Relaxo Footwears Ltd

Industry	LTP	Base Case - Fair Price	Bull Case – Fair Price	Buy Range	Time Horizon
Footwear	Rs. 674.6	680	742	494 - 544	2 quarters

HDFC Scrip Code	RELFOOEQNR
BSE Code	530517
NSE Code	RELAXO
Bloomberg	RLXF IN
CMP June 10, 2020	674.6
Equity Capital (Rs cr)	24.8
Face Value (Rs)	1.00
Equity Share O/S (cr)	24.8
Market Cap (Rs crs)	16744
Book Value (Rs)	51.3
Avg. 52 Wk Volumes	194,444
52 Week High	830.2
52 Week Low	388.5

Share holding Pattern % (Mar 31, 20)	
Promoters	71.0
Institutions	9.4
Non Institutions	19.6
Total	100.0

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Our Take:

Rapid urbanization, demographic changes including ever increasing demand of growing middle class population with the rising disposable income, changing lifestyles, health awareness, etc., are now leading to men and women both wearing a variety of footwear in their daily lives. Additionally, increasing demand for sports shoes and branded footwear among all age groups is likely to generate higher demand for athletic footwear. India is globally the second largest footwear producer after China. India's footwear production accounts ~9 per cent of the global annual production of 22 billion pairs as compared to China's which produces over 60 per cent. However, India's share in global exports is just 2% compared to China's share of ~40% thus presenting room for growth opportunities. Footwear is a long-term structural trend in India. The Indian footwear market is projected to grow at north of ~13-15% over the medium term led by continued shift in 'unbranded to branded' and increased adoption owing to versatility in usage.

Relaxo's Q4FY20 sales were impacted due to COVID-19 lockdown and overall demand has suffered. The Government has started easing out the lockdown, school and colleges are going to open in some time and the demand for open slippers has been improving.

Valuations & Recommendation:

Going forward, raw material prices are softening and expected to remain soft. Relaxo is focused on product innovation with world-class, in-house design capabilities and deepening customer engagement. Relaxo has brought down its debt to equity ratio from 1.2 times to 0.1 times over the last 5-6 years, and as per the current scenario the company may soon become totally debt-free. Evolving premium product portfolio and increased penetration into south and west India could keep the medium to long-term growth drive in good stead. Relaxo's mass appeal of their brands (through celebrity endorsements) and attractive pricing points make it worth a look.

However, given the sharp ~58% rally in the stock price from March 2020 lows to June highs, despite our positive stance on the stock investors can wait to enter the stock. The company has already witnessed significant rerating over past few years limiting any large upside in rerating. Global footwear companies are quoting at much lower valuations than Relaxo or even Bata as the street believes that growth rates and return ratios are better in India compared to other countries.

We feel the fair value of the stock in base case scenario is Rs.680 (55xFY22E EPS) and bull case scenario is Rs.742 (60xFY22E EPS). For margin of safety and enough upside, investors could buy the stock on the decline in the Rs. 494-544 band (40-44xFY22E EPS). At the CMP of Rs 674.60 the stock trades at 54.6x FY22E EPS.

Financial Summary

Particulars (Rs cr)	Q4FY20	Q4FY19	YoY-%	Q3FY20	QoQ-%	FY19	FY20	FY21E	FY22E
Total Operating Income	540.6	635.7	-15.0	599.8	-9.9	2292.1	2410.5	2446.6	2909.1
EBITDA	96.2	95.2	1.0	101.6	-5.3	324.3	409.0	435.5	520.7
Depreciation	27.6	16.1	71.6	27.5	0.6	62.4	109.4	112.9	114.3
Other Income	4.0	1.3	200.0	2.2	83.9	13.0	9.1	8.6	10.2
Interest Cost	3.5	1.7	102.9	4.4	-20.0	6.9	16.9	13.7	7.7
Tax	17.2	24.3	-29.0	17.8	-2.9	92.5	65.5	71.4	102.2
APAT	51.8	54.4	-4.8	54.2	-4.4	175.4	226.3	246.0	306.7
Diluted EPS (Rs)	2.1	2.2	-4.8	2.2	-4.4	7.1	9.1	9.9	12.4
RoE-%						15.9	17.8	16.6	17.6
P/E (x)						95.4	74.0	68.0	54.6
EV/EBITDA						51.9	41.3	38.7	32.3

(Source: Company, HDFC sec)

Recent Triggers

Soft raw material prices to ramp up its margins going forward

Ethylene Vinyl Acetate (EVA) and Polyurethane (PU) are key raw materials for Relaxo and the prices of these are expected to remain soft. The company has added inventory of RM at lower prices to cover some weeks of production. This is likely to help expand gross margins from hereon. Further, the company expects operational efficiencies to expand EBITDA margins going ahead. We believe that the overall cost management and volume growth could help Relaxo to expand margins going forward.

Large focus on non-leather segment could bring more demand for Relaxo in near to medium term

The Indian footwear industry plans to focus more on non-leather footwear products as 86 per cent of the footwear consumed worldwide comprises non-leather. This could be beneficial to Relaxo Footwear as it is majorly engaged in non-leather products such as rubber/EVA/PU slippers, canvas/sports/school shoes, sandals, etc. It has a ten-brand portfolio including major brands like Relaxo, Sparx, Flite and Bahamas. The company's geographical mix stands at Domestic (97 per cent) and Exports (balance two to three per cent). Demand from rural area and upcoming monsoon season could bring more non-leather footwear demand going forward.

Long term Triggers

Impressive product portfolio, pan India presence and focus on in-season product launches:

- Relaxo had started its business as manufacturer of rubber based Hawai slippers. But, company has expanded its product portfolio over the years to include Ethylene Vinyl Acetate (EVA) slippers, Polyurethane (PU) slippers, casual shoes, sports shoes and sandals. The market position of the company’s products has also improved over the years on account of significant advertising & branding initiatives and celebrity endorsements.
- New products are likely to sustain their growth and company’s in-house design team has maintained a strong new product portfolio over the years. Sales contribution from new product launches has grown across all brands- Relaxo, Fllte, Sparx and Bahamas.

- Relaxo has a pan-India presence of distributors and retail stores, selling Relaxo products through more than 50,000 point of sales (POS), resulting in high geographical and customer diversification. It also has 390 exclusive brand outlets in India. Relaxo launched strategic Initiative to streamline the distribution network - especially in underpenetrated markets (tier-III and tier-IV cities) which have given its substantial incremental sales.

Possible rise in per capita demand in India could bring revenue visibility for Relaxo going forward

- India's footwear market is under penetrated as its average per capita consumption is only 1.7 pair per annum as compared to global average of 3 pairs and developed countries average of 5 pairs. Given this trend and consumers' changing preference for fashionable footwear, per capita consumption of Indian consumers is likely to increase going ahead.
- Thus, with rising disposable incomes, robust economic growth and increasing awareness of fashion through opening of malls, Indian footwear markets is well placed as a sweet spot. The passage of GST bill likely to benefit the organized players and this in turn may help them to gain further market share. Being a leading player in the industry, Relaxo could one of the key beneficiaries going forward.

Reduction of GST rate from 18% to 5% and Government's initiatives could spur footwear demand, positive for Relaxo

On June 12, 2018, GST Council lowered GST rates on footwear below Rs 1,000 to 5% from 18% earlier (footwear having a retail sale price up to Rs500/pair is already covered under 5% rate). The changes in tax rate came into effect from July 27, 2018. This has spurred demand in the sector and led to volume-led growth particularly between Rs 500-1,000 price range. The government recently approved Rs 2600cr for leather and footwear industry over FY18-FY20 under the central sector scheme 'Indian Footwear, Leather & Accessories Development Programme' (IFLADP). This could also help the stagnant sector growth by increasing leather and footwear exports.

Thrust on Marketing and advertising will continue to help Relaxo up the value chain and ASP

Despite largely catering to the mass segment with an average selling price of ~Rs135, Relaxo gives enough importance to branding its products. It has consistently spent ~10% on sales and promotions (including ~4.5% on advertisement) in the past 10 years. It hired several Bollywood celebrities as its brand ambassadors for different product categories.

All this has helped its average selling price to triple over FY06-FY19 @9% p.a. and will help it improve the ASP further going forward.

Robust financial performance led by better margins, efficient working capital and profitability

- Revenue fell by 15 per cent (YoY) to Rs 541cr in Q4FY20, adversely affected due to nationwide lockdown in the month of March 20, though the revenue of the Company had grown at ~13% till Dec 2019.It sold 17.9 cr pairs in FY20.
- Relaxo's revenue grew at a compounded annual growth rate (CAGR) of 15.8 per cent over the last one decade (from FY10 to FY20) and reported PAT growth at a CAGR of 19.6 per cent over the period of FY10 to FY20. In FY20, the company reported 5.2 per cent revenue growth to Rs 2410.5cr. We expect, company could report more than Rs 2447cr of sales in FY21E and Rs 2826cr in FY22E, representing 1.5 per cent and 15.5 per cent growth in FY21E and FY22E, respectively.
- In FY20, Relaxo produced @ 75%+ capacity utilization overall which goes up to - 90% in the peak season. It has 8 manufacturing facilities with a daily capacity to produce 7.50 lacs pairs/day.

- Relaxo has a comfortable solvency position. Its overall gearing improved over the past six years ended March 31, 2020 and stood at a comfortable level of 0.1x as on March 31, 2020. We expect 0.1x in FY21E, and FY22E. It has comfortable liquidity profile. The company has recorded strong internal accruals which, coupled with the decline in debt, has led to healthy debt protection indicators- interest cover stood at ~18 times in FY20.
- Its Inventory days increased from 64 in FY19 to 68 in FY20 as the company focused on store-to-store rotation of stock and liquidation of aged inventory to maintain optimum inventory level. While, receivable days decreased from 31 days in FY19 to 26 days in FY20.
- The company has been consistent in dividend payments over the years. Dividend payout stood 16.5 per cent.

What could go wrong?

- Competition, limited geographical footprint and slowdown in discretionary demand are key concerns.
- Any significant increase in rubber prices and other raw materials like Ethylene Vinyl Acetate (EVA) and Polyurethane (PU) could impact its profitability going forward.
- Relaxo significantly depends on the MBO channel with the same contributing ~ 80% of its revenues. Continued liquidity stress in the MBO (multi brand outlets) channel can adversely impact the revenue growth trajectory and also inflate the working capital cycle.
- Due to nationwide lockdown, overall demand for overall footwear is subdued but demand for open slipper segment has improved during the period. However due to restrictions in manufacturing operations fulfillment of such demand will be a challenge in short term.

About the company

Relaxo Fotwears Ltd is one of the leading footwear companies in India. It manufactures Hawai rubber slippers, EVA and PU based slippers and sports shoes and sandals. It has a portfolio of 9 brands including major brands like Relaxo, Flite, Sparx and Bahamas. Company has capacity to manufacture more than 20 crore (six lac pairs of footwear every day) pairs per annum. With a combination of comfort, style, and quality, Relaxo provides a wide collection of fashionable, colourful, comfortable and durable footwear for men, women and children. Company sells its products through its wholesale, export and retail network. The company sells its products through more than 50,000 retailers served through distributors, ~700 distributors, 390 plus executive brand outlets, exports, e-commerce, modern trade etc. It has 8 state of the art manufacturing facilities, five in Bahadurgarh (Haryana), two in Bhiwadi (Rajasthan) and one in Haridwar (Uttarakhand), it’s headquarter is located in New Delhi. The company’s business process is managed through SAP & SAP HANA. As on 31st March, 2019, company has 6,254 employees.

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	**1941.1**	**2292.1**	**2410.5**	**2446.6**	**2909.1**
Growth (%)	19.0	18.1	5.2	1.5	18.9
Operating Expenses	1639.0	1967.8	2001.5	2011.1	2388.3
EBITDA	**302.1**	**324.3**	**409.0**	**435.5**	**520.7**
Growth (%)	**30.8**	**7.4**	**26.1**	**6.5**	**19.6**
EBITDA Margin (%)	**15.6**	**14.1**	**17.0**	**17.8**	**17.9**
Depreciation	54.3	62.4	109.4	112.9	114.3
EBIT	**247.8**	**261.9**	**299.5**	**322.6**	**406.5**
Other Income	4.5	13.0	9.1	8.6	10.2
Interest expenses	8.6	6.9	16.9	13.7	7.7
PBT	**243.6**	**268.0**	**291.7**	**317.5**	**409.0**
Tax	82.6	92.5	65.5	71.4	102.2
RPAT	**161.1**	**175.4**	**226.3**	**246.0**	**306.7**
Growth (%)	**34.3**	**8.9**	**29.0**	**8.8**	**24.7**
EPS	6.5	7.1	9.1	9.9	12.4

Balance Sheet

As at March	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**12.0**	**12.4**	**24.8**	**24.8**	**24.8**
Reserves	**749.2**	**1092.7**	**1247.6**	**1456.4**	**1718.5**
Shareholders' Funds	**761.2**	**1105.1**	**1272.4**	**1481.2**	**1743.3**
Long Term Debt	39.3	0.0	119.8	94.8	34.8
Net Deferred Taxes	26.3	34.4	24.8	26.0	22.1
Long Term Provisions & Others	8.2	9.0	10.9	11.4	12.0
Minority Interest	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Source of Funds	**835.0**	**1148.5**	**1427.8**	**1613.4**	**1812.1**
APPLICATION OF FUNDS					
Net Block(incld CWIP)	662.4	859.5	1026.6	1038.7	1074.4
Other Non-Current Assets	25.7	24.9	23.3	32.8	46.9
Total Non Current Assets	**688.1**	**884.5**	**1049.9**	**1071.5**	**1121.4**
Inventories	313.9	401.5	447.7	435.7	518.1
Trade Receivables	173.5	196.6	172.1	201.1	239.1
Cash & Equivalents	4.5	2.2	4.1	5.0	6.1
Other Current Assets	69.9	119.8	167.3	243.9	273.6
Total Current Assets	**561.7**	**720.1**	**791.2**	**885.6**	**1036.8**
Short-Term Borrowings	86.1	86.9	46.8	41.8	41.8
Trade Payables	174.9	190.9	183.8	187.7	223.2
Other Current Liab & Provisions	153.9	178.2	182.7	114.3	81.1
Total Current Liabilities	**414.9**	**456.0**	**413.3**	**343.7**	**346.0**
Net Current Assets	146.9	264.1	377.9	541.9	690.8
Total Application of Funds	**835.0**	**1148.5**	**1427.8**	**1613.4**	**1812.1**

(Source: Company, HDFC sec)

Cash Flow Statement

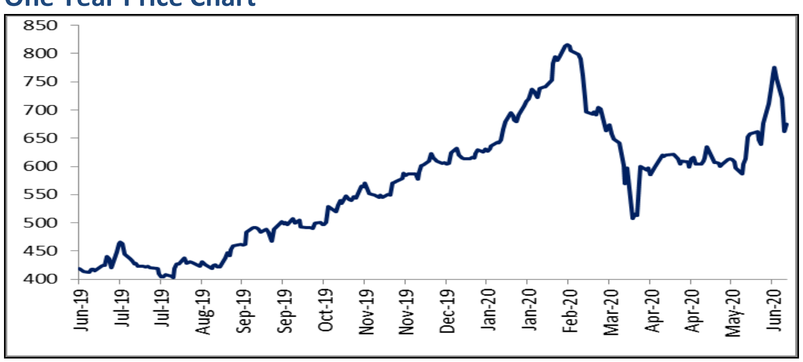
(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	243.6	268.0	291.7	317.5	409.0
Non-operating & EO items	1.0	4.3	3.9	-8.6	-17.9
Interest Expenses	8.6	6.9	16.9	13.7	7.7
Depreciation	54.3	62.4	109.4	112.9	114.3
Working Capital Change	-73.2	-131.9	-19.8	-163.5	-167.5
Tax Paid	-80.1	-86.3	-83.1	-71.4	-102.2
OPERATING CASH FLOW (a)	**154.3**	**123.5**	**318.9**	**200.6**	**243.4**
Capex	-108.7	-91.4	-115.9	-124.7	-147.5
Free Cash Flow	45.6	32.1	203.0	75.8	95.9
Investments	-0.2	32.7	-0.2	0.0	0.0
Non-operating income	0.5	1.8	0.4	8.6	17.9
INVESTING CASH FLOW (b)	**-108.4**	**-56.9**	**-115.7**	**-116.2**	**-129.7**
Debt Issuance / (Repaid)	-21.7	-41.6	-124.0	-30.0	-60.0
Interest Expenses	-14.6	-8.1	-17.4	-13.7	-7.7
FCFE	9.2	-17.6	61.7	32.2	28.2
Share Capital Issuance	4.6	3.2	3.2	0.0	0.0
Dividend	-14.5	-21.8	-64.3	-37.2	-44.7
FINANCING CASH FLOW (c)	**-46.3**	**-68.2**	**-202.6**	**-80.9**	**-112.3**
NET CASH FLOW (a+b+c)	**-0.4**	**-1.7**	**0.7**	**3.5**	**1.3**

Key Ratios

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin	15.6	14.1	17.0	17.8	17.9
EBIT Margin	12.8	11.4	12.4	13.2	14.0
APAT Margin	8.3	7.7	9.4	10.1	10.5
RoE	21.2	15.9	17.8	16.6	17.6
RoCE	33.1	24.9	24.3	22.4	23.9
Solvency Ratio					
Debt/EBITDA (x)	0.4	0.3	0.4	0.3	0.1
D/E	0.2	0.1	0.1	0.1	0.0
PER SHARE DATA					
EPS	6.5	7.1	9.1	9.9	12.4
CEPS	8.7	9.6	13.5	14.5	17.0
BV	30.7	44.5	51.3	59.7	70.2
Dividend	1.5	0.9	1.3	1.3	1.5
Turnover Ratios (days)					
Debtor days	33	31	26	30	30
Inventory days	59	64	68	65	65
Creditors days	33	30	28	28	28
VALUATION					
P/E	104.0	95.4	74.0	68.0	54.6
P/BV	22.0	15.2	13.2	11.3	9.6
EV/EBITDA	55.8	51.9	41.3	38.7	32.3
EV / Revenues	8.7	7.3	7.0	6.9	5.8
Dividend Yield (%)	0.2	0.1	0.2	0.2	0.2
Dividend Payout	13.4	7.4	16.5	15.1	14.6

(Source: Company, HDFC sec)

One Year Price Chart



(Source: Company, HDFC sec)

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