



May 28, 2021

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Sub: Conference call Transcript

Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q4 FY 21 results which was hosted by the company on May 24, 2021 at 4:00 PM (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

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**“Relaxo Footwears Limited Q4 FY 2021 Earnings
Conference Call”**

May 24, 2021

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,

ANALYST :

MR. GAURAV JOGANI – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Relaxo Footwears Ltd Q4 FY 2021 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in 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 the 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. Thank you and over to you, sir.

Gaurav Jogani: Good afternoon, everyone. On behalf of Axis Capital, I would like to welcome you all to Relaxo Footwears' Q4 FY 2021 earnings conference call. From the management we have with us today 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. We will begin with a brief discussion from the management's end, and then we can open up the floor for the Q&A. Over to you, sir. Thank you.

Sushil Batra: Good afternoon to everyone. Ladies and gentlemen, thank you very much for attending our earnings call for the financial year 2020-2021. We have already shared our earnings press release and results presentation; hope you got an opportunity to go through that. I will start with Q4 FY 2021 financial performance, followed by full year FY 2021 Financial Performance.

In Q4 FY 2021, Relaxo booked operating revenue of Rs. 748 crores, which is a growth of 38% year-on-year. The strong revenue growth was partially due to low base of Q4 FY 2020, as we know sales was impacted in Q4 of last year due to lockdown in the month of March last year.

EBITDA during the quarter was Rs. 163 crores which was a strong growth of 69% as compared to the corresponding period of previous year. Our EBITDA margin for the quarter was 21.8% vis-à-vis EBITDA margin of 17.8% in Q4 FY 2020. Our profit after tax was Rs. 102 crores for the quarter, up by 97% year-on-year with a PAT margin of 13.7%. For FY 2021, our revenue declined marginally by 2% to Rs. 2,359 crores with EBITDA margin of 21%. Our PAT of Rs. 292 crores in FY 2021, with a margin of 12.4% grew by 29% year-on-year, mainly due to product mix and saving in selling and administrative expenses.

During FY 2021, we generated a cash of Rs. 513 crores from operations and spent Rs. 142 crores in CAPEX and repayment of current and non-current borrowings. At the end of March 2021, we have 398 exclusive brand outlets which contribute around 7% of total revenue. Export is holding its ground and contributing around 4% of revenue. During the ongoing crisis, we are undertaking all necessary measures to ensure safety and well-being of our employees and partners. We continue to support and provide assistance to our distributor and customers.

Due to lockdown in various parts of India, overall demand for footwear is subdued right now. However, we believe that demand for footwears will bounce back whenever these restrictions are lifted. The second wave of COVID-19 India is more severe and continues to impact lives and livelihood. We stand with all those affected and are dedicated toward protecting and supporting our employees, partners and communities in the face of this unfolding crisis. Relaxo, remains

committed towards its stakeholder by creating a sustainable, profitable and growing business. The company enjoys comfortable liquidity position with zero net debt and continues to provide assistance to its distributors and vendors. Despite the uncertainty related to the extent and length of the fresh wave, we believe that company is well placed to emerge stronger in the post COVID-19 world. We remain committed to give the best experience and value for money to our customer and creating long-term value for our shareholders.

We can now open the floor for question. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, a couple of questions from my side. And I am taking from our last interaction, at that point in time, obviously, you mentioned that given the trend in raw material prices, you expected longer term margins to sustain at around 18%. But we have obviously ended the year at a much higher number. First, if you could comment, what is it that you expect going forward? Then after which I can come to my next question.

Ramesh Kumar Dua: This year, that is 2021, the margins have been more because we have been saving on account of sales and promotion expenses, travel expenses and some professional expenses and the raw material price also have been benign. Some efficiencies we worked at back end in our plants, that was the main reason for achievement of more than expected EBITDA level.

Nihal Jham: So, as a trend, is that in the coming year we expect most of these expenses would normalize, especially on the advertising part?

Ramesh Kumar Dua: We have to see it from time to time how things are. Presently the way second wave has come up, traveling will remain restricted. But brand building is something you can't avoid, that we have to go on. So, this year our strategy is that we have to build our brand in the long-term interest. So, this year, compared to last year, our expenditure on brand building will be more, this is what I want to say.

Moderator: Sorry, sir, we are not able to hear you.

Ramesh Kumar Dua: The expenditure on brand building this year will be more than it was last year, because for longer periods we cannot keep on saving on brand expenditure like advertisements. So, this year, as a strategy, we will be spending more money on brand building. That is what I wanted to say.

Nihal Jham: That's very clear, sir. Thank you so much. One more question from my side. I just wanted to understand on the industry scenario at present. Will it be fair to say that given the disruption that has happened because of COVID, especially in a lot of our MBO channels there has been disruption of other brands which has helped us increase market share, would that be a right sense of what is happening on ground at this point in time?

Ramesh Kumar Dua: The way things are very chaotic, unpredictable environment is prevailing. and nobody expected second COVID wave will be like that, we are now in the lockdown. And when the lockdown starts opening up, only then things will start working. Presently, three out of our eight plants are operating, and maybe 10% - 15% markets are open. So, business is largely affected. So, the way things open up, then we will be able to know how the things take shape. But as far as unorganized/organized is concerned, definitely we are in a better situation than unorganized players, that advantage we might have than others.

And as far as our retail outlets are concerned, there our business is hardly 7% - 8%. So, last year also we suffered, a lot of retail outlets were closed. But because we are selling to a lot of multi-brand outlets around 50,000, which are through wholesalers and distributors . So that is our saving grace that we are able to have in our business. That is the way the things are. That advantage we will have this year also.

Nihal Jham: Sure. Just a last question, what will be the share of ecommerce for the entire year?

Ramesh Kumar Dua: Ecommerce, including modern trade is hardly 10%, I would say 8% rather. Some states are very low, after all we are selling not very high value item. Last year the ecommerce was closed for a lot of time, so shoes and all other, sale was less. Ultimately, our business was a little bit affected on ecommerce. But it is not a very big stake for us in ecommerce. Our articles are more on multi-brand outlets.

Nihal Jham: Absolutely. I was just trying to understand that this year, given the disruption, if there is a sizable increase in our share compared to last year, especially on the ecommerce side.

Ramesh Kumar Dua: No, you can't say that, because ultimately our articles are mostly priced around Rs. 125 to Rs. 150 - Rs. 200, these articles are unviable to be sold online. We generally sell to multi-brand outlets only.

Nihal Jham: Absolutely. Because in the second quarter, when the disruption was at its peak, we had reached a 10% share, so I just wanted to check maybe there is a continuation of that once the open up happened after, say, September or October.

Ramesh Kumar Dua: You know, when things open, then online business is there. But we have seen, whole year how the things have panned out, but still we are sitting in lockdown. And ultimately, this year or last year, if the markets are chaotic, what we found is that when the people are indoors, more of the slippers have sold, this year also things may remain like this, where closed footwear will remain affected, and the online sale will also remain affected.

Moderator: Thank you. The next question is from the line of Amnish Agarwal form Prabhudas Liladher. Please go ahead.

Amnish Agarwal: I have a couple of questions. My first question is on the raw materials front. If you look at the gross margins, both on Y-o-Y as well as even on a Q-o-Q basis our gross margins were actually

down, because in this quarter we are 56.8%, in the previous quarter they were 58.9%. So, how much is inflation in raw material currently? Because I understand that most of these petrochemical based imports have moved up even in the month of March, April and May. And secondly, how much price increase we have undertaken? And will we be able to sustain gross margins at the current levels? So, that is my question number one, first part of the margins.

The second bit on the margin side, if you look last year, we have cut down on our overhead significantly. If I look at full year, they are down by nearly 400 bps, and you are yourself indicating that the ad spend will go up. Now, looking at this scenario that this year supply spend will comeback, raw materials are high, so what sort of outlook on margins would you like to get from here on? So, this is my first question on margins.

Ramesh Kumar Dua:

The way things are, raw material prices definitely have gone up and are volatile. And this scenario we have faced in our life, a number of times. When the rubber was 100, then it was 250, these things do happen to any business cycle, and we have gone through it. So, what is our strategy? Every quarter, whatever price are, accordingly, we will then take our decision, keeping in view the market condition, price revision is done. So, whatever is required and is possible then we pass it on to our customers. So, this is what we have been doing. Raw material, naturally will always vary. But at the same time, we have to be watchful about competitive intensity in the market. And then you can't just immediately have the kind of knee-jerk reaction to prices and then after three months you may say, okay, now price have gone down so we reduce it. So, there has to be a kind of stability, from our best judgment we pass on the price compared to industry and looking at the competitive intensity, and accordingly take the decision and next quarter again we review the things. So, this is what we have been doing since ages, and this is what we tend to do in future also; Keep on watching the prices, keep on quarterly reviewing the market conditions and accordingly passing on.

When margin is concerned, naturally this year things are different, so we have to watch the market conditions and take a decision. The way things are, gross margin may get impacted. But on the overall year basis, we have to wait and see, we can't say now. Accordingly, management also does a course correction in between also. Regarding branding, actually, that is the call we have taken, but then we keep on reviewing all these things. Market is very volatile, raw material or others wise. These lockdown exercises, nobody can say with guarantee how long lockdown will continue, how long COVID wave will continue, now there is a fear of COVID third wave also. The way things are, nothing can be said with certainty. We have to see, keep on reviewing every quarter and take corrective action. That's it.

Amnesh Agarwal:

Sir, how much pricing we would have undertaken in the past few months?

Ramesh Kumar Dua:

Around 7% to 8% we have taken, but again, this price rise is depending upon article to article in the same category some article we have taken more than 10% or 15%. But again, we have to see which article can take how much price increase. Because we are in a kind of fashionable market, some articles don't perform, some articles perform too much. And then we have to see what is the

competition rate of similar articles. So, accordingly, article by article we have to review. We can't generally say, okay, 7% all around. So, we have to be very watchful on this, and have to decide article to article basis.

Amnish Agarwal: Okay. Sir, my second question is on the demand scenario. Because Relaxo caters more to the value for money segment in footwear, and last year rural India and small towns where was not impacted much by the first wave of COVID, but this time around the scenario seems to be different. So, what sort of an on the ground situation you are currently witnessing? And in your view, will it take longer for the demand to come back this time around, more so in the small towns and rural India?

Ramesh Kumar Dua: Well, again, the things are, difficult to predict. But the ways things are and now COVID second wave is going down, things are improving, we think in a couple of months things will start improving and maybe back to normal. Many times, if there is a pent-up demand, immediately things start improving. I think June, July it will start, July will be the very good month to improve. Different states are taking different decisions. If the lockdown prevails and things will remain the way they are, it is a very difficult thing to predict., we will have to wait and see only; nobody can say with certainty what is going to happen. Because everybody is confused, to whom so ever we asked the question, how long things will continue the way things are, nobody can predict. You will have to wait and see.

Moderator: Thank you. Next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: My first question is on the demand for closed footwear, like first few quarters of the year the demand was driven by open footwear. But the expectations were, as we move closer to the festive season and winter season, the demand will pick up. So, how has that been the case for demand in closed footwear for third quarter as well as in fourth quarter?

Ramesh Kumar Dua: Demand of closed footwear did improve during festive season, the quarter three and quarter four, both. Before that, demand of closed footwear was fairly low, because it was all under a period of lockdown a few months we lost, people were also cautious in moving in the markets, people were more indoor, so shoe business was affected. But after this festival season, third quarter and fourth quarter have been quite satisfactory, as far as closed footwear is concerned.

Akhil Parekh: Okay. And would it be fair to say the demand is now back to pre-COVID level for almost all the categories?

Ramesh Kumar Dua: This quarter four, yes, it was rather better. But now, again, this first quarter of this year we are sitting in lockdown, so what can be said about this time.

Akhil Parekh: Sure. Just last question on the price hikes, you mentioned that on an average 7% to 8% price hike, so have we passed on the entire inflation in the raw material PU, EVA and even PVC, because the prices of raw metal have risen far more than 7%, 8% in last few quarters. So, should we expect more price hikes to happen during first two quarters of the year?

- Ramesh Kumar Dua:** Well, we have to again review quarter by quarter, this is what we decided for this quarter, keeping in view the market conditions also. Now then we have to see how much raw material we have in stock. But at the same time, again, you have to look outward also and backward also, what is the supply chain; and outward, what is the market emerging competition scenario. Keeping that thing in view, we will review the things and then accordingly revise our prices, whatever whenever required, quarter by quarter.
- Moderator:** Thank you. Next question is from the line of Tejash Shah from Spark Capital. Please go ahead.
- Tejash Shah:** Hope all of you are keeping well. Sir, sorry to stress this point more, but the first question pertains to our margin philosophy. And I will just give you some data before you answer the question. Sir, in last three years we have added roughly Rs. 400 crores of turnover, and we have added Rs. 200 crores of EBITDA there, Rs. 193 crores to be precise. Which roughly means that incremental turnover is actually coming at way higher EBITDA margin. And obviously, this year is abnormal, and you said that some of the costs were not there. But in a normal scenario, where would you like this business to operate at, at least for the near term? Will it be 17% range or that is not a part of the calculation at all, and it is an outcome based on the economic environment?
- Ramesh Kumar Dua:** It is very difficult to tell you what EBITDA margin will be, because things are totally unpredictable. The way we are sitting in the lockdown, we think it is difficult. Raw materials are expensive, overhead will just mount the way things are, we are trying to control the things. But let the things settle down then only quarter-by-quarter things will improve. Things are very unpredictable at the moment, totally volatile. Nobody can predict at this moment how the year is going to end. We only hope that this wave settles down, things start opening up. Then accordingly we will take our decisions, depending upon whether a price revision is required and what expenses to be saved for this year. So, we have to then take all these precautions. Definitely, if the things were under pressure, the margin will also be under pressure .
- Tejash Shah:** Sir, let me rephrase the question. So, let us assume hypothetically and then we hope so that situation normalizes very fast. As a business, are we comfortable operating at 20% plus margin without compromising on our competitive moat or our competitive power in the very competitive landscape that in any case we are operating in?
- Ramesh Kumar Dua:** We have to always watch competition also and act accordingly. Competition intensity is there, we have to keep things reasonable because of pricing, so that we don't want to lose market share. And then we have to spend money on brand building. So, all the things, keeping it together, sustaining 20% this year is going to be a real challenge, it is not possible the way things are now. But we have to wait quarter-by-quarter and see how the things open up.
- Tejash Shah:** Fair enough, this answers the question. The second question, you mentioned, and last time also you had mentioned, export presence in international market. So, any more firmer details on that? So, will it be anyways connected to PLI scheme that government is proposing on footwear as well?

- Ritesh Dua:** Let me answer the first part first. Actually, right now 4% of the company's revenue is contributed by export sales. And we are able to sustain these sales in last year also, because due to COVID all these Gulf countries and African countries have been affected a lot. But we have been able to achieve around 98% of the previous year. Since the government incentives we have been already in touch with the government authorities, whatever incentives we have been able to avail we are availing. And surely this impact of COVID is happening in this quarter as well because many countries have partial lockdowns or night curfew or complete lockdowns, so we are just having a 'wait and watch' and see how the things improve. But the good part is, we have been exporting in our own brand with our standard of quality which is really bringing confidence in the mind of consumer there. So, we are very confident we will come back revive the business soon, once the things settle down on COVID front.
- Moderator:** Thank you. We will move on to the next question that is on the line of Nikhil Chaudhary from Kriis Portfolio. Please go ahead.
- Nikhil Chaudhary:** Sir, I have just two questions. can you share the mix of closed footwear when we started the year and probably versus now when we end the year?
- Ramesh Kumar Dua:** No, we can average out. For the year, our closed footwear share is around 15%, 85% is open footwear.
- Nikhil Choudhary:** Okay. And it is same like when we started the year and when we are ending the year, correct?
- Ramesh Kumar Dua:** In the start of the year, we were in lockdown, there was no share at all. April we lost, May also some part we lost. Definitely first quarter, second quarter share was low, it's only after festival third and fourth quarter when things started opening up, when people started moving around, then only the closed footwear started improving. So, third and fourth quarter share of closed footwear was better, it improved, it came to better than last year. But first two quarters it was affected.
- Nikhil Choudhary:** Okay. And sir, when we started the year, as in what I have meant is, like when we started, before the lockdown what is the usual share like? Because Campus is also coming up with a lot of closed varieties or SKUs in the closed footwear, and what our checks suggest is that Campus has become aggressive. So, just wanted a sense on how the competitive intensity is from Campus and how we are able to tackle it.
- Ramesh Kumar Dua:** So, the competition is a very good thing for the company. The company always remains more active, and it is always good to have good competition, as a result the whole industry grows. And as far as your question, earlier than last year what was our share, it was 20% because first quarter and second quarter of the previous year were much better than what it was last year. So, this year because sale of slipper was much higher and growth was much more, so the ratio of open footwear went up across footwear. Because today also, throughout the year schools were closed so school shoe sale was not there, people were moving less outdoors so sale was affected, and other article also like tennis shoe, that is again closed footwear, because schools were closed

so there were no sale. So, that has been one of the reasons. Even outdoor movement is less, sale of closed footwear goes down.

Nikhil Choudhary: Got it. Sir, all in all, we have not lost any market share, right?

Ramesh Kumar Dua: No, there is no loss of share. It is cyclical because of the market condition that things are happening like that.

Nikhil Choudhary: Got it. And sir, last thing, I just wanted to understand our strategy wherein the competitor is having nine distributors for, say, a set of area and we are just having one or two distributors, won't it strain the balance sheet of one or two distributors in keeping all SKUs cut sizes? Just wanted a perspective, because I understand probably one or two distributors are not able to keep all the cut sizes, SKUs, and supply to our MBOs

Ramesh Kumar Dua: It is a matter of strategy. When you have too many distributors, they fight amongst themselves and then they say we don't get margin. But if that competition will be too intensive among the distributors, then also they start losing interest in a brand. But when you give an allocated area to a distributor, then only he become more motivated to do that. And we have to protect that area suppose today you are my customer, I give you certain area, you do with your all-hard work and develop that area, and tomorrow suppose they put another distributor, so how you will feel like? After all, you have nurtured and developed the area, so it is your territory, your responsibility also. Today, if my salespeople go in the market and take orders, whom they will give order to out of the nine, if it is one I will give to that person only, the person who is responsible for that territory. So, that is the way we just operate, and we do allocation of area.

Nikhil Choudhary: Fair from the point of view of distributor, but just wanted a sense on how retailers are perceiving it. Because what happens is, I understand, I am completely agreeing with you that the distributor will definitely want to preserve his own interest as to he should not have the competition. But retailers will have lesser choices and then probably, from the point of view of retailers then it becomes a little hard in keeping our SKUs in all cut sizes, just getting a perspective,

Ramesh Kumar Dua: See, that I understand. When I find some distributor cannot handle all the range, then we may say, okay, you take these two brands, rest we give to another. But still, he will have some kind of a control or responsibility of that category. But from a retailer point of view, you are right, if he has more choices then he also plays between two distributors. Too much cutting of discount, then he expects too much of credit also from each other. That also is a very unhealthy position. As a company, we go to the retailer, we find what difficulties he is facing, then we sort out the way the things are. We don't want a distributor should overcharge, and at the same time we don't want the retailer should force him to cut too much discount and then both bleed later on. The retailers also many times pass too much discount to the consumer, that also we don't want to see. When the retailer doesn't turn, he looks back at the distributor, distributor looks at the company. We want there has to be some responsibility of the distributor, give him area, let him develop it. Whatever difficulty a retailer faces, then we are there to take care of it. This is the way we do things.

- Moderator:** Thank you. The next question is from the line of Dhaval Mehta from ASK Investment Managers. Please go ahead.
- Dhaval Mehta:** Sir, my first question is, let us say, in FY 2021 what would have been the industry decline of the footwear category? And how the competitive landscape has changed in last one year?
- Gaurav Dua:** So, if you have noticed, during last year the formal segment, outdoor segment has declined, and the casual segment and work from home segment has increased the open footwear. So, party wear, fancy wear have declined in leather shoes, outdoor shoes, but the casual footwear, open footwear has increased.
- Dhaval Mehta:** Correct. But even, let's say, pre-pandemic open footwear used to be around 15% to 20% of the overall industry size, right, so if a large part of the industry has declined, the overall industry would have declined sharply, is my assessment correct?
- Gaurav Dua:** The major impact has come on leather shoes and outdoor shoes. So, that has declined tremendously and the gains are in open footwear.
- Dhaval Mehta:** Okay. And in terms of competitive landscape, be it from unorganized players or organized players, how it has changed in last one year?
- Gaurav Dua:** It's a similar thing. The ASP has gone down, if you see as an industry the ASP has gone down because, again, the closed footwear being expensive have come down in share and the open footwear which are quite cheaper has gone up. So, similar thing with the un-organized also as well.
- Dhaval Mehta:** Okay. So, if, whatever the share of unorganized was pre-pandemic, is the share similar now or their overall share has come down of the overall pie?
- Gaurav Dua:** See, it is very difficult to measure, we don't have a credible agency who can back the data that this is the percentage drop or this is the percentage increase. So, a guesstimate we can say, we have seen slight decrease.
- Dhaval Mehta:** Okay. My second question is, any fall out in terms of which brand of ours has done exceedingly well, be it Flite, Sparx or Relaxo? And in terms of geographies, which geography has seen healthy growth?
- Gaurav Dua:** So, if you see, in India, Maharashtra and Kerala had maximum lockdowns, so these two states in West and South were impacted more. But North India and East India were doing pretty well. This is last year scenario. But currently it's all lockdown so difficult to say.
- Dhaval Mehta:** Is the profitability same across all the geographies, sir?
- Gaurav Dua:** Yes, more or less it is same. It is only the freight which will be very less.

- Dhaval Mehta:** Okay. So, as most of our factories is in North, so if North does well then I believe the freight cost will be lower. So, that helps the margins?
- Gaurav Dua:** Correct.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.
- Bhargav Buddhadev:** Sir, my first question is that you mentioned that the closed footwear demand has been impacted in FY 2021, but as we sort of enter second half of this fiscal, it seems likely that post vaccination things could slowly start coming back. So, in your experience, is it possible to broadly quantify what could be the extent of pent-up demand? And when I say quantify meaning would it be 1.5x of normal demand, 2x of normal demand in your opinion, broadly at the sector level?
- Ramesh Kumar Dua:** Sir, it is very difficult to quantify that, we have to wait and see. We don't even know to what extent our lockdown will reduce today. Things are so chaotic, so unpredictable we have to just move the way things are accordingly.
- Bhargav Buddhadev:** Sure. But you think that there will be an element of pent-up demand for sure, right? Because this particular demand cannot get lost, the closed footwear demand.
- Ramesh Kumar Dua:** No, the pent-up demand will be there, but there is lot of fear in the minds of the people. Even when the lockdown is lifted I don't think people will immediately start moving very freely. It will take some time, and then hopefully things will improve. This is what we think.
- Bhargav Buddhadev:** Sure. Secondly sir, how are we prepared in the event there is a strong pent-up demand, are we carrying enough inventory to sort of meet that demand? Or can we push our factories to meet that demand? How are we prepared on that front?
- Ramesh Kumar Dua:** We have inventory also; at the same time we have production capacities also. So, we always have a cushion in our production capacity and we generally utilize 70%. So, we have cushion in our hands. Having inventory also doesn't mean that we can have unlimited inventory, that also you have to take care. But the way things will pan out, accordingly we will take decisions and actions.
- Bhargav Buddhadev:** And lastly sir, at the company level, is it fair to say that the volume decline for the full year was in the range of 8% to 9% and across open wear and closed wear, in open wear we would have grown but in the closed footwear we would have seen significant volume decline, is that a fair assessment?
- Ramesh Kumar Dua:** No, last year actually our volume grew by around 7% because slipper sale was much more than the closed footwear, and that is low value segment. But because demand was much more of slippers, and our sale is only 2% less, so we could only make up because our slipper sale was more. So, actually volume was driven by around 7% growth.

- Bhargav Buddhadev:** Okay. So, this realized increase of 7% was for the quarter and not for the full year?
- Ramesh Kumar Dua:** Full year, we are talking about full year volume.
- Bhargav Buddhadev:** Okay. So, for the full year you are saying volume growth was 7% and average realization would have been down because of increase somewhere?
- Ramesh Kumar Dua:** Correct.
- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.
- Girish Pai:** Sir, I just want to understand, has there been an overconsumption situation in FY 2021 for open footwear, which could potentially mean softer demand in FY 2022?
- Ramesh Kumar Dua:** No, it doesn't mean that. You would require slipper always, last year's slipper cannot be used this year, after all there is limited life of a product. Anybody requires at least two slippers in a year, so that demand is going to remain. Once the things start opening up consumption will begin, consumption is there even today, even if you are indoor you still require slipper, you are not barefooted, consumption is still there. So, last year consumption cannot affect this year consumption, this is what I want to say.
- Girish Pai:** Okay. Sir, had the second wave not happened, say, you were sitting in the month of February and looking out into FY 2022, what is the growth you would have probably looked at? I mean, what kind of numbers were you people looking at internally, assuming that second wave is not going to happen.
- Ramesh Kumar Dua:** Yes, it would have been much better, because after all the whole month of May we have lost and in April also sales were affected. So, there is no point in just dreaming with those things, what could have happened. But now let us face what the reality is. The reality is, COVID wave is there and things are affected. We have to see now how our June pans out and how our second quarter pans out, that is what we have to see, that's important.
- Girish Pai:** Okay. Lastly, sir at some point in time, I think three, four years back you had started this distribution restructuring where you focus more on exclusive distributors. Now, has the journey come to an end or are we still on this journey?
- Ramesh Kumar Dua:** Sir, we are on the journey. Always you keep on improving the way of working. Today also we are doing the same thing and putting DMS system on those people, encouraging more-and-more people to become exclusively, our distributors selling our products. Then looking at their areas, territories how we can make them more responsible, how we can make them more efficient, how we can add retailers to them, more of a universe being created. So, it is a never-ending exercise. Even the best things can be made better, so we are always on it. And even today it is an ongoing exercise.

- Girish Pai:** So, sir 650 to 700 distributors that you have, how many of them would be exclusive to you, sir?
- Ramesh Kumar Dua:** Around 125. We are trying to encourage them more and more to convert to exclusive, so that journey will continue.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.
- Ankit Kedia:** Sir, just wanted to understand the premiumization trend, how much was the premium product sold in the year, given that open footwear in the first half we saw a lot of premium Flite and others being sold, while closed footwear was more entry level products. So, by the end of the year how did that change happen? And from FY 2020 to FY 2021, has the premiumization overall increased significantly for us, which should have also aided some gross margins?
- Ramesh Kumar Dua:** No, last year was a tough year. Rather, we had to introduce a lot of value for money articles. So, as a result, our receipt per pair average price was lower, more slippers sold, although in the slipper segment we did add premium segments also. But ultimately, because shoe segment was not selling, and in shoe segment we had to introduce value-for-money shoes. So, overall, last year our average selling price came down, although volumes went up.
- Ankit Kedia:** Sure. Sir, my second question is regarding the school category, how big is the school category for us and how much is the inventory in the system for the schools? Because last year schools didn't start, and this year with the uncertainty in the schools there could be a lot of pent-up demand from the school side. So, if you could just share on how does the school footwear industry work for us?
- Ramesh Kumar Dua:** It is a very small share in our scheme of things. Around 1% in share in our scheme of things, 1.5% or so, that's all. And otherwise, basically schools are still closed so there is no shoe consumption at all.
- Ankit Kedia:** Right. And sir, my last question is regarding the new BIS certification guidelines for footwear manufacturers, which is compulsory from 1st of July. How will that change the unorganized sector, because it will be very hard for them to get this certification? And do you see post this, in the second half, a good market share gain for organized footwear compared to unorganized footwear come in?
- Ramesh Kumar Dua:** First of all, on this guideline, our association is in regular talks with BIS and the government. And they are likely to postpone the implementation of this. And it will take time, because it is very confusing and even they are not clear. They used a word; I will just give one example, they say, rubber Hawai Chappal will attract to these things. But nobody makes rubber Hawai Chappal, what is the meaning of it, even they are not clear. When we asked them, what is rubber Hawai Chappal, they are not able to explain. Because these things they have picked up, it was from 20 years back what was happening. So, they are now in talks with us, our industry is talking to

them, and they have understood the things. And accordingly, the likelihood is that implementation of these guidelines will be postponed for quite some time..

Ankit Kedia: Sure. And sir, just one last thing, what was the absolute A&P spend last year? And if you could just share the absolute amount you are looking to spend in FY 2022? That would be very helpful, sir.

Gaurav Dua: Approximately when we started it was 8% to 10%, it has come down to 5% to 7%.

Ankit Kedia: Sir, so in FY 2022 what are we looking at?

Gaurav Dua: We are thinking to 8% to 9%, an increase by 1% to 2%.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question that is from the line of Mr. Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, first question is with regards to, how much of the cost that we were able to save in FY 2021, how much of that can we sustain going ahead, I mean, in FY 2022?

Ramesh Kumar Dua: I would say 3% to 4% was the saving.

Gaurav Jogani: Of the overall savings side?

Ramesh Kumar Dua: Of the that expenditure we are going to do this year.

Gaurav Jogani: So, basically, whatever we have been able to save last year, approximately 3% to 4% of which we can save this year, is that understanding correct?

Ramesh Kumar Dua: No, we have to again watch the market scenario and take decisions accordingly. We may have planned something, but ultimately you have to see the market scenario and decide whether it is a pricing, whether it is brand building, whether it is business promotion expenses, everything we have to see, it is a dynamic environment in which we are operating. You cannot just say it is writing on the wall, you do it like this. If the market dynamics change, we have to change our things also. So, that is a way things move, not that once we plan then we go, we have to see the environment. Environment is dynamic and we have to be flexible accordingly, that is what we will be acting on.

Gaurav Jogani: Sure. And sir, my next question is with regards to the replacement cycle in the footwear industry. So, have you seen any changes over the past 5 to 10 years, earlier like people used to replace it every one year, two year, has that replacement cycle gone down on an overall basis, have you seen any trends as such?

Ramesh Kumar Dua: No, we can only say, earlier our per capita footwear consumption, guesstimate, 1.5 pair, now this guesstimate is 2 pairs per capita consumption. So, definitely what reflects consumption has

gone up only because of this, many people are keeping more pairs than what they were keeping earlier. And as far as the poor man is concerned, those who wear slippers their consumption anytime is two, because one slipper lasts hardly six months, around six months, so he has to buy two pairs. But overall consumption of footwear has gone up because there is a variety, there is fashion. So, because of fashion itself people buy more than one pair, so that is the way consumption has increased.

Gaurav Jogani: Sure. Sir, last question from my end is, what is your CAPEX guidance for the year FY 2022, this coming year?

Ramesh Kumar Dua: Around Rs. 140 crores to Rs. 145 crores is what we have planned.

Moderator: Thank you. Ladies and gentlemen, 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 join you again. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.

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