



About the Company

Relaxo is the largest footwear manufacturer in India. It manufactures quality and affordable footwear comprising slippers, sandals, sports, and casual shoes. The company boasts of several popular brands including Relaxo, Sparx, Flite, and the Bahamas which stand as leaders in their respective domains. Its product mix comprises Hawaii and Bahamas which account for ~25% of total sales value (60% shoes & 40% sandals) while Flite and Sparks account for ~37% of total sales each.

Investment Rationale

- A. Open footwear on a recovery track** – The company's Q4FY22 performance stood tepid, especially for the open footwear category (~75-80% of Relaxo's sales). On a positive note, its closed footwear reported robust recovery on account of the opening of schools, colleges, and work offices. We believe a significant pent up demand will be released as the rural economy revives, thereby benefiting the company's operating performance moving forward.
- B. Key catalyst: Normal Monsoon, Higher MSP** – Normal monsoon forecast, the recent announcement of a hike in MSP, and higher remittances will be key catalysts aiding in the revival of the rural economy, which in turn, will kick-start the overall consumption cycle.
- C. Low pressure on profitability** – Hyper-inflation in key raw material prices, coupled with subdued volume growth, has been posing pressure on profits. However, we believe the company's margins are likely to inch up going forward as the pick-up in the volumes and market share gains from the unorganized/smaller players trigger operating leverage.
- D. Superior financial matrix** – Relaxo has maintained healthy operating cash flow and asset turns. Moreover, its robust EBITDA Margins over the years have made it one of the most capital-efficient businesses in the industry. We believe a strong balance sheet with zero net debt and efficient working capital should help Relaxo prosper in the long run.
- E. Recommendation:** We recommend a BUY on the stock with a near-term TP of Rs 1,100/share implying an upside of 11% from the CMP.

Financial Summary

Y/E Mar	Sales (Rs Cr)	EBITDA (Rs Cr)	EPS (Rs)	PER (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY21	2,359	495	11.7	84.2	18.5	19.6	49.1	0
FY22P	2,653	416	9.4	105.5	13.3	13.7	57.9	0
FY23E	3,119	537	12.9	76.8	16	16.5	44.4	0
FY24E	3,941	765	19.5	50.6	20	21.2	30.8	0

 Source: Axis Securities; CMP as on 10th June, 2022

CMP (Rs)	Target (Rs)	Potential Upside (%)
988	1100	11%

MARKET DATA

No. of Shares	25 Cr
Market Cap	24,593
52-week High / Low	1447/928
BSE Code	530517
NSE Code	RELAXO

Why Relaxo Footwears Ltd

- ✓ **Open footwear on a recovery track**
- ✓ **Key catalyst: Normal Monsoon, Higher MSP**
- ✓ **Low pressure on profitability**
- ✓ **Superior financial matrix**

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