

### Lockdown impacted results; Revival expected going ahead

- Revenue jumped 37% YoY to Rs 5.0bn in Q1FY22. We expected steady growth in revenue, however we feel that lockdown impact in Northern and Southern market was higher than our estimate.
- While GM expanded 450bps, decline in EBITDA margin to 13.3% in Q1FY22, was due to high A&SP expenses. We believe that the margins would improve sequentially with better operating leverage and cost efficiencies.
- In the long run, we believe that the company would continue its strong performance by increasing penetration in South and West and is likely to benefit from premiumization. Relaxo should continue to outpace Bata in terms of revenue growth and the revenue gap would narrow, going ahead.
- We have downward revised our FY22E EPS estimates to Rs 12.6 (-6.2%) as Q1 results were significantly below our estimate. However, we have maintained our FY23E EPS at Rs 15.4 as we believe that the growth would accelerate fast with opening up of markets. We maintain positive view on the stock despite rich valuations. Maintain Accumulate with TP of Rs 1,234. We remain optimistic on overall business and anticipate improvement in revenue growth, going ahead. Any dip in price should be considered as buying opportunity.

### Structural drivers in place to tackle challenging times

With normalization of demand, we believe that the company would continue to increase its distribution reach in southern and western markets. In the short run, in case of down trading, we believe that Relaxo has better offerings compared to other players. Further, moderation in RM costs would help it to expand margins. In house manufacturing, strong distribution reach, increase in penetration are key levers for future growth. We continue to believe that the company has attractive product offerings and has the ability to premiumize portfolio at the lower end of the pyramid.

### Results below our estimates

Revenue increased 36.7% YoY to Rs 5.0bn in Q1FY22. GM increased 450bps to 54.5%. A 770bps increase in other expenses completely offset 450/80 bps decline in RM/ employee costs. Increase in other expense was mainly due to restoration of A&SP spends during the quarter. Consequently, EBITDA margin fell 240bps to 13.3%. EBITDA grew 16.0% YoY to Rs 662mn. APAT grew by 27.8% YoY to Rs 310mn

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	4,971	3,636	36.7	7,477	(33.5)
Total Expense	4,310	3,066	40.6	5,848	(26.3)
EBITDA	662	570	16.0	1,629	(59.4)
Depreciation	275	275	(0.1)	270	1.9
EBIT	387	295	31.1	1,359	(71.5)
Other Income	53	69	(23.4)	69	(23.5)
Interest	37	41	(8.6)	52	(28.1)
EBT	403	323	24.5	1,376	(70.8)
Tax	93	81	14.7	354	(73.8)
RPAT	310	242	27.8	1,022	(69.7)
APAT	310	242	27.8	1,022	(69.7)
			(bps)		(bps)
Gross Margin (%)	54.5	49.9	455	56.8	(234)
EBITDA Margin (%)	13.3	15.7	(237)	21.8	(847)
NPM (%)	6.2	6.7	(43)	13.7	(744)
Tax Rate (%)	23.1	25.1	(198)	25.8	(267)
EBIT Margin (%)	7.8	8.1	(33)	18.2	(1039)

CMP	Rs 1,150
Target / Upside	Rs 1,234 / 7%
NIFTY	15,763

### Scrip Details

Equity / FV	Rs 248mn / Rs 1
Market Cap	Rs 285bn
	USD 4bn
52-week High/Low	Rs 1,243/ 578
Avg. Volume (no)	344,358
Bloom Code	RLXF IN

Price Performance	1M	3M	12M
Absolute (%)	1	31	93
Rel to NIFTY (%)	0	24	53

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	70.9	70.9	70.9
MF/Banks/FIs	7.1	7.0	7.3
FIs	3.7	3.9	3.5
Public / Others	18.4	18.2	18.3

### Valuation (x)

	FY21A	FY22E	FY23E
P/E	97.9	91.3	74.4
EV/EBITDA	57.6	53.5	44.2
ROE (%)	20.5	18.3	19.0
RoACE (%)	21.2	19.1	19.7

### Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	23,592	27,937	33,206
EBITDA	4,955	5,285	6,350
PAT	2,916	3,125	3,834
EPS (Rs.)	11.7	12.6	15.4

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**Exhibit 1: Q1FY22 Actual V/s DART estimates**

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	4,971	5,835	(14.8)	Impact of lockdown was more severe than our expectation
EBITDA	662	1,130	(41.4)	Employee and other expense was higher than our estimates
EBITDA margin %	13.3	19.4	(610)	
APAT	310	640	(51.6)	Cascading effect of lower revenue and EBITDA

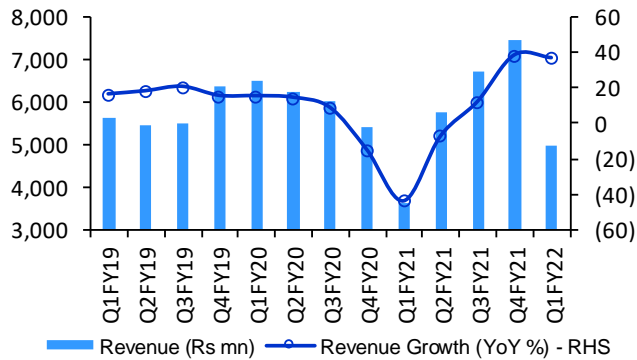
Source: Company, DART

**Exhibit 2: Change in estimates**

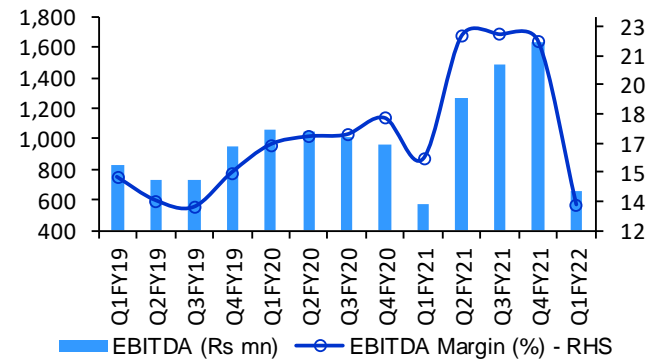
Rs Mn	FY22E			FY23E		
	New	Previous	Chg.(%)	New	Previous	Chg.(%)
Revenue	27,937	29,057	(3.9)	33,206	33,195	0.0
EBITDA	5,285	5,559	(4.9)	6,350	6,344	0.1
EBITDA Margin (%)	18.9	19.1	(20)	19.1	19.1	-
PAT	3,125	3,331	(6.2)	3,834	3,830	0.1
EPS (Rs)	12.6	13.4	(6.2)	15.4	15.4	0.1

Source: Company, DART

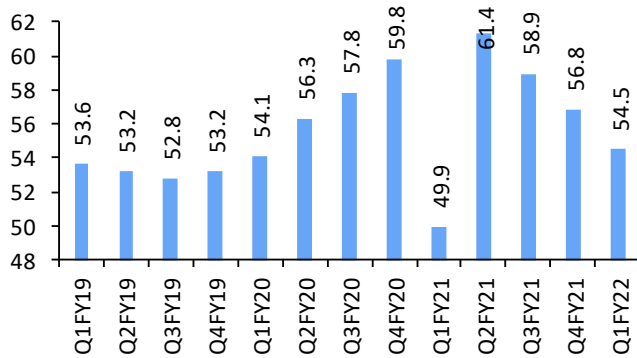
We have cut our revenue estimates for FY22E to factor in significant miss to our estimate. Further, we have reduced our margin estimate as operating expenses are likely to remain elevated for some time. However, we have maintained our FY23E revenue and EPS estimates as we believe that the growth rates would improve significantly once the markets re-open.

**Exhibit 3: Revenue Performance**


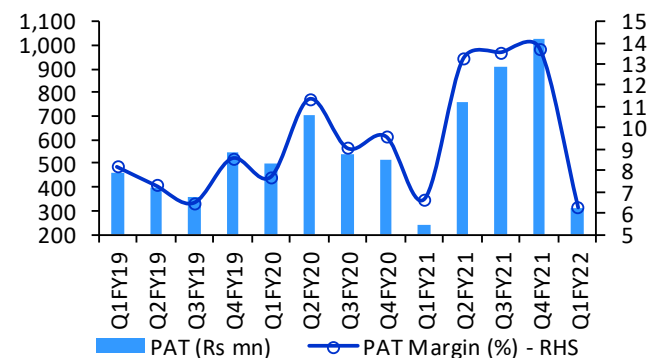
Source: Company, DART

**Exhibit 4: EBITDA and EBITDA margin**


Source: Company, DART

**Exhibit 5: Gross margin (%)**


Source: Company, DART

**Exhibit 6: Net Profit and Margin (%)**


Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>24,105</b>	<b>23,592</b>	<b>27,937</b>	<b>33,206</b>
<b>Total Expense</b>	<b>20,015</b>	<b>18,637</b>	<b>22,652</b>	<b>26,857</b>
COGS	10,393	10,033	11,995	14,110
Employees Cost	2,940	3,014	3,269	3,889
Other expenses	6,682	5,590	7,389	8,857
<b>EBIDTA</b>	<b>4,090</b>	<b>4,955</b>	<b>5,285</b>	<b>6,350</b>
Depreciation	1,094	1,100	1,168	1,292
<b>EBIT</b>	<b>2,995</b>	<b>3,855</b>	<b>4,117</b>	<b>5,058</b>
Interest	169	171	180	185
Other Income	91	228	230	240
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>2,917</b>	<b>3,912</b>	<b>4,167</b>	<b>5,113</b>
Tax	655	996	1,042	1,278
RPAT	2,263	2,916	3,125	3,834
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,263</b>	<b>2,916</b>	<b>3,125</b>	<b>3,834</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	248	248	248	248
Minority Interest	0	0	0	0
Reserves & Surplus	12,475	15,476	18,192	21,617
<b>Net Worth</b>	<b>12,723</b>	<b>15,724</b>	<b>18,440</b>	<b>21,865</b>
Total Debt	191	0	0	0
Net Deferred Tax Liability	248	228	228	228
<b>Total Capital Employed</b>	<b>13,162</b>	<b>15,952</b>	<b>18,668</b>	<b>22,093</b>

**Applications of Funds**

Net Block	9,830	9,437	9,769	9,977
CWIP	438	1,122	1,234	1,358
Investments	2	3,380	1,000	1,000
<b>Current Assets, Loans &amp; Advances</b>	<b>8,066</b>	<b>7,808</b>	<b>11,986</b>	<b>15,872</b>
Inventories	4,477	4,221	4,781	5,689
Receivables	1,721	1,814	2,656	3,161
Cash and Bank Balances	40	76	2,447	4,523
Loans and Advances	230	396	264	314
Other Current Assets	1,598	1,301	1,836	2,185
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,174</b>	<b>5,795</b>	<b>5,321</b>	<b>6,113</b>
Payables	1,837	2,227	2,504	2,980
Other Current Liabilities	3,337	3,568	2,816	3,133
<i>sub total</i>				
Net Current Assets	2,892	2,014	6,665	9,759
<b>Total Assets</b>	<b>13,162</b>	<b>15,952</b>	<b>18,668</b>	<b>22,093</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	56.9	57.5	57.1	57.5
EBIDTA Margin	17.0	21.0	18.9	19.1
EBIT Margin	12.4	16.3	14.7	15.2
Tax rate	22.4	25.5	25.0	25.0
Net Profit Margin	9.4	12.4	11.2	11.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	43.1	42.5	42.9	42.5
Employee	12.2	12.8	11.7	11.7
Other	27.7	23.7	26.4	26.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	17.8	22.6	22.9	27.3
Inventory days	68	65	62	63
Debtors days	26	28	35	35
Average Cost of Debt	31.8	178.8		
Payable days	28	34	33	33
Working Capital days	44	31	87	107
FA T/O	2.5	2.5	2.9	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	9.1	11.7	12.6	15.4
CEPS (Rs)	13.5	16.2	17.3	20.7
DPS (Rs)	2.6	0.0	1.6	1.6
Dividend Payout (%)	28.4	0.0	13.1	10.7
BVPS (Rs)	51.3	63.4	74.3	88.1
RoANW (%)	19.0	20.5	18.3	19.0
RoACE (%)	19.1	21.2	19.1	19.7
RoAIC (%)	23.6	26.6	25.7	29.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1150	1150	1150	1150
P/E	126.2	97.9	91.3	74.4
Mcap (Rs Mn)	285,430	285,430	285,430	285,430
MCap/ Sales	11.8	12.1	10.2	8.6
EV	285,581	285,354	282,983	280,907
EV/Sales	11.8	12.1	10.1	8.5
EV/EBITDA	69.8	57.6	53.5	44.2
P/BV	22.4	18.2	15.5	13.1
Dividend Yield (%)	0.2	0.0	0.1	0.1
<b>(F) Growth Rate (%)</b>				
Revenue	5.2	(2.1)	18.4	18.9
EBITDA	26.1	21.2	6.7	20.2
EBIT	14.4	28.7	6.8	22.8
PBT	8.9	34.1	6.5	22.7
APAT	29.0	28.9	7.2	22.7
EPS	29.0	28.9	7.2	22.7

### Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	3,190	5,131	2,013	4,109
CFI	(1,159)	(4,524)	768	(1,623)
CFF	(2,014)	(570)	(410)	(410)
FCFF	2,032	3,912	400	2,485
Opening Cash	22	40	76	2,447
Closing Cash	40	76	2,447	4,523

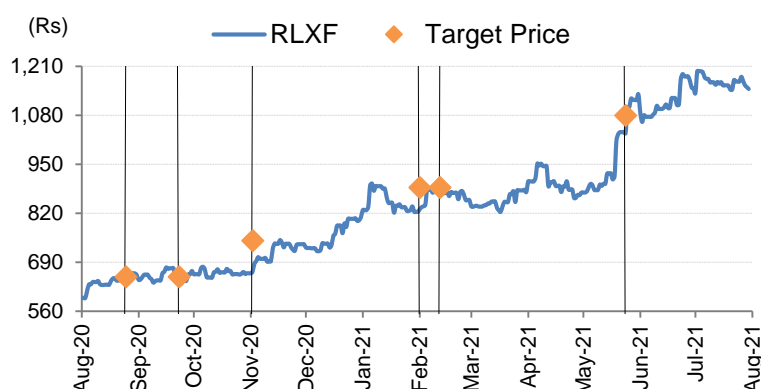
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	651	640
Sep-20	Accumulate	651	649
Nov-20	Buy	747	664
Feb-21	Accumulate	888	831
Feb-21	Accumulate	888	873
May-21	Accumulate	1,079	1,032

\*Price as on recommendation date

### DART Team

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