Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

Bonanza
make money. not mistakes.

25th July 2023

Relaxo Footwear Ltd. – BUY

CMP : Rs. 948.0
Target Price : Rs. 1,144.0
Upside : 20%+
Stop Loss : Rs. 820 (Closing basis)

Investment Thesis

- Relaxo Footwears Limited (Relaxo) is managed and headed by team of experienced industry veterans. The management has a proven track record of meeting targets and executing growth plans. The focus of management has been lean manufacturing, yield improvement and cost optimization. This approach has led Relaxo to be a cost leader in the footwear segment.
- Over the years, Relaxo has become a household name with strong brand recall. The product is endorsed by superstar celebrities viz., Salman Khan and Akshay Kumar, which provides it massive visibility. Further, the company has built a wide distribution network of over 65,000 retailers/ Multi-Brand Outlets, ~650 distributors, and 387 EBOs.
- Manufacturing excellence is the biggest moat Relaxo possess. By the end of FY23, Relaxo has a manufacturing capacity of ~10 lakh pairs/ day and is operating at ~50% utilization overall (capacity utilization of closed footwear was 60%). Additionally, management incurred CapEx of Rs. 174 crs in FY23. Currently, capacity is enough to accommodate the demand for the next 2 years.
- Relaxo became debt free in FY23.
- Operating margin was under pressure during FY23 due to the inflation in the raw material. Further, Relaxo lost market share to the unbranded players since its prices were not competitive in the value category. Relaxo significantly reduced prices, which allowed it to regain market share lost in the previous two quarters. According to the management guidance, raw material prices are expected to moderate, which will help improve margins and regain all lost market share by H1FY24.
- Management Guidance
  - Currently, Sparx is a Rs. 400 crs brand and management aims to reach Rs. 1,000 crs.
  - Target double-digit volume growth in FY24, with a minimum of 15%.
  - EBITDA Margin to be stable around 15 – 16%
  - Target realization per pair to be ~Rs. 160 – 165 for FY24.
  - Management is looking to improve share from online channels and is exploring partnerships with AJIO and Tata CLiQ.

Financials

- In Q1FY24, Relaxo's revenue grew by 11% Y-o-Y to Rs. 739 crs from Rs. 667 crs in Q1FY23. During FY23, revenue increased by 4.67%. The topline has expaned at a modest CAGR of 7.47% during FY19-23, with Sparx being a strong driver for growth.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	2,419	2,381	2,676	2,801	3,116
EBITDA (Rs in Crs)	418	518	439	354	467
Adj. PAT (Rs in Crs)	226	291	232	154	247
Adj. EPS (Rs.)	9.12	11.74	9.35	6.21	9.95
PE Multiple (x)	65.51	74.47	113.95	136.78	115.00
RoE (%)	19.16	20.61	14.00	13.21	11.76

Stock Data

Market Cap (Rs. Crs)	23,604
Market Cap ($ Mn)	2,883
Shares O/S (in Mn)	249
Avg. Volume (3 month)	10,930
52-Week Range (Rs.)	1,107 / 748

Shareholding Pattern

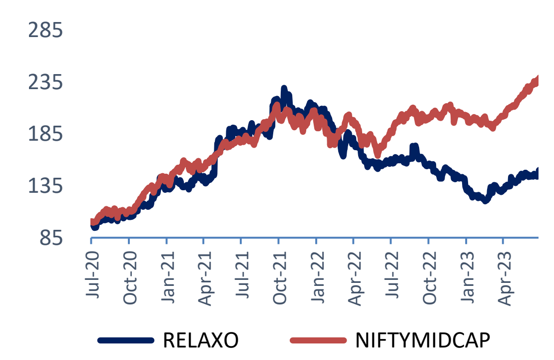
Promoters	71.27
FIIs	2.87
Institutions	7.96
Others (incl. body corporate)	17.98

Key Ratios

Div Yield (%)	0.27
TTM PE (x)	137.3
ROE (%)	13.21
TTM EPS (Rs.)	6.21

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	2.0	4.8	1.0
RELATIVE	(3.8)	(0.9)	(27.2)



- EBITDA Margin has increased 14.6% in Q1FY24 marking a jump of 170 bps Y-o-Y. The EBITDA saw a growth of 25% Y-oY to reach Rs. 108 crs. EBITDA Margin has depressed to 12.64% in FY23 from 16.41% in FY22, primariliy on account of raw material cost inflation. Further, to regain market share, Relaxo undertook price cuts. Raw material prices corrected during H2FY23 which helped improve operating performance.
- Consequently, PAT declined to Rs. 154 crs in FY23 from Rs. 232 crs in FY22.

Key Business Highlights

- Relaxo the largest footwear manufacturing company in India, which deals in non-leather products i.e. rubber/EVA slippers, canvas shoes, sport shoes, sandals, school shoes and other types of footwear. It is also the leader in 'value' segment footwear.
- It has a portfolio of 9 brands namely Relaxo, Flite, Sparx, Boston, MaryJane, Casualz, KidsFun and Bahamas.
- Average realization per pair remained steady Rs. 145
- During FY23, to cater the demand for the Sparx Sportwear segment, capacity expansion was undertaken. Sparx account for 40% of portfolio and witnessed 13% Y-o-Y growth.

Valuation

The recent price correction is helping Relaxo improve performance and is likely to pick up from FY24 led by improvement in volumes and margin pressures will ease as management expects input prices to soften, elevating the profitability. After the Q1FY24 results, Relaxo is available at PE / EBITDA Multiple of 137.3x / 62.3x against Industry PE / EBITDA Multiple of 100.8x / 44.5x which is a at ~40% premium. However, since Relaxo is leader in the space, has great growth prospects, equiped with an experienced and agile management.

Therefore, in light of above, we ascribe a **BUY** rating for **Relaxo** with a **target price** of **Rs. 1,144.00,** translating to an **upside** of **~20%.**

Risk & Concern

- Slowdown in discretionary demand would affect revenue growth.
- Increased competition from unbranded players in highly penetrated categories could threaten revenue growth.
- Any significant increase in rubber prices or that of crude oil derivatives would adversely impact profitability.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

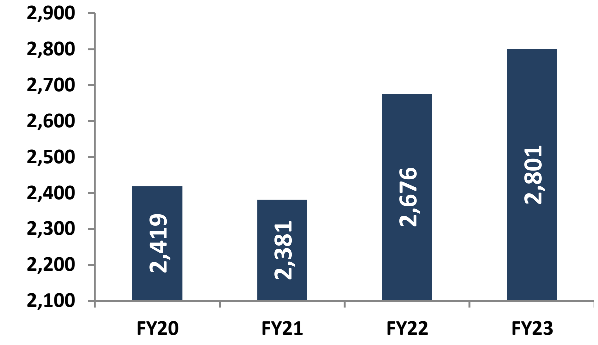


Figure 2: EBITDA & EBITDA Margins Trend

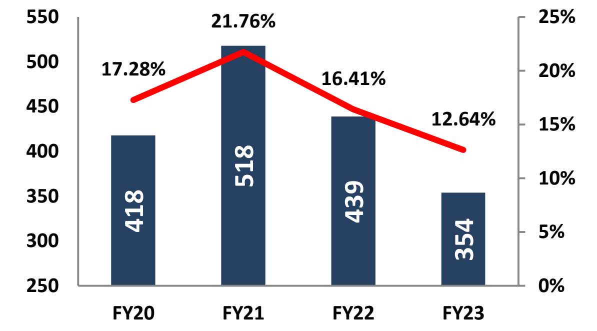


Figure 3: Brand-wise Breakup (FY23)

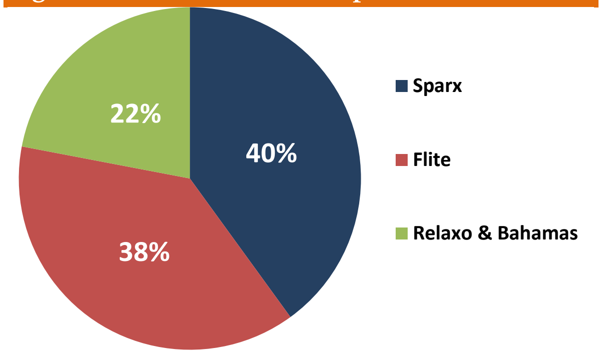
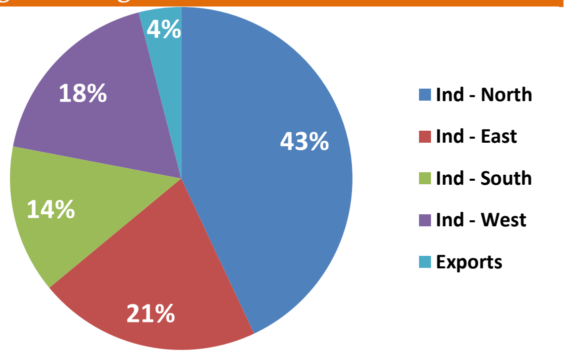


Figure 4: Region-wise Revenue (FY23)



Name
Omkar Kamtekar

Designation
Research Analyst

Omkar Liladhar Kamtekar

Digitally signed by Omkar Liladhar Kamtekar
Date: 2023.07.25 15:27:57 +05'30'

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: https://www.bonanzaonline.com

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : |CASH| DERIVATIVE| CURRENCY DERIVATIVE | COMMODITY SEGMENT|

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186