Relaxo Footwears

BSE Code: **530517**	CMP : **₹568.70**	Face Value : **₹1**	Target price: **₹855**	HP* : **Two years**

About the company

Our Pearl Pick for the month of March is Relaxo Footwears. It is the largest footwear manufacturing company in India, which deals in non-leather products i.e. rubber/EVA/PU slippers, canvas/sports/school shoes, sandals, etc. It has a portfolio of 10 brands including major brands like Relaxo, Flite, Sparx and Bahamas. The company's geographical mix stood at domestic-96 per cent and exports-four per cent.

Why to Invest?

To gain market share in 'Value for money' products : The company enjoys a market share of nearly six per cent in the footwear market, which shows a huge scope for further growth. It manufactures 'value for money' products in the low price range segment. Also, the major point is that the company has not entered into leather shoes segment where prices are higher but instead, because the industry size is quite smaller.

Looking on the price front, the company derives nearly 65 per cent of the total revenue from segment which comes under a price range of Rs 55-450. This price range, coupled with premium brand and quality, would further improve volumes.

Sparx: Fastest-growing brand : The company's brand-Sparx gained momentum, soon after its launch in 2005. It comes in the range of Rs 300-1,500. It contributes nearly 35 per cent of the total revenue. Looking at its rising reach and affordable prices, it is likely to gain the traction.

Expanding geographical reach : The company is an established player in the north region and soon, it is planning to expand its reach in the west as well as south also. It has appointed new dealers for these unpenetrated regions to capture the gap.

Capex update : In FY20, the company incurred Rs 90 crore capex over three years to set up a new footwear manufacturing facility at Bhiwadi (Rajasthan) with a capacity of 1,00,000 pairs per day. This capex has been funded via internal accruals as the company is having a strong cash flow generation.

The company is also likely to get benefit from lower tax rate, if this unit gets added in Special Economic Zone (SEZ).

Other rationales : The share of organised segment is approximately 45 per cent and it's well-positioned to benefit by introducing GST and an increase in aspirational spend as the price differential between the unorganised and the organised space closes in.

With a deep penetration and excellent brand recall, Relaxo has established itself in both, rural and urban India.

*** HP :** Holding Period

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CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

Robust financial performance : Historically, the company's revenue has grown at CAGR of 14.2 per cent in the last five years. Its net profit has grown at CAGR of 21.73 per cent in the same period.

Looking at the recently concluded quarter Q3FY20, the revenue came in at Rs 599.83 crore as against Rs 551.27 crore in the corresponding quarter last year, registering 8.8 per cent YoY increase. EBITDA for the quarter grew by 39.8 per cent YoY to Rs 101.61 crore as against Rs 72.67 crore in the corresponding quarter last year, with a corresponding margin expansion of 376 bps. EBITDA margin for the quarter stood at 16.9 per cent. PAT for the quarter came in at Rs 54.16 crore as against Rs 35.62 crore in the corresponding quarter last year, with YoY increase of 52 per cent. Looking at nine-month numbers i.e. for 9MFY20, the revenue jumped by 13 per cent YoY to Rs 1,869.9 crore while, EBITDA grew by 37 per cent YoY to Rs 312.75 crore. Further, the company reported a net profit of Rs 174.45 crore, up by 44 per cent, YoY.

Investing in the stock : The company has a share capital of Rs 12.40 crore, with promoters' holding at 70.98 per cent. Therefore, the free float available comes to 3.598 crore shares and the two-week average traded quantity comes around 13,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table:

Price	Accumulation
450-600	40 per cent
400-450	20 per cent
380-400	20 per cent
<380	20 per cent

Valuation & Outlook

The stock is trading at TTM P/E of 67.47x as well as at TTM EPS of Rs 9.22. The company's trong brand recall and premium quality products, coupled with affordable pricing, would drive the revenue growth going ahead. Also, further groom to grab the market share supported by GST introduction is a positive drive for the growth. Also, the company enjoys healthy return ratios i.e. ROE-18.73 per cent and ROCE-25.69 per cent.

Looking at the company's impressive operational performance, strong financials and light balance sheet, we see an upside of 50 per cent with a target price of Rs 855 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	2292.08	1941.05	1631.15	1711.81	1480.81
Total Income	2305.06	1945.51	1644.76	1715.27	1481.21
Total Expenditure	1967.77	1638.96	1400.24	1471.93	1280.18
PBIDT	337.29	306.55	244.52	243.34	201.03
PAT	175.44	161.07	119.95	120.28	103.05
Dividend %	180.00	150.00	100.00	60.00	100.00
Adj. EPS(Rs)	7.07	6.69	4.99	5.01	4.29

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Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201912	201909	Q on Q Var%	201812	Y on Y Var%
Net Sales	599.83	621.77	-3.53	551.27	8.81
Total Expenditure	498.22	517.05	-3.64	478.60	4.10
PBIDT (Excl OI)	101.61	104.72	-2.97	72.67	39.82
PAT	54.16	70.54	-23.22	35.62	52.05
PBIDTM% (Excl OI)	16.94	16.84	0.59	13.18	28.53
PBIDTM%	17.30	17.11	1.11	13.72	26.09
PATM%	9.03	11.35	-20.44	6.46	39.78
Adj. EPS(Rs)	2.18	2.84	-23.24	1.48	47.30