May 17, 2019

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Sub: Conference call Transcript

Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q4 and FY 2019 results which was hosted by the company on May 13, 2019 at 3.30 p.m(IST).

The same is for your information and record.

Thanking You,

For **Relaxo Footwears Limited**

Relaxo Footwears Limited Delhi

Vikas Kumar Tak
Company Secretary

"Relaxo Footwears Limited
Q4 & FY2019 Earnings Conference Call"

May 13, 2019

MANAGEMENT OF RELAXO FOOTWEARS LIMITED (RELAXO)

MR. RAMESH KUMAR DUA – MANAGING DIRECTOR

MR. RITESH DUA, EXECUTIVE VICE PRESIDENT (FINANCE)

MR. GAURAV DUA, EXECUTIVE VICE PRESIDENT - MARKETING

MR. SUSHIL BATRA – CHIEF FINANCIAL OFFICER

MR. VIKAS TAK – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Relaxo Footwears Limited Q4 and FY2019 Earnings Conference Call hosted by SBICAP 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 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. Ayush Bagla of SBICAP Securities Limited. Thank you and over to you Sir!

Ayush Bagla: Thank you Vikram. Good afternoon everyone and welcome to the Q4 FY2019 Earnings Conference Call of Relaxo Footwears Limited. I would like to thank the management for giving SBICAP securities opportunity to host the first ever call for Relaxo. I have with me Mr. Lakshminarayana Ganti, Head of the SBICAP Securities. From the management team, we have today Mr. Ramesh Kumar Dua, MD, Mr. Ritesh Dua, EVP (Finance), Mr. Gaurav Dua, EVP (Marketing), Mr. Sushil Batra, CFO, and Mr. Vikas Tak, Company Secretary. We will begin the call with the opening remarks on the management and then move to Q&A.

Sushil Batra: Good afternoon. I am Sushil Batra from Relaxo. I will just start with the Q4 and FY2019 financial performance, which we have already circulated. Highlights of this Q4, revenues increased by 16% to Rs. 636 Crores as compared to last year Rs. 550 Crores. This quarter growth has been mainly driven by increase in volume. EBITDA was at Rs. 95 Crores as against last year Rs. 98 Crores, so corresponding period of the previous year due to higher raw material prices, EBITDA margin in this quarter was 15%.

Financial cost stood at Rs. 1.73 Crores. There is a decrease of 29% as compared to last year quarter. PAT was at Rs. 54 Crores as compared to last year quarter Rs. 53 Crores. PAT margin in this quarter was 8.5%.

Full year highlights revenue was up by 18% to Rs. 2,292 Crores as compared to last year Rs. 1,949 Crores. EBITDA was up by 7% to Rs. 324 Crores as compared to last year Rs. 302 Crores and full year EBITDA margin close at 14.1%.

PAT was up by 9% to Rs. 175 Crores as against last year Rs. 161 Crores and margin at 7.6%. Overall our strong execution delivered a good quarter ended the fiscal on a strong note on growth in revenue mainly driven by volume. During the year, the margins were under pressure due to higher raw material prices; however, the impact was contained as we continued to focus on operational efficiency and streamlining product offering in the market.

Way forward the imported raw material prices are softening and expected to continue benign. We will continue to adopt strategic initiative to capture expanding market opportunity in and explore geography and drive growth across all segments of our business.

We remain committed to strengthening our brand with continuous innovation and accurately assessing customer preference and price positioning, creating, enduring value for our customer and shareholder is the key objective of the business. Now, We can start with question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question to assemble. We have our question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Thanks for taking my questions. Just wanted to get a sense from the gross margin side so on Y-o-Y basis I can see that your gross margins were still flat. Of course, there is the base effect to it, but so my question is that the gross margin side when can we start seeing an uptick in the gross margins? Secondly, on the other expenditure as well as on the employee cost side, we saw a significant jump of almost about 21% and almost 26% in the quarter. If you would just give us a sense to what drove the increase in the cost from the employee side and the other expenditure side?

Sushil Batra: Ritesh, gross margin was under pressure majorly due to raw material in this quarter, if you compare it with the last year quarter and the change in product mix was another reason of this change in the gross margin. Regarding employee cost, it is a normal inflation and some positions we created in the system that added to cost but overall it was due to new capacities and additions in the selling department that has increased the cost but it is majorly due to normal inflation.

Ritesh Gupta: And Sir on the other expense side because even on a sequential basis, we saw meaningful jump in other expenses side, so what drove that and is there one-off or something in that?

Sushil Batra: Other expenses majorly include handling and processing charges which is labour cost on contractual basis. Some categories are growing which require more job work and that is also included in 'other expenses'.

Ritesh Gupta: Sir, probably from a next year point of view in terms of gross margins, what kind of improvement do you see and probably on the EBITDA margin if any guidance which is there?

Sushil Batra: Guidance generally we cannot reveal much, but as mentioned, raw material prices are expected to soften, so we can hope things should be better.

Ritesh Gupta: On volume growth rate side, do you continue to remain volume focused because you were supposed to take some price hikes to also counter some of the raw material pressures that you have incurred, so is there any thinking in terms of volume growth as well as within the pricing growth side down from the philosophy point of view?

Ramesh Kumar Dua: This year things will be little better, because raw material prices are softening and last year we had to take some price cuts in certain categories of the footwear because of GST impact. This year, raw material prices are on comfortable side and we have revised prices of certain categories, which will improve the things.

Ritesh Gupta: But will you take some more quarters to kind of start seeing because you will have certain inventories which will be there with you, so would it take of few quarters for the gross margins to start normalizing or would it be like the fourth quarter was probably the end of the pain?

Sushil Batra: Every quarter we review things keeping in view the raw material prices, other expenses and market conditions, so quarter-to-quarter we keep on reviewing and you will see in the coming quarter things will only improve.

Ritesh Gupta: Thank you so much for the answers.

Moderator: Thank you. We have next question from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.

Sangeeta Tripathi: Thanks for taking my question. Congratulation on good set of volumes, 14% volume growth is quite an achievable number, good number. Again, my question is as far as the strategy is concerned, what I understand as this year, this strategy was clearly driving volumes, sales growth came despite increase in the raw material prices, we were like, we chose growth as compared to the maintaining the margins and other things and now we are seeing that raw material prices have started softening, so can you give first and foremost some sense on what kind of softening we have seen and trend on the EVA pricing front that is part one of the question? Second part is, do we continue to still, as Mr. Dua said, that we have also taken certain price cuts also in this particular year despite raw material prices increasing, so are we going to increase prices, what is our outlook on that particular front?

Sushil Batra: We have taken certain corrective measures to improve our profitability, so last year because of keeping ourselves competitive in the market, we had to take certain decisions, but now raw material prices are also softening and then at the same time we have taken certain price revision measures also. So, now things will improve.

Sangeeta Tripathi: What would have been the price correction as you said that prices have started softening, so on your Y-o-Y basis what kind of a decline or stability we have seen, if you can give some understanding with respect to the EVA prices?

Sushil Batra: Sangeeta we do not see much change in EVA prices. I think last year was also normal, but we are seeing good decrease in PU material that is substantial part of our raw material and regarding EVA, we can see if dollar situation improves, then definitely some advantage will come, as we have seen that last year dollar was abnormally high, so EVA will be directly linked with the dollar and PU prices are decreasing with the base price as well as dollar advantage will come in the system.

Sangeeta Tripathi: What kind of a decline we have seen in the PU prices, which forms a substantial part of our raw material cost?

Sushil Batra: This is you can say around 6%-8% prices would come down.

Sangeeta Tripathi: Going forward, are we looking for some amount of price increase because what I believe that in the overall portfolio still the prices would be little higher, definitely some stability is there as you rightly said, but still are we like looking at increasing the prices and one full year, one and half years we have not done any price increase, per se?

Gaurav Dua: Already, we have taken some corrective measures in the last quarter around March end. As a policy, we keep on reviewing on quarter-to-quarter basis and accordingly we take decisions based on how market has behaved, raw material pricing etc.

Moderato: Thank you. We have a next question from the line of Manasvi Shah from ICICI Prudential AMC. Please go ahead.

Manasvi Shah: Thanks for taking my question. My first question is what is the mix between Sparx, Flite and Hawaii now in terms of value and volumes?

Sushil Batra: For Competitive reason we cannot give you exact ratios of these divisions, but all are performing well and growing. We can only tell that Sparx and Flite divisions are growing faster than other divisions.

Manasvi Shah: Sir in your opening comments, you mentioned that the gross margin was also under pressure because of change in product mix, so does that actually it is Hawaii that is done or Relaxo that is done better than the other two?

Ramesh Kumar Dua: We have to see business as a whole. In one of the division, we took little competitive pricing that was in Hawaii division, others we have continued with the same.

Manasvi Shah: You maintained that the other two division Flite and Sparx are actually doing better than Relaxo in terms of overall growth?

Ramesh Kumar Dua: Absolutely. They are growing faster. It does not mean that Hawaii division is not doing better. They are doing very good and better than Hawaii.

Manasvi Shah: So incrementally given that these are higher realization products both Flite and Sparx does mean that gross profits, actually gross margin is headed towards higher level going ahead, I am talking about it from longer term perspective, some 3-5 year perspective?

Sushil Batra: When we talked about the Flite, there are two sub categories, one is Flite EVA and another one is the Flite PU. PU we are very aggressive and we took some call in that category that is why we are getting excellent market share. So, margin in this category is little lower than the other category, but that is the fastest growing category. This year material prices will be eased out in this category and it will fall with our company's overall margin percentage, that is what we are expecting.

Manasvi Shah: The inventory days have actually risen during the year, any particular reason for this?

Ramesh Kumar Dua: Certain raw material side, it was a conscious call to have more material, because to have an opportunistic buying you have to find certain things available at a better price so some inventory we have taken consciously.

Manasvi Shah: What is the capex guidance for FY2020 and FY2021?

Sushil Batra: Capex will be on same line, as we have been doing in the last four-five years, quantum will be around 80 Cr in 2019-2020 and 2020-2021.

Manasvi Shah: That’s it from my side. Thank you.

Moderator: Thank you. We will have a next question from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Good afternoon Sir. My question is in terms of penetration level, would you be able to highlight how deeply penetrated we are in India given that we have grown sustainably at 15% at topline level, how should we see our company growing for the next 3-5 years?

Gaurav Dua: I will just give you a brief. We have Four major brands Flite, Sparx, Bahamas and Hawaii. So, each brand has different market, so we are currently as a company very strong in north and east part of India and for Sparx brand we are doing very well in south and west. So, every year we try to acquire new customers in the new territories, so our efforts are still on for covering the west market for other two brands that is Bahamas and Flite and to spread Sparx in East India also. This is an ongoing process which takes time and we are taking step every year to improve our distribution in these states.

Akhil Parekh: Are we confident, we should be able to continue or sustain, the kind of growth we have seen for the last five years?

Gaurav Dua: Definitely, we are hopeful that India is a huge market and the population size is also huge and we have huge potential to cover unexplored territories.

Akhil Parekh: Have you seen a benefit because of the GST given that the unorganized I believe is almost 70% in footwear, have you seen any kind of shift from unorganized to organized for the last two years?

Gaurav Dua: Yes, we are seeing the trends happening in the shelves of the retailers in the market. The shift what we can see is that many multiple unorganized brands are getting lower and organized brands are taking more shelf space, this is the only medium we can check that how the industry is moving. Otherwise, everybody is saying that unorganized is going down and organized is going up.

Akhil Parekh: Last question in terms of our focus is going to be on the retail stores as well and I think I believe we are at around 330-odd stores, so with increasing number of retail stores, obviously our rental expenses will go up and might see some pressure on EBITDA level or the pressure on EBITDA will get offset by the higher ASP product which we sell it through our retail outage?

Ramesh Kumar Dua: The growth in retail is not that aggressive. It is just in line with the way our other businesses are growing, so the ratio of the sale will remain same what it is now. So, it will not have any impact on that because of retail part of it.

Akhil Parekh: In retail, we are at how much Sir, percentage of the total sales?

Ramesh Kumar Dua: The total business of retail is not that substantial. I do not think it will impact the overall EBITDA of the company.

Akhil Parekh: If I understand correctly last few years, we have been at around 10% to 12%, retail sales?

Sushil Batra : I think it is around 7% and it is slowly increasing, but it is in the same growth range of Company.

Akhil Parekh: So, 95% is wholesale and 5% is retail right.

Ramesh Kumar Dua: No, it is not like that. We are exporting, online sales, so far as retail is concerned, retail is around that is what Mr. Batra has told you around 7%.

Akhil Parekh: Got it Sir. I will get back in queue. Thank you so much.

Moderator: Thank you. We have the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Good afternoon Sir. Thanks for giving me the opportunity. What is your current distribution reach? I mean, how many stores your production is currently available in terms MBOs or the stores currently available in India?

Gaurav Dua: See what we have done is we have geotagged the relevant outlets, total number of footwear outlets are more than a lakh, but relevant to Relaxo are around 75000 and our availability is on about 45000 to 50000 outlets, the MBOs is what I am talking about.

Kaustubh Pawaskar: How you are planning to increase as your planning to get into more of the territories, company has any structure plan that our retail reach will be growing by 10%-12% per annum?

Gaurav Dua: It depends upon many factors. It depends upon the sales team, advertisement, product portfolio. So, a lot of things are required to increase. What we are saying that in some states in India we are very strong and in some we are weak. So in the weaker markets, the approach is different, and how to enter the market, the strategy is different.

Kaustubh Pawaskar: FY2019, we have seen revenue growth about 17%-18% and large part of this growth is, volume led growth and now for the last two quarters we have been seeing slow down that is what most of the consumer goods companies have been stated that they are seeing slow down especially in the rural market, so in that context what is your view on the footwear market. Are we seeing some kind of slowdown in footwear segment as well?

Gaurav Dua: We have not noticed this kind of a slow down in rural market, what FMCGs are reporting, there is a slight cash crunch in the market, may be because of election or something like that. Otherwise, we have not noticed this kind of a slow down.

Kaustubh Pawaskar: So on a sustainable basis, is double-digit kind of volume growth, mid-teens kind of volume growth, can we see mid-teen kind of volume growth for FY2020?

Ramesh Kumar Dua: In value term, we can definitely say the double-digit growth is possible, high volume growth is really tough. So value wise yes we are hopeful that we have grown in past five years, we will maintain that level.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. We have next question from the line of Ritesh Badjatya from AMSEC. Please go ahead.

Ritesh Badjatya: Thank you for the opportunity. Sir, distribution strategy we have changed from category led to geography led, so what is the rationale behind it and how it has yielded the results in the past two or three years after changing this as strategy? First thing. Second question is that on the plans like as of now in our kitty we have four, five brands like Flite, Hawaii, Sparx and Bahamas so apart from that do we have any bigger brands on which we are concentrating to deliver the high double-digit kind of the growth which we have delivered in the last five to eight years?

Gaurav Dua: I think we are pan India Company. We are growing in every geography. We have entered in South with the Sparx brand and that strategy is working well. Otherwise we are pan India and we are present everywhere.

Ramesh Kumar Dua: All brands are growing. As I told earlier Sparx and Flite are growing faster than other brands.

Ritesh Badjatya: So, we do have any plans to add some more brands in our kitty in the next three to four years?

Ramesh Kumar Dua: No, we are focusing on these brands only.

Ritesh Badjatya: Thank you Sir. That is all.

Moderator: Thank you Sir. We have the next question from the line of Sumant Kumar from Motilal Oswal Financial Services. Please go ahead.

Sumant Kumar: In the last analyst meet in Q4 FY2018, you mentioned that the plant is running at 70% utilization, at the current capacity of 7-lakhs per day, so what is the utilization for FY2019 and what is the capacity in FY2019?

Ramesh Kumar Dua: We have been utilizing the plant capacity in the range of 70% plus. Capacity numbers we cannot share, but yes capacity utilization will improve in coming months.

Sumant Kumar: In that range only.

Ramesh Kumar Dua: Yes, it will be in that range.

Sumant Kumar: So, we have not increase the capacity from 7 lakhs per day?

Ramesh Kumar Dua: No, we are increasing, but we have to increase in a manner that our utilization should always remain around 75%.

Sumant Kumar: What is the hedging policy for raw materials and how much raw material we have hedged?

Sushil Batra: As a policy, we hedge around three to four months for imported materials and for domestic material, it is around two to three months.

Sumant Kumar: You mentioned the south market is growing at a higher double-digit like say 30% kind of in FY2018, so what was in FY2019 and which state is driving more?

Ramesh Kumar Dua: We never said anything like that.

Sumant Kumar: We attended the analyst meet of Q4 FY2018 in Delhi, so you were talking about that 30% growth in the south market in FY2018.

Sushil Batra: It has been growing not at this percentage, there may be some confusion.

Sumant Kumar: So, it is growing at a higher double-digit, we can say it?

Ramesh Kumar Dua: That is sure.

Sumant Kumar: Talking about all the brand mix like Sparx, Flite and Flip Flop can you give the volume mix or the rough-cut volume mix for FY2019?

Ramesh Kumar Dua: Sorry, for competitive reasons, we will not be able to divulge such finer details. Broadly, we have told that brand Sparx and Flite has been growing faster than other brands.

Sumant Kumar: Thank you so much.

Moderator: Thank you. We have next question from the line of Madhav from Spark Capital Enterprises. Please go ahead.

Madhav: Good evening Sir. This is in continuation with what Gaurav is saying on our current points of sale or distribution reach between in 40000 and 50000 outlets. So over the last five years, if we see our revenue were close to double from 1200 Crores to around 2300 Crores currently, but I think this total point of sale this has been static over the last five years, so it is that whatever growth is coming is only from incremental volumes from the existing touch points or there is any other dynamic or dynamism which is involved here?

Gaurav Dua: This was discussed in previous answers also that our online is also growing at a very fast pace, so we are getting lot of growth from online space, modern trade, large formats stores, our own shops and export market. So, we have many levers of growth not only the traditional trade.

Madhav: So how much should be our online contribution currently?

Gaurav Dua: It is roughly around 6%-7% of topline.

Madhav: One more question from my end. I think around five, six years back, we used to engage with an external consultant to help us increase our cost efficiency, supply chain management, which somehow aided in our EBITDA margins growing up significantly, so do we continue to still engage that consultant to increase or more or less most of the efficiencies are done?

Ramesh Kumar Dua: It is need based and if we identify any area which we need to improve or we find we are lagging in our own efforts, we hire professionals to help us out. It depends upon, area to area.

Madhav: So Sir you believe there is still scope for our margins to move from the current mid teens level to high teens over medium to longish timeframe?

Ramesh Kumar Dua: We cannot comment on that. We have to keep our products at competitive rates in the market and we have to go for relevant pricing accordingly and we are hopeful that we will sustain the margins, this year will be better than the last year, this we can comment.

Madhav: Thank you very much. All the best.

Moderator: Thank you. We have the next question from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Manghani: Good afternoon. Thanks for taking my question. You mentioned to one of the earlier questions that growing volumes in double-digit would be really tough. I had a question on this part. If I look at your volume growth over the last five odd years has been 10%-11% CAGR given that the market share that you have on a pan India basis is about 5%-6%. Why do you think it will be really tough to even do double-digit in terms of volume over the next few years?

Ramesh Kumar Dua: We are trying in all the markets, but after all double-digit is also quite a good growth, but as far as the value is concerned, definitely we can expect double digits growth.

Aakash Manghani: In your sense or over the last four to five years, what would have been the market growth?

Ramesh Kumar Dua: Market has grown around 10% to 11% and we have grown better than market. Regarding volume growth, definitely last year we adopted different strategy, but now we want to make it a good mixture of volume and value, and product mix with profitability. We are working on many things, so volume is not the only criteria.

Aakash Manghani: Could you comment on the broad profitability across your three brands in terms of pecking order, in terms of range if you could talk, Sparx would be at what gross profit level or Hawaii, or Flite do you have some indication?

Ramesh Kumar Dua: These are all strategic matters. We cannot divulge those finer details in this open medium for competitive reasons.

Aakash Manghani: Lastly, if you were to growth at this double-digit in terms of value terms, say you double your turnover in the five years, are you comfortable that your EBITDA margin should at least inch closer towards 20% rather than be here because there is a significant difference between the gross margin and the EBITDA margin, so all of these overheads should get absorbed at a 4 Crores to 4.5 Crores turnover and read too much better operating profit or you would continue to reinvest in sales distribution, A&P are so and so forth?

Ramesh Kumar Dua: I have to always think of one thing that we have to work on a long-term basis. We cannot be opportunistic in market. Say today, we can make 20% EBITDA margin but we have to keep market relevant prices and always be competitive. We can increase prices what we can sustain so we have to maintain sustainable profitable growth which is our policy.

Aakash Manghani: You could achieve that without compromising on the gross profit level, I mean saying if your gross margins are around 50%-55% margin, EBITDA margins are 14%-15%. So, if we were to grow at 15% CAGR we have achieved some critical mass now from hereon, these fixed costs should get amortized and profitability should come through as what I was assuming?

Ramesh Kumar Dua: We have no doubt that scale advantage will come in the system. Once we will grow at that sustained high level definitely the cost will be absorbed in the system that is why we are saying, yes it will go in a slow phased manner. We cannot really think about the 20%, as of now.

Aakash Manghani: On manufacturing today, you manufacture 100% of what are you said, right. There is no outsourcing component?

Ramesh Kumar Dua: Around 95% products sold are manufactured in house.

Aakash Manghani: Going forward also you would want to do that or you could explore that outsourcing component and become slightly asset light, produce at the lower end or I do not know whichever part of the segment you would want to do that, if at all it is feasible?

Ramesh Kumar Dua: Generally, we outsource what we cannot produce ourselves or we get a better price for procurement. Otherwise mostly 95% of products are manufactured in-house. We have better control over quality in-house, which is the most important factor for us. Whatever items we do not manufacture at all that we outsource through import and locally also.

Aakash Manghani: Thank you so much.

Moderator: Thank you. We have next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead. We have next question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Good evening. Thanks for the opportunity. Sir I just want to know what is our full year ASP spends in FY2019 as a percentage of sales?

Ramesh Kumar Dua: Does ASP means advertisement and publicity?

Rakesh Jain: Yes.

Sushil Batra: We have been spending 4% since inception, so we are maintaining that level.

Rakesh Jain: What percentage or what quantum of that could be largely going during the festive season?

Ramesh Kumar Dua: It depends upon strategic requirements from time-to-time.

Rakesh Jain: In the Q4 year, other expenses were higher, could you elaborate on that slightly.

Ramesh Kumar Dua: As stated earlier, it was due to the higher production and higher sales and higher wages to the contractual labors.

Rakesh Jain: So, we should expect from the forthcoming quarters to normalize going forward?

Ramesh Kumar Dua: It depends upon how much growth you get, as expenses are directly linked with growth.

Rakesh Jain: Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Ayush Bagla from SBICAP Securities Limited. Please go ahead.

Ayush Bagla: Good afternoon Sir. I just want to ask on your capex and plant, we have seen a rise in the plant and equipment for this year, so is there any particular capex, which has come in and if yes what is that also a reason for dragging the operating expenses up because it would be running at lower utilization as of now. If you would give some color on that?

Ramesh Kumar Dua: Well this year, we have added capacity in Hawaii and PU Flite division, so capex expenditure is related to that.

Ayush Bagla: How would be the utilization of the new plant?

Ramesh Kumar Dua: As we told earlier capacity utilization at company level is around 70% but new plant generally takes time to reach that level. At Company level it is around 70%.

Ayush Bagla: Thank you.

Moderator: Thank you. We have next question from the line of Dhruv Bhatia from BOI AXA Mutual fund. Please go ahead.

Dhruv Bhatia: Good evening Sir. My first question is on which region for you is the fastest growing, you talked about entering into the south with couple of brands and they are growing fast. So, is there any which east is also the big market for you, which region for you is growing fast and any particular region you want to focus on?

Gaurav Dua: If you see, the base of south market is small, so it is the fastest growing in terms of the growth rates. We are seeing good growth rate from e-commerce you can say Amazon and Flipkart etc.

Dhruv Bhatia: Are all the brands available in the south market or are you still focusing on few brands only in the south?

Gaurav Dua: All brands are available, but maximum sales is only from Sparx brand.

Dhruv Bhatia: In your last year's annual report, you mentioned about EBO expansion plans and you would also look at the franchisee route to expand, so you could just talk about that, you know what is the plan for the coming year, how many stores you are expecting to open and how many will be through the franchise route?

Ramesh Kumar Dua: Last year, we did experiment on franchise. It has worked well. We are getting good response. So we will continue with the same intent and speed, so I think we are getting overall good response in this franchisee route.

Dhruv Bhatia: So, what is the current count of the EBO stores?

Sushil Batra: Last year we crossed 330.

Dhruv Bhatia: That is ending of March of 2019

Sushil Batra: Yes.

Dhruv Bhatia: Can you just talk something about on the competitive landscape are you seeing any local competition or are you seeing any brands which are some Chinese brand which have entered in the market at competitive prices which is, so could you just talk something on the competitive landscape please?

Ramesh Kumar Dua: No, there is no significant change this year and also I do not expect any significant change next year.

Dhruv Bhatia: Sir, last question as you mentioned that you were expecting the raw material prices to correct and you also mentioned on the other hand that the inventory has gone up because you bought some extra raw material considering that the price would be increasing. So is there some because on one direction you are saying that the prices are expected to correct and on the other you held on to high inventory, does that mean that you are setting at a higher inventory and probably in the near term margins could be under pressure?

Ramesh Kumar Dua: No, we are using many kinds of polymers in the system, so all polymers we have a different buying decision at different times e.g in case of rubber the production in summer goes low, so the prices tend to increase always this time. So, such inventories we always stock in advance.

Dhruv Bhatia: Thank you.

Moderator: Thank you Sir. We have next question from the line of Lakshminarayana Ganti from SBICAP Securities. Please go ahead.

Lakshminarayana G: If I look at your ASP for FY2018, I do not have the latest number though around Rs.125, Rs.130 per pair that is probably at the lower end of in terms of your competition when I compare it is probably the lowest. So, how does management think about pricing power with the respect to the Sparx brand as well as Flite and are there any product gaps that the management is looking to introduce and take this up a little higher may be in future, is there a plan to get into leather and so on, so if you could talk about something around ASPs and how you think about that whether the pricing power exists especially in the premium brand? Thanks.

Ramesh Kumar Dua: Our all brands are meant for different segments. In Sparx brand ASP is more than Hawaii which is meant for the masses and as far as leather is concerned, we do not have any plan to go for leather manufacturing. We have to focus on these brands only and whatever gap in the market, we find, we introduce those products.

Lakshminarayana G: If you talk about what you have introduced by the way of new products in the last one-year that would be useful probably?

Ramesh Kumar Dua: In case of Hawaii segment, Bahamas is the brand which having a premium, Flip-Flops, so lot of articles we have introduced in that segment. The Sparx particularly in the sports shoes, lot of article have come in that category also and in Flite, lot of article in Flite PU category which are better priced than other Flite articles. So, this is the way the market is responding and accordingly we are launching the products, so our policy is to launch customers relevant products. Keep on studying the market and accordingly keep on launching the products.

Lakshminarayana G: One last question, in your opening remarks, you mentioned something about Flite EVA versus Flite PU, there being some different dynamics at play. If you could just highlight I missed that?

Ramesh Kumar Dua: Flite PU is basic kind of semi-formal footwears. EVA is the polymer, which is used to make this footwear and in case of PU, PU is the different polymer, which is used in that category. So on that basis, we call these categories. PU is a kind of semi-formal category and EVA is very casual kind of a full lightweight article which you can use in monsoon also and wash and wear kind of category meant for masses also and for medium scale also.

Lakshminarayana G: Was there anything unusual in the last one year between these two?

Ramesh Kumar Dua: So in the current time, the PU categories going faster than the Eva category.

Lakshminarayana G: Thank you so much.

Moderator: Thank you. We have next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Probably, I think you have discussed during the call. I just wanted to check how we are expanding your distribution, so for example, if I see your volume growth rate of 13%-14% probably this year, then how much of it would have come from distribution expansion and how much would be from the existing distribution that will get you about and by distribution, I mean MBO is what I am talking about?

Gaurav Dua: We have mentioned before also that there are 75000 outlets what we have geotagged but the number is much more and we are holding around 5% share in the footwear industry. So, there is a huge scope of growth in every state, like if you go in West India like Gujarat there are so many districts, every year we are appointing new distributors in the unmanned or unrepresentative areas, we are opening new distributors, so we are getting good growth from there as well, we have e-commerce, retail and exports where growth is good. So Relaxo is now omnichannel present, so growth is coming from all the areas.

Ritesh Gupta: From a profitability perspective, is there any difference between any of these channels that one is more profitable than others or all are same?

Gaurav Dua: All are almost same.

Ritesh Gupta: On the raw material side, how many months of inventory, do you keep or is it more opportunistic as you we are discussing earlier probably more in terms of let us say bigger raw materials like EVA or PU for that matter?

Ramesh Kumar Dua: Inventory is in all polymers, because PU and EVA are imported so there is a long supply time, so we accordingly have little more inventory. It depends upon the markets requirements also sometime we find some material available at a better price and we store more inventory levels.

Ritesh Gupta: But purchase to sell how long it could be, is it like two to three months or probably more than that?

Sushil Batra: In case imported material a few months. Purchase to sale you can say around 3-4 months.

Ritesh Gupta: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Sir over to you!

Sushil Batra: Thank you all. That is all from our side. Looking forward for the coming times may be half yearly may be annual. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen on the behalf of SBICAP Securities Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.