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Sub: Conference call Transcript

Dear Madam / Sir,

With reference to captioned subject, we hereby enclose the transcript of Investors call regarding Q2 & half year ended for FY 24 results which was hosted by the company on November 3, 2023 at 4:00 P.M (IST).

The same is for your information and records please.

Thanking You,

Yours Sincerely,

For **Relaxo Footwears Limited**,

Ankit Jain
Company Secretary and Compliance Officer

Encl. as stated above

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**“Relaxo Footwears Limited Q2 FY-24 Earnings
Conference Call”**

November 03, 2023

**MANAGEMENT: MR. RAMESH KUMAR DUA – MANAGING DIRECTOR
MR. GAURAV DUA – WHOLE-TIME DIRECTOR
MR. RITESH DUA – EXECUTIVE VICE PRESIDENT -
FINANCE
MR. SUSHIL BATRA – CHIEF FINANCIAL OFFICER
MR. ANKIT JAIN – COMPANY SECRETARY**

**MODERATOR: MS. ARCHANA GUDE – IDBI CAPITAL MARKETS &
SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Relaxo Footwears Limited Q2 FY24 Conference Call hosted by IDBI Capital Markets & Securities 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, 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 Ms. Archana Gude from IDBI Capital Markets & Securities Limited. Thank you and over to you ma'am.

Archana Gude: Thank you so much. Good evening, everyone. On behalf of IDBI Capital Markets & Securities Limited, I would like to welcome you all to the Q2 FY24 Post-Results Conference Call of Relaxo Footwears Limited.

From the Management side, we have with us Mr. Ramesh Kumar Dua – Managing Director, Mr. Gaurav Dua – Whole-Time Director, Mr. Ritesh Dua – Executive Vice President- Finance, Mr. Sushil Batra – Chief Financial Officer and Mr. Ankit Jain – Company Secretary.

We'll begin the call with a brief discussion from the Management and then we can open the floor for Q&A session. Thank you and over to you Sushil sir.

Sushil Batra: Thank you Archana. Good evening, everyone, and thank you for joining us on our Q2 FY24 earning call to discuss the Financial and Operational Performance of the Company. We have already uploaded the earnings press release and investor presentation on the Stock Exchange as well as at our website and hope you have had the opportunity to go through those.

Before we begin the question-and-answer session, let me give some highlights on Q2 and H1 FY24 Financial Performance of the Company, beginning with Q2:

Revenue in Q2 FY24 was Rs. 715 crores, up 7% from Rs. 670 crores in Q2 FY23. We witnessed strong demand during the quarter which has led to a strong recovery in volumes driven by open footwear. EBITDA recorded a strong 54% Y-on-Y growth at Rs. 92 crores as against Rs. 59 crores in the corresponding quarter of last year. Softening of raw material prices and better operational efficiency due to economies of scale enabled us to enhance our EBITDA margin by 392 bps in this quarter. EBITDA margin was at 12.8% in Q2 FY24 as against 8.9% in Q2 FY23. PAT almost doubled in this quarter at Rs. 44 crores as against Rs. 22 crores in Q2 FY23. PAT margin stood at 6.2%, up 283 bps from 3.3% in Q2 FY23.

In H1 FY24 we recorded a revenue of Rs. 1,454 crores vis-à-vis Rs. 1,337 crores in H1 FY23, an increase of 9% year-on-year basis. EBITDA was at Rs. 199 crores from Rs. 146 crores in same period of last year, up by 37%. EBITDA margin was at 13.7% as compared to 10.9% in H1 FY23, an expansion of 280 bps. PAT for H1 FY24 at Rs. 101 crores against Rs. 61 crores in H1 FY23, grew by 65%. PAT margin was at 6.9% as compared to 4.6% in H1 FY23.

The company incurred a CAPEX of Rs. 56 crores as on 31st September '23. We remain a net debt-free Company with positive cash from operations. We remain committed to provide quality product as per evolving customer needs with focus on premium and innovative products. We continue to expand our strong distribution network with a special emphasis on new channel and e-commerce. Thank you. Now we can open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: Sir, Good afternoon. I was asking about, till last year you were talking about premiumization of the entire product category. But since last year you have taken price corrections. So, exactly what kind of strategy you are looking at? Higher number of pairs to be sold and with less value or other way around. That's the first question.

Ramesh Kumar Dua: Last year we did some price correction. Before that we had lost some market share to competition. After price correction we have regained our market share. So, our volume growth has been more than 20%. As far as premiumization is concerned, focus is there in Sparx, in Bahamas and already we are having a good traction of these premium articles. So, that focus is there, and it will continue.

Onkar Ghugardare: But the loss of market share was due to higher prices of your products or was there any other reason for that?

Ramesh Kumar Dua: Last year because of higher, we had a lot of old stock, costly inventory in the system. Because our industry operates on lot of import materials, we have to have a supply chain of around 6 months of that material. So, that is why it took some time to consume. Meanwhile market rate had fallen. But now our inventory in the system, now it is comfortable.

Onkar Ghugardare: The second question is on the revenue of the Company. So, what kind of revenue you are expecting in the second half?

Ramesh Kumar Dua: We are expecting a double-digit growth in the second half.

Onkar Ghugardare: Okay. Just a last question on ROE and ROCE which has been falling from last two three years. What's your strategy on that front?

Sushil Batra: Strategy because margins are under pressure, so once things will settle so definitely ROE and ROI will better because then capacity utilization and more earning will be there. So, that percentage will improve with the performance.

Onkar Ghugardare: Regarding that what kind of margins are sustainable? Now you have clarity on this?

Ramesh Kumar Dua: For the next half, 14%+ EBITDA.

- Onkar Ghugardare:** EBITDA 14%.
- Ramesh Kumar Dua:** Yes.
- Onkar Ghugardare:** So, you are expecting this margin in the upcoming quarters or like because the current margin is less than the margin which you are projecting.
- Ramesh Kumar Dua:** You are right. But when the volume goes up our sale go up then H2 is going to be better than H1, so things will improve.
- Onkar Ghugardare:** Due to operating leverage you will gain the margin, right?
- Ramesh Kumar Dua:** Automatically because of operating leverage our EBITDA will improve.
- Onkar Ghugardare:** So, what's the capacity utilization you are working at currently, at Q2 what was it and what do you expect to be?
- Ramesh Kumar Dua:** Currently it is 63% utilization.
- Onkar Ghugardare:** That is for Q2 you are talking, right?
- Sushil Batra:** H1 we are talking about; it is around 63%.
- Onkar Ghugardare:** Okay. So, what kind of capacity utilization you see you will work with going forward?
- Ramesh Kumar Dua:** It will remain around 65%.
- Onkar Ghugardare:** Okay, All right, Thank you!
- Moderator:** The next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.
- Aliasgar Shakir:** Yeah, Thank you so much for the opportunity. I had a question on your closed footwear. So, we had a very good trade show I think a couple of months back where we had displayed the entire range of our closed sportswear. I just wanted to understand a couple of things. First is Q3 typically is your large quarter for sportswear. So, how is the initial response and what is the kind of demand and growth that we are seeing? Our composition of sportswear—I think correct me if I'm wrong—is somewhere about Rs. 250 and 300 crores. So, what kind of growth we expect? And our competitor has had a significant size and I think we've also had aspiration to grow significantly, so do you think this is a category which can be somewhere close to like a Rs. 1,000 crores contributor to you in probably a few years?
- Gaurav Dua:** You are right that this category has huge potential to grow and what you're saying Rs. 1,000 crores, maybe in 2-3 years we will definitely plan to grow to that level. Regarding the market situation as you know the market is still not picked up what we were expecting. So, we have done a lot of retail meets across India and distributor meets. The initial response because of this

Pitrupaksha and untimely rains, market has still not given good feedback till now in terms of uptake in the market. So, it's too early. Diwali is in November, so we are expecting November should be better.

Aliasgar Shakir: So, our base would be very low, so of course from that base we should see a very good performance even in Q3. And just a follow up over there is that one feedback on the ground is that the margins in the sportswear is not very compelling and therefore Relaxo sportswear is not very well received by the distributors and retailers. Have we made any changes over there? Do you think we have addressed the issues at the distributor level?

Gaurav Dua: So, we have made no changes since last 4-5 years. And regarding distributors they are always complaint about margin. That is their trade habit. They need more margins. So, we are having the fixed margin which we have not changed from last 5 years.

Aliasgar Shakir: Even in the sportswear?

Gaurav Dua: Yes, it's same. We have not changed.

Aliasgar Shakir: Got it. Okay and in Q3 from the last year's base do you think this quarter will considering the kind of market weaknesses there we should expect things to only recover after a couple of quarters. You think Q3 because of a low base we can expect strong growth from sportswear.

Gaurav Dua: So, we are keeping our fingers crossed and last 7 months has not been so encouraging. In terms of the uptake of this sports footwear. The market is still a little challenging. So, we are just hoping for the best that this should now pick up. It's been 7 months like market is not responding.

Moderator: Thank you. The next question is from the line of Yash More from RV Investments. Please go ahead.

Yash More: Good evening. My first question is regarding the market share. You said we have gained the lost market share. So, what's the current market share?

Gaurav Dua: In volume if you talk about at a Company level, last year if you see we lost around 20%-25% in volume, drop was there in the open footwear which caused Hawaii and Flite, that only we have regained it back. So, there is a 27% in H1 growth in volume you can see that, what share we lost last year we have gained it back.

Yash More: I was asking about the UK FTA, what's our position and what are we doing regarding the FTA, what benefits do we see?

Gaurav Dua: Talking about the free trade agreement with UK?

Yash More: Yes.

- Ritesh Dua:** Not much. These European markets or the UK market had been more, in footwear sense, could be more for leather footwear. But we are more into non leather footwear. So, that's why it may not be....
- Ramesh Kumar Dua:** Not of any impact on us.
- Yash More:** Ok Sir, Thank You!
- Moderator:** Thank You. The next question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.
- Abhishek Getam:** My question was regarding premiumization strategy. So, largely our open footwear are sub Rs. 200 ASP. What are our plans going ahead to bring whole portfolio level or footwear level to a higher ASP? I mean sort of the whole Company portfolio in the range of Rs. 500+ ASP and what strategy would we go for, Tier 1 or Tier 2, 3?
- Gaurav Dua:** If you remember we have taken the last price cut of rationalized price in September. So, since then, the prices were less. Now if you see October that ASP has increased and regarding the premiumization, we have brands like in Flite we have launched Urban Basics which is again Rs. 400+ MRP. We are working on the portfolio of Sparx which is more than Rs. 1000 to 1500 MRP. So, we are continuously working on our portfolio to increase the ASP and improve on premiumization.
- Abhishek Getam:** Understood. So, what part would be Rs. 500 plus ASP contributing to our revenue?
- Gaurav Dua:** It's roughly around 10%.
- Abhishek Getam:** Where do we see this to achieve involved in terms? Do we see this to improve this 50% sort of in a longer-term horizon (+5) year?
- Ramesh Kumar Dua:** No. Our 80% as on day business comes from open footwear. The Company is focused on serving masses. 20% is coming from our closed footwear. That is why average comes out low. But our focus is there of premiumization whether it is Bahamas, Flite or Sparx. So, maybe 20% of that will ultimately build up premium.
- Abhishek Getam:** So, down the line like 4-5 years down the line we can expect it to 30%-35% sort of contributor?
- Ramesh Kumar Dua:** We have to see what kind of traction we get from these categories.
- Abhishek Getam:** Okay Sir, Thank You Sir.
- Moderator:** Thank You. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

- Priyank Chheda:** There's an observation where your volumes have remained flat over the quarter since COVID at an average of 45-50 million pairs per quarter. This has been the trend for the sector also. It's not only pertaining to Relaxo as such. Can you help us understand why the volumes haven't picked at a consumer level? What are the key factors that's driving such a muted demand?
- Gaurav Dua:** There was an up and down since COVID, the first wave, second wave, third wave. So, things have not stabilized and then that price increase was there in 2022-23 because of war. So, it's been like the last 3-4 years the industry has been facing lot of turmoil. Now this year we were expecting that the industry will grow but last 6-7 months there's no sign of huge uptick in the markets because of again untimely rains, inflation pressure in rural India. So, that's why the industry is struggling to grow to that level.
- Priyank Chheda:** If I have to again summarize the price increases that you saw in FY23 led to a poor demand in volumes and then again in FY24 the volume pickup hasn't been seen yet.
- Gaurav Dua:** Yes, you're right. That's why we have been able to get that volume back of 30% growth.
- Priyank Chheda:** Got it. There has been a BIS standard that has been implemented in the footwear. If you can help us, what would be the implication for us as well as for the industry? How do you see this shaping up for the industry as well?
- Ramesh Kumar Dua:** It is going to become mandatory from January '24. So, whatever products we are making, specifications of that, government have number of times revised. Now we are working on that, making a specification and we are quite ready to follow these government regulations from January.
- Priyank Chheda:** Does this mean that a lot of China footwear imports will get reduced? If you can help us quantify how much would be China imports in footwear which would not fall under this BI standard?
- Ramesh Kumar Dua:** No, even whatever goods will be coming to our country everything has to be as per BIS standards. Nothing will come out of this standard.
- Priyank Chheda:** Got it. So, would this mean that a lot of unorganized players who would not be able to cater these standards would lose out market share and in turn beneficial for brands like you?
- Ramesh Kumar Dua:** We think so.
- Priyank Chheda:** Okay. Just a bookkeeping question on our Sparx brand sales if you can help us, on annualized basis what would be the Sparx brand sales?
- Ramesh Kumar Dua:** Between 35% to 40% share goes to Sparx brand.
- Priyank Chheda:** Within that what would be the closed and open, sandals and sports shoes break up roughly?

- Ramesh Kumar Dua:** Overall 20% is our closed footwear and 80% is our open footwear.
- Gaurav Dua:** And in Sparx it is 50-50, 50 open, 50 closed.
- Moderator:** The next question is on the line of Manan Madlani from Kamayakya Cap Wealth Management. Please go ahead.
- Manan Madlani:** Hi, Thanks for the opportunity Sir. My question is around our raw material side. What kind of scenario are you seeing?
- Ramesh Kumar Dua:** At the moment for the last few months, prices have stabilized by and large.
- Manan Madlani:** Okay. So, going forward do we expect gradual gross margin improvement from here onwards?
- Ramesh Kumar Dua:** Ultimately always we have to be watchful of the market conditions, competition, how it is and keep our prices competitive. We keep on watching this every quarter by quarter. When the volume grows automatically our margin also grows along with it. At the moment, for the past 6 months or so, the situation has been quite challenging, sentiments are low particularly from rural markets, mass segment. But with the volume growth our margin will definitely improve further.
- Manan Madlani:** And we were doing some channel check and we realized that there is some price difference across majorly all categories between our EBOs and our website. So, what is the strategy behind that?
- Ramesh Kumar Dua:** No, we have one price only across all channels.
- Manan Madlani:** We might have to check again because we were doing some channel checks and there was some...
- Ramesh Kumar Dua:** For One article we have one price throughout India across channels.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from Philip Capital. Please go ahead.
- Ankit Kedia:** Thank you. My first question is regarding the price action. Given that the underlying demand in mass segment is currently subdued and given that the RM cost is on a declining or a stable trajectory, can we say that price action be it upwards or downwards is not behind and this price stability will come in the market or in next two quarters if the demand doesn't revive, we could take some price correction as well to gain market share?
- Gaurav Dua:** We are not going to take any more price corrections because raw material prices has been stabilized and we don't see that there is an increase in any raw material price. So, our focus is on distribution expansion.

Ankit Kedia: And on distribution expansion we are going for direct reach now. So, if you can just give some color today where we are and in 1 year-2 years what is the target what we are looking at?

Gaurav Dua: In India we have lot of white spaces across the country. So, we are going to have a secondary focus, secondary driven sales approach rather than a primary push. So, there is a whole strategy working behind it how to increase our footprints across India.

Ankit Kedia: Can you elaborate on this strategy? It will help us understand the business better.

Gaurav Dua: So, like we have discussed earlier also that there are 1 lakh MBO outlets in India. So, currently we are at 65,000 outlets. So, every year we are going to add more and more outlets to grow.

Ankit Kedia: My second question is regarding EVA and PU; are you seeing both these products seeing some pressure or EVA is doing better than PU and PU is where there is some impact of demand?

Gaurav Dua: No, we are seeing both are growing equally and I think both have good future. So, it's not like one is growing one is not growing.

Ankit Kedia: My last question is colored Hawaii versus non-color Hawaii. In colored Hawaii we have seen more competition from Aqualite, Walkaroo and others while in non-colored you're pretty much the market leader. Anything we are doing on colored Hawaii to gain market share?

Gaurav Dua: As you know we have a brand called Bahamas which is in colored Hawaii. We are growing well in that category. Last year there was a struggle because of huge MRP. Now it has been cleared, our old stock has been cleared and we are able to get the market share back.

Ankit Kedia: What will be our Bahamas contribution? If you can give us growth between the brands it would be helpful. Between what was the Sparx growth for the quarter or half year versus Bahamas and Flite.

Gaurav Dua: So, if I talk about volume, in Hawaii and Bahamas both its upward of 20%, the volume growth we have done.

Ankit Kedia: So, even the Company volume growth is pretty much in the same trajectory. So, where is the pressure coming from? Because at the Company level we have done 23% volume growth odd.

Gaurav Dua: Pressure is coming from it's more of like Sparx brand, the closed footwear because season has just started. The last 6 months it was more of open footwear. Now the season has started for closed footwear. So, let us see how this quarter and next quarter goes.

Ankit Kedia: With the new capacity coming in now on stream and with the new product the response being good, where do you think what changes assuming the market stays where they are, what is in your hands to drive demand in the market from closed footwear perspective? Is it the competitive intensity very strong, will you add, do more promotional activities on the ground, spend more

on brand ambassador to gain market share? Because assuming the market stays the way it is for next 6 months to 9 months.

Gaurav Dua: So, whatever you have said all activities we are in the process of doing, be it spend on BTL-ATL, launching more articles, doing NPD meets, distributor meet, retailer meets so everything is like because this is Q3 is a season for closed footwear. So, all activities are aligned to get the growth in this quarter and next.

Ankit Kedia: But for winter is just around the corner, so your primary push would have happened in the month of October. So, if you can just share how has been the October month's progress for closed footwear it will just help us understand how the underlying growth is coming for the season.

Gaurav Dua: We have mentioned before that there are a lot of competitions, unorganized and organized have entered in this category. So, we are seeing like lot of discounts are being offered by unorganized and other players who have entered in the market. So, it's not going to be too easy to win this market. So, let us see how these 2-3 months goes.

Ankit Kedia: Understood, Thank you so much sir.

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

Harsh: Hello Sir. I see that there has been some change in the top management and Mr. Shravan Kumar Singh has ceased to be the KMP of the Company. So, just wanted to ask does he will continue to be an employee at Relaxo? What really happened? And have you identified a replacement for him?

Sushil Batra : He has come, he's not KMP. He is in senior management list. So, he has joined as a New Product Development Head.

Harsh: Someone else has joined also as the head of product development?

Sushil Batra: Shravan Kumar Singh is with us; he has joined as a New Product Development head. He's part of senior management.

Ankit Jain: This is Ankit Jain; Company Secretary. I just want to update that due to some internal change in roles and responsibilities Mr. Shravan Kumar Singh has stepped down under the senior management category, but he will be continuing as NPD Head of the Company. This is the internal decision of the management, but he's continuing as VP NPD.

Harsh: So, the role of VP NPD has been shifted from being a senior management role?

Ankit Jain: Yes, he's not here on the Senior Management list but he's part of Company only. He's the head of the NPD.

- Harsh:** Okay, Got it. After taking the price cuts last year, we have seen that we have gained market share especially in the Flite and Bahamas category. Do you reckon this market share gain story will continue in the ensuing quarter as well?
- Gaurav Dua:** Yes, definitely it will continue, and we'll gain market share.
- Harsh:** To that extent the volume growth will keep on coming in the next quarter as well in spite of the industry being a bit tepid right now.
- Gaurav Dua:** Like I have mentioned before also, last price cut rationalization was in September. So, this kind of volume will not be there. Now value growth will be there. So, volume growth is 27% is I don't think so in next few quarters, maybe 15%, not that much higher because the gap was in first 6 months.
- Harsh:** Okay, Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.
- Akhil Parekh:** Thanks for the opportunity. My first question is what the possible reasons for the demand weakness could be, now given that we have already taken price corrections and it's almost two quarters now. So, if you can highlight broader reasons probably why the demand continues to be weak?
- Gaurav Dua:** So, consumer sentiment has been sluggish in the mass segment and that we are witnessing across the country and whole footwear category we are seeing that the sentiments are not that great. So, that's why if the industry does not grow then there will be little challenge. We are seeing this because of monsoon, inflation. That rural market is definitely not responding.
- Akhil Parekh:** That I understand that the sluggishness is there in mass segment but unfortunately none of the companies have been able to clarify what are the clear reasons, why we are seeing this pressure given that the inflation has already started to decrease.
- Gaurav Dua:** Yes, but the demand at rural markets should also be there. We are seeing that walk ins of consumers are not that which was before. So, maybe the discretionary spent at rural level is not there. We can assume that.
- Akhil Parekh:** Has that started to improve now given the festival already started? Do we see that improvement now in month of October?
- Gaurav Dua:** It's too early to comment upon it. We are waiting for this season. This may improve or maybe November-December things may improve.

- Akhil Parekh:** Second is if you could just update on the DMS 2.0 implementation which we have been talking about since last few quarters. Have we seen any, how far we have reached in terms of implementation and are we seeing any positive impact? Because one common feedback we were getting is the wholesaler were undercutting on pricing basically. If you can just highlight something on DMS.
- Gaurav Dua:** So, DMS 2.0 now 50% of our distributor we have implemented this 2.0 and our plan is in next 3 months we'll make it 100%. Regarding price cut, price cut by distributor we have not seen that. But maybe it's not in the DMS that they can cut the price. DMS is just to get the inventory and how we can do secondary with them and align our schemes accordingly. DMS is not implemented to control the distributor discount to the retailer. It is mainly to drive the secondary and have the control how things are going.
- Moderator:** Thank you. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.
- Onkar Ghugardare:** I just wanted to know, what are the export percentages of the revenue currently and what kind of scope do you think you have and the margin profile over there?
- Ritesh Dua:** This quarter also H1 if you say, around we have around 4% contribution and we expect to have this kind of percentage maintenance in future as well. Maybe a little bit we can have more because the growth is little better compared to other channels so we will be able to get little better percentage as a contribution.
- Onkar Ghugardare:** I just wanted to know what is the margin profile over there as compared to the domestic market?
- Ritesh Dua:** It is in line of same like what domestic we are earning, in the same lines, earning margins in exports has been.
- Onkar Ghugardare:** So, they are same, right?
- Ritesh Dua:** Yes.
- Onkar Ghugardare:** Maybe given the capacity utilization at 63%-64%, isn't it possible to push exports little bit given the push of the government to the sector as well?
- Ritesh Dua:** We have been doing that because whenever we have started the export we have been doing in our own brand, so wherever we are putting our products in whichever markets, and we are getting good traction, and we are able to get sustained growth in consumer pool as well.
- Onkar Ghugardare:** And what's the percentage of online sales currently?
- Gaurav Dua:** So, we are doing roughly around 12%, the contribution of online and new channel.

- Onkar Ghugardare:** And how it has gone up or gone down since COVID.
- Gaurav Dua:** So, if you compare with the last year, it is same as what I was talking earlier also, that industry is not doing, they are also feeling the pressure, so the growth rate is same. It's not that we are able to grow more. So, however, we are adopting a cautious approach also in this e-commerce because it's a very important channel for us to drive future growth.
- Onkar Ghugardare:** Okay. Thank you.
- Moderator:** Thank you. The next question is in the line of Jaspreet Walia from Broadbage Capital. Please go ahead.
- Jaspreet Walia:** Sir, Thanks for taking question. What has been the growth in Sparx brand in the first half of FY24?
- Ramesh Kumar Dua:** Sparx brand has not grown. It is just because our competition intensity was there, some of the segments like SFG category has grown. Now, festival season starting got delayed also. Now November onward we are optimistic that this will grow.
- Jaspreet Walia:** First half sales are broadly flat zero growth YOY.
- Ramesh Kumar Dua:** Nominal, maybe 3%-4%.
- Jaspreet Walia:** Ok got it Sir and what are the plans to increase the number of EBOS in the second half of FY24?
- Ramesh Kumar Dua:** We are having a little cautious approach. The things we are doing to improve the planogram, improve the consumer friendliness, training the staff and also trying to find out how to improve the efficiency of our retail outlets. And then we have a plan for expanding the network, the retail outlets.
- Jaspreet Walia:** Okay Sir. Thank you. That's all from my side.
- Moderator:** Thank you. The next question is from the line of Archana Gude from IDBI Capital Markets. Please go ahead.
- Archana Gude:** Hi Sir, just one question from my side. What is the revenue on the geographic basis and what are the efforts you are putting in to increase our market share in south?
- Gaurav Dua:** So, if you see we are doing 45% coming from north zone, followed by east zone of 22%, then west 20% and 15% is south. Regarding south market, there is a challenge of growth because the demand is subdued specifically in south market.
- Archana Gude:** So, that would be for both the categories open and close?
- Gaurav Dua:** Yes correct.

- Archana Gude:** Sure Sir, Thank You.
- Moderator:** Thank You. The next question is on the line of Sachee Trivedi from Trident Capital. Please go ahead.
- Sachee Trivedi:** Thank you for taking my question. The question I have is that in a previous earnings call, you had indicated that Sparx revenue will go from Rs. 400 crores to around Rs. 1,000 crores over the next 2-3 years which I think was around FY26. Is that still something in your plan and if yes then how do you plan to execute towards this goal?
- Ramesh Kumar Dua:** Though this year has been a little challenging. But our focus on premiumization is particularly in Sparx category and particularly on shoes and this year there are a lot of premium articles in Sparx, and we are getting a good traction. Based on our experience we are focusing on this and likely to grow but not this year. It is a year of stabilization and improvement and learning and accordingly then we'll open retail outlets also, we will utilize e-commerce also, the things will go accordingly.
- Sachee Trivedi:** Your other expenses have gone up 24% year-on-year. I'm assuming this is sales and marketing and promotion. Is this to help the Sparx brand or is this for everything, all the product categories?
- Ramesh Kumar Dua:** All brands are being advertised. Marketing expense spends are in all brands.
- Sachee Trivedi:** Okay, Now in terms of your distribution channels you have the MBO, you have the EBO, and you have the online channel. Do you think you should be looking at a differential pricing across these three channels given that the customer that comes to your e-commerce channel is very different from a customer that comes to your MBO channel?
- Gaurav Dua:** So, if you see instead of having different pricing, we have different brand offerings. So, Sparx is more relevant for EBOs and online because it's more than Rs. 1000 MRP. And for the mass market or MBO outlets which are 1 lakh outlet across India, for them we have Hawaii and we have Flite and Bahamas brand. So, we have segmented brand according to the price rather than giving different discounts.
- Sachee Trivedi:** And then one question on your MBO market particularly in the rural segment, should we think of it as a consumer discretionary spend or is it actually an important spend because if somebody's chappal is broken then they need to replace it? And then the question is why are they not buying a Relaxo brand to replace the chappal and going for something else?
- Gaurav Dua:** What we have seen is that because of inflation their visits have been little reduced. So, that's why what we are seeing is that the payments are not coming from the distributor and from the retailers. So, because of inflation and their discretionary spend going down, they are little selective in buying. That is the trend from last 6 months. But we are hoping that this will improve because of festive season coming and stabilization of prices are there. Raw material has been stabilized, so there should be an uptake in the demand.

- Sachee Trivedi:** But that is assuming that this is a consumer discretionary spend and I'm wondering if in the rural market this is actually a consumer staple item.
- Gaurav Dua:** If you have seen we have grown in volume, so we have definitely gained the market share there also. But that Sparx is the category where we are seeing that the spends have because it's more of discretionary where the buying has been low.
- Sachee Trivedi:** Sparx is discretionary but your Relaxo brand Bahamas and Flite particularly where you are selling to the rural and many times in the call, you have mentioned that is where you are seeing a slowdown, and you are hoping the festival season will see an uptick. And I'm challenging that part and asking if actually a Relaxo chappal is a consumer staple item for that market.
- Gaurav Dua:** No, we agree with that. But overall market should also have been growing. We are growing in that space. But industry also has to grow. There should be huge demand from the consumer side, so all categories will grow. We are not facing any challenge in open footwear.
- Sachee Trivedi:** How are you tracking the progress of the various initiatives that you have put in place right now to get back some of that revenue growth, what metric do you follow very closely?
- Ramesh Kumar Dua:** Through DMS we are able to know how many retail outlets are being served, so month after month we see category wise region wise. So, that is the parameter we see. The more retailer our distributor is able to serve, so that means our reach is increasing.
- Gaurav Dua:** We keep on monitoring the reach of our SOs also direct reach we talk about that. They are visiting 60,000 outlets, so that has been monitored every month, how productive the calls are, what are the orders they are taking, how they help by secondary, how we are fulfilling the demand. It's a monthly process.
- Sachee Trivedi:** Okay, Thank you so much and Good Luck to you.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants, I now hand the conference back to the management for the closing comments. Thank you and over to you.
- 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 very much ladies and gentlemen. On behalf of IDBI Capital Markets and Securities Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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