Why Relaxo Footwears' shares have stolen a march over Bata's

PREMIUM

Earnings before interest, tax, depreciation and amortization (Ebitda) margin expanded to 21.8% from 17.8% in the year-ago quarter, despite higher raw material cost leading to a contraction in gross margin.

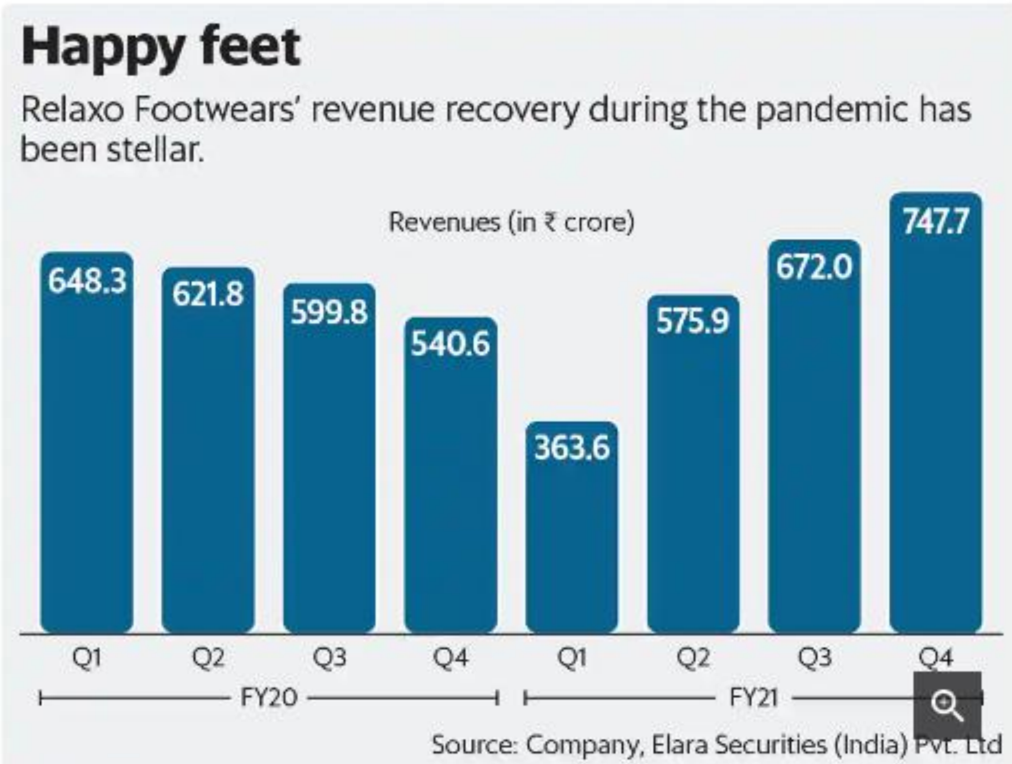
1 min read . Updated: 30 May 2021, 10:07 AM IST

Pallavi Pengonda

Shares of Relaxo Footwears Ltd climbed 6.5% on Tuesday on the National Stock Exchange, touching a new 52-week high. The company's March quarter results are the reason for the excitement. Revenues rose by 38% year-on-year to ₹748 crore. A favourable base also helped growth, considering revenues had declined in the March 2020 quarter due to the covid-19-led lockdown. Even so, Relaxo's last quarter revenues were better than expectations.

Earnings before interest, tax, depreciation and amortization (Ebitda) margin expanded to 21.8% from 17.8% in the year-ago quarter, despite higher raw material cost leading to a contraction in gross margin.

To be sure, Relaxo's revenue recovery in the previous two quarters has meant that financial year 2021's revenue drop was curtailed to just 2%.



Satish Kumar/Mint

Of course, investors have taken cognizance of this. The Relaxo stock is around 35% higher than its pre-covid highs seen in February 2020. On the other hand, shares of Bata India Ltd have declined by 18% from its pre-covid highs. What explains this striking divergence in stock performances of the two footwear firms?

Akhil Parekh, analyst, Elara Securities (India) Pvt. Ltd, said: “Negligible presence in shopping malls is one reason why Relaxo stock has outperformed that of Bata India. Second, Relaxo is a distribution-led model compared to Bata, which is a footwear retailer."

It’s also worth noting that Bata has a higher share of formal footwear, which was hurt last year as people spent more time indoors.

“Relaxo’s products essentially comprise value-for-money casua footwear. What’s more, Relaxo is set to garner market share from smaller rivals who are expected to be hit adversely owing to the second covid wave," added Parekh.

As such, investors can expect Relaxo’s good run to continue.

“Relaxo should continue to outpace Bata in terms of revenue growth and the revenue gap would narrow, going ahead," said analysts from Dolat Capital Market Pvt. Ltd in a report on 24 May.