

November 10, 2020

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Scrip Code – 530517	Scrip Code - RELAXO

**Sub: Conference call Transcript**


Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q2 FY 21 results which was hosted by the company on November 2, 2020 at 4:00 p.m (IST).

The same is for your information and record.

Thanking You,  
Yours Sincerely,

For Relaxo Footwears Limited,

  
Vikas Kumar Tak  
Company Secretary and Compliance Officer  
Membership No.: FCS 6618

Encl : As above

## RELAXO FOOTWEARS LIMITED

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“Relaxo Footwears Limited  
Q2 FY2021 Earnings Conference Call”

November 02, 2020

**ANALYST: MR. GAURAV JOGANI - AXIS CAPITAL LIMITED**

**MANAGEMENT:**

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

**MR. RITESH DUA - EXECUTIVE VICE PRESIDENT - FINANCE**

**MR. GAURAV DUA - EXECUTIVE VICE PRESIDENT - MARKETING**

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

**MR. VIKAS TAK - COMPANY SECRETARY**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of Relaxo Footwears Ltd hosted by Axis Capital Limited. 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. Gaurav Jogani from Axis Capital Limited. Thank you and over to you Sir!

**Gaurav Jogani:** Thank you. Hello everyone on behalf of Axis Capital I would like to welcome you all to Relaxo Footwears Ltd Q2 FY2021 earnings conference call. We have with us today from the management Mr. Ramesh Kumar Dua, Managing Director, Mr. Ritesh Dua, Executive Vice President, Finance, Mr. Gaurav Dua, Executive Vice President, Marketing, Mr. Sushil Batra, CFO, Mr. Vikas Tak, Company Secretary. The management will give short brief about the results and then we can proceed ahead with the Q&A sessions post that. Thank you and over to you Sir!

**Sushil Batra:** Good afternoon. I am Sushil Batra from Relaxo. Ladies and gentlemen, thank you very much for attending our earnings call for the Q2FY21. We have already shared our earning press release and result presentation; hope you got an opportunity to go through that. I will start with the Q2 FY21 financial performance followed by H1FY21 financial performance.

In Q2 FY21, Relaxo booked an operating revenue of Rs. 576 crore as compared to Rs. 622 crore in the corresponding period of the previous year. The drop in Revenue in Q2 is due to disruptions in economic activities caused by COVID-19 pandemic. Benign raw material prices and saving in administrative expenses led to an improvement in the EBITDA margin to 22% as against 16.8% in same quarter last year. Other income stood at Rs. 5 crore as compared to Rs. 2 crore in the corresponding period of the previous year. The increase is mainly on account of lease rent waiver/reduction of Rs. 2 crore agreed by lessors for our rented premises. Profit before tax was Rs. 100 crore for the quarter, up by 35% YoY with a PBT margin of 17.4%.

Tax expenses for the quarter and half year ended September 30, 2020 reflect changes made vide Taxation Laws (Amendment) Ordinance 2019 as adopted by the Company. Therefore, effective tax rate of quarter ended September 30, 2020 is not comparable with previous comparative period of September 30, 2019 as the Company had recognised the full impact of this change in Profit & Loss for the quarter ended September 30, 2019. Profit after tax at Rs. 75 crore for the quarter, is up by 6% YoY with a PAT margin of 13.0%.

For First half of FY 2021, we registered a revenue of Rs. 939 crore as compared to Rs.

1,270 crore in the corresponding period of the previous year. EBITDA margins increased to 19.6% from 16.6% while PAT margins increased to 10.6% from 9.5% helped by favourable raw material prices.

At the end of Sep 30th, 2020, we have 396 exclusive brand outlets which contributed around 5% to our H1FY21 revenues. We have added net 6 new stores in this period. Exports are also picking up with opening of markets and are contributing around 4% of revenues. Going forward, we are cautious about the recent rising trend of raw material prices. We would continue our efforts to grow our presence in untapped and under-penetrated markets and focus on strengthening our brands. We can now open the floor for questions. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

**Archana Gude:** Thank you for the opportunity and congratulations on good set of numbers. I have three questions from my side. Firstly, I would like to know how was the demand scenario in Q2 and some color on the brand wise performance for us?

**Gaurav Dua:** After the opening up, northern markets like Delhi was the first one to open up, so in Q2 we saw good demand picking up from the rural India. If you see brand wise, in the close footwear category majorly, there has been impact, but in open footwear we are getting a good demand for the Hawaii brand, the Flite brand and the Bahamas. So, there is a good demand coming in open footwear. The second thing is work from home is also happening so there is more demand of open footwear and less for the closed shoes.

**Archana Gude:** I was just going through your presentation and it suggests that we do not have presence through EBO in Southern India, your comment on this, is that intentional or how you intend to grow in the southern market?

**Ramesh Kumar Dua :** Our purpose of EBO is a little different, strategic one. They are kind of display and exhibition of our products on the sale counters where our purpose is to capture the voice of the consumer and accordingly develop the new products so that we can understand the evolving need of the consumers about our products, the new products that we have launched, so currently we have around 400 outlets, but that is enough to understand the market. But if you want to go to south and west then it is a different thing commercially and then it must make economic sense. Today it is serving us marketing sense, where we understand the market, so from that point of view our objective is being well met with, so currently we do not have any plans to have such kind of outlets in other parts of the country.

**Archana Gude:** Some guidance on the raw material price trend and what kind of sustainable EBITDA margin you look forward let us say for FY2021 and 2022?

**Ramesh Kumar Dua:** So far, the raw material prices have been quite benign. In the fourth quarter that is January, February, March, definitely the prices are going to change, and things will be different, so we have to wait and see how actually the things fold up and then we will decide the way things are.

**Archana Gude:** Just a follow up on my last question. Given the category of footwear we are into, is it really easy to pass on any price hike if the raw material prices go up or how we look at the situation Sir?

**Ramesh Kumar Dua:** It depends upon what kind of price hike or what kind of prices have changed in the raw material, in case its nominal we do not want to intervene at that stage, but if there is major then we do review the costing of our products and we pass it, then it is not difficult. Any price hike based on genuine input increase is never questioned, it is only when we want to increase the price without any genuine reason then that is questionable, so that is our policy which we have been following in the entire history of Relaxo and we will continue to follow.

**Archana Gude:** Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

**Ritesh Gupta:** Thanks for taking my question. Just continuing on the RM and the gross margin EBITDA, we have seen some of the best gross margin being posted in this quarter, I think much better than what we have reported in a very long history, so would be attributed to the crude price collapsing and that come into the benefit and is there any price hike? I think I remember you had about 2%, 3% price hike few months back, is it impacting? and just remind us from what kind of pricing action taken in the last six months or so if you have any and I think gross margins is also not understandable in the sense that the close footwear has been reasonably weak and probably it might have had some impact on the mix as well, so just wanted to understand the gross margins a bit and is there any one off in these numbers.

**Ramesh Kumar Dua:** The current situation we are in, things are changing a little. In the first six months, expenses were controlled, other administrative expenses we have controlled. Now when the market will start opening up then we will have to do more expenses on marketing sales promotion, brand building and all that. There was saving on travel expenses, and other administrative expenses also. The raw material also was quite comfortably priced. On the one hand prices of raw material will go up, well travel expenses, marketing and branding will go up as well.

So, this what we have achieved in Q2 does not mean it is going to be the norm of the day. We have to be in the market in a competitive manner and accordingly have to take decisions. So as far as third or fourth quarter is concerned, our expenses will be more, so this kind of EBITDA margin should not be expected. Margin will be good, better, but it will be in a more reasonable manner. Let us wait how the raw material prices move which we will come to know in the fourth quarter. Accordingly, whenever some intervention of price increase is required then we will do, we have to review it every quarter, what are the prices of the raw material, other inputs, market scenario, competitiveness of the articles in the market and then we have to take a mature decision on that.

**Ritesh Gupta:** If you could highlight was there any reduction and discounts etc., you gave in the last quarter given probably your competition may be facing supply side challenges?

**Gaurav Dua:** Definitely, in trade level also, the discounts offered were low and same thing happen in ATL and BTL expenditure also, it was not there in Q2. So, everything started in Q3 be it advertisement, BTL, ATL and the promotion scheme for the distributor and retailers.

**Ritesh Gupta:** Would you be able to guide us on, what kind of volume growth did you have this quarter?

**Ramesh Kumar Dua:** Volume growth is 2%.

**Ritesh Gupta:** Any benefit that you are seeing from COVID on a long term basis like at the lower end of slipper portfolio, there are many unorganized players as well have you seen any kind of disruptions on that side, any opportunity to gain market share?

**Gaurav Dua:** Actually what has happened because of COVID, work from home culture is here to stay, so the demand for the slippers and open footwear category will maintain at least for two to three years what we are seeing and the outgoing party wear is reducing, so for us we make informal footwear and specifically open footwear, so I think for two to three years this will continue. The demand will be more.

**Ritesh Gupta:** If I again squeeze a last one, on the export side I think in the last call you had said that you are looking at export much more aggressively and you are looking at couple of global markets as well, I think you made this comment I think AGM or probably in your last call, I just wanted to understand is there a thought process on any specific countries we are targeting or any competitive advantages that you carry with yourself in those export markets, so if you can just talk about that could also be helpful.

**Ritesh Dua:** In export markets, it has been a similar position like India. After COVID market had been affected in same way in international market also and what is your other question you are asking?

**Ritesh Gupta:** I just wanted to see that what are the competitive advantages as you get into some of the other market?

**Ritesh Dua:** We have been exporting in our own brand name so that is helping us out, because that we are getting sustainable growth year-on-year, because of using our own brand. The maximum footwear industry i.e. China and other countries, they always provide products in the private label, but we are doing in our own name and brand, so that is giving us advantage for the future. Majorly we are focusing on Gulf markets which are a major market for us, side by side we are getting now traction from Africa region and Oceania and Central America, these are the four regions where we are getting traction from.

**Ritesh Gupta:** Is it that you are able to provide these products at cheaper prices even what Chinese or Bangladesh competition would be I do not know which countries are larger competitor?

**Ritesh Dua:** Whatever quality standard we are maintaining in India, we are following the same quality standard wherever we are entering into, so our price points are higher than the Chinese counterpart wherever we are selling, but we are able to get the sales due to the quality standards that we are maintaining.

**Ritesh Gupta:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Thank you so much and good evening to the management. Three questions from my side. The first one was, I look at your recovery rate in terms of volume or revenue for this quarter, it has been better than lot of the other similar categories, so first of all just wanted to get a sense that at the end dealer or retail level is the growth in volumes and revenue similar or there has been a channel filling that had help improve the reported number at our end?

**Gaurav Dua:** Can you repeat the question please?

**Nihal Jham:** Sir, I was asking that when I look at your revenue degrowth of just 7% and in the volume growth of 2%, the recovery has been much better than anticipated, so I just wanted to get a sense that is the recovery at the end dealer level also similar or there has been some sense of increase in inventory in the channel because that may have got a little reduce because of limited supply initially, so that is the first question.

**Gaurav Dua:** Both things have happened. The pipeline got empty in starting of Q2 and secondly, there is a high demand coming from the Bharat or rural India what we call, so demand for open

footwear is quite high and definitely availability has improved from our factories and it has helped us to grow. It is similar with the retailer and distributor.

**Nihal Jham:** Our end territory sales or end level sales would be more or less similar to the company reported sales at this point in time for Q2?

**Gaurav Dua:** Yes.

**Nihal Jham:** That is helpful. I am not sure, but do you disclose a share of e-commerce and approximately what was the contribution for this quarter?

**Ramesh Kumar Dua:** E-commerce we are doing 10% of our total sale if we say Q2, but Q1 it was all closed, so there was no sale coming in Q1, Q2 is 10% growth compared to last year Q2.

**Nihal Jham:** 10% growth and as a share of our total sales what it would be e-commerce contribution?

**Sushil Batra:** That is also 10%.

**Nihal Jham:** Last question from my side. Traditionally whenever we have seen a spurt in gross margin because of falling raw material prices, ideally how do we end up using the benefit, do we end up cutting prices or end up increasing our ATL, BTL expense, just wanted a sense of that scenario in case of it plays out ahead?

**Ramesh Kumar Dua:** We have to see, for a normal duration of time, it is not in one month prices go down and then we have to take some radical decision, we have to see how this three month or six months plays out. If I find today the raw materials have gone down, but I find in third quarter they are going to come up, so then we have taken decision, by and large if you see a longer period i.e. six months or more, the things average out, so no immediate intervention is required for any kind of things.

**Nihal Jham:** Absolutely Sir, but I am just saying that in case there is a sustained continuation of the current gross margins and would we say look at reducing prices?

**Ramesh Kumar Dua :** Already I have told you Q4 raw material prices are going up, we are booking the material at a new rate, which are quite high rather it is situation other way round I do not know in the Q4 we may have to look for upward revision of the prices.

**Nihal Jham:** I will come back in the queue if I have more questions.

**Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.



- Tejas Shah:** Thanks for the opportunity and good evening. You spoke about channel wise split of the growth if you can give some color on region wise also if any particular region or South India in particular did better than others?
- Gaurav Dua:** South India and West India, they did not pickup because as everybody knows Maharashtra was last to open up similarly Kerala is still under lock down, so South India and West India is hardest hit, so the best part for us was we have done very well in north region and east region, which was less effected and opened up quite early.
- Tejas Shah:** South India will be materially degrowth versus our reported numbers or they are in the vicinity of our reported numbers?
- Ritesh Dua:** They are in degrowth, no doubt about it. South India is in degrowth, because it was last to open up.
- Tejas Shah:** Sir, second question is you spoke that we were able to make stuff available versus competition and I am assuming as we have noticed in many other categories that unorganized had much more supply shock than organized players, so would it be fair assumption that you have gained market share in the last two quarters versus unorganized and once they stabilized the supply chain perhaps the competitive pressure might come back in the coming quarters?
- Gaurav Dua:** Yes, you are right. Initially we got good market in those first and second quarters, but now the supply coming from the competition, so the competitive edge is not as relevant what it was before.
- Tejas Shah:** If you can give some color on how the festive season is going so far, how was Durga Pooja and when do you see the recovery coming back only for us and for the sector at large?
- Gaurav Dua:** October has been nice for us and the festive season picked up, now all the markets are open except Kerala, so we are getting good recovery there,
- Tejas Shah:** This is across states or in the sense you spoke about Bharat versus urban, so urban is also participating now?
- Gaurav Dua:** Yes, definitely, everywhere across.
- Tejas Shah:** That is all from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Dhaval Mehta from ASK Investment Managers. Please go ahead.

- Dhaval Mehta:** Good evening team and congrats on a decent set of number. My first question is with respect to category growth, so I understand there is no data, but any ballpark number what would helping the category declining in Q2?
- Gaurav Dua:** One of the category which has not grown or rather declined is canvas shoes, Schoolmate, because schools are closed, and close category whether it is sports, people are not moving out, so that category has affected, but other articles like where there are open footwear, slipper, sandals, they are all right, not an issue.
- Dhaval Mehta:** Normally shoes as a category is how big in terms of overall footweares?
- Gaurav Dua:** Around 10%.
- Dhaval Mehta:** Including formals, sports shoes and canvas shoes.
- Ramesh Kumar Dua:** We do not have formals; we have all informal.
- Dhaval Mehta:** But I am talking about the category as a whole?
- Ramesh Kumar Dua:** The category for the country or for us?
- Dhaval Mehta:** For the country, for the industry?
- Ramesh Kumar Dua:** I cannot tell on that; I can tell about my company.
- Dhaval Mehta:** My second question is you told that open footwear is doing well, we understand that open footwear as a category is doing quite well and normally earlier open footwear used to be more of a seasonal category where largely used to sell more in summer, when summers will be approaching, so can there be any manufacturing glitch because the demand will be much higher and so do we have the capacity to manufacture the increasing demand, if it comes?
- Ramesh Kumar Dua:** We have good capacity. Already we have capacity cushion of 30%- 40% more, so that will not be an issue.
- Dhaval Mehta:** My last question in terms of overall dealers, for dealers it would help in a very difficult time in last six months, so have you seen any of our dealers close down, any thoughts on that?
- Gaurav Dua:** I have told before also that in West India and South India, there has been a big problem because of opening up late. So many shops have closed, but it is still difficult to say what is the exact number, because as you know Kerala is still under lockdown and Mumbai also has

been majorly hit, so we do not have exact data right now, but definitely there has been some closures. In terms of the channel trade, distributors, they are working, they are intact.

**Dhaval Mehta:** So the retail universe may come down, but for us the channel distributors are same, they have not declined right?

**Gaurav Dua:** They have not declined.

**Dhaval Mehta:** Thank you and all the very best.

**Moderator:** Thank you. The next question is from the line of Sabyasachi Mukherji from Centrum PMS. Please go ahead.

**Sabyasachi Mukherji:** Thanks for the opportunity. I have couple of questions. First was if you can help me with the total numbers of units sold in H1, I believe in FY2020 you have sold around 18 Crores pairs of shoes and shoes, slippers, what is the number in H1 this year?

**Sushil Batra:** Number, we generally share at annual level. We can share the value part, but number we share in balance sheet at annual level.

**Sabyasachi Mukherji:** No issue Sir. Can you just help me with the volume or volume growth in H1, you mentioned 2% in Q2, what would be H1?

**Ramesh Kumar Dua :** H1 is -13%, because Q1 was almost closed, two months was not working.

**Sabyasachi Mukherji:** Thank you and all the very best.

**Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak mutual fund. Please go ahead.

**Bhargav Buddhadev:** Good evening. My first question, has there been any increase in the distribution footprint and the retail reach for us during the first half?

**Gaurav Dua:** Definitely we are seeing demand coming from all across India for the open footwear, so we have increased the number of distributors and dealers.

**Bhargav Buddhadev:** Is it possible to quantify it?

**Gaurav Dua:** It is quite difficult right now to quantify in numbers.

- Bhargav Buddhadev:** Secondly, Sir we understand there has been some increase in deposits from distributors. Is it possible to highlight, what could be the reason for this?
- Sushil Batra:** We have increased the security amount from each distributor for new distributor as well as the existing distributor, so just to bring more big and serious people in the business, so that is why this amount has increased in last six months as we were working on that.
- Gaurav Dua:** It was in pipeline, after COVID we implemented in June otherwise it was to be implemented in April itself.
- Bhargav Buddhadev:** The security amount is similar for the new distributors as compared to the old ?
- Gaurav Dua:** Similar.
- Bhargav Buddhadev:** That is, it from my end. All the best.
- Moderator:** Thank you. The next question is from the line of Bharat Chhoda from ICICI Direct. Please go ahead.
- Bharat Chhoda:** Thanks for the opportunity. I had three questions. could you just share what is the revenue share from tier-2, tier-3 on metro cities?
- Ramesh Kumar Dua:** We do not have this kind of classification. We generally look on overall figures state wise, district wise not tier wise, sorry we will not able to give you.
- Bharat Chhoda:** Or you can rural, urban something like that?
- Ramesh Kumar Dua:** We do not have classification like that. We go region wise, state wise.
- Bharat Chhoda:** Ok. On this open footwear side, what is revenue share of open footwear on the entire revenue mix?
- Ramesh Kumar Dua:** Around 80%.
- Bharat Chhoda:** This has increased significantly in this period or on a normalized basis, what would that be?
- Ramesh Kumar Dua:** A few percentages here and there.
- Bharat Chhoda:** Okay and what is the capex and capacity expansion plan if you can share something on that?

**Ramesh Kumar Dua:** Every year we have a spending around Rs.100 Crores so this year also that plan is there and accordingly capacity expansion which are in progress already declared around a lakh of pairs per day, so that will be in place by 31<sup>st</sup> March.

**Bharat Chhoda:** Considering post normalization could we be in a position to see double digit growth post normalization, is it possible for us?

**Ramesh Kumar Dua:** No. Presently, we have to recover what we have lost in the first quarter, so currently also we have not recovered that, so first our job is to recover, how long will it be, let us wait and see. I do not think if this year we can recover whatever turnover reached last year.

**Bharat Chhoda:** From a longer term target perspective you would be looking at least revenue growth in double digits or early teens or something?

**Ramesh Kumar Dua:** Yes.

**Bharat Chhoda:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital Limited. Please go ahead.

**Gaurav Jogani:** Thank you for the opportunity Sir. My question is with regards to your retail outlet reach, so as per your presentation we reached approximately 50,000 outlets as of now. Can you help with what would be the entire universe of the retail reach and what is the target that we have in mind to reach with the expansion plan that we have.

**Gaurav Dua:** What data we have collected personally there are about one lakh outlets in India and currently we are at 50,000, so our target is always to increase double digit like 10% to 15% every year to add on new outlets.

**Gaurav Jogani:** Okay, but I was doing a tertiary check through various websites and all, the people like VKC and Paragon they already talk about 1.5 lakh outlets to 2.5 lakh outlets already, so I mean is there some difference in that bit?

**Gaurav Dua:** We cannot say about others, , so this exercise the company has done we have identified 1 lakh outlets., so they got data from somewhere else, we do not have that data.

**Ramesh Kumar Dua:** They are all estimates, people are giving estimate figures. Our is counted actual figures which are in our role.

- Gaurav Dua:** If you add EBOs, you add other outlets which are not relevant for us like fancy footwear, leather footwear, so we are focused on informal footwear.
- Gaurav Jogani:** Basically it is only for your category outlets which you are talking about?
- Ramesh Kumar Dua:** No EBOs.
- Gaurav Jogani:** In terms of capex you have already mentioned, you would be already doing Rs.100 Crores capex this year as well, how much capacity you get additionally out of that and wouldn't it suffice for the next two to three years then we can stop for the capex?
- Ramesh Kumar Dua:** Every year after all company has to grow, we have to think which way, what category, how it has to be grown. There are certain expenditures like moulds, it is regular capital expenditure. Then machineries, lot of machineries are being replaced. Then the third thing is capacity expansion. Capacity expansion also has to be done keeping in view the evolving or increasing demand of the different types of footwear. So whatever category is growing, accordingly we keep on moving ahead of the curve. Not that today demand will come then we will start planning. Just always create some system or cushion in the manufacturing capacity, so that we should not suffer any sale losses.
- Gaurav Jogani:** Thank you Sir. That is all from me.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.
- Ankit Kedia:** Sir, just wanted to understand the impact on Sparx brand, it accounts for 30% of our revenue, is it safe to understand that now from Q3, we can see demand being pre-COVID level in Sparx or we will see demand only in Q4 and some pressure can be seen even now?
- Gaurav Dua:** It is very difficult to say about Q4, but we are seeing some recovery in Sparx brand as well, but I am saying again West and South, not fully opened up, there are still issues at district level, so recovery is there, but when it will be recovered to pre-COVID level difficult to say right now.
- Ankit Kedia:** A related question to that is on the school shoes, canvas shoes as well, are you seeing schools reopen in certain parts and demand for school shoes coming back and that can be a big demand boost for us in the remaining six months of the year?
- Gaurav Dua:** No, we have not got any demand of school shoes, so very difficult to say right now anything about that.

- Ankit Kedia:** My last question on A&P spends, could you quantify A&P spends in the first half of the year and what is the currently, what is the margin guidance for the full year given that previously we believe that margins could be flattish year-on-year at around 17% given the stupendous margins in the first half, do we see 100 to 150-bps better margins compared to last year in FY2021?
- Ramesh Kumar Dua:** Compared to last year, we will have definitely better, but we should not take Q2 as the standard. In Q3, Q4 expenditure on account of marketing is definitely going to increase and schemes for the distributor channel will also be there. But on the whole what you see, this year our EBITDA margins will be better than last year.
- Ankit Kedia:** Sir if I can squeeze it one more question on the EBO demand, how was the EBO demand? And for the full year how many more stores are we looking to open?
- Ramesh Kumar Dua:** We are controlling at around 400 for the time being.
- Ankit Kedia:** Is the demand similar to the wholesale demand at the EBO or there is some pressure on that as well?
- Ramesh Kumar Dua:** There is a pressure on that, because visit to our own outlets remains affected. But for multi-brand outlets which are located in all areas like rural, sub-rural, urban, suburban markets, there demand is better.
- Ankit Kedia:** That is helpful Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nikunj Kela from Principal AMC. Please go ahead.
- Nikunj Kela:** Good evening everyone. Sir, my first question is if you do capex of Rs.100 Crores, what is the average gross asset turn we look in any capex going forward?
- Ramesh Kumar Dua:** I am not very clear on the question.
- Nikunj Kela:** If we put Rs.100 Crores of capex today, what is the revenue potential from that facility we can expect?
- Ramesh Kumar Dua:** That depends upon where you are putting the Capex. Suppose Capex goes in buying land, no capacity will change. You put Capex on building, no capacity will change. And you put on the machinery, what kind of machinery, what category of machinery, mould, so it is difficult. Every capex does not mean it will come out with the more capacity.

- Nikunj Kela:** If I may ask the question as if we are doing any Greenfield capex today and whatever capacity you have in mind of a particular line then in that what is the gross asset one can expect from that?
- Ramesh Kumar Dua:** We have not gone like that because our categories like slippers, sandals, sport shoes and EVA slippers, EVA injection molding, there are so many categories, then what kind of process we are going to adopt, whether I am making shoe on a conventional category or I will make raw material and make a sole of it then I will also make chappal out of it. It will be different paradigm, what kind of policy I follow. One thing is to buy the sole and upper, it will be different output. But if you make the sole also yourself, you make the upper also yourself then output will be different. The capacity creation is not as simple as that what you are saying.
- Nikunj Kela:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhimanyu Takkar from Trust Portfolio. Please go ahead.
- Abhimanyu Takkar:** Sir, I just wanted to understand have we tried consolidating our supply chain, where earlier retailers had an option to choose amongst three, four distributors versus now there are exclusive distributors in the west especially I am speaking?
- Gaurav Dua:** Last six months there is no change. We are continuing what we were doing before, so in COVID time we have not changed anything on the structure.
- Abhimanyu Takkar:** Where I am coming from is because in some of our channel checks we realized the availability of sizes is an issue at the MBO level wherein the distributors cannot stock all the sizes for all the retailers and hence we are losing out some customers due to this issue, like they are not getting all the sizes like earlier we had three, four distributors, so they could approach if A distributor does not have it, they will just approach B, just trying to figure it out like where we are trying to miss out on the channel changes?
- Ramesh Kumar Dua:** There are pros and cons with the policies. In some areas we have distributors where they have dedicated area, and it is one distributor giving to a retailer of that area. In some of the markets where the one distributor is not able to do then we have another distributor also. So, there is pros and cons. Wherever we are able to serve the markets with one distributor, we are going with that. Where it is not possible; there we are having multiple distributor. That is what we are doing.
- Abhimanyu Takkar:** Because the area where I actually spoke to there was an issue with respect to the availability of sizes, so I thought I will just convey to you in respect of the loss of customer



- Ramesh Kumar Dua:** This problem is with practically for every distributor, because whatever finance, money they were able to put, sometimes they are not so organized that they are able to keep inventory of every article, every SKU, every color, every size. They do have sometime shortfalls and we try to prevail upon, they should maintain some inventory. But presently sometimes does happen, they have no stock for some articles.
- Abhimanyu Takkar:** That is from my side. Wish you Happy Diwali.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investment. Please go ahead.
- Mithun Soni:** Thank you very much Sir. One question, these are the question earlier participant asked, how connected are we in terms of technology with our distributors? So, what is our replenishment cycle for the distributors on a normal period, can we see it further improving?
- Gaurav Dua:** If you ask about particular these six months which have passed, we have not changed any policy in terms of supply chain or addition or subtraction of our distributor. You are talking about supply to the distributor, generally we try to maintain two to three days across India. And for connectivity in terms of stock, we have implemented DMS, so we know what the secondary sale and stock level at the distributors is.
- Mithun Soni:** We supply them not for six months but on a regular basis we supply them in two to three days.
- Gaurav Dua:** Yes. That is our norm.
- Mithun Soni:** Normally the reason for stock outs will not be as much right for distributors because if they are able to supply them in two, three or four days on a regular basis?
- Gaurav Dua:** Yes. But we asked the distributor to keep at least one month of inventory, because of having all the sizes and colors.
- Mithun Soni:** Then how do we help them improve their ROI, because that is a very important issue for our type of business where the number of SKUs are so high?
- Gaurav Dua:** We have installed DMS at all distributor points, so we get the stock data and secondary sales data. So whatever stocks are getting accumulated we come to know, and the billing is stopped for that. And the secondary, our salespeople are able to help him liquidate that stock which is stuck. So, we keep on monitoring what stock level distributor is carrying.

- Mithun Soni:** My second question, for this quarter and six months, I am seeing our inventory and receivables has come down quite a lot, is it just because of the value of the inventory has come down or we have made some changes over there?
- Gaurav Dua:** As soon as we opened our plants in May, so there was a huge demand coming for open footwear. so whatever inventory, we were carrying forward in month of March got exhausted in just 15 to 20 days. And to ramp up the production, it took time for one to one-and-a-half months. During that period the inventory went really low.
- Mithun Soni:** We are talking of the September end, this Rs.368 Crores of inventory as on September 30, 2020?
- Gaurav Dua:** Because the demand of open footwear is still very high and the production there is still a gap demand versus supply in some product categories.
- Mithun Soni:** Sir, one last question. Over next two to three year period or over three year period, what is the sort of gross margins or EBITDA margins we should look at as a company aspiring so that is able to grow, invest and generate good amount of free cash?
- Ramesh Kumar Dua:** It is dependent upon market condition, demand conditions, what kind of scenario we are in, what kind of product acceptance is happening, what categories we are focusing on. Generally, if you see it has been around 16%. And this quarter because of some certain reasons it has gone up, if we can achieve 18%, it should be a good one. But we must remain competitive also and we have to be remunerative also at the same time.
- Mithun Soni:** 18% is over next two to three year period or in a short period you are talking?
- Ramesh Kumar Dua:** I am talking of this year. Then I will talk next year because we are living in a volatile time now where nothing is certain as such, today even our COVID incident is not over, fear is not over. We are in a very uncertain time, let some certainty come and then we will able to say with more confidence what kind of scenario is emerging.
- Moderator:** Thank you so much. The next question is from the line of Aditya Bapat from Equentis PMS. Please go ahead.
- Aditya Bapat:** Thanks for the opportunity. Sir, I have two questions. Firstly, I want to know like what you see as a medium term target for the contribution of e-commerce to your total sales? You said that it is close to 10% currently. So, where do you see it in about two, three years down the line?

- Gaurav Dua:** It should increase at least by 2%, we are expecting 10% to 12% will be the contribution of e-commerce, we are targeting that.
- Aditya Bapat:** This target is for the next two to three years, right?
- Gaurav Dua:** I am talking about next six months to a year, we cannot see beyond that right now.
- Aditya Bapat:** Okay, so then having said that do you think that not just for you, but for the industry or rather the organized players as a whole, the margins could come under pressure, because this overall e-commerce thing or online thing is inherently lower margin?
- Gaurav Dua:** No, we actually give same margins to channel trade and e-commerce, so we are not keeping any gap between e-commerce and the channel. we keep it same. Otherwise there will be a problem of discounting.
- Aditya Bapat:** That is, it from my side. Thanks a lot, and all the best.
- Moderator:** Thank you. The next question is from the line of Ashish Kanodia from Ambit Capital. Please go ahead.
- Ashish Kanodia:** Thank you for the opportunity Sir. The first question is you talked about that once the market opened up there was significant pent up demand and production took time, so was there any loss of demand, did you fail to with any demand during Q2?
- Gaurav Dua:** Yes, definitely because the demand was quite high compared to stock what we were carrying, and it took time for factory to ramp up the production. So, at that time definitely we lost some sales.
- Ashish Kanodia:** Fair to say that sales, had there been no loss of demand, the recovery which you would have see at least 5%, 7% better than what you reported?
- Gaurav Dua:** Not that big.
- Ashish Kanodia:** Secondly Sir, I understand that with marketing opening, most of your expenses would start going back to pre-COVID level. But have you looked at any cost rationalization in terms of any line items where you see structurally over the next three, four years, you will have lower cost versus what there was during the pre-COVID period and hence you will see some margin expansion from those particular line items?
- Ramesh Kumar Dua:** Our marketing costs were low in the first quarter and second also, but third quarter it will now come back to pre-COVID level, we must continue building our brand. Now our people

will also start traveling and expenses will start moving. And all these things will be there. As far as raw material expenses are concerned, they will depend upon how the international commodity behaves.

**Ashish Kanodia:** Is it fair to assume that all supply related and labour related challenges are now over and at least productions are almost back to pre-COVID level?

**Ramesh Kumar Dua:** Yes, but in certain category like shoe there were no demand and now only demand has started improving, so there we are ramping up the things now and some manpower training is also going on to improve our production levels.

**Ashish Kanodia:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** Just a clarification first you mentioned that 20% of our footwear or 10% of our footwear is closed footwear. Which numbers one should refer to?

**Ramesh Kumar Dua:** Yes. If you go on a volume term it will be around 10%, but value term, the value will be 20%.

**Tejas Shah:** Okay and when we see Sparx as a brand which is somewhere around 30% odd number as per our disclosure in the past, so is it a fair understanding then 20% by value from the 70% of our Sparx itself will be closed footwear?

**Ramesh Kumar Dua:** What I have told you it is regarding close footwear shoe, but in Sparx, there are also slippers. Not as a brand, I am talking as a category of the article, so sports shoes and sporty sandals that constitutes 20% of the turnover.

**Tejas Shah:** I was just trying to deduce that Sparx will be somewhere around majority close footwear brands?

**Ramesh Kumar Dua:** Yes, we have already been saying that it will be more than one third only now also.

**Tejas Shah:** Okay, second question, we have been hearing you for the last six, seven years and you have been pretty consistent on your margin commentary that you want to be competitive and you want to react to or rather respond to market situation rather than proactively chase margins. But during this journey we have expanded margins also from 12% to 17%, 18% now and obviously there was a one GST benefit also in between, but just wanted to understand the philosophy what do you benchmark your margins against, is it against the peer or margin is

an outcome and you want to be competitive on pricing and you let the margin flow through whatever it comes to, so is it a goal seek in the pricing and margin is an outcome that is not under your control?

**Ramesh Kumar Dua:** Focus is the consumer. First you have to understand what consumer is looking for and we have to first satisfy that need and consumer is looking for what price, so we have to make articles accordingly. And then everything goes back into it and if we are able to serve that need then we are able to expect good margins automatically out of it, but if you supply a fit product, you will not expect those margins at all. Rather sometime you have to sell article at a loss, so we have to always keep close contact, what is, you have already need as a consumer and set right to develop such products only, then only company will remain healthy and we will have better margins. So that lesson we are learning, and we are improving our portfolio accordingly.

**Tejas Shah:** Any A&P as a percentage or sale as a philosophy that we want to plow back every year?

**Ramesh Kumar Dua:** In A&P there are various components in it. One way it could be brand building, another could be giving discount, third could be giving gift. There is a whole plethora of things and this keeps on changing from quarter to quarter, time to time depending upon the market condition, company strategy and so many other factors. We cannot say if this philosophy will remain forever.

**Tejas Shah:** I was asking from long term that 5% of sales or 6% of sales?

**Gaurav Dua :** We should always see a market and keep on being flexible. We should not be married to one rigid philosophy; we must be acting on it.

**Tejas Shah:** This helps a lot. Thanks a lot, and all the best and Happy Diwali too.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint this will be the last question which is from the line of Sameer Gupta from IIFL. Please go ahead.

**Sameer Gupta:** Thanks for taking my question Sir. I had only one question just trying to understand results a little more at a granular level, we had a volume growth of 2% this quarter and sales decline of 7% and this gap is even despite lower cash discounts, lower trade spends and promotions and so on and just trying to understand why there is such a big gap between volume growth and sales decline, is it mix and if it is mix then it has actually benefitted our gross margins. so just a little more color on this number?

**Ramesh Kumar Dua:** It is a result of the mix, because closed articles have sold less and open articles are sold more and as in that open footwear or slippers and other things, where our one division

Bahamas has grown much more. and they are premium category, so margin has been better in that category as a result thing have improved.

**Sameer Gupta:** Just a followup Sir, is it that the realization in closed footwear is higher, but on a margin level they are lower than open footwear is this understanding correct Sir?

**Ramesh Kumar Dua:** No, in every category we have different articles giving different margins whether it is Hawaii category, Bahamas category, Flite category, Sparx category, in every category we have some premium articles and we have some value for money articles. So, every category has to be like that and that is there.

**Sameer Gupta:** Thank you so much for taking my question Sir.

**Moderator:** Thank you. As this was for the last question for today, I would now like to hand the conference over to the management for closing comments.

**Sushil Batra:** Thank you all for joining the call. This is all from our side looking forward to each one of you again at the year end. Thank you very much.

**Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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