May 16, 2023

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Scrip Code – 530517	**Scrip Code – RELAXO**

Sub: Conference call Transcript

Dear Madam / Sir,

With reference to captioned subject, we hereby enclose the transcript of Investors call regarding Q4 & FY 23 results which was hosted by the company on May 12, 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

Ankit Jain
Company Secretary and Compliance Officer
Membership No.: FCS 8188

Encl. as above

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ISO 9001 Quality Management
ISO 14001 Environmental Management

www.relaxofootwear.com

“Relaxo Footwears Limited

Q4 FY ’23 Earnings Conference Call”

May 12, 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. PRERNA JHUNJHUNWALA – ELARA CAPITAL SERVICES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Relaxo Footwears Limited Q4 FY '23 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Elara Securities Private Limited. Thank you, and over to you.

Prerna Jhunjhunwala: Good evening, everyone. On behalf of Elara Securities India Private Limited, I would like to welcome you all to the 4Q and Full Year FY '23 Post-results Conference Call of Relaxo Footwears Limited. Today, we have with us the senior management of the company, including Mr. Ramesh Kumar Dua, the 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.

Without taking any further time, I would now like to hand over the call to Mr. Sushil Batra, and over to you, sir. Thank you.

Sushil Batra: Thank you, Prerna. Good afternoon, ladies and gentlemen. Thank you for joining us on this earnings call for the quarter and fiscal year ended 31st March 2023. The earning press release and the investor presentation have been uploaded on the stock exchange as well as at our website, and we hope you have had the chance to go through these.

Before we begin the question and answer, I will quickly go through the Q4 and FY '23 performance starting with Q4. In Q4 FY '23, we recorded revenue of INR 765 crores as against INR 698 crores in Q4 FY '22, recording a growth of 10% year-on-year. On a Q-on-Q basis, the revenue increased by 12%. This is mainly due to volume growth across all categories. Our Q4 FY '23 EBITDA was at INR 118 crores, up by 6% year-on-year, from INR 111 crores in the corresponding quarter of the previous year. EBITDA margins were at 15.4% in Q4 FY '23 as against 15.9% in the corresponding quarter. On a Q-on-Q basis, EBITDA margins have grown substantially by 481 basis points due to the selling of low cost inventory along with costly old inventory.

PAT at INR63 crores, on a sequential basis, that grew by 110% from INR30 crores in Q3 FY '23. PAT margin for Q4 FY '23 was 8.3%. Our price correction efforts during the last quarter have resulted in good momentum, and we have continued our market share recovery in all major segments during this quarter without relying much on discounts and offers.

Now moving on to full year FY '23. Despite the challenging environment last year, our strong team responded effectively and our commitment to maintaining our high standard of excellence have made us successful. Revenue for FY '23 was at INR 2,783 crores, up by 5% year-on-year from INR 2,653 crores in FY '22. EBITDA was at INR 336 crores as against INR 416 crores in FY '22. EBITDA margin was at 12.1% as against 15.7% in FY '22. Margins were affected primarily by the high pressure on raw materials pricing during most of the year. PAT was at INR 154 crores in FY '23.

We are now a debt-free company with robust cash flow from operation due to our strong working capital management. During the year, the company incurred a capex of INR 174 crores. With the stabilization of raw fuel prices in Q4, we are currently experiencing strong demand and hold an optimistic view of the future. Our company is strategically positioned to take advantage of the opportunities within the industry, allowing us to further expand our market share. Our key strengths lie in our in-house manufacturing capabilities, the quality of our product, and the strong recall of our brand.

We remain dedicated to upholding these strengths and will persistently strive to maintain their integrity. We are confident that our continued efforts will lead positive outcome for us in the time ahead. Thank you. Now we can open the floor for questions.

Moderator: The first question comes from the line of Aliasgar Shakir from Motilal Oswal.

Aliasgar Shakir: Congratulations to finally seeing a good market share trend in your company. I have 3 questions. First is on the current quarter. So I understand from our channel checks that post cleanup of the old inventory, market demand has picked up quite strongly. And in fact, Relaxo has not been able to meet all the distributor demand. So is this true in multiple geographies? And do you think we would have lost any revenue because of that factor, if you could just quantify what could have been the impact of that in this quarter? And has that been now subsided? Or we are still seeing demand not being able to fully be met?

Gaurav Dua: What you said is partly correct, that there is an upsurge in demand, and we are seeing it. One reason is that we have corrected the prices. And second, this is a peak season for us for open footwear. As we are 75% open and 25% closed, so this is the open footwear starting from January to June to July. And regarding the shortages, we are managing. We have inventory with us and the uptake we are seeing across India for the open footwear.

Aliasgar Shakir: Got it. So can you quantify if we would have lost any revenue because of that in this quarter? And has that been now subsided?

Gaurav Dua: It happened in February because there were some IT issues, which have been corrected. And now we are able to cover. We have sufficient inventory.

Aliasgar Shakir: Okay. Got it. Second question is on your margins. So while we have significantly reduced prices, we have seen impact on margins. So can you share, I mean, what is the trend we should expect in the coming quarters as raw material prices are also softening? Should we see that helping us and therefore the impact on margin that we saw in this quarter should improve? How should we see that?

Ramesh Kumar Dua: Market remains challenging, and we have to be very cautious with respect to our pricing of our articles so that we always have a good market share as far as sales are concerned. The EBITDA margin that you have seen in this quarter is likely to continue, and there is likely to be some improvement also.

Aliasgar Shakir: Got it. This is very helpful. On the gross margin also, should we see improvement because of the raw material price softening?

Ramesh Kumar Dua: Some improvement, yes.

Aliasgar Shakir: Understood. And just last question on the closed footwear in the sportswear category. I understand that we have made a lot of changes in our design team, online team. If you could share some thoughts in terms of what is the strategy in the sportswear in terms of new product development and what is the aim in the next 3 - 4 years. Can we expect to reach about INR 1,000 crores in 3 - 4 years' time? I mean, if you can just share what is your strategy there.

Gaurav Dua: So if you talk about Sparx sports shoes, we have seen healthy growth. We have done roughly around 25% growth. And before that, last year, we put up a plant to cater to this need. So still, the plant capacity still we have. It will take 2 - 3 years to reach to that level, and you're talking about INR1,000 crores, Sparx is already INR1,000-plus crores brand.

Aliasgar Shakir: Yes. But sports wear would be relatively lower? Or I mean, of course, Sparx is much bigger, but within that sportswear, if you could just quantify how much would that be?

Gaurav Dua: So that is roughly around -- we do sports shoes and all sports category, roughly around INR 400 crores. So definitely, we have aspirations to become INR1,000 crores. And it will take 2 years, 3 years, time will tell.

Moderator: Next question comes from the line of Vikas Jain from Equirus.

Vikas Jain: For the first question, definitely, we have seen a market share which you have regained from which we were lost to our earlier competitors. So at this point of time, can you really say that you have regained almost all of the market share or some part of it is still left?

Gaurav Dua: Can you repeat the question? It's not so clear.

Vikas Jain: I was mentioning about the market share. So have you like reached -- regained the entire market share and reached to what we were at the pre-COVID times? Or probably some part of it is still more or less left to gain?

Gaurav Dua: Yes, definitely, what we have lost market share in last quarter 1 or quarter 2 last year, we are seeing the good momentum now, and we are gaining the market share back. So definitely, we will recover -- we have recovered. Now we'll recover more.

Vikas Jain: Sir, second question with respect to the demand. Well, Ramesh sir did mention that the demand environment continues to remain challenging. So probably, is it like the -- how would you -- some comments with respect to how the underlying market is growing, and what do you think it will take for the market to normalize in what time period according to your estimates?

Gaurav Dua: So actually, what we are hearing from the market that this Eid and this festive, there is a demand contraction happening in some parts of India. Rural India is still not able to cover up what it was contributing. But I think this is a temporary phenomenon. The inflation is now getting controlled, and we'll definitely see the uptake in coming quarters.

Vikas Jain: Understood. And sir, with respect to last -- again, like -- with respect to penetration in South India, so how can broadly break out revenues across on a geographic basis? What is the contribution from the all 4 North, West, East and South?

Gaurav Dua: So North contribute maximum to around 44%; followed by East, 22%; 20% is West and 15% is South. And we are maintaining this from last year, it is similar.

Vikas Jain: Sure. And with respect to more distributors adding in the South, is that on time? Or how many have you added this year probably?

Gaurav Dua: So it's not a great achievement in adding more distributors. We have maintained what we were having. So always, there will be a churn, new addition and some people leaving. So it's roughly around same.

Moderator: Next question comes from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas.

Kaustubh Pawaskar: So my question is on the price cut what we have taken to. So we have taken the price cut to reduce the pricing gap between the lower -- products which are around less than your price point products. But since you said that raw materials pricing had all corrected, have we seen any price reduction undertaken by those bottom of the pyramid players or lower price point players in the market? And because of which, again, the pricing difference what you were planning to reduce, it has again gone up. Any sense on that?

Ramesh Kumar Dua: No. Now our prices are very competitive and there is no room for further price cuts. And even on competition, while we are very competitive, there's no issue. I don't think that there's any room -- competitor can do much about it.

Kaustubh Pawaskar: Okay. So you don't see any further price that's happening in the market, right?

Ramesh Kumar Dua: No, no. Not so.

Kaustubh Pawaskar: Okay, okay. And sir, my second question, you have been consistently talking about expanding your capacity. So any guidance for capex going ahead and where you're planning to add capacity?

Ramesh Kumar Dua: So last year, whatever capacity we wanted to expand, that has been expanded.

Kaustubh Pawaskar: Okay. So there is not going to be...

Ramesh Kumar Dua: This year only, money is going on moulds, which are regular kind of things, some repair, moulds and backward integration, some capital asset generation, that's it.

Kaustubh Pawaskar: Okay. Any thoughts on your retail expansion front? By FY '23, how much was your reach and where you want to take it over the next 2 years?

Ramesh Kumar Dua: Earlier, we were maintaining around 400. Now, we are expanding this year.

Kaustubh Pawaskar: Can you provide some numbers on this, sir?

Ramesh Kumar Dua: Earlier, we were earning 400 outlets. Now we are planning to have 465 this year, 65 more additions.

Moderator: Next question comes from the line of Onkar Ghugardare from Shree Investments.

Onkar Ghugardare: My question was regarding -- it's from your investor presentation. So from FY '21 to FY '23, the average realization has gone up, but the number of pairs sold has decreased. So -- and in this quarter, the average realization has gone down significantly. But the number of pairs sold has been -- has increased dramatically. So like what's the management's view on this going forward? What would be the average cost of pairs or like how it is supposed to be in the future?

Ramesh Kumar Dua: Last year, we had done major correction in some of our categories like Hawaii, EVA. So that was the reason that the average selling price has gone down. And our volume has gone up. So that is why volume is going up because the average rate has gone down, only because of reduction in prices.

Onkar Ghugardare: So from here on, what we can expect, a stabilization here? Or like...

Ramesh Kumar Dua: Stabilization, by and large stabilization.

Onkar Ghugardare: Okay. You don't see any upside from here on?

Ramesh Kumar Dua: On the whole year side because in this quarter, mostly open footwear was in demand. Closed footwear counts in winter season. So overall in the year, again, you will see our last year average price of INR 160 will be back.

Onkar Ghugardare: Okay. So for the current financial year, you are expecting around INR160 per pair realization?

Ramesh Kumar Dua: Could be a little higher, also depending upon the shoes. If they're a little better, then things will be further. But around INR160, INR165, we can expect average.

Onkar Ghugardare: Okay. And what about the number of pairs? I mean, what could be the ballpark estimate for that?

Ramesh Kumar Dua: Definitely further. From the Last year, we expect double-digit growth in volume for this year.

Onkar Ghugardare: Okay. So around double-digit volume growth and around similar kind of average realization per pair or somewhat higher?

Ramesh Kumar Dua: Yes.

Onkar Ghugardare: Okay. As far as the ROE and ROC is concerned, what's your plan on next 2 - 3 years since it has come down dramatically, again, from FY '21 to FY '23?

Sushil Batra: Definitely, it will improve in coming years because last year was a tough year, profits were under pressure, and we did capex also. Next year, definitely, it will be much better than this FY '23. We can compare with FY '22, it was well.

Onkar Ghugardare: Because it has now come down to a single digit now. That's what -- that's why I'm asking.

Sushil Batra: Definitely. It should be at least between 15% to 20%, that is the intent and if things are well, so definitely, we'll achieve that.

Onkar Ghugardare: Okay. As far as the demand outlook is concerned, how are you seeing currently this shaping up?

Gaurav Dua: So currently, there is a little challenge in the market. There is a little demand contraction. But I think going forward, quarter 2, quarter 3 onwards, we will be better.

Onkar Ghugardare: Okay. In the current quarter, you are facing some demand issues?

Gaurav Dua: Yes. Because what we hearing from the market that's still rural is not back on track. It's going to take a little time.

Onkar Ghugardare: Okay. Any update on what could be the export percentage? And how -- is there any opportunity for Relaxo? Or like the home market is so large that everyone bothered to think about -- or bothered to think about the export market?

Ritesh Dua: Exports we have done around 4%, 4.5% of total revenue. And the way we are growing the last 2 - 3 years' time, we're giving -- getting double-digit growth. And we are -- in the future also, we are expecting the same. Growth will sustain.

Onkar Ghugardare: Okay. The margins or they are better than the home market or like how it is?

Ritesh Dua: It is like similar.

Onkar Ghugardare: Okay. And which are the major countries you are exporting to?

Ritesh Dua: We're exporting to all these like regions we are growing, like Gulf, Oceania region or even Africa. Even Central America is now showing back on track because during COVID time, that was badly affected. But that also is going up. So all markets are good.

Moderator: Next question comes from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: 11% realization drop Y-o-Y and quarter-on-quarter. How much is due to price cut and how much is due to mix change on new -- you introduced INR105 chappals also in the market last quarter. So can you give us that impact of mix process price cut?

Ramesh Kumar Dua: The lowest-priced article that you're talking, that is very minimal. It has no -- any significance. It is just entry barrier kind of an article. But otherwise, whatever price cuts we could do on account of fall in our raw material prices that we have done, and that's it. No more price cut. They're competitive and optimistic. Since they're growing, we are getting our market share back.

Ankit Kedia: And sir, in this 11% realization drop, can you quantify how much is due to mix and how much is due to price cut?

Ramesh Kumar Dua: Very complicated. We have 400 articles -- different articles, different pricing, different material consumption. So this is very difficult to quantify. I think article wise, everything are different.

Ankit Kedia: Sir, is it fair to assume that the price cut in open footwear could be higher than the price cut in closed footwear, if I could take on a blended basis?

Ramesh Kumar Dua: Yes. Because more polymers are required in open footwear, like the EVA or Hawaii slippers. But in sports shoe, upper is a different material, bottom is different material. So you're right. In case of sports shoes, price cut was not in there. It was almost same.

Ankit Kedia: Understood. So the reading is the 75% open footwear, we would have taken a double-digit price cut, while in closed footwear, which is around 25% - 30% of our business, we would have not tinkered with the prices much.

Ramesh Kumar Dua: No, not much.

Ankit Kedia: Understood. Sir, my second question is regarding promotions. We have seen higher promotional activity in the quarter in the market. Your competitors also in the month of January, February, March were very active by giving higher dealer commissions and even retailer commissions. So could you please elaborate, how was our promotion activity in the quarter? And going forward, how are you looking at your A&SP spend?

Gaurav Dua: If we maintain the A&SP spend -- in terms of schemes, we always -- we have -- like depends categories-to-category. Hawaii we have different types of schemes. And in shoe division, the reason we have different type of schemes. So seeing the demand, seeing the market scenario, seeing the pricing, we decide what kind of scheme we have to run. And we will see that in the competition also. So we don't benchmark exactly. We see what is our need and then we float the scheme. So we do not exceed -- the competition is giving more, let's give more. We have to analyze other situations also.

Ankit Kedia: Sure. And what is the A&P target for next year? And how much is it for this year, if you can quantify?

Gaurav Dua: So like if you talk about A&SP, we do around 8% to 9%, and we are maintaining this from last two, three years, and we will try to maintain a similar pattern in this coming year also. So this includes advertisement and promotion.

Ankit Kedia: And how much would be pure advertising?

Gaurav Dua: Roughly around 4.5%, 4%.

Ankit Kedia: Understood, sir. And sir, if you can just share one of your competitors in sports shoes is going very aggressive in EBOs. While if I look at your EBO count for last four years, has been pretty much flat at 390-odd EBOs. Why haven't you expanded EBOs in last four years? What is the risk you see in EBO expansion, which has -- while COVID years were also there in two years, but still, the expansion has not been compared to the market where we are seeing competitors expand EBOs. So if you can just talk a bit on that?

Ramesh Kumar Dua: No. You're right that the last two years, we didn't expand. We wanted to make it a little more efficient because we have to control our bottom line also and our articles, 75% are open footwear, 25% are sports shoes. The competition you are comparing with their only shoe outlets. So keeping in view, a balanced -- so our -- the strategy of our retail showroom is to showcase our products. Share of our retail outlet in the total scheme of things is around 8%.

Ankit Kedia: Right. And is it fair to assume the margins in EBOs would be just near double digit and lower than the company average?

Sushil Batra: Yes. It's lower than company average, but I think the high single-digit margin, we are in that category.

Ankit Kedia: Understood, sir. Thank you so much and all the best, sir.

Moderator: Thank you. Next question comes from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

Manish Poddar: Thanks for taking the call. So primarily three questions. One is, can you help me with primary and secondary numbers for this quarter?

Gaurav Dua: Can you repeat again, can't hear you?

Manish Poddar: Primary and secondary numbers? Because you are saying that Q1 is still soft, But your volume numbers, when I look at 5.2 versus 4.2 of last year or 4.1 of this quarter -- last quarter, they seem to be doing decent . So I'm just trying to understand what am I missing?

Sushil Batra: I think, it's volume growth. Are you referring the number which you have mentioned in investor presentation.

Manish Poddar: Yes. Volume growth.

Sushil Batra: We sold more open footwear in this quarter and lot of demand was there. So that's why these numbers are very high as compared to earlier quarters.

Manish Poddar: Okay. But wouldn't that be the case in the base quarter also?

Sushil Batra: This current quarter, Q1, you're talking about?

Manish Poddar: No. I'm just saying when I compare Q4 FY '22, where you sold 4.2 crores pairs versus 5.2 crores pairs in this quarter, the mix would be similar, right, this point which...

Ramesh Kumar Dua: Yes. Also, I think it will be sustained.

Gaurav Dua: Mix is also similar. You're right, yes.

Manish Poddar: So this growth, is it -- the channel was running low on Relaxo products given our pricing and now it has stabilized? Is that a function of that? Or is it a lot of customer uptake also happening?

Gaurav Dua: No. It is like what we lost market share in Q1, Q2, Q3. Now we are regaining that market share. So we're getting the space back at helves.

Manish Poddar: Okay, shelf space. Okay. And the second point is you are also doing pricing parity earlier. So where are we in the journey now? How is pricing across channels for you now?

Ramesh Kumar Dua: Now, we are very competitive. That is why we are able to get the commissions.

Manish Poddar: Okay. And just one last one, if you could give, let's say, for FY '23 as a whole, just a broad brand-wise split between Sparx, Flite PU, Flite EVA and Relaxo?

Ramesh Kumar Dua: Sparx is around 40%; Flite is around 38% and rest is our Bahamas and Relaxo brand.

Manish Poddar: So Sparx 40%, Flite is 28% and the rest is...

Ramesh Kumar Dua: Flite is 38%.

Manish Poddar: Okay. And how much would be Flite PU and EVA in that 38%?

Sushil Batra: So you were asking in split of EVA and PU, EVA was 15% and PU was 23%.

Ramesh Kumar Dua: Of the 38%, the breakup we are telling.

Manish Poddar: Just one last one. In Sparx, how much was closed in Sparx?

Ramesh Kumar Dua: Total closed has been around 25%.

Manish Poddar: 45% sir?

Gaurav Dua: I think the query is within Sparx you're asking?

Manish Poddar: Yes, within Sparx. So let's say, this INR2,800 crores you are saying, Sparx is roughly 40% of sales, roughly INR1,120 crores. How much is closed in that?

Gaurav Dua: 40% is closed and 60% is open in INR1,000 crores.

Manish Poddar: So it's roughly INR400 crores now.

Sushil Batra: Make it INR400 crores to INR450 crores.

Manish Poddar: Okay, fine. Thank you so much.

Moderator: Thank you. Next question comes from the line of Gaurang Kakkad from Haitong Securities. Please go ahead.

Gaurang Kakkad: Yes, hi, sir. Congrats on a good recovery in volumes as well as margins. I have two questions. Firstly, can you give the trend in terms of how the EVA prices are currently panning out? And what was the Q4 average pricing of EVA for you?

Ramesh Kumar Dua: Now EVA prices are stabilized. It's around INR170, that is what -- this is at what rate we consume, although market maybe at INR160 only. This -- the current -- the month of -- current quarter that is going on, it is around INR160, INR155. It keeps on changing a little bit here and there.

Gaurang Kakkad: Okay. And last quarter, in the base, this would be very high, right, closer to INR250, INR300, Q4 FY '22?

Ramesh Kumar Dua: It was INR250, quarter 1 -- for quarter 1 of this year -- of the past year in FY'22- '23.

Gaurang Kakkad: Right. And currently, the prices are stable at around INR155, INR160, which is what the Q4 pricing -- average pricing was.

Ramesh Kumar Dua: Correct.

Gaurang Kakkad: Okay. And secondly, on the EBO outlet strategy, so you have been at those 400 outlets for some time now. And it's heartening to see that there is some plans in terms of expanding that by around like 15% this year. Now is it that we've got the model right in terms of EBO and now we can target healthy margins in the business? Or is it more so given that EBOs are largely Sparx brand focused. So we want to target aggressively and go aggressively on the Sparx brand. So what's the strategy out here?

Ramesh Kumar Dua: Naturally, once we are having more efficiency in our stores, so we have started expanding this year, and we will continue the momentum the way things are.

Gaurang Kakkad: Okay. So like every year, you will have around 60 stores, 70 store expansion in the EBO going ahead?

Ramesh Kumar Dua: We hope so.

Gaurang Kakkad: Okay. And this high single-digit margin largely is sustainable or we can target to aim more closer to double-digit or even a bit higher once it's like fully scaled up and maybe two years, three years down the line?

Ramesh Kumar Dua: Yes, naturally. Down the line, things will improve further. But we have to be always cautious keeping in view competition, having a competitive pricing. But things will improve because once the sales improve, then efficiencies improve, overheads start getting low. So ultimately, your bottom line improves.

Gaurang Kakkad: Right. Yes. That’s it from me. Thank you.

Moderator: Thank you. Next question comes from the line of Jasdeep Walia from Clockvine Capital. Please go ahead.

Jasdeep Walia: So my first question is just a clarification on sales of Sparx brand in FY '23. Now last year, you had said in FY '22 fourth quarter call that Sparx has 37.5% of overall sales, which makes the sales of Sparx INR 1,000 crores in FY '22. And this year, in the opening comment, you said it has grown 25%. So Sparx brand sales should be INR1,250 crores this year. And in your -- in one of the conversations you had with one of the people who asked questions, you said Sparx brand sales is only INR1,100 crores. So what is the correct number for sales of Sparx brand in FY '23?

Sushil Batra: No, no, we have not told it's 25% growth. Where will you -- from where you got it?

Gaurav Dua: 25% growth, what we said was sports shoes, only sports shoes, not Sparx. It is sports shoes.

Sushil Batra: Sparx brand, it covers so many other things, sandals and open footwear also. And that number is related to only shoes, closed footwear.

Jasdeep Walia: Okay. And so what has been the overall growth in Sparx brand in FY '23?

Sushil Batra: Overall growth is around 10% to 12%.

Gaurav Dua: 13% is the overall growth of Sparx category, all put together sandals, shoe, SFG, Schoolmate everything under the Sparx brand name.

Jasdeep Walia: Got it. And sir, I'm assuming fourth quarter is an off-season for Sparx, right? So most of your sales in fourth quarter would be just open footwear sales, right?

Sushil Batra: Correct.

Jasdeep Walia: So fourth quarter is what percentage of overall sales of Sparx in a typical year?

Gaurav Dua: If we do check, 35%.

Jasdeep Walia: So 35% of Q4 sales is Sparx brand?

Sushil Batra: Correct. Yes.

Jasdeep Walia: Got it, sir. Got it. And sir, I have a query on your EBOs. So you mentioned that competitors opened more EBOs because they open EBOs only for their shoe brand. So why don't you do the same? Why don't you open only Sparx EBOs? So then you would have the same economics of your competition, right? Then the economics would be good.

Ramesh Kumar Dua: Thanks for suggestion. We'll consider it.

Jasdeep Walia: Got it. And in the current 400 EBOs, there are no Sparx branded EBOs, right, only Sparx branded EBOs?

Ramesh Kumar Dua: No. So far, no.

Jasdeep Walia: Got it. Sir, my last question, sir, what is the composition of your exports? Is it only open footwear, or is it Sparx band?

Ritesh Dua: No. Actually, it is more of open footwear. I would say, around 60% of our international business comes from Hawaii, open footwear. As you say, basic like Bahamas and basic Relaxo brands put together.

Jasdeep Walia: Thank you, sir. That's all from my side.

Moderator: Thank you. Next question comes from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: So my first question is with regards to the multiple price cuts over the last two, three quarters that we have seen. So has it led to some kind of multiple price points at the distributor end? And could this possibly lead to a change in the down stocking or some kind of inventory level change at the distributor level?

Gaurav Dua: You're correct. Like we have done multiple rounds of price cuts. So they had different types of MRPs, distributors and retailers. But now all of them have been cleared. It took three to six months to clear all the old MRP products. Now currently, as for demand, and we have the current prices available in the market, and there's no problem of stocking with the distributors. Currently, they are running short because of the season. This is the peak season.

Gaurav Jogani: Okay. And sir, yes, that was my follow-up question actually. Because of this clearance of the old prices that you have taken in the channel over the past three to six months, so could there be a case wherein because of this activity that you have taken in the past, the base for FY '24 becomes weaker and because of which we could see a higher volume growth for FY '24 because of that?

Gaurav Dua: Yes, yes, you will definitely see that.

Gaurav Jogani: Okay. So would it be prudent to expect at least 15% to 20% kind of a volume growth for FY '24 in that case?

Gaurav Dua: We're targeting that currently.

Sushil Batra: Yes. We're looking to...

Gaurav Dua: On double-digit growth in volume.

Gaurav Jogani: Okay, sure. And sir, my next question is with regards to, again, on the pricing part, while we see prior to the increase in the GST from 5% to 12% in products below INR1,000. And even if you compare it versus the pre-GST era, I think the taxation on this segment is now higher. So how does it -- how is it impacting demand at the lower end? And do you see, do you think there will be a permanent shift from some of these lower-end footwear to maybe some price -- high-priced footwear that you see in the future?

Gaurav Dua: It's been one year since that tax has gone up from 5% to 12% and market has adjusted to the new price structure of 12%. And now I think market is comfortable with the new pricing structure in the GST structure. And we do not see any new player entering because of this or unorganised getting higher. We have taken the correction in prices and we have regained our shelf space.

Ramesh Kumar Dua: Things are fairly stabilized now.

Gaurav Jogani: Okay. Sure. And sir, the third and the last question is with regards to the overall the demand patterns that you see in this category, because we are seeing a higher growth in the Athleisure segment versus -- in terms of the open footwear. So what kind of strategy the company is doing apart from these Sparx brand that it is running? Is there another sub-brand that the company is trying to experiment to introduce more designs or it will be only basically done through the Sparx brand itself?

Ramesh Kumar Dua: No, no. Currently, no more brand. We are focusing on these brands and accordingly, our price segmentation has taken place. So there's no plan of, I think, any new branded category.

Gaurav Jogani: Okay. And sir, in terms of the margin structure, if you see there is a lot of volatility in the margins over the last 3 years if you see, because on peak level, on an average, we have gone to 20% kind of EBITDA margins. And even in the bottom, we have touched 10% kind of EBITDA margins. So as per you, what kind of margins are sustainable in the business model that you operate, which is at a distributor like model? So what kind of margins should have one built at a steady-state case for a business like Relaxo?

Ramesh Kumar Dua: Currently, we are, I think, aiming 15 %, 16% margin, so that thing gets fairly stabilized. We remain competitive. And then better efficiency may add further. Let us wait-and-see how the things pan out.

Gaurav Jogani: Sir, my question was more not on the near term, but more broader and a long-term question. Is this a business wherein we can target EBITDA margins also near 20%? And the reason I'm asking this question is because ours is a business where we're largely focus on price where the customer is more price conscious. So if we try to take the margins a bit higher, is there a case where you can attract more competition at that price points?

Ramesh Kumar Dua: Definitely we have to be very cautious on this count. We should not just in an ambition to raise EBITDA and then we start losing market share. So -- but we have to always watch all the conditions, how is the market scenario, how is our efficiency level, then we have to improve our back-end efficiencies and become more competitive. At the same time, EBITDA can also improve in that case. So always you have to be agile and watchful of all those conditions to improve the things.**Gaurav Jogani:** So if I summarize or understand it better, I think you would like to keep your margin in a tight range wherein you remain competitive versus the competitors, but at the same time, also drive profitability for the business.

Ramesh Kumar Dua: Yes.

Moderator: Next question comes from the line of Sachee Trivedi from Trident Capital.

Sachee Trivedi: My question is actually, I would say, my first point is almost a complaint, if you will. We are almost a $2.5 billion to $3 billion market cap company. But our engagement with the investors is extremely limited. And we do an earnings call every other quarter, and any attempt to get in touch with the management is basically we don't even get a response. Could we improve this, please?

Ramesh Kumar Dua: Yes. We can consider this.

Sachee Trivedi: So basically, if I reach out, then at least will I get a response back?

Ramesh Kumar Dua: Yes.

Sushil Batra: Yes, you will get the response. We have IR agency also. You can connect them or you can connect our company secretary. So definitely, they will respond.

Sachee Trivedi: Okay. Fine. I'll try again. My second question is, a few years ago, I had heard that you are the contract manufacturer for Nike shoes in India. Is that still true? And could you talk about that?

Ramesh Kumar Dua: That was long back. It was more than 40 years back when we were doing the contract manufacturing for them.

Sachee Trivedi: Okay. Okay. Fine. And then my final question is in terms of price margin and -- I mean, we are told that you can either fix the price or fix the margin. Which one of those do you fix? Or do you fix both and then work on the cost?

Ramesh Kumar Dua: So we have to be mindful of both the things. We have to fix our margin also and we have to aim for our market penetration and turnover also. Both the things, we have to balance out. We can't just look at one thing.

Moderator: Next question comes from the line of Akhil Parekh from Centrum Broking.

Akhil Parekh: Just continuing on the previous participant's question. Sir, how should we look at Relaxo, right? I mean, pricing has been an issue for us in the past as well in FY '18, '19, and one of the larger peers entered into our territory and started undercutting on prices. We couldn't increase our ASP. Like if I look at '17, '18 and '19, the ASPs were largely practiced at around about INR125. And in '23, again, we saw similar things. So should we consider Relaxo as more of a volume plus operating leverage story and less of a branding story? Because it looks like despite being a large footwear brand, we do not hold the pricing power. Is that understanding correct?

Ramesh Kumar Dua: No, no. Last year, it was a totally different scenario because of the raw material volatility, not a because of any brand problem because when the material that we've got at INR 300, and then it falls to INR 150 and local market was able to get at lower. So they got for some time, some edge, I mean, competitive edge. But now things have stabilized.

Akhil Parekh: That's correct. But we had to roll back the prices, right, at least in open footwear, which is 75% of our portfolio?

Ramesh Kumar Dua: Because the cost of raw materials which was just too much. That was the reason.

Akhil Parekh: Okay. Second question is on the price infiltration by the wholesaler. We did get some feedback in the market. The wholesalers were kind of leading to some price infiltration for Relaxo. And we were taking some corrective actions in terms of installing software at the distributor level. Has -- any thoughts on it? And have we done the implementation on the IT part?

Gaurav Dua: We have implemented DMS (Distributor Management System). Right now, it is the second version. First version was implemented 3 years back. And the latest version 2.0 is -- out of 700 distributors, 650 distributors, we have implemented 100. So it is a continuous process. We are going to increase the implementation, and we are taking steps to control the infiltration, both infiltration by the distributors or wholesalers. It's a continuous process. It cannot stop. We have to really -- the help of technology control this.

Akhil Parekh: But any time line or deadline we have like where we will be done with this complete installation across all 650 distributors?

Sushil Batra: So there is any question from Akhil or…

Akhil Parekh: Yes, yes. So my question was on the deadline, what kind of a deadline we are planning to install this DMS 2.0 across all our 650 distributors?

Gaurav Dua: By this year end, we'll complete this full implementation of DMS 2.0. And whatever complaints we get from distributor or wholesalers, we are taking appropriate actions for infiltration.

Akhil Parekh: This should kind of create price parity for the wholesaler and the distributor, right, because of this?

Gaurav Dua: Correct, correct.

Akhil Parekh: Okay. And last on the capacity and capex guidance, if you can. What capacity do you stand at? And for FY '24, what kind of capex we are envisioning? That's all from me.

Sushil Batra: We already have good capacity. So last year, we spent a lot of money on the capacity enhancement. So this year, we don't have any big plan, but definitely, routine capex, molds and some repairs and some infrastructure creation that will be there. But already, we have good capacity to capture the demand of next 2 years at least.

Akhil Parekh: Yes. In absolute term, like where do we stand in capacity?

Sushil Batra: Absolute terms, we have a capacity of 10 lakh per year. And last year being a tough year, so that utilization was around 50% - 55% at company level.

Moderator: Next question comes from the line of Prerna. Please go ahead.

Prerna Jhunjhunwala: So just wanted to understand the long-term vision, where do we want to see ourselves in the closed footwear category and in the next 5 years. So how much should be the sports footwear as a percentage of revenue share?

Ramesh Kumar Dua: I think we are thinking of having at least double-digit growth for the next 5 years. And overall share of shoe business will definitely increase because of the -- the way we see things, growing use of athleisure. But it would be maybe 30% of share of shoes in our scheme of things. But otherwise, also -- other segments are also important, and they are also growing.

Prerna Jhunjhunwala: Okay. So sir, in -- if we try to understand the demand scenario in both open and closed footwear, how would you see whether it is robust? Or it is still muted? Some color on demand outlook that you are witnessing in different regions?

Ramesh Kumar Dua: We have to keep our products relevant, competitive and value for money to the customer, then things will grow. Any category if become uncompetitive, demand become muted and then it goes negative. So whatever categories we are going to win, we have to be watchful of these things.

Prerna Jhunjhunwala: So currently, you are saying that we are -- our price points are most -- are all in place to get double-digit growth.

Ramesh Kumar Dua: Yes.

Prerna Jhunjhunwala: Okay. And sir, what was your capacity utilization in the closed footwear category?

Gaurav Dua: Can you repeat the question?

Prerna Jhunjhunwala: What will be your capacity utilization in the closed footwear capacity?

Ramesh Kumar Dua: Around 60%.

Moderator: Next question comes from the line of Mithun Soni from GeeCee Investment. Please go ahead.

Mithun Soni: Yes. I have a couple of questions. So you indicated we have three brands, and there is a pricing pressure which we may face at the lower end of the brand like Relaxo, basic chappals. How would you say our pricing -- we will have some -- relatively, we will have a stronger pricing power in terms of -- to get the pricing from the customer for a brand like Sparx or for Hawaii or Bahamas?

Ramesh Kumar Dua: Because our brands are quite strong, even the old brand like Relaxo, as old as 40 years old. But at the same time, we have to be mindful that market is competitive and our pricing has to be competitive. We have to serve quality footwear at affordable price, then only you can sell large volumes of product. And that is what we are following.

Mithun Soni: Okay. So can you share like for the open footwear, what would be the realization for the, say, slipper for -- like how would you -- for us, what will be the average realization for open footwear for Sparx versus for Relaxo? Our realization...

Ramesh Kumar Dua: No, no. You are comparing Sparx slippers with Relaxo slippers. They are totally different technology, different things. You can't compare those slippers with this. I think you want to know the price, Relaxo, it will be around INR 100. Do you want to know slippers?

Mithun Soni: Yes, only open footwear.

Ramesh Kumar Dua: Open footwear.

Mithun Soni: The idea is that -- what I'm trying to say is that it's a more aspirational product. So coming to the next question is that how do we see -- like Sparx is a much more aspirational product. So what is our now a plan for Sparx over the next 4 to 5 years? One of the participants also asked that we have 400 EBOs. Is there a possibility or a potential that we can rebrand those stores as a Sparx stores and to really get the mileage for the Sparx as a brand?

Ramesh Kumar Dua: No. Our strategy is not only selling Sparx on those outlets. Our strategy is to showcase all our other articles also. Sparx is one of the categories. We may consider having only Sparx for a few of the stores, not all because we have to sell or showcase all our categories across whether it's our Flite brand, Bahamas brand, Relaxo brand. That's it.

Mithun Soni: Okay. And what is your plan for the Sparx -- the entire Sparx -- what is the sort of growth plan we are looking at...

Ramesh Kumar Dua: No. We're still under discussion. When we will come out with it, you will automatically know. At that moment, we can't comment.

Moderator: Thank you. Next question comes from the line of Jasmine Surana from VT Capital. Please go ahead.

Jasmine Surana: I had a quick question on like e-commerce channel. What is the contribution you're getting from e-commerce channel? And the follow-up on that would be, what is our next strategy for D2C channel?

Gaurav Dua: So currently, we are having 11% contribution coming from online channels. And what is your second question?

Jasmine Surana: Is there any specific strategy that we're looking at to scale it up? Or what is the trend going to be like in the coming year?

Gaurav Dua: Yes. Strategy, we are going to have new channel partners, or you can say, the platforms. We are going to add new platforms. So currently, we were with -- sorry, Myntra, Flipkart and Amazon, We're going to add AJIO and other -- Tata CLiQ and other platforms also. So it's a continuous process of growing the market. We will be selling as brand reseller also on these platforms.

Jasmine Surana: Okay. And another question on the exporting country. You said that you're exporting to the Gulf, Asian countries, Africa and Central America. Would it be possible to get a number on the contribution from each of the countries that we are exporting to?

Ritesh Dua: Country-wise no, right now because they are -- we are exporting to more than 30 countries.

Jasmine Surana: Okay. No, so the major ones that we're exporting to, would it be possible to get a number?

Ritesh Dua: So we can tell you the region wise. Gulf would be around 30% - 35%, then we have Central America will be around -- maybe around 5% to 6%, then Africa would be around 35% - 40% again. Then we have Oceania, which is the major chunk and rest of the business.

Jasmine Surana: Okay. And so I just wanted to understand since we've seen so much of volatility in the EVA prices in the last year, are there any plans for that to be hedged against those prices in the coming years or so? Because we saw the prices going down to INR 180. And as sir mentioned again, the prices have come back to INR 250, I believe. So are we -- is there any plan to be hedged against those?

Ramesh Kumar Dua: No, no. Raw material materials prices are fairly stable. So things are quite stable and there is nothing to worry at the moment. I don't know what is your concern.

Moderator: Next question comes from the line of Abhishek Gadve, an individual investor. Please go ahead.

Abhishek Gadve: I have a couple of questions. The first question is, is it safe to say that we have regained all our lost market share in the previous year and previous quarter -- this quarter? Or is it -- there is some still left to gain back from the unorganized sector?

Gaurav Dua: Almost we have covered the loss what we -- occurred in Q1 and Q2, almost. But still, we have to gain back.

Ramesh Kumar Dua: Possibly.

Gaurav Dua: You can expect it to go up.

Ramesh Kumar Dua: Yes, yes.

Abhishek Gadve: Right. And my next question is on the EVA pricing, the EVA prices. Last time -- in the last quarter, I remember when I asked, they were around INR 200 per kg, I think, if I remember correctly. What are the prices looking right now? And do we expect them to fall even further going forward? And -- or do we expect them to rise back to INR 200 levels? Or do we see that there is stabilization now at least for the next couple of quarters?

Ramesh Kumar Dua: No, it is now around INR160, sometimes we get that INR155. So that's the way we are getting in this range INR150 to INR160.

Abhishek Gadve: Right. And we don't see the prices having any volatile moves going forward? They're more or less stable now.

Ramesh Kumar Dua: More or less stable.

Abhishek Gadve: Okay. And my last question is on the volume growth, what is the volume growth you are targeting for next year, FY '24?

Ramesh Kumar Dua: Double-digit.

Abhishek Gadve: All right. When you say double digit, is it like lower teens, like around 11%, 12% or high teens, around 19%...

Ramesh Kumar Dua: It depends upon the basic article. It could be around 15%. But then there are other article like sports shoes also, that also we have to see. The average around, it could be a double digit is the minimum, but we aim to be higher.

Abhishek Gadve: Okay. So it's safe to assume 15%.

Ramesh Kumar Dua: Yes.

Moderator: Next question comes from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir, the government is -- from 1st of July talking of introducing BIS in footwear. A lot of your competition is from unorganized market, which impacted your demand now. So with BIS been implementing from 1st of July, how do you see unorganized markets play?

And do you think market share's regain for organized players like you will be higher in open footwear, while imports could also be tough in the sports footwear category from 1st of July? There could be inventory disruptions for importers. And in Sparx also, we could see some market share gains?

Ramesh Kumar Dua: No. For the time being, the quality control standard certification has been laid out. And the real possibility that this date is going to be extended because even government is not ready. And meanwhile, a lot of clarifications are required from our side, and we have raised the queries to BIS. So accordingly -- but we are internally -- whatever quality specification they have laid down, whatever it is in the making, we are already meeting those standards. Nothing to worry.

Ankit Kedia: So I agree, nothing to worry, but will you gain share because your competitors may not be ready and you might be ready? So it will be beneficial for you. How do you think if those standards are laid out immediately and you can gain share?

Ramesh Kumar Dua: No, no. Because there is a small exemption for micro or small, and the companies whose turnover is up to INR50 crores, there will be exemption. So they will have their still space in the market.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. 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. Thank you.

Moderator: Thank you. On behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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