

Weak Demand & Heightened Competition Dent Performance; Maintain HOLD
Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA – **MISS**; PAT – **MISS**
Changes in Estimates post Q2FY25
FY25E/FY26E: Revenue: -5%/-8%; EBITDA: -8%/-11%; PAT: -17%/-20%

Recommendation Rationale

- Disappointing performance:** The company reported disappointing results as demand remained subdued. Relaxo's revenue de-grew by 5% YoY to Rs 679 Cr, missing our estimates of 5.3%. Volumes dipped by 10%, primarily impacted by lower footfalls, increased competition from lower-priced unorganized players, and consumer downtrading. However, the average realization per pair rose by 6% YoY to Rs 156, driven by price increases. Gross margins improved due to lower input costs and higher realizations. EBITDA margins also improved, supported by reduced ad-spend and gross margin gains. Looking ahead, management remains optimistic, expecting demand recovery in the coming quarters driven by the festive and wedding season, and anticipates positive revenue growth for FY25, with flattish volume growth.
- Short-term strain to persist:** We remain cautious in the short to medium term due to: 1) a sluggish demand environment, 2) rising competition from unorganized players, and 3) fluctuations in operating costs, which impact profitability despite cost-saving efforts. Although the long-term outlook appears favorable with initiatives such as cost optimization, BIS implementation supporting organized players, softening raw material prices, and a premiumization strategy focused on high-growth sports and athleisure categories, we believe the benefits from these positive factors will likely materialize with a delay. Additionally, while many rural-focused companies are performing well, Relaxo continues to face challenges from its peers.

Sector Outlook: **Positive**
Company Outlook & Guidance: We maintain our HOLD rating on the stock as short and medium-term outlook remain weak.

Current Valuation: 60xJun'26 EPS (Earlier Valuation: 60x Mar'26 EPS)

Current TP: Rs 700/share (Earlier TP: Rs 815)

Recommendation With a 5% downside from the CMP, we **maintain our HOLD rating on the stock.**
Financial Performance: The company's revenue declined by 5% YoY, with volume falling by 10% to 4.3 Cr pairs. EBITDA decreased by 4.2% YoY to Rs 88 Cr; however, margins improved by 11 bps YoY to 12.9% due to a 314 bps YoY expansion in gross margins, reaching 61%, and reduced ad-spend. The company's PAT dropped by approximately 17% YoY to Rs 37 Cr in Q2FY25, impacted by higher depreciation expenses.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	679	-9.2	-5.0	753	-9.8
EBITDA	88	-11.4	-4.2	106	-17.1
EBITDA Margin (%)	12.9	-32 bps	11 bps	14.0	-113 bps
Net Profit	37	-17.2	-16.9	54	-32.1
EPS (Rs)	1.5	-17.2	-16.9	2.3	-32.1

Source: Company, Axis Research

 (CMP as of 11th November 2024)

CMP (Rs)	738
Upside /Downside (%)	-5%
High/Low (Rs)	949/732
Market cap (Cr)	18379
Avg. daily vol. (6m) '000 Shrs.	87
No. of shares (Cr)	25

Shareholding (%)

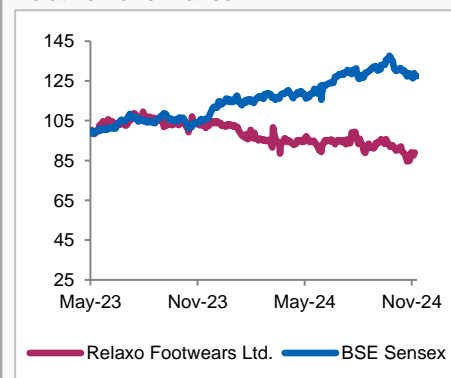
	Mar-24	Jun-24	Sep-24
Promoter	71.3	71.3	71.3
FIs	3.3	3.4	3.4
MFs / UTI	9.3	9.5	10.0
FIs/Banks	0.0	0.0	0.0
Others	16.1	15.9	15.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,998	3,305	3,642
EBITDA	419	499	564
Net Profit	198	255	302
EPS (Rs)	8.0	10.3	12.1
PER (x)	92.6	72.0	60.7
EV/EBITDA (x)	43.1	35.9	31.4
RoE (%)	9.4	11.2	12.1

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-5%	-8%
EBITDA	-8%	-11%
PAT	-17%	-20%

Relative Performance


Source: Ace Equity, Axis Securities

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Outlook

- The company delivered a subdued performance in Q2FY25, and we remain cautious in the short to medium term due to: 1) Lack of signs of demand recovery, 2) rising competition from unorganised players, and 3) variability in operating costs impacting overall profitability despite cost-saving initiatives. We seek sustained signs of recovery; therefore, we maintain our HOLD rating on the stock.

Valuation & Recommendation:

- We maintain our HOLD rating with a revised TP of Rs 700/share.

Other Highlights

- Capex:** The company has incurred a capex of Rs 50 Cr till Sep'24, with an additional Rs 50-60 Cr planned for H2FY25. This positions the total capex for the year to exceed Rs 100 Cr, reflecting a steady commitment to growth and operational expansion.
- Digital Channels:** The company is developing a diverse product range tailored for e-commerce channels to capture digital demand.
- Sparx:** Sparx has maintained its momentum and is performing better than the other two brands, Flite and Bahamas. Management highlighted expectations for 8-10% growth in this category in FY25.
- Focus on Distribution Expansion:** The company is broadening its distribution network, now comprising over 70,000 retailers, 403 Exclusive Brand Outlets (EBOs), and 650 distributors across India.

Key Risks to Our Estimates and TP

- Increase in competitive intensity, prolonged demand recovery, RM inflation

Change in Estimates

	Old		New		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,151	3,602	2,998	3,305	-5%	-8%
EBITDA	453	562	419	499	-8%	-11%
PAT	239	319	198	255	-17%	-20%
EPS	9.6	12.8	8.0	10.3	-17%	-20%

Source: Company, Axis Securities

Results Review

Rs Cr	Q2FY24	Q1FY25	Axis Sec Est	Q2FY25	YoY (%)	QoQ %	Axis Sec Var
Net Sales	715	748	753	679	(5.0)	(9.2)	(9.8)
Gross Profit	414	464	449	415	0.1	(10.6)	(7.6)
Gross Margins %	57.9	62.0	59.6	61.0	314 bps	-93 bps	143 bps
Staff Cost	95.8	109.6	100.5	106.2	10.9	(3.1)	5.6
Other Operating expenses	226.7	255.1	242.6	220.7	(2.7)	(13.5)	(9.0)
EBITDA	92	99	106	88	(4.2)	(11.4)	(17.1)
EBITDA margins (%)	12.8	13.2	14.0	12.9	11 bps	-32 bps	-113 bps
Depreciation	37	39	40	40	7.6	1.6	0.6
Interest	5	5	5	5	5.1	1.8	0.8
Other Income	11	5	11	7	(37.0)	22.3	(40.0)
PBT	60	60	72	50	(17.9)	(17.8)	(31.5)
Tax (incl deferred)	16	16	18	13	(20.7)	(19.5)	(29.6)
PAT	44	44	54	37	(16.9)	(17.2)	(32.1)
PAT margins (%)	6.2	5.9	7.2	5.4	-77 bps	-52 bps	-178 bps
EPS	1.8	1.8	2.3	1.5	(16.9)	(17.2)	(32.1)

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	2,914	2,998	3,305	3,642
Growth, %	4.7	2.9	10.2	10.2
Raw material expenses	-1,220	-1,159	-1,263	-1,383
Employee expenses	-389	-436	-479	-527
Other Operating expenses	-899	-985	-1,064	-1,168
EBITDA (Core)	407	419	499	564
Growth, %	21.1	3.0	19.0	13.1
Margin, %	14.0	14.0	15.1	15.5
Depreciation	-147	-158	-166	-173
EBIT	259	260	333	391
Growth, %	23.0	0.5	27.8	17.5
Margin, %	8.9	8.7	10.1	10.7
Other Income	29	25	30	36
Non-recurring Items	0	0	0	0
Pre-tax profit	269	266	342	405
Tax provided	-69	-68	-87	-104
Profit after tax	200	198	255	302
Growth, %	29.8	(1.3)	28.7	18.5
Net Profit (adjusted)	200	198	255	302
Unadj. shares (Cr)	25	25	25	25
Wtdavg shares (Cr)	25	25	25	25

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Cash & bank	98	197	357	563
Debtors	358	368	406	447
Inventory	599	616	679	748
Loans & advances	1	1	1	1
Other current assets	109	109	109	109
Total current assets	1,246	1,373	1,634	1,951
Investments	25	25	25	25
Gross fixed assets	2,012	2,162	2,262	2,362
Less: Depreciation	-641	-800	-966	-1,139
Add: Capital WIP	33	33	33	33
Net fixed assets	1,404	1,396	1,330	1,257
Non-current assets	18	18	18	18
Total assets	2,714	2,832	3,027	3,271
Current liabilities	519	527	554	583
Provisions	19	19	19	19
Total current liabilities	539	546	573	602
Non-current liabilities	174	174	174	174
Total liabilities	713	720	747	776
Paid-up capital	25	25	25	25
Reserves & surplus	1,976	2,087	2,255	2,470
Shareholders' equity	2,001	2,112	2,280	2,495
Total equity & liabilities	2,714	2,832	3,027	3,271

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Pre-tax profit	269	266	342	405
Depreciation	147	158	166	173
Chg in working capital	-56	-20	-74	-81
Total tax paid	-67	-68	-87	-104
Cash flow from operating activities	294	336	347	394
Capital expenditure	-313	-150	-100	-100
Chg in marketable securities	118	0	0	0
Cash flow from investing activities	-195	-150	-100	-100
Free cash flow	99	186	247	294
Equity raised/(repaid)	138	0	0	0
Dividend (incl. tax)	-62	-87	-87	-87
Cash flow from financing activities	76	-87	-87	-87
Net chg in cash	174	99	160	207

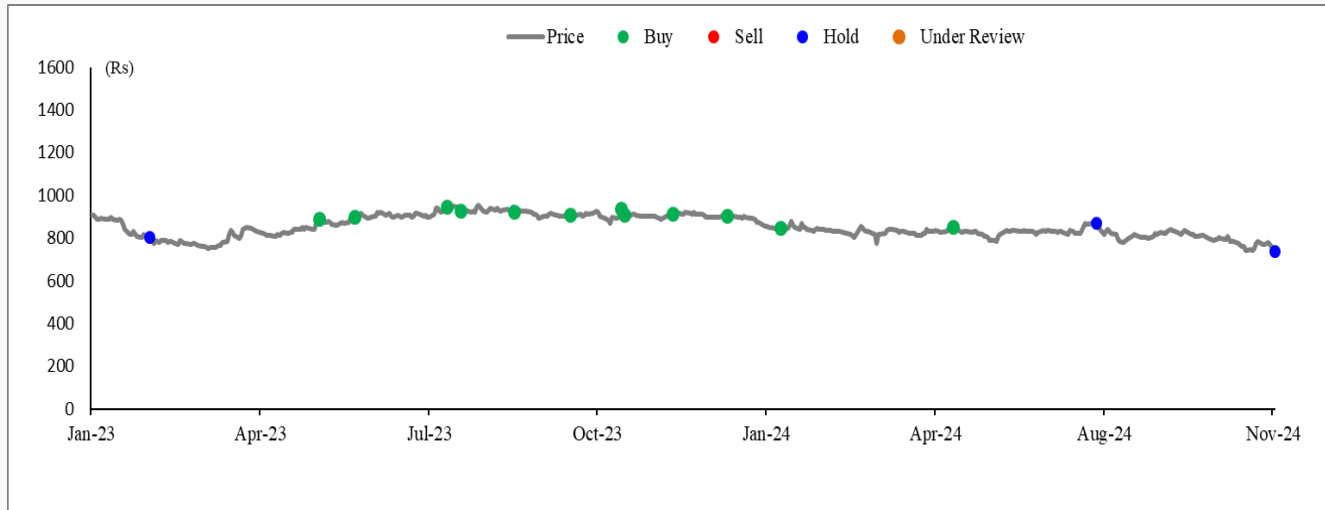
Source: Company, Axis Securities

Ratio Analysis
(%)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	8.1	8.0	10.3	12.1
Growth, %	29.8	(1.3)	28.7	18.5
Book NAV/share (INR)	80.6	85.0	91.8	100.4
FDEPS (INR)	8.1	8.0	10.3	12.1
CEPS (INR)	14.0	14.3	16.9	19.1
CFPS (INR)	8.3	12.5	12.8	14.4
DPS (INR)	2.5	3.5	3.5	3.5
Return ratios				
Return on assets (%)	8.4	7.8	9.4	10.3
Return on equity (%)	10.0	9.4	11.2	12.1
Return on capital employed (%)	10.4	9.7	11.5	12.5
Turnover ratios				
Asset turnover (x)	1.7	1.6	1.8	2.0
Sales/Total assets (x)	1.1	1.1	1.1	1.2
Sales/Net FA (x)	2.2	2.1	2.4	2.8
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	44.8	44.8	44.8	44.8
Inventory days	75.0	75.0	75.0	75.0
Payable days	37.1	37.1	37.6	37.7
Working capital days	68.4	69.0	70.7	72.3
Liquidity ratios				
Current ratio (x)	2.4	2.6	3.0	3.3
Quick ratio (x)	1.2	1.4	1.7	2.1
Interest cover (x)	13.9	13.3	16.1	18.1
Dividend cover (x)				
Total debt/Equity (%)	0.9	0.9	0.8	0.7
Valuation				
PER (x)	91.4	92.6	72.0	60.7
PEG (x) - y-o-y growth	3.1	(72.1)	2.5	3.3
Price/Book (x)	9.2	8.7	8.0	7.3
EV/Net sales (x)	6.2	6.0	5.4	4.9
EV/EBITDA (x)	44.7	43.1	35.9	31.4
EV/EBIT (x)	70.1	69.4	53.8	45.3

Source: Company, Axis Securities

Relaxo Footwear Price Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-23	HOLD	850	Result Update
15-May-23	BUY	980	Result Update
01-Jun-23	BUY	990	Top Picks
01-Jul-23	BUY	990	Top Picks
25-Jul-23	BUY	1,050	Result Update
01-Aug-23	BUY	1,050	Top Picks
01-Sep-23	BUY	1,050	Top Picks
03-Oct-23	BUY	1,050	Top Picks
01-Nov-23	BUY	1,050	Top Picks
06-Nov-23	BUY	1,020	Result Update
01-Dec-23	BUY	1,020	Top Picks
01-Jan-24	BUY	1,020	Top Picks
02-Feb-24	BUY	950	Result Update
13-May-24	BUY	950	Result Update
01-Aug-24	HOLD	815	Result Update
12-Nov-24	HOLD	700	Result Update

Source: Axis Securities

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