November 16, 2021

BSE Ltd. Corporate Relationship Department 1st Floor New Trading Rotunda Building, P J Towers Dalal Street Fort, Mumbai – 400001	National Stock Exchange of India Ltd Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai- 400 051
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 22 results which was hosted by the company on November 9, 2021 at 4:00 P.M (IST).

The same is for your information and record.

Thanking You,
Yours Sincerely,

For **Relaxo Footwears Limited,**

Relaxo Footwears Limited Delhi

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

Encl as above

RELAXO FOOTWEARS LIMITED
Registered Office: Aggarwal City Square, Plot No. 10, Manglam Place, District Centre, Sector-3, Rohini, Delhi-110085. Phones: 46800 600, 46800 700
Fax: 46800 692 E-mail: rfl@relaxofootwear.com
CIN L74899DL1984PLC019097

"Relaxo Footwears Limited Q2 FY22 Earnings Conference Call"

November 09, 2021

MANAGEMENT:	**MR. RAMESH DUA – MANAGING DIRECTOR, RELAXO FOOTWEARS LIMITED** **MR. RITESH DUA – EXECUTIVE VICE PRESIDENT (FINANCE), RELAXO FOOTWEARS LIMITED** **MR. GAURAV DUA – EXECUTIVE VICE PRESIDENT (MARKETING), RELAXO FOOTWEARS LIMITED** **MR. SUSHIL BATRA – CFO, RELAXO FOOTWEARS LIMITED** **MR. VIKAS TAK – COMPANY SECRETARY, RELAXO FOOTWEARS LIMITED**
MODERATORS:	**MR. SUMANT KUMAR – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 earnings conference call of Relaxo Footwears Limited hosted by Motilal Oswal Financial Services Limited. As a reminder, all participants' 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. Sumant Kumar from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

Sumant Kumar: Good afternoon, everyone. On behalf of Motilal Oswal, I would like to welcome you all to Relaxo Footwears Q2 FY22 earnings conference call. From the management we have with us today Mr. Ramesh Dua – Managing Director; Mr. Ritesh Dua – Executive Vice President (Finance); Mr. Gaurav Dua – Executive Vice President (Marketing); Mr. Sushil Batra – CFO; and Mr. Vikas Tak – Company Secretary. We will begin the call with a brief discussion from the management end and then we can open the floor for the Q&A. Over to you sir. Thank you.

Sushil Batra: Thank you, Sumant. Good afternoon to everyone. Ladies and gentlemen, thank you very much for attending our earnings call for the Q2 FY 2022. We have already shared our earnings press release and results presentation; hope you got an opportunity to go through that. I will start with Q2 FY 2022 financial performance, followed by H1 FY 2022 financial performance.

In Q2 FY 2022, Relaxo booked operating revenue of Rs. 714 crores as compared to Rs. 576 crores which is a growth of 24% year-on-year. EBITDA during the quarter stood at Rs. 117 crores as compared to Rs. 127 crores during the corresponding period of previous year. EBITDA decreased mainly due to steep increase in raw material prices, enhancement of marketing, brand promotion and other administrative expenses as compared to corresponding period of last year wherein raw material prices were extremely low. Other Income stood at Rs. 7 crores as compared to Rs. 5 crores in the corresponding period in the previous year. The increase is mainly due to higher interest income on investment during the quarter. Our profit after tax was Rs. 69 crores for the quarter as compared to Rs. 75 crores during the corresponding period of previous year.

For the first half of FY 2022 we registered revenue of Rs. 1,212 crores as compared to Rs. 939 crores in the corresponding period in the previous year. EBITDA was at Rs. 183 crores as compared to Rs. 184 crores in the corresponding period of the previous year. Our profit after tax was Rs. 100 crores for the first half of FY 2022 as compared to Rs. 99 crores during the corresponding period of the previous year.

At the end of September 30th, 2021, we have 400 exclusive brand outlets which contributed around 6% to our H1 FY 2022 revenues. Exports are also picking up with opening of market and contributing more than 3.5% of revenue in H1 FY 2022. Going forward we are cautious about the inflationary trend in the raw material prices which has further intensified and has reached elevated levels impacting gross margins. However, we are taking all possible measures to mitigate its impact on margins including timely price increase. We will continue our effort to grow our presence in untapped and under penetrated market 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 Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: My first question pertains to the slide that you have shared in your presentation, the data on realization increase YoY. It has been a very sharp increase and despite that we have seen a margin pressure in the quarter. So, first of all, how should we think about this price increase and consumer reaction to that. And how should we think about margins based on this price increase going forward?

Ramesh Kumar Dua : The way things are, raw material prices are still on the increase. They are yet to stabilize. All that was hoped that in the third quarter things will stabilize. But now still things are volatile, and we are keeping a watch on it on day-day-basis and accordingly we are revising our prices. But at the same time, naturally when there is unprecedented increase, there is always a consumer resistance. So, we are cautious while increasing our prices. So, we have been able to absorb part of the raw material increase in cost. But we have to also be mindful of the competition and take steps appropriately accordingly. We are taking our price increases accordingly from time to time. Already, twice we have increased the price in the past, and third is also being planned and we will keep on acting the way things are turning out to be.

Tejas Shah: How much price increase have we taken so far in the year?

Ramesh Kumar Dua: Around 15%.

Tejas Shah: This is weighted average across portfolio.

Ramesh Kumar Dua: Yes.

Tejas Shah: And you spoke about inflation still being high, so have we taken again after reporting this quarter number, have taken in October-November so far?

Ramesh Kumar Dua: In October yes, we have taken some price increase.

Tejas Shah: And are the price increases taken so far protect our margin at current level or we need to take further interventions to bring back to 2-3 years levels?

Ramesh Kumar Dua: Because raw material prices have not stabilized so far. So, we will have to always keep a note of it and also, we have to keep a note of the market situation. So, on that will keep on taking appropriate actions.

Tejas Shah: Second question pertains to how demand is reacting to these price increases and what's your read on the demand scenario because we are getting very divergent views on rural demand and non-urban demand as well. So, just wanted to check your sense on what's your read on the demand environment?

Ramesh Kumar Dua: Well, for the time being demand is being affected because people don't want to keep stock of those things. They just want to reduce their inventory in the pipeline because there have been two price increases. Third also we have taken. So, even in the market there are 2-3 MRPs floating in the market. So, inventory in the pipeline is reducing. So, for the time being there is some effect on the demand that we are witnessing. And in the coming times when the price and stock will reduce then our demand will also improve

Tejas Shah: Last one bookkeeping question, what percentage of our turnover comes from below Rs, 1000 MRP as on last year or as on half year this year?

Ramesh Kumar Dua: Around 90%.

Tejas Shah: So, how do you see GST changes which have been made and how do you see that impacting demand going forward?

Ramesh Kumar Dua: Well, it is for everybody. It is not for our company. So, whatever GST government is proposing, accordingly we will take appropriate action on that. For a short term we may find some consumer resistance, but after all it is for everybody.

Moderator: The next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: My first question is with regards to the demand for the open footwear. Last year we have seen a lot of strong demand for your open footwear especially led by the rural side. And now the things are normalizing this year and the schools, and the offices are also opening up. So, how do you see the demand pattern changing going ahead?

Ramesh Kumar Dua: Demand of open footwear, there are two kinds of things. One is closed footwear, another is open. Open consists of sandals and slippers. From the demand of what we find that the people who have now started moving outdoor, those articles, whether it is sandal or it is sports shoes, they are going up. And meanwhile the demand of slippers that has gone down this year. Because last year everybody was indoors, so these articles were selling more. So, that is the change we are witnessing this year.

Gaurav Jogani: With your portfolio being tilted more towards the open footwear, do you see a resultant impact on your volumes or sales to that extent for this year at least?

Ramesh Kumar Dua t: Because slippers numbers will definitely be less than what the demand was earlier. And the shoe division is growing more so that will have some effect.

Gaurav Jogani: The next question is with regards to your margin last year had seen very sharp expansion. It was even higher above the historical average. But what sort of stable margins as a company do you envisage? I understand that they are two extremes, last year the margins expanded very high and this year it's been impacted due to RM inflation. But what kind of stable margins going ahead do you expect for the company?

Ramesh Kumar Dua: Last year raw material prices were very benign and this year it is unprecedented increase. So, that is definitely telling upon our margins. Last year it was unusually high, but this year around 17% should be all right this year.

Gaurav Jogani: So, going ahead 17% margins should be a steady margins what we can target?

Management: Yes.

Gaurav Jogani: And with regards to, you have been telling in the opening remarks that the focus is on increasing the presence in the untapped markets. So, any light that you can throw, which all markets have you expanded to and how has the mix changed for you over the last 1.5-2 years in the product-wise segment also?

Gaurav Dua: What we have seen is that now south market started performing because the south was the only market which opened up last. So, Kerala being locked down for 1 year and three months, now it has opened up. So, we are seeing demand recovery coming from south market more. And e-commerce is also doing pretty well.

Gaurav Jogani: What will be the contribution for e-commerce now for your overall space?

Gaurav Dua: We are doing 10% e-commerce.

Gaurav Jogani: In terms of the margin profile, is e-commerce a lower margin channel vis-à-vis your regular MBO channel to that extent, given there are returns and there is also the e-com player margins also there. So, how do the margin differ between the channels?

Gaurav Dua: We try to keep it same margin across all the channels, be it e-commerce, modern trade or wholesale. Because otherwise the goods will flow from one category to another category, so we try to keep the same margin.

Moderator: The next question is from the line of Neerav Rajiv from B&K Securities. Please go ahead.

Neerav Rajiv: This is just more from a longer-term perspective regarding the kid’s footwear segment. I just wanted to know your views regarding the long-term prospects of the branded segment of the kids' footwear. I have just read certain reports which indicate that the kid's footwear given that the sizes keeps changing the inclination towards branded wear is low. So, wanted to know your perspective firstly on the market and also where does Relaxo stand in this segment and also any inputs on the margin side?

Management: Presently whatever category we are in, whether it is our Bahamas, Relaxo slippers, Flite, or Sparx, in all categories we do make articles which are meant for kids. And we are keeping a tab whatever demand or things are changing, accordingly we are introducing our articles and capturing our demand and supply in the market.

Neerav Rajiv: Anything on the long-term growth aspects of the kids wear segment, any outlook on that front as a key player, where do you see that market growing in the next five years?

Ramesh Kumar Dua: What we find is it is growing at a normal pace. Maybe in certain categories high fashion or maybe different category it maybe there. But as far as we are concerned, category what we are in, it is a normal kind of a growth that we are witnessing.

Moderator: The next question is from the line of Yash Mehta from Chanakya Capital. Please go ahead.

Yash Mehta: Relaxo has done very well in the value segment over the years. So, are there any plans to enter into the premium segment, a segment which has a price of above 1500-2000? Is Relaxo looking to expand into the premium segment? And what are your views on the premium segments?

Ramesh Kumar Dua: We have our articles above 1000 in our Sparx brand and that is what we are doing, and we have other categories also whether it is Bahamas. In every category we have premium articles based on the price segment we are in. So, that accordingly we keep on developing premium articles in every category whether it is Flite or it is Bahamas or Sparx. In 1000+ there are shoes. That we are also taking care and focusing on that, and we will continue to do that.

Yash Mehta: With improving logistics, is it possible that the operating cycle will get better over time?

Gaurav Dua: There is no major change in terms of improvement in logistics. So, its government prerogative when they improve the infrastructure and how the time will be reduced. So, it's a long process? Maybe after five years we can say about it, but right now we are just following whatever is there.

Moderator: The next question is from the line of Mythili Balakrishnan from Alchemy Capital. Please go ahead.

Mythili Balakrishnan: I just wanted to get a sense of how the four bands have performed for us in the first half of the year. How has Sparx, Bahamas, Flite, and the main Relaxo brand done?

Gaurav Dua: If we talk about Sparx brand it is doing pretty well because last year the demand was subdued because it is more of an outdoor category and premium category. So, people were not moving out. Now people started moving out. Sparx brand overall is doing much better than the other brands. Secondly, in Flite we have two categories, one is outdoor, and one is a home brand, which we call Flite EVA and Flite PU. So, outdoor brands across all four categories are doing much better compared to what it was last year.

Mythili Balakrishnan: If you could also help us understand, what would be the contribution of each of these four brands to the total revenues?

Ramesh Kumar Dua: Hawai segment like Bahamas in Relaxo is around 25% and rest is almost equal between Flite brand and Sparx brand.

Mythili Balakrishnan: So, Hawai plus Bahamas is 25 and rest is equally shared.

Ramesh Kumar Dua: Between Flite and Sparx, almost.

Mythili Balakrishnan: Also, just wanted to get a sense from you that in terms of Sparx especially we are seeing a lot more advertisement which is focused on being fit, being outdoors, but a lot more shoe type advertisements. So, just wanted to get a sense from you, is that something that is going to be the next focus for the company in terms of looking at more from a good sport shoe rather than a more sandal kind of a thing which it was earlier?

Gaurav Dua: It's mixed actually. These four segments are doing pretty well. Like there's a trend of Athleisure. So, there is a good trend, so sandals are doing pretty well in south India. People don't prefer too much of a covered shoe over there. So, it depends upon market also. Shoes is more for north and West and sandal is more for south India. We can see growth both sides.

Mythili Balakrishnan: Sparx, what would be the mix between shoe and sandal?

Gaurav Dua: Sandal is 60%, 40% is shoes.

Mythili Balakrishnan: My last question was more on the unorganized / the imports which come in from China. Have you seen any disruption in them and is that also some contribution that we can expect for growth going ahead for us?

Gaurav Dua: I think the freight cost importing from China has gone up significantly. So, last one and a half years, the supply has subdued from China that is an advantage for us.

Moderator: The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: First question on the price hikes that we have taken and the inflationary environment that we are talking about. In past concalls we had mentioned that there was a shift from unorganized to organized in this COVID times. Do we continue to see this trend that the inflationary scenario is extremely strong at this particular time?

Ramesh Kumar Dua: We are having good market share, but in an unorganized market to capture the data and try to find out. It is very difficult. As far as we are concerned, we can only focus around what we are doing, how we are doing in different markets. Because share of that is totally not captured anywhere. It's very difficult to comment on that.

Akhil Parekh: We have been hearing that some of the organized players also have been struggling over the last 8-10 months. Would it be fair to assume that we have at least gained market share from the weaker organized players?

Ramesh Kumar Dua: Our market share is improving, but to what extent, it is replacing unorganized, it is very difficult to comment.

Akhil Parekh: But it is better than a year or two years back.

Ramesh Kumar Dua: You can say that. But you can't calculate because things are not available in an open domain.

Akhil Parekh: Second question is on the capacity front. In the presentation, we have mentioned at 7.5 lakh footwear pairs per day, and we have recently commissioned our Bhiwadi Rajasthan capacity which is at 1.5 lakh pairs, and it can make 10 lakh pairs per day. Currently with 9 lakh pairs per day, is that correct?

Sushil Batra: At present we have declared that the capacity is 10 lakhs in the board meeting it was approved from October it is 10 lakhs, earlier it was 7.5 lakhs.

Akhil Parekh: So, we have added 2.5 lakh pairs?

Sushil Batra: Yes, we have added.

Akhil Parekh: And the plant is already commissioned, the commercial sales have begun from this quarter?

Sushil Batra: Yes, it has started.

Akhil Parekh: Last question, the ad spends as a percentage of sales, if you can please guide for the entire FY22?

Gaurav Dua: We are going to do 4% ad spends as percentage of revenue.

Moderator: The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: My first question is with respect to our presence in the southern part of India. Can you highlight as to what are the steps that you are taking with respect to expansion of our revenues from south India mainly focusing on either distribution expansion or retail outlets addition? What has been the pace over last one year or what was the pace when you were back and what is the current status as of now and what are the growth plans mainly to grow in the southern region? I will come up with the second question after this.

Gaurav Dua: In South India there was lot of lockdown. The lockdown was extended maximum in Southern markets especially Kerala. So, now they have started opening up and we are a getting a demand recovery. It's just recovery happening from South India. Once the recovery is done, then we will start growing. Some markets we have already started taking steps and appointing distributor like Tamil Nadu.

Vikas Jain: If you could just give a ballpark figure as to what were the revenues in the South probably one year or before the COVID time and from a normalized run rate what would be the revenues at this quarter or two, any rough amount?

Gaurav Dua: Two years back it was 10% fell down to 7%-8%, now we are back to 10%.

Vikas Jain: And with respect to the distribution addition, how has been the pace? What was it pre-COVID and what is the current status?

Gaurav Dua: We just started distributor expansion in the last three months. It's very early to say anything about that.

Vikas Jain: Last question from my side, as you mentioned in your opening remarks, the raw material inflation is incrementally hurting us. So, any guidance that you would want to give for the next one or two quarters, or what would be gross margin figure that we can come up with in H2?

Ramesh Kumar Dua: Because raw material price have not stabilized. So, margins will continue to remain at a pressure. So, we are cautious of it and keeping a tab on the market conditions and accordingly taking our steps.

Moderator: The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Firstly, I wanted to understand the mix of open and closed footwear in the first half of this year. If I recall last year, it was 85:15 and the year prior to that FY20 it was 80:20. What was it in 1H FY22?

Gaurav Dua: If we talk about FY22 it rose to 90:10. Now it is back to 85:15.

Girish Pai: So, 85:15 is H1, is it?

Gaurav Dua: H1.

Girish Pai: Okay, it was 90:10 in FY21?

Gaurav Dua: Q1.

Girish Pai: So, you are talking of Q1 and Q2.

Gaurav Dua: Yes.

Girish Pai: The other thing I wanted to ask you is over the years, I have looked at your presentations and every time I see that 50,000 MBO being the standard number that I see in your presentation in terms of your penetration and distribution. So, have you not increased your penetration beyond the 50,000 number because I have seen your presentation 6 years back. It is still a 50,000 number.

Gaurav Dua: Because of last one a half year, we are still able to maintain that because there are a lot of outlets getting closed down. This COVID has created a havoc. We are just maintaining it. Once this raw material prices, COVID outbreak, GST, all these things get settled then we will be able to give you the exact picture, how fast we are improving.

Girish Pai: But even pre COVID I have seen for many years the number has remained constant about 50,000, any which way. My next question…

Gaurav Dua: Because the outlets are same, but our presence have improved, like suppose an outlet used to keep 3 brands now that they are keeping 4 brands, so the depth has improved.

Girish Pai: You made a claim that you increased market share. When I look at the volumes, it is down YoY. So, is that the market is down far more than you have done. When I look at the volumes that you have sold in Q2 this year versus the volumes in the year before that they are down YoY. Is it that the market volumes are down much more than you?

Ramesh Kumar Dua: No, we can't say that. The demand of closed footwear this year has increased. Overall demand of open footwear has gone down because people are now moving out. So that is the reason that's all.

Girish Pai: Just last question regarding competitive intensity. There are a couple of IPOs on the cards, Campus and Metro. Are you seeing any increased competitive intensity or competitive moves from either of these players at least from the campus's side that you are seeing in the market which is probably not letting you increase prices more than what you could otherwise tried to do?

Ramesh Kumar Dua: This matter is totally different. We have nothing to do. Campus has only one category, sports shoes. But we have our own space. Market is big. They have their own space, there is nothing of any alarm or concern.

Girish Pai: So, when you talk about, you have to watch the market when you take price hikes, who were you referring to specifically?

Ramesh Kumar Dua: There are so many brands in the market and then we have to see consumer behavior also. All these things we do take in mind and accordingly we take our pricing decisions.

Moderator: Thank you. The next question from the line of Divyata from Trident Capital Investments. Please go ahead.

Divyata: My question is more pertaining to your product life cycle. If you just could help us understand from the product launch in terms of the conception to manufacturing, what colors and sizes would you generally push to manufacture? And also, the distribution, in which cities would you push more sizes and different colors and the end product life cycle, once the demand tapers off? So, if you could please help us understand what is the product life cycle for your various brands?

Gaurav Dua: You are asking about concept to launch?

Divyata: From conception, like once do you decide that you want to launch one product to manufacturing to distribution and to end product.

Gaurav Dua: It varies category to category. Sparx takes more time compared to basic hawai. So, we cannot give generalized figure, but Sparx takes maximum time. You can say around 7 to 8 months compared to a basic Hawai which takes 2 to 3 months.

Divyata: How do you determine into which colors or which sizes you want to push in which of the geographies, like in which of the regions?

Gaurav Dua: We get data from the marketing department which state or which region, what preferences they have, which color, what sizes, the size of the feet, so all the data we have. Accordingly, we take the decision.

Divyata: Have you extended your technology data. I was going through your past annual reports and there is mention of various IT technologies which you have deployed to understand the market behavior. So, have you extended to your retail stores also where you get a sense of what is the fast-moving product or what is the slow-moving product?

Gaurav Dua: We do have SFA, which lies with the sales officers, and we have DMS which is a software based, and it is at distributor point. So, we get data from there only, what sizes are selling, what SQs are doing well, which market is performing how, so these are two technology pieces what we use.

Divyata: Would you put light on your competitors in the west and the eastern region? We keep hearing that VKC brand is also picking up and on the western side VKC and Paragon. Would you have some view on them?

Gaurav Dua: The market is quite too huge, so we have equal presence if you talk about in western market as compared to VKC. So, they have some strong states of their own. We do also have our strong states.

Divyata: The new facility addition that we have taken about, so that will be for any particular brand or particular open or closed footwear or it will be across, like the additional 1.5 lakhs pair per day. Which product will be manufactured there?

Ramesh Kumar Dua: These are some lakhs of Hawai slippers, Bahamas and some Sparx slippers also.

Divyata: And the idea of increasing the capacity on the western side is basically to cater to some newer markets in which we are not already present?

Ramesh Kumar Dua: It is overall. We have to overall increase our penetration, whether it is south whether it is west or even some unrepresented part of North and East also.

Divyata: Lastly, you did mention that the demand has not yet picked up. So, in H2 what you see some wrapping up of demand especially of the closed footwear?

Ramesh Kumar Dua: Now market has opened. By and large in all parts of India and things are opening up. But as I told, there is lot of resistance because of price increases that are happening. The raw materials are going up almost month after month. So, there is resistance from consumers, from retailers and they are liquidating the stocks which are in the pipeline. So that is it.

Moderator: The next question is from the line of Yusuf Inamdar from Motilal Oswal Financial Services Limited, please go ahead.

Yusuf Inamdar: I have only one question from a long-term perspective. If I look at the competitors, the average selling price of two of the largest footwear companies is in the range of 500 to 600 whereas ours is in the range of Rs 125 to Rs 150. Can you just tell me, since we are beginning to focus more on closed footwears and high-end products, can you just give me an idea, a ballpark number, what could it be our ASP in the next 3 to 4 years?

Ramesh Kumar Dua: It will increase but it will increase at regular pace in a sustained manner but don't expect it to increase substantially because you should appreciate, we are serving masses and 85% business is for masses. Only 15% are others. So, the ratio will remain what it is. It will have some effect, some improvement, that's all.

Yusuf Inamdar: One more thing with respect to the number of exclusive brand outlets, which we have around 400. Is it safe to assume that gradually we will be increasing our EBOs? So, is it safe to assume that slowly we are moving towards more of a retail model compared to the distribution model which we had earlier?

Ramesh Kumar Dua: No. Presently we are focusing more on multi brand and this 400 is kind of our display cum sale model where strategically we understand the consumer behavior and understand what is the consumer psyche. Our business contribution from our retail is just 6%. So, we will continue accordingly.

Moderator: The next question from the line of Gaurav Jogani from Axis Capital, please go ahead.

Gaurav Jogani: My first question is with regards, what are the key learnings from the COVID times? A lot of the retailers we have seen have cut down on cost and have done purchase improvements during this COVID times. So, if you can highlight 2 or 3 key initiatives that we have taken during COVID times and that can help in cost savings going ahead as well.

Ramesh Kumar Dua: Cost saving is an ongoing process. We have to always keep the company competitive, efficient and that is going on. Even in this difficult times the fact that we are improving our efficiencies and that we will continue to do it. Last year we had some cut in marketing and administration expenses but this year we have started these expenses and the brand-building again, we can't keep it always on the low. But as far as manufacturing expenses are concerned, that effort is on.

Gaurav Jogani: Any numbers that you like to highlight, like some percentage of cost that you are permanently able to save now going ahead, say like 10 crores, 15 crores that will be permanently taken a saving going ahead as well.

Sushil Batra: This is the only in the marketing and administration last year, we took a cut.

Ramesh Kumar Dua: In permanent nature I think a don't see much possibility, but I think consulting that's what we can say, that is the only item which we cut last year, and we are not reinstating. In manufacturing even if we can hold our conversion costs, that is a great achievement. That's what we are trying to hold on to.

Gaurav Jogani: One related question to this, a lot of players are we now talking about the substituting the raw materials with alternative materials which are cheaper and also better quality. So, any kind of process re-engineering also that we have worked down that you would like to highlight in terms of the raw material side?

Ramesh Kumar Dua: We have to be mindful that we maintain quality first and the other things afterwards. There is very little possibility of doing little bit of juggling of the polymers. But beyond that people will only sacrifice the quality. So, we are mindful of it. Accordingly, we are taking the cautious moves.

Gaurav Jogani: One last bit from my end is, over the years if we take a trend from FY13 to even FY2021, we have seen that the EBITDA margin expansion is largely led by gross margin. So, our gross margins has expanded from 53.5% in 2013 to around 59.5% in FY21. What further scope do we see of expansion in the gross margin, or do we think this is a peak level at this point in time?

Sushil Batra: Gross margin, definitely there has been improvement year after year. But this year being a different year, raw materials prices are touching new high and we took some price increase also, it's really tough how much margin we can expand.

Gaurav Jogani: Not in short term, I am talking about the next 3-4 years, maybe what kind of our gross margin that you can target going ahead, barring these volatile times.

Ramesh Kumar Dua: Long term definitely we have been adding new product every time. I think 40% churning is in our case. So, we add more premium product in each category. Definitely there is always a scope to improve the gross margin and we can see the same trend in coming years long-term.

Moderator: The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: You mentioned the e-commerce contribution today has become 10%, with things opening up and the contributions remaining same at double-digit, how much of this is coming from closed footwear and Sparx and how much is it from open footwear?

Gaurav Dua: Majority is from Sparx footwear which is around 85% to 90% and rest is from Bahamas and open footwear.

Ankit Kedia: Would the ASP difference, in one of the questions you mentioned that we are not doing price differential, so would the inventory online be similar and fresh inventory, or we are liquidating inventory online?

Gaurav Dua: Majority of it is the running articles, and very few maybe you could say less than 10% is the obsolete inventory which we are pushing. So majority is the regular articles.

Ankit Kedia: My second and last question would be again on your EBOs, how many of these are owned EBOs currently and over the next few years, what is the plan to expand our EBO count in South market as well?

Sushil Batra: For the time being there is no plan for any EBO in South.

Ankit Kedia: How many of the EBOs are owned versus franchisees currently?

Sushil Batra: Majority are owned. Let's say, around 330 we have our own and franchisee is around 30 and few are mixed model.

Moderator: The next question is from the line of Ashish Kanodia from Ambit Capital. Please go ahead.

Ashish Kanodia: On gross margin, on the inventory my understanding is that, had there been no inventory built up then the impact on gross margin would been even higher during this quarter, is my understanding correct?

Sushil Batra: You are right. Definitely the increase in inventory definitely impact the gross margin as far as calculation is concerned. But otherwise, margins have been improving except this 1-1.5 years and especially these two quarters due to raw material prices. If you just exclude that part, even then there is improvement in gross margin.

Ashish Kanodia: Secondly, what is your internal thought process in terms of at current RM prices, what is the comfortable gross margin where the company would like to operate at and to reach that kind of a gross margin what is the kind of price hike we will need to take further?

Ramesh Kumar Dua: Prices of raw materials are still on the rise. Things have not stabilized, and we have to keep on watching from time to time rather month to month and we have to then see what is the consumer sentiment, market sentiment and pass on the price increase. So, since things have not stabilized, we cannot comment on that, how the things are going to turn out in the coming months.

Ashish Kanodia: I think there was a discussion that retailers and the distributers might be liquidating inventory because of COVID, so is there a difference between the primary sales and secondary sales? What I mean to say is when I look at the growth reported by Relaxo and if we have to compare that with the actual growth which a retailer or the distributer might have reported, with that growth be higher and then if that is the case, so as the retailers and the distributers starts to rebuild the inventory then that will ultimately benefit you in subsequent quarters, is it the right way to look at it?

Ramesh Kumar Dua: We have to see. Once things stabilized, the markets inventory also, we are cautious at the moment. Once things come to normalcy, then only we will know how things turn out to be.

Ashish Kanodia: Last question in term of price hikes, the RM prices has been higher, has there been any challenges with the supply as well or is the supply is at least uninterrupted?

Ramesh Kumar Dua: Are you talking about supply of raw material?

Ashish Kanodia: Yes.

Ramesh Kumar Dua: For some of the raw materials even the supply has been an issue like ethyl vinyl acetate, but it doesn't mean that we have any obstruction in production, but things have been a little difficult. That is why there is inflation trend whenever there is shortage of a material, then only inflation trend become much more adverse. In EBO, particularly when the supply has been also restricted that is added to the problem.

Moderator: The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: During the course of your commentary, you mentioned that there are 2 or 3 different MRPs in the market, is this a unique position that you are in as we speak today compared to the last 10 years and how is this impacting your sales or how is the distributors response to this?

Ramesh Kumar Dua: You are right at the moment because there have been two frequent increases. But there are so many articles, every article in retail they never come to zero stock, then only you will buy the new article. Because some of the sizes they become short of the inventory, so he has to buy a new. That is why there's a mix-up of different MRPs in the market so it will take some time before things get set right.

Girish Pai: Is that responsible for your slower volume growth this quarter?

Ramesh Kumar Dua: After all we told you that people are liquidating, they are maintaining their system. Whenever there is a price revision, people want to be little cautious in mind, that we are noticing. As the inventory supply chain is getting reduced, distributor sales are better. So, he is also trying to be cautious. Everybody wants to have minimum inventory.

Girish Pai: A more strategic question pre-pandemic when I look at your ASP and volume growth statistics across, say 3-4-5 years before the pandemic, your ASPs have not grown very much. It's been basically volume growth led. Is that your strategic thought process? Beyond the pandemic is that how you want to grow? You want to kind of drive volumes and not focus too much on ASP?

Ramesh Kumar Dua: We are not focusing on ASP. We are focusing on what category consumer needs, whatever categories trade is requiring, we are offering that to trade. Our focus is on building the categories, whether it is Bahamas brand, whether it is Flite(PU or EVA) or Sparx. So historically also 85% has been slippers business for the company and that always gets traction accordingly in the market.

Girish Pai: Last question your cashflow from operations seems to be quite bad. At least when I compare for 1H versus the full year numbers, anything that will change in the second half for the cashflow from operations number to look better than what it was at the end of September 2021?

Sushil Batra: Cashflow is bad from a number point of view yes, I agree but if you see the number, there is an increase in inventory, that is the main reason for that. And due to inflation, the inventory which we were carrying, so I think 20% is coming from the inflation and rest is the overall increase. So, these are the reasons being in a special situation. But in coming times, definitely it will be back to normal and there will be comfortable cash from operations.

Moderator: The next question is from the line of Mythili Balakrishnan from Alchemy Capital. Please go ahead.

Mythili Balakrishnan: This is a question which comes possibly at a tangent but currently we are in an environment where raw materials prices are going up but at some point, that will turn around and it will start going down. In that time do we start reducing prices or do we just reduce prices on new SKUs and how do we think about pricing in that kind of a scenario?

Ramesh Kumar Dua: We have to wait and see how the things stabilize. We have to see how the market situation is at that time. We have to be mindful of one thing we have to be reasonable with the consumer and that is what we have done always.

Moderator: The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: We have a very high inventory and as you said since raw materials cost is increasing every month so because of high inventory probably at a low cost or the current cost will be less favorable compared to a competitor?

Ramesh Kumar Dua: Inventory in the raw material, that is always favorable when there is a rising price. But as far as our finished goods are concern, we have inventory because there was no demand in open footwear segment but in the coming time things will improve on both fronts.

Jignesh Kamani: So, if there is a price hike, we will get the benefit of that also on the upcoming, right?

Ramesh Kumar Dua: There is always a time delay in getting the things because we have to watch coming months also and trend also and then you have to take appropriate action. If there is an unprecedented price increase, the entire price increase we have not been able to pass because polymer going up is 100% is something beyond imagination. Keeping everything in view, we take appropriate action.

Jignesh Kamani: Secondly whenever there is a price hike or expected price hike generally dealers or distributor tries to increase their stock so that they can get benefit of a lower price products. Are we not witnessing that scenario as of now?

Ramesh Kumar Dua: Actually, when we revise our price, we revise the price for MRP also, ultimately the margin remains the same. Rather he is more cautious let his inventory be lower so that when the new price comes, he is able to pass on accordingly. Otherwise, if he has an old MRP he has to push that article first.

Jignesh Kamani: But in the old MRP, probably the discount offering to customer will be much lower compared to a new MRP.

Ramesh Kumar Dua: That could be at a retail level, I don't know what kind of discounts they do. When they have two prices prevailing, then definitely they get some advantage also.

Moderator: As there are no further questions, 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 joining you again. Thank you very much.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Contact details:
Registered Address:
Aggarwal City Square, Plot No.10,
Mangalam Place, District Centre, Sector-3, Rohini, Delhi-110085 (India)
CIN: L74899DL1984PLC019097
Website: www.relaxofootwear.com