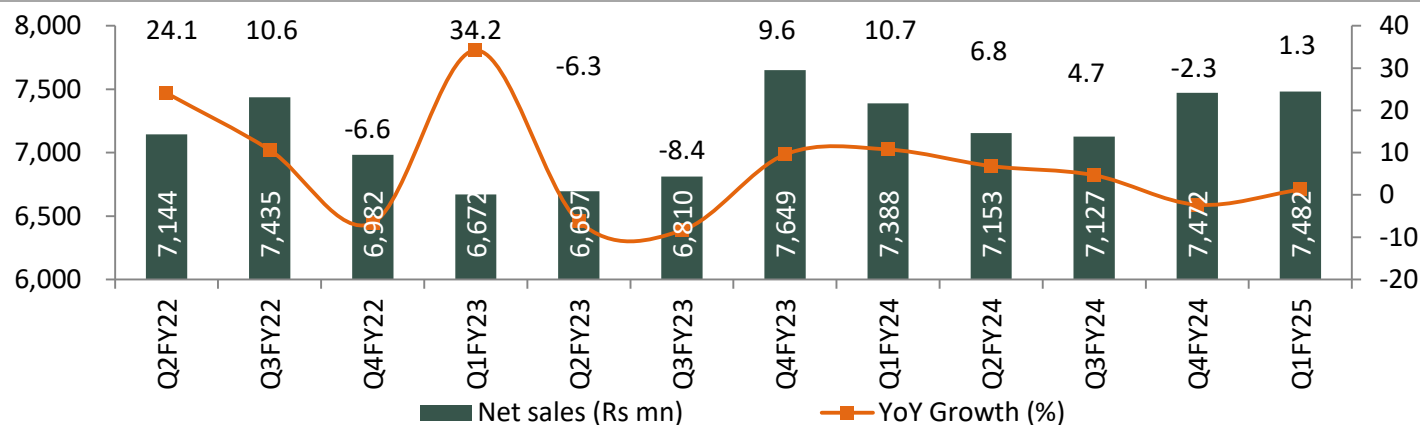
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q1FY25A	Q1FY25E	Variance (%)
Net Sales	7,482	7,573	-1%
EBITDA	989	1,144	-14%
<i>EBITDA Margin (%)</i>	<i>13.2</i>	<i>15.1</i>	<i>-188bps</i>
Net Profit	444	579	-23%
EPS, Rs	1.8	2.3	-23%

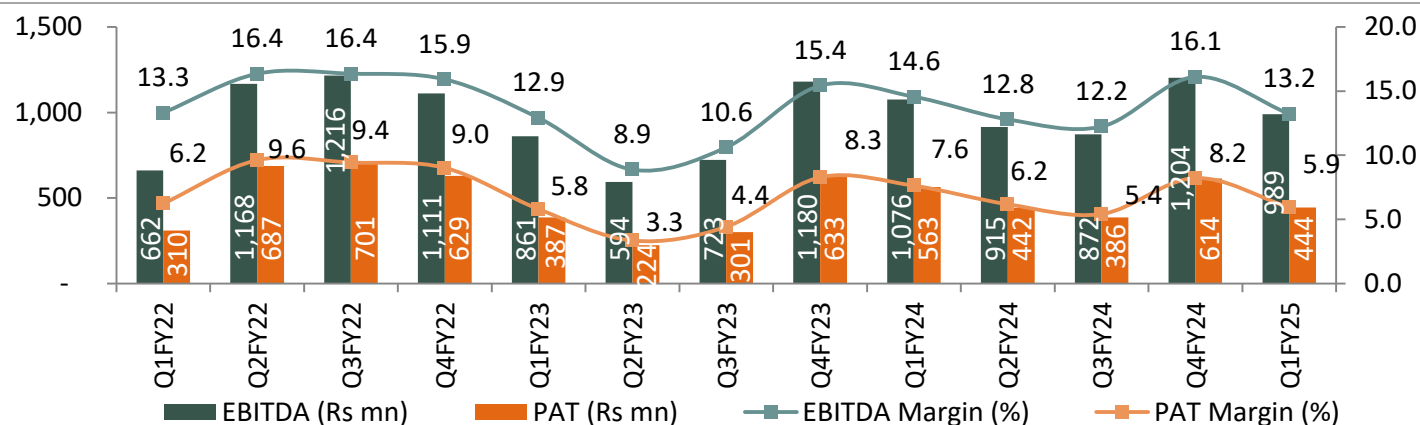
Source: Company; IDBI Capital Research

Exhibit 3: Net sales trend



Source: Company; IDBI Capital Research

Exhibit 4: Margins analysis



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	23,592	26,533	27,828	29,141	33,016	37,067
<i>Change (yoy, %)</i>	<i>(2.1)</i>	<i>12</i>	<i>5</i>	<i>5</i>	<i>13</i>	<i>12</i>
Operating expenses	(18,637)	(22,375)	(24,470)	(25,075)	(28,089)	(31,170)
EBITDA	4,955	4,158	3,358	4,066	4,927	5,897
<i>Change (yoy, %)</i>	<i>21.2</i>	<i>(16)</i>	<i>(19)</i>	<i>21</i>	<i>21</i>	<i>20</i>
<i>Margin (%)</i>	<i>21.0</i>	<i>15.7</i>	<i>12.1</i>	<i>14.0</i>	<i>14.9</i>	<i>15.9</i>
Depreciation	(1,100)	(1,135)	(1,251)	(1,475)	(1,503)	(1,583)
EBIT	3,855	3,022	2,107	2,591	3,423	4,314
Interest paid	(171)	(153)	(192)	(187)	(327)	(316)
Other income	228	237	186	289	338	422
Pre-tax profit	3,912	3,106	2,100	2,693	3,434	4,419
Tax	(996)	(778)	(555)	(635)	(864)	(1,112)
<i>Effective tax rate (%)</i>	<i>25.5</i>	<i>25.0</i>	<i>26.4</i>	<i>23.6</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
Net profit	2,916	2,328	1,545	2,058	2,570	3,307
Exceptional items	-	-	-	-	-	-
Adjusted net profit	2,916	2,328	1,545	2,058	2,570	3,307
<i>Change (yoy, %)</i>	<i>28.9</i>	<i>(20)</i>	<i>(34)</i>	<i>33</i>	<i>25</i>	<i>29</i>
EPS	11.7	9.4	6.2	8.3	10.3	13.3
Dividend per share	2.5	2.5	3.0	3.5	4.5	5.5
<i>Dividend Payout (%)</i>	<i>25.6</i>	<i>32.1</i>	<i>58.0</i>	<i>51</i>	<i>52</i>	<i>50</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	15,726	17,601	18,551	20,011	21,237	22,901
Share capital	248	249	249	249	249	249
Reserves & surplus	15,478	17,352	18,302	19,762	20,988	22,652
Total Debt	-	200	-	185	204	224
Other liabilities	1,641	549	602	631	699	797
Curr Liab & prov	4,391	5,475	5,796	6,312	6,499	6,685
Current liabilities	3,958	4,997	5,351	5,719	5,863	6,004
Provisions	433	478	445	593	636	681
Total liabilities	6,032	6,225	6,398	7,128	7,402	7,706
Total equity & liabilities	21,758	23,826	24,948	27,139	28,639	30,607
Net fixed assets	8,724	9,469	10,436	10,615	10,132	9,573
Investments	2	250	247	248	260	273
Other non-curr assets	2,233	2,237	2,329	3,812	3,858	3,901
Current assets	10,799	11,870	11,936	12,464	14,389	16,860
Inventories	4,221	6,733	5,638	5,988	6,287	6,665
Sundry Debtors	1,815	2,508	2,703	3,577	3,935	4,329
Cash and Bank	3,457	1,818	2,746	1,806	3,029	4,661
Loans and advances	1,306	812	849	1,093	1,137	1,205
Total assets	21,758	23,826	24,948	27,139	28,639	30,607

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	3,912	3,106	2,100	2,693	3,434	4,419
Depreciation	1,100	1,135	1,251	1,475	1,503	1,583
Tax paid	(1,016)	(807)	(539)	(612)	(778)	(1,001)
Chg in working capital	334	(2,120)	1,218	(708)	(471)	(585)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	4,330	1,314	4,030	2,848	3,688	4,416
Capital expenditure	(1,458)	(1,880)	(2,218)	(1,654)	(1,020)	(1,024)
Chg in investments	-	(248)	3	(1)	(12)	(13)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(4,837)	(441)	(2,528)	(478)	(1,239)	(1,141)
Equity raised/(repaid)	2	(2)	-	-	-	-
Debt raised/(repaid)	(192)	200	(200)	185	19	20
Dividend (incl. tax)	(745)	(747)	(896)	(1,045)	(1,344)	(1,643)
Chg in minorities	-	-	-	-	-	-
Other financing activities	1,478	(277)	210	(1,273)	(108)	(124)
Cash flow from financing (c)	543	(825)	(886)	(2,133)	(1,434)	(1,746)
Net chg in cash (a+b+c)	36	48	616	237	1,016	1,529

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	29.1	37	40	46	51	58
Adj EPS (Rs)	11.7	9.4	6.2	8.3	10.3	13.3
Adj EPS growth (%)	28.8	-20	-34	33	25	29
EBITDA margin (%)	21.0	15.7	12.1	14.0	14.9	15.9
Pre-tax margin (%)	16.6	11.7	7.5	9.2	10.4	11.9
Net Debt/Equity (x)	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2
ROCE (%)	24.4	17	11	13	16	19
ROE (%)	20.5	14	9	11	12	15

DuPont Analysis

Asset turnover (x)	1.2	1.2	1.1	1.1	1.2	1.3
Leverage factor (x)	1.4	1.4	1.3	1.4	1.4	1.3
Net margin (%)	12.4	8.8	5.6	7.1	7.8	8.9

Working Capital & Liquidity ratio

Inventory days	65	93	74	75	70	66
Receivable days	28	35	35	45	44	43
Payable days	44	36	38	37	34	32

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	72.0	90.3	136.2	102.2	81.8	63.6
Price/Book value (x)	29.0	23.1	20.9	18.3	16.5	14.6
EV/Net sales (x)	8.8	7.9	7.5	7.2	6.3	5.6
EV/EBITDA (x)	41.7	50.2	61.8	51.3	42.1	34.9
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.5	0.7

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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