



November 9, 2022

<b>BSE Ltd.</b> <b>Corporate Relationship</b> <b>Department</b> <b>1st Floor New Trading</b> <b>Rotunda Building, P J Towers</b> <b>Dalal Street Fort, Mumbai-400001</b> <b>Scrip Code – 530517</b>	<b>National Stock Exchange of India Ltd.</b> <b>Listing Department,</b> <b>Exchange Plaza,</b> <b>Bandra Kurla Complex,</b> <b>Bandra (East), Mumbai- 400 051</b> <b>Scrip Code – RELAXO</b>
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**Sub: Conference call Transcript**

Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q2 FY 23 results which was hosted by the company on November 3, 2022, at 5:00 P.M. (IST).

The same is for your information and record.

Thanking You,  
Yours Sincerely,

For **Relaxo Footwears Limited**,

**Sushil Batra**  
**Chief Financial Officer**

Encl as above

**RELAXO FOOTWEARS LIMITED**

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**“Relaxo Footwears Limited Q2 FY2023  
Earnings Conference Call”**

**November 03, 2022**

**MANAGEMENT:**

**MR. RAMESH KUMAR DUA – MANAGING DIRECTOR**

**MR. GAURAV DUA – WHOLE TIME DIRECTOR**

**MR. RITESH DUA – EXECUTIVE VICE PRESIDENT (FINANCE)**

**MR. SUSHIL BATRA – CHIEF FINANCIAL OFFICER**

**MR. VIKAS TAK – COMPANY SECRETARY**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Relaxo Footwears Limited Q2 and H1 FY2023 Earnings Conference Call hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aliasgar Shakir from Motilal Oswal Financial Services. Thank you, and over to you, sir.

**Aliasgar Shakir:** Thank you so much. Good evening, everyone. On behalf of Motilal Oswal Securities I am very happy to host the senior management of Relaxo Footwears for Second Quarter FY2023 Earnings Conference Call. Welcome all to this call. From the management, we have with us today Mr. Ramesh Kumar Dua, Managing Director; Mr. Gaurav Dua, Whole Time Director; Mr. Ritesh Dua, Executive Vice President; Mr. Sushil Batra, Chief Financial Officer; and Mr. Vikas Tak, Company Secretary. I will hand over the call to the management for opening remarks, and then we can open the floor for questions. Over to you, sir.

**Sushil Batra:** Thank you, Ali. Good afternoon, ladies and gentlemen. Thank you for joining the Q2 and H1 FY2023 earnings call of Relaxo Footwears Limited. We have already uploaded our earnings press release and presentation at the exchanges, and we hope you have got an opportunity to review them. Before we open the floor for question-and-answer session, I would like to take you through an overview of the numbers of Q2 and H1 FY2023.

During Q2 FY2023, the company reported total revenue of Rs.670 Crore as compared to Rs.714 Crore in Q2 FY2022, registering a decline of 6.3% year-on-year. The performance remained subdued mainly on account of fall in volumes in Q2 FY2023 in the categories serving the masses. With consumer facing inflationary pressures affecting affordability, there has been a shift in consumer habits as they moved towards cheaper alternative at the cost of quality. This prompted the company to take an aggressive price correction in September 2022 to remain competitive in the current market. This price specialization approach has been welcomed by distributor and customer, which would help us clear high-cost inventory in the coming quarter and ultimately improve our volume number going ahead.

EBITDA in Q2 FY2023 was at Rs.59 Crore as compared to Rs.117 Crore in Q2 FY2022. This degrowth in EBITDA was mainly due to steep increase in raw material prices. EBITDA margin during the Q2 FY2023 was at 8.9% and declined by 748 bps year-on-year. The profit after tax was at Rs.22 Crore in Q2 FY2023 as compared to Rs.69 Crore in Q2 FY2022.

Moving to our H1 FY2023 performance, the total revenue was at Rs.1,337 Crores and grew by 10.3% year-on-year as compared to Rs.1,212 Crore in H1 FY2022. EBITDA was at

Rs.146 Crores from Rs.183 Crore in H1 FY2022. The company reported a profit after tax of Rs.61 Crore in H1 FY2023 as compared to Rs.100 Crore in H1 FY2022.

Strong fundamentals complemented by wide distribution reach, strong brand recall and better sourcing capability we are optimistic about overcoming this tough phase and focus on delivery, steady revenue growth in both domestic and export going forward.

Thank you. Now we can open the floor for questions.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask the question may please press star and 1 on the attached telephone. If you wish to put yourself in question que you may press star and 2. The first question is from the line of Gaurav Jogani from Axis Capital. Please go ahead

**Gaurav Jogani:**

Thank you for the opportunity Sir, my first question is with regards to the sharp volume decline that we have seen, and you have also mentioned that you have taken aggressive price cut in September 2022. So, one, if you can highlight what is the quantum of the price cut that you have taken, and how much of that has impacted the initial volumes? Because we understand that your distributors would have destocked initially, and because of which also there will be some volume impact.

**Ramesh Kumar Dua:**

Yes, I am Ramesh Kumar Dua this side. Just in the background, I want to tell you a few things. The main cause of our price increase in the past 1.5 year had been some of the raw material polymers like EVA, PVC, polyethylene, they have started gradually rising and kept on rising to an extent, the thing which we were getting at Rs.120 a kg, reached Rs.300 kg, and then this started falling also, and it came down to Rs.160. So, in such kind of volatile situation, where our company has to maintain a long supply chain because materials are imported, it has to be at least 6 months' supply chain.

So when the things arise, then it is beneficial for the entire trade company and our customers. But when there is sudden fall, which historically, at least I have never witnessed. Such a fall from Rs.300, to become Rs.160, and local market becoming cheaper than the international market at which we got. Our way of pricing the products have been based on our costing. But now during this period, when the local raw material prices became lower than our cost prices, the local industry or other people who are always sourcing the material from local sources, they became competitive and also the affordability of the mass segment, that has been affected because of inflation all around.

As a result, for our mass customers, they started shifting to cheaper products, never mind the quality, whether it lasts 2 months or 3 months, they are not bothered. They just want to while

away this difficult period, which they are facing for inflation. So when the prices were rising gradually, we are forced to revise the prices upward. But when the raw material started falling or it became cheaper to the competition, they reacted very fast.

But as far as our company is concerned, which has a long supply chain, we took our own time. Meanwhile, because of unaffordability of our article to the masses, they went for cheaper alternative. So that started affecting our sales. Now in the month of September, we have made some price correction so that we are competitive in the market. Never mind, it will affect our bottom line, but to be in the market, have volume sales, that is a kind of cautious call to maintain our market share in the market. So that has been the reason.

Otherwise, if I want to tell you the gravity of the thing, EVA polymer, we are consuming around 1,000 tonnes per month that is in a year, 12,000 tonnes, and the material of this, which was Rs.120 kg, last year it became average Rs.210, you can see a difference of Rs.100 kg, 12,000 tonne, Rs.120 Crores for single material, and even in another 6 months, this year also, our average has been Rs.240. So this is the magnitude, which we say average is Rs.240, but in local it became Rs.160, so they became more competitive. We took this aggressive step to be competitive, but in the coming months, all those things are not still stabilized, the Rs.160, which was coming to local now it has become Rs.200. So things are very volatile. We are keeping an eye in the market, and we will keep on taking timely corrections, keeping in view of how the other markets are reacting. That is it.

**Gaurav Jogani:**

Just to follow up on this one. So one, what is the magnitude of price cut that you have taken in September, and second thing, now because you are saying the local markets, again, that price has become Rs.200 per kg, and you might be having some inventory because of this. So now does that place you better versus the competition because you have some earlier inventory also with you?

**Ramesh Kumar Dua:**

Yes. Generally, our supply chain is around 6 months. The price correction has been around 15% to 20%. Our main segment that is affected is Hawaii and EVA segment. Other PU related footwear and Sparx shoe that is not affected. That has grown and it is okay also. It is only where EVA polymer is being consumed, they are in our Bahamas brand, and Relaxo and also Flite EVA category. There, our company has suffered because of this volatility. Even earlier, we were able to predict what will be the price of this material next year. But now our purchase department is not able to tell in guarantee what is going to be the price next quarter, such is the kind of volatility and instability. Under such volatile chaotic conditions, things have become quite challenging, and now we are keeping a close watch on the market and taking timely corrections, not based on our costing, but based on market conditions.

- Gaurav Jogani:** Sure sir, One last question from my end. What dichotomy we are seeing in terms of consumption in footwear at least that the premium and the mid-premium segment continues to grow well. You have highlighted that for you the Sparx and the sports shoes are relatively unimpacted. So according to you what is driving this difference? Wherein the sports shoes and the higher segment is growing, but people are not able to afford being the lower end of the segment.
- Ramesh Kumar Dua:** Well, you all know richer are becoming richer and poorer are becoming poorer. This mass segment, his affordability has been affected, and that was quite a big share of our business.
- Gaurav Dua:** Plus rural market in India, they are really suffering, if you read the Economic Times today also even Hindustan Lever is taking heat because of a lot of inflation in rural market. So the purchasing power in rural market is more affected than urban India.
- Gaurav Jogani:** Sure. Sir, anything that you are doing in terms to cater to the demand that is shifting towards, I would say, to the premium and the mid-premium segment. So what is the company's efforts on the same and how the company is looking to make more from it?
- Ramesh Kumar Dua:** We are focusing on our other categories, which are doing well.
- Moderator:** There has been some disturbance, we will be reconnecting again. Ladies and Gentleman thank you for patiently holding, we have line of management reconnected, over to you sir.
- Ramesh Kumar Dua:** I think I have concluded we can go to next question.
- Moderator:** Thank you, the next question is from the line of Bharat Chhoda from ICICI Securities Limited. Please go ahead.
- Bharat Chhoda:** Thanks for the opportunity Sir, Our cost of goods sales for per pair has been around Rs.60, Rs.65 over the last few quarters or so, and then probably this quarter, it has gone to Rs.88 per pair. So in the ensuing quarters, do you see like in Q3, Q4, that could come down to between Rs.75, Rs.80 or even lesser than that? Do you see that possibility?
- Ramesh Kumar Dua:** Yes. Although raw material conditions are quite volatile, but we have a long supply chain, and we have a lot of goods purchased at higher prices, Last year also we are carrying inventory. But in this quarter, that is October, November, December, all that old inventory will be flushed out, and January, February, March, there, our cost of production will be definitely low, and things will be better.
- Bharat Chhoda:** So probably from Q4 onwards, we would see normal gross margin things returning?

- Ramesh Kumar Dua:** Since we started improving, topline will start improving, but at the same time, we have to keep ourselves competitive, relevant as per the market. We have to be very watchful, what is the affordability of the mass segment. Accordingly, we have to take corrective action timely.
- Bharat Chhoda:** So this high-cost inventory will be there for one more quarter at least?
- Ramesh Kumar Dua:** Yes, at least. This quarter, it will be flushed out, by November or maybe December by all means.
- Bharat Chhoda:** **Ok,** Our raw material prices, what was the peak level that was there and from a percentage increase on a Y-o-Y basis, and from there, how much it has fallen down right now? If you could give a benchmark on that.
- Ramesh Kumar Dua:** Yes, it was Rs.120, it gone up to Rs.300, now it has become Rs.200. That is the kind of volatility you can understand, consuming 1,000 tonnes a month, you can understand the volatility and the affect.
- Bharat Chhoda:** How is this higher-end segment doing like you said it is growth in that. So what growth are we witnessing in the shoe segment? Any color you can provide on that?
- Ramesh Kumar Dua:** Yes, Gaurav will tell regarding sales figures of it.
- Gaurav Dua:** So in shoe division, our growth in last 6 months is around 30%. So there is a healthy growth coming in shoe division, which is sports shoes and sports sandals. So that has grown well, but open footwear, which is Hawaii that has degrown.
- Bharat Chhoda:** So what is the quantum of degrowth over there, Hawaii?
- Gaurav Dua:** That is also around 20%.
- Bharat Chhoda:** This you are speaking in terms of volume, sir?
- Gaurav Dua:** Value.
- Bharat Chhoda:** Thanks a lot for answering my question. Thank you sir.
- Moderator:** Thank you. The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.
- Naysar Parikh:** Hi, Thank you for the opportunity, my question is in continuation to what we have asked earlier, if you can just break up your volume or revenue, and just give us some directional

view in terms of how is the performance of some of the lower-end categories or price points versus some higher-end categories?

**Gaurav Dua:** Actually, the out-of-home category, which is sports shoes, formal slippers that has grown well and indoor, like we have Hawaii and Flite EVA, that has degrown. So now after lockdown, there has been a shift, people are going for more premium out-of-home categories. So that is growing well. But in Hawaii segment, we are feeling the heat here.

**Naysar Parikh:** Out-of-home would be what percentage of your revenue?

**Gaurav Dua:** See, in out-of-home also like we have Flite category in which we have EVA and PU, so PU is more than 50%, so that is growing more. If you say open footwear. But if you add Sparx, Sparx is also giving more than 41% contribution to our total business. That is growing at around 30%.

**Naysar Parikh:** What would be the average selling price for the Sparx category and the shoes category?

**Gaurav Dua:** Every category is different, like sports shoe has around 800 plus ASP and sandal is around 500-plus ASP.

**Naysar Parikh:** Okay, I will join back in the queue.

**Moderator:** Thank you. The next question is from the line of Priyam Khimawat from ASK Investment Managers. Please go ahead.

**Priyam Khimawat:** Just wanted to understand, you alluded that price of polyurethane has moved from Rs.120 to Rs.300 per kg and then again falling back to Rs.200 per kg. What percentage of raw material is this for us?

**Ramesh Kumar Dua:** What you want to know, consumption of the material?

**Priyam Khimawat:** Breakup of a raw material in terms of what percentage of raw material is this component?

**Ramesh Kumar Dua:** That is different in category-wise, you are not able to make anything out of it. I just told you, our total consumption of this polymer is around 1,000 tonnes a month, and the volatility has been Rs 120 to Rs 300 and then Rs 300 to Rs 200. 20% is consumption of EVA in the total cost of the materials.

**Priyam Khimawat:** And if you could give some color on what are the other components in our raw material?



- Ramesh Kumar Dua:** There are so many other materials. The EVA is there. The PVC is there. These are the major polymer, natural rubber is there. PPDM is there. There are host of so many materials. But the main reason has been too much fluctuations on these 3-4 for key materials, EVA, PVC, low-density polyethylene, and some natural rubber that is all.
- Priyam Khimawat:** Sir, you alluded to a 6-month supply chain cycle in most of the raw materials imported. Now that we have seen that this raw material can be so highly volatile, anything we are doing to reduce this import component and reducing the supply chain?
- Ramesh Kumar Dua:** We cannot depend upon local sources. Otherwise, our factory will not be able to run. Local source, availability is only meant for small manufactures. If we go to the market, the rate will get out of control because of the local market, because our 1,000 tonnes, nobody can match. So we have to maintain this supply chain so that there is no disruption in the manufacturing process. It is only this onetime in life phenomenal, things have fallen otherwise it has always kept our company in a very healthy position, and it has been always beneficial.
- Priyam Khimawat:** And did I hear it right that Sparx is currently at 41% revenue contribution and it is growing at around 30% for us?
- Gaurav Dua:** Right.
- Priyam Khimawat:** So despite that 41% component growing at 30%, our sales have declined around 7% this quarter. So the other part, which is 60% has declined, that steeply.
- Gaurav Dua:** Yes,. You are right. So there is a factor, the Hawaii factor, the EVA factor, what we are doing in Hawaiian and Flite that has degrown a lot. So whatever gains we are getting from shoes division is getting nullified. So it is why the 10% growth is coming, and in this quarter, it was not that also because of too much rains and the market was not responding.
- Priyam Khimawat:** **Understood**, and our ASP right now is trending at around 169. because 41% is sparx, you valuded to 800 ASP and 500 ASP for sports shoes and sandals, respectively?
- Gaurav Dua:** We need to correct that, that is 800, if you take as a Sparx, we have 437 as ASP, 450, you can say. It has Rs.450 all categories put in Sparks.
- Priyam Khimawat:** **Understood**, so going ahead, should we assume that since Sparx is growing at such a high pace, and ASP structurally will move towards Rs.200 to Rs.250 in the coming years?
- Gaurav Dua:** It will be increasing, but by how much we have to see. ASP will increase.
- Priyam Khimawat:** Okay sir, got it, that is all from my side. Thanks.

- Moderator:** Thank you. The next question is from the line of Harsh Shah from InCred. Please go ahead.
- Harsh Shah:** Sir, my question is we have made a press release where we have stated that we have canceled some 15,000 stock option under our ESOP plan to 5 employees because of their resignation. So just wanted to enquire are these senior, mid-senior level exits and when have they resigned? What is that perspective, sir?
- Sushil Batra:** We gave the ESOP to our AGM and above. There are 110 people in that category. So out of these 5 people have left the company and one was retirement case. So these are the senior mid-level, you can say.
- Harsh Shah:** So this is basically exit by retirement?
- Sushil Batra:** Some retirement and some people left voluntarily.
- Harsh Shah:** Okay, thank you for clarifying that and secondly, sir, what is our current capacity of Sparx, and what will be our capacity of Sparx in the next 2 years?
- Ramesh Kumar Dua:** Currently, it is around 50,000 pairs a day of Sparx and which we are increasing the production to 100,000 pairs a day.
- Harsh Shah:** And that will be operationalize by what time, sir?
- Ramesh Kumar Dua:** Next April onwards.
- Harsh Shah:** So we should be able to double our capacity in next 6 months, basically?
- Ramesh Kumar Dua:** Correct.
- Harsh Shah:** And Sir, then what would be our Capex outlay for FY2023?
- Sushil Batra:** FY2023, our Capex will be around Rs.120 Crores to Rs.140 Crores because we have already placed the order, it is in pipeline, and we have added some back-end operations, and including all these molds and so many other expenses on building part, it will be in the range of Rs.140 Crores, you can say, for FY2023.
- Harsh Shah:** Okay, thank you so much sir.
- Moderator:** Thank you. The next question is from the line of Aliasgar Shakir. Please go ahead.

- Aliasgar Shakir:** **Thanks a lot sir**, a couple of questions. First is on your sportswear. So, if my understanding is correct, out of about 20% of closed footwear, about 50% is sports and athleisure, right, which should be ballpark around Rs.250-odd Crores. So just wanted to understand, what are our plans there? A few of the recently listed companies and in fact, overall market, also a lot of smaller players have rapidly grown in the recent past. So, what are our plans here? we recently also added capacity in the sportswear. So how do we plan to grow this business over the next probably 3 years, if you could share your insights.
- Gaurav Dua:** So, this sports shoe segment this divided into online sale and distributor sales, the channel sale. So, in both channels, we are seeing a good demand coming from the market, and that is why we have added the capacity there only. And we are adding more designs every year, like this year also we have added a lot of designs and we are giving a lot of trust to a placement of products in the market. So, we are expecting a good growth coming from these Sparx segments specially sports shoes.
- Aliasgar Shakir:** **Ok**, So, could you share what is our plan over 3 years, if you could share some number what growth we can expect here given that there are players who have reached up to Rs.50-100 Crores revenue, and we certainly have a very deep distribution reach. So we should be able to use our existing distribution reach or sportswear requires a different reach and therefore, it should be a very slow growth business.
- Gaurav Dua:** No, this would not be a slow growth. We are growing at 30%, and we will continue to grow more than 30% year-on-year in this category, and the demand will come from both channels, online, offline both.
- Aliasgar Shakir:** And is the number that I shared about Rs.250-odd Crores from the sportswear number correct? Or is my understanding...
- Gaurav Dua:** That is only typical sport shoes, which we did last year, Rs.250 Crores. So definitely it will grow from here.
- Aliasgar Shakir:** **Understood**, and just second question is on the inventory situation. So given the fact that you have taken price cuts, you would obviously have a lot of inventory yet in the system, which is at a higher price point. So by when do you expect that inventory to get unwind, and then you should only have one price point or lower price point inventory available in the market.
- Gaurav Dua:** At company level, by December end, we will be able to clear almost all the inventory of old prices, but it will go through the retail and that will take 1 to 2 months more at the retail level. So it is a long supply chain. Company can get over quickly. But at retail and distributor level, it takes time, maybe 2 to 3 months more, so by March it will be everywhere new prices.

- Aliasgar Shakir:** So, so far, whatever is the current price point, we should be able to normalize our inventory by probably March unless seeing some more volatility.
- Ramesh Kumar Dua:** From company point of view, by this December, it will be clear.
- Aliasgar Shakir:** Got it this is very helpful Sir. Thank you so much. I will come back in the queue.
- Moderator:** Thank you. We will move on to the next question that is from the line of Ankit Kedia from Phillip Capital. Please go ahead.
- Ankit Kedia:** Sir, the price cuts are 15% to 20%, which you alluded in the open footwear category, is it in line with the raw material price deflation what we have seen, or the price cuts are more towards volume protection and not towards RM fall which you have seen from average perspective?
- Ramesh Kumar Dua:** Price revision has been taken keeping a view of the local market conditions, affordability of the consumer and what is the competitive environment. To be competitive, we have brought these prices, and we have to always remain competitive in the market. That is what we have done.
- Ankit Kedia:** Is it fair to assume that the price cut is more than the RM deflation, which we have seen in the market and hence, the gross margins could bleed actually because of this?
- Ramesh Kumar Dua:** No, this gross margin under pressure until December. It will start looking up in January onwards. But one thing I must tell you, the raw material situation is very volatile. We cannot even predict in January, February, March at what rate we will be buying. Based on whatever we have in supply chain and what we are making current buying arrangements from international suppliers, we are able to tell today.
- Ankit Kedia:** Sir, let me put it the other way. So if the RM increases, we will continue to maintain our prices to gain volumes and not increase our prices further...
- Ramesh Kumar Dua:** That is a very strategic view point you are raising. You need to watch the market condition at the same time. Whatever is the market environment accordingly, we have to respond.
- Ankit Kedia:** Sure. Sir, my next question is on your sports footwear. So from the current MBO retail network, how much is for the close sports footwear, if you can share that, and over the next 2 years, because we are expanding capacity, how much is coming predominantly for online? Are we going to have a differential product like some of our competitors have for online, where we will focus more or it is going to be fungible between online, offline as the demand comes in?

- Gaurav Dua:** Currently, we have same portfolio, but going forward, we will have different portfolio, especially SMUs for e-commerce and different products for the offline because we want to control the price, there is sometimes a lot of price war. One channel give you more discount what we have heard in this Big Billion Days. So we are going to change our strategy and making SMUs for online channel.
- Ankit Kedia:** And sir, how many exclusive MBOs do we have for Sparx out of the 60,000 retailer network which we have?
- Gaurav Dua:** You are talking about wholesale or you talking about our own retail outlets?
- Ankit Kedia:** How much for wholesale, sir?
- Gaurav Dua:** Wholesale, what we have, we are going currently 50,000 to 60,000 outlets. We have a data of 90,000 outlets. In that 10,000 outlets we are covering through Sparx.
- Ankit Kedia:** And so over the next 3 years, what is the target? What is the potential for Sparx for these outlets you feel given that open footwear will obviously be more, and how do you plan to target the South and West market for Sparx?
- Gaurav Dua:** Sparx does well in South and West. Already, we are doing good in the South and West. Now we have to do good in East and North, other way around, and these 10,000 outlets definitely increased to 15,000 to 18,000 outlets in the next 3 to 4 years?
- Ankit Kedia:** And sir, one last question on the online side. Last year was around 12% of your revenues. What is the target given that the strategy is going to be more focused on online over the next 2 years, predominantly for the closed footwear contribution from online?
- Gaurav Dua:** See 12% is all brands put together. But if you take Sparx, it will be more than 20% - 25%.
- Ankit Kedia:** And over the next 2 years, sir, what is the target given that you will spend more on online?
- Gaurav Dua:** Definitely, this 12% contribution will increase to roughly around 15% in 2 to 3 years' time, and this 25% will also increase what Sparx we are doing.
- Ankit Kedia:** Sure, that is helpful sir. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

- Mithun Soni:** Just wanted some clarifications. So how much of our revenue comes from the EVA-based product? Because that is where, from what we understand, is where the maximum pressure has come because of the long supply chain?
- Ramesh Kumar Dua:** EVA consuming is around 50% to 60%.
- Mithun Soni:** And out of the 50% to 60%, how many of this business would be like where we had reasonably priced products like Hawaii of the world and it is at the mass segment because that is where you would have faced most of the pressure or you have faced the pricing pressure even in the Hawaii category?
- Ramesh Kumar Dua:** We have faced this pricing pressure at the Hawaii which comes under brand Relaxo and Bahamas, and also EVA coming under Flite brand. These 2 categories we have faced this problem.
- Mithun Soni:** And the price correction, 15% has been taken across the entire portfolio of 50% or 60% of the EVA products?
- Ramesh Kumar Dua:** EVA and Hawaii segment, we have done the correction.
- Gaurav Dua:** PU and Sports shoes, we have not done any correction. So for 50% of the products of the total sales, 50%, which is that we have taken a correction. For the PU wear, Sports and Sparx, we have not taken any price correction.
- Gaurav Dua:** And one more very important element we are missing is that GST has increased from 5% to 12%.
- Mithun Soni:** Correct.
- Gaurav Dua:** So that also has impacted a lot, in this lower segment 5% to 12%, that has also impacted, raw material plus GST.
- Mithun Soni:** Correct. The second thing, like as one of the participants asked that there is a clear shift what we are seeing that the premium, semi-premium has been doing well and versus the mass segment has been facing the pressure, and there is the market which is moving over there? So what are the things we are doing to promote and to expand the share of the semi-premium and the premium category for us?
- Ramesh Kumar Dua:** We are increasing the capacity of our sports shoe manufacturing capacity, we are doubling up the capacity, and we are also focusing on online sales. Online sales is maximum of premium and these segments only, not slippers or low price articles. That is what will do.

- Mithun Soni:** How are the priced Hawaii, they are also priced semi-premium or even they are also priced at the mass pricing?
- Ramesh Kumar Dua:** Hawaii is meant for mass segment.
- Mithun Soni:** **Ok**, So 50% of our business comes from the premium and the semi premium segment is the way to look at it?
- Ramesh Kumar Dua:** Yes, almost.
- Mithun Soni:** And given that we have our own 400-store outlet distribution, any plans on that front, what are the things we are looking to do over there to promote our products in the premium category?
- Ramesh Kumar Dua:** Well, our retail outlets, they are doing well, and we are trying to see if need be, we will do the expansion on that front.
- Mithun Soni:** **Ok**, but you are looking to do expansion in that front?
- Ramesh Kumar Dua:** We are watching now how much business we can extract. After all, retail is contributing to around 8% of the business. So strategically, our idea of putting a retail outlet had been to focus all of our products so that we understand what is the consumer behavior and then we spread across multi-brand outlets. It is just 8% to 10% of the business.
- Mithun Soni:** Correct, thank you very much sir.
- Moderator:** Thank you. The next question is from the line of Divyata Dalal from Trident Capital. Please go ahead.
- Divyata Dalal:** Thank you for taking my question. I wanted to understand what would be the breakup of open footwear and close footwear in our revenue for 6 months?
- Gaurav Dua:** It is same like what it was last year. It is around 80% open and 20% closed.
- Divyata Dalal:** So Sparx would be a part of the close footwear or some part of it will also be open?
- Gaurav Dua:** Yes, it has both. It has open and closed. Both. Open is sandals and close is sports shoes.
- Divyata Dalal:** **Ok fine**, and in terms of our press release, we have mentioned that since we have taken the price cut, it has been welcomed by trade and consumers. So are we seeing some volume

uptick till now in Q3, like have you seen after taking price cut in September? Has there been some increase in volume on the Hawaii side?

**Ramesh Kumar Dua:** Yes, it is happening and in the month of November it would be much better. Because there is old inventory in the system, it will take some time, but things are very promising.

**Divyata Dalal:** So in terms of volume for next quarter also, we can assume that 80-20 would be the breakup of open and close?

**Gaurav Dua:** Yes.

**Divyata Dalal:** Okay that is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Harsh from Marcellus. Please go ahead.

**Harsh:** **Hi Sir,** So traditionally, we have been strong in the northern and the eastern market. However, in the Sparx category, we are just starting in the northern and eastern markets. So are we facing some headwinds in these 2 markets?

**Ramesh Kumar Dua:** Can you repeat the question?

**Harsh:** Yes, the traditional Relaxo has been very strong in the northern and the eastern market. However, in the Sparx sports shoes category, we are just starting off. Majorly, our revenue is coming from South and the Western market. So what are the specific headwinds that we have faced in these 2 markets? Why are we not take right now in the Northern and the Eastern market in Sparx sports shoes?

**Ramesh Kumar Dua:** North also we are focusing, and North is little more competitive market than South and West. All manufacturing ways of footwear is this side. In North, West and South, there were no manufacturing basis of sports shoes and all that. So we got an easy entry into that market. But here, it is in the north side, environmentally, it is more competitive. But we are focusing, and things will be improving here also.

**Harsh:** Okay thank you.

**Moderator:** Thank you. The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

**Akhil Parekh:** My first question, would you be able to quantify how much of the EBITDA margin erosion in the first half of the year is because of the inventory losses?



- Sushil Batra:** There is no effect of inventory on the EBITDA margin, it is mainly raw material prices, that is hitting. Otherwise, generally, we never sell below cost. It will never happen. So we either decrease the prices, but it is never below the cost. So impact upon EBITDA is mainly due to the raw material prices.
- Akhil Parekh:** Ok got it, the price hikes we took last year, right, and the channel feedback was suggesting that some of our bigger competitors have not taken the hikes in context to what Relaxo took. So has the shift happened from Relaxo to the other big competitors? Or have they gone largely to the unbranded side?
- Ramesh Kumar Dua:** It is mostly unbranded who were offering cheaper products, cheaper quality and since the affordability of the consumer has gone down. So for the time being, they shifted because their affordability was not there. That was one of the reasons.
- Akhil Parekh:** Okay. So we have not lost market share to any of our bigger competitors, right? Would that be a fair understanding?
- Ramesh Kumar Dua:** No, no, not at all.
- Akhil Parekh:** Okay. Third and last question, on the volume front, if I look at volumes from FY2019 and probably for next year as well, broadly, they have stagnated at around 17 to 18 Crores, 19 Crores. Is there any saturation which we are seeing in terms of volume growth because the volume growth is missing, I understand the pandemic was there, but which has been actually good for us. But if I look at last 5 years trend FY2019 to, say, 2022, 2023 as well, the volumes are, by and large, muted. So anything if you can highlight on that?
- Ramesh Kumar Dua:** When people were not moving around, outdoor footwear was really totally stagnant or lowest. But this indoor footwear, were more. In a lockdown, there were a lot of people who are out, walking, going to villages and all of sudden too much demand had emerged. That was one of the reasons. But now I do not say, maybe this year things were stagnated. But next year, again, we will have growth.
- Akhil Parekh:** Like peak volumes we did in FY2021, which is around 19-odd Crores, so would it be fair to say we will probably cross that number in, say, FY2024, that is next year?
- Ramesh Kumar Dua:** I hope so.
- Akhil Parekh:** Okay sir got it, that is all from my side, and best wishes for coming quarters.
- Moderator:** Thank you. The next question is from the line of Viraj from Banyan Tree Advisor. Please go ahead. There is no response from current participant we will move to next participant.

The next question is from the line of Anush Mokashi from Yadnya Academy Private Limited. Please go ahead.

**Anush Mokashi:** Yes. Sir, my question is around EBOs. So basically, what we are looking at is there is a decline in the EBOs those 398 as of March 2021, those have declined to 388 as of Q2. So can you please help us understand the reasons behind that?

**Ramesh Kumar Dua:** No. We generally are maintaining at 400. But sometimes, a few stores which are not doing well then, we rationalize and then we put out stores.

**Anush Mokashi:** Can you share any guidance on the EBOs side over the next few years? How much are we looking at?

**Ramesh Kumar Dua:** We are presently maintaining around 400. That is what we would like to have this year, 400.

**Anush Mokashi:** Essentially, do we have any plans to go international in EBO if you have any guidance on that?

**Ramesh Kumar Dua:** We are already exporting. Our share of export is around 4%.

**Anush Mokashi:** Opening up of maybe Sparx EBO.

**Ramesh Kumar Dua:** No, no. Internationally, we are not opening any EBOs. It is only domestic that we have exclusive for our brand outlets.

**Ritesh Dua:** But as our test marketing, what we are doing is, we are opening the stores into countries through our distributors to check the consumer taste there of our styles that we are promoting there that we are doing in few countries, and eventually, we will take a call how to go about it.

**Anush Mokashi:** I am assuming that EBOs margins at the distributor level are much high here than the MBOs or the retail outlets we have. Am I right in that condition?

**Ramesh Kumar Dua:** You mean multi-brand outlets or exclusive brand outlets, what do you say. How many number of you want to know?

**Anush Mokashi:** No. My question is around the margins. Basically, the margins which we get at the EBO level the distributor margin. Those are much higher in EBOs compared to the MBOs.

**Sushil Batra:** Definitely, margins are higher, but because you have to do so many expenses, rent and staff and so many things, so MBO is a different model, they have their own shop or just proprietor running the shop. So we give margin around 30% to the MBO and then they pass on some

discount and they are earning around 25% - 30%. So that is more profitable but in case of EBO, definitely, there are margins are high, but expenses are also high.

**Anush Mokashi:** Okay thank you so much sir, that is it from my side.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

**Manish Poddar:** A couple of questions. First is, what is the total Capex for FY2024 and 2025?

**Sushil Batra:** FY2024, FY2025, see we have been spending around Rs.80 to Rs. 100 Crore every year. So this year, FY2023, we have planned around Rs.140 Crores. So 2024 and 2025, it should be between Rs.80 to Rs. 100 Crore. It is an ongoing Capex, we always have to expand.

**Manish Poddar:** And when you say you have not lost market share, how do you get a gauge on that?

**Sushil Batra:** Sorry, we have not lost the market share, next, what you are saying.

**Manish Poddar:** You mentioned on the call that you have not lost market share. So I am just trying to understand how we get a gauge on that. You track shelf space, how do you get a sense of that.

**Gaurav Dua:** We have our sales offices. We have more than 300 sales officers visiting 50,000 outlets. So we keep a track of the primary sales, the secondary sale, the shelf space and what we are seeing the volume degrowth in Hawaii and EVA category. So that clearly mentioned that the shelf has been taken by unorganized players.

**Ramesh Kumar Dua:** But now we are getting back.

**Gaurav Dua:** Now we are getting back, yes, definitely, after taking price correction.

**Manish Poddar:** And just one last one. So is the demand environment at the bottom of the pyramid really that bad because when you look at a couple of data points, let us say, price increase taken by mobile players or you look at a couple of online guys in apparel, doing very well, some of that thing does not add up.

**Gaurav Dua:** Yes. Because if you just read today newspaper Economics Times, clearly mentioned Rural India Big Pressure by Hindustan Lever, ITC, all. Rural India is really under pressure there because of inflationary pressure, and urban India is doing really well that you can easily see that. All urban brands, urban consumption is there in mobiles or in automobiles. But rural India, we are seeing a sharp decline in consumption also.

- Manish Poddar:** Fair enough. Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek, an investor. Please go ahead.
- Abhishek:** Thank you for the opportunity I have a couple of questions. My first question is around, as you mentioned, the opening remark, right, that the EVA prices in the domestic markets are around Rs.200 per kg. So does it mean that now there is an even playing ground for us and other unorganized players?
- Gaurav Dua:** Yes, now it is better because now after taking price correction, we are at same level because we are buying at Rs.200 and they are also buying at Rs.200.
- Abhishek:** Right, and are there any further price cuts expected by us?
- Gaurav Dua:** No, I do not think so.
- Abhishek:** So my next question would be around the Sparx brand. So is there any competition from the organized sector from other listed or other large players in the sector, in Sparx brand?
- Gaurav Dua:** Yes, there are a lot of organized players, and there is a competition, no doubt about it. But we have a different market, different product portfolio and the athleisure demand overall is increasing for every brand because the consumer trend is shifting to a fitness, lifestyle, health. So demand of athleisure footwear is going up, for the industry itself is going up.
- Ramesh Kumar Dua:** That is why we are doubling the capacity.
- Abhishek:** Got it, and my last question would be on the contribution of Sparx from its open footwear and from close footwear. Is the open footwear competition that is sandals much higher compared to sports shoes?
- Gaurav Dua:** No, the competition is in both levels, sandals, and shoes. It is not that competition is less in shoes or sandals. So it is an athleisure category. So it is a growing category and market is growing.
- Abhishek:** Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.
- Tejash Shah:** Just one question from my side. Usually, we have seen in a category where there is a large participation by unorganized sector. Inflationary period is always beneficiary for organized

players because of the scale, ability to manage supply chain volatility and in procurement, planning, production. Understandably, they should have an upper hand versus unorganized players. So in our case, it did not play out like that. So just wanted to understand, was it different in our case or there were some more headwinds or unprecedented headwinds which did not allow us to capitalize on this opportunity?

**Ramesh Kumar Dua:** So as long as we were rising, we were in a better position. It is only because there was a decline of the price of our main material from Rs.300 to Rs.160. If you consume 1,000 tonnes a month, at that time, local market availability of the material came down at Rs.160 - Rs.180. But we have a long supply chain, which we are buying, and our average price was Rs.240 for the year. So it was just in this 3 - or 4-month period when they became advantageous because we have a long supply chain thereby supply short supply chain.

But this happens once in a life that prices go down and they became advantageous. It is very rare phenomena. It is just a matter of time. Otherwise, we cannot be dependent at all on local sources. Our factory will come to a halt. To have uninterrupted, no disruption, manufacturing process, we have to maintain this sufficient inventory in the pipeline. During the lockdown period, even there was so much of scarcity of material and even getting containers to ship the material became a challenge. So that is why we took little abundant precaution and added a little more stocking also just to avoid any manufacturing disruption.

**Tejash Shah:** And sir, just expanding that point, what percentage of competition would be importing either raw material or finished goods from China, especially from unorganized?

**Ramesh Kumar Dua:** I cannot comment on that. I can tell you about ourselves.

**Tejash Shah:** No, I was asking about unorganized, not organized, but anyways, thanks.

**Ramesh Kumar Dua:** Unorganized, their figures are not at all available to anybody. I do not know even they pay GST to the government. I cannot say anything.

**Tejash Shah:** Fair point sir. Thanks and all the best.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to the management for their closing comments.

**Sushil Batra:** Thank you all for joining the call. This is all from our side. Looking forward to joining you again. Thank you.



*Relaxo Footwears Limited*  
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**Moderator:** Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.

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