



16th June, 2020

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Sub: Conference call Transcript

Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q4 FY 20 results which was hosted by the company on 8th June, 2020 at 04:00 PM (IST).

Kindly take the above information on record and acknowledge the same.

Thanking You,

For **Relaxo Footwears Limited**

Vikas Kumar Tak
Company Secretary

Encl. as above

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**“Relaxo Footwears Limited
Q4 FY2020 Earnings Conference Call”**

June 08, 2020



ANALYST: MR. AKHIL PAREKH – ELARA SECURITIES PRIVATE LIMITED

MANAGEMENT: MR. RAMESH KUMAR DUA – MANAGING DIRECTOR – RELAXO FOOTWEARS LIMITED
MR. GAURAV DUA – EXECUTIVE VICE PRESIDENT – MARKETING - RELAXO FOOTWEARS LIMITED
MR. SUSHIL BATRA – CHIEF FINANCIAL OFFICER - RELAXO FOOTWEARS LIMITED
MR. VIKAS TAK – COMPANY SECRETARY –RELAXO FOOTWEARS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Relaxo Footwear Q4 FY2020 Earnings Conference Call hosted by Elara 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 call is being recorded. I now hand the conference over to Mr. Akhil Parekh from Elara Securities. Thank you and over to you Mr. Parekh!

Akhil Parekh: Thanks Ayesha. Good afternoon everyone. On behalf of Elara Securities, I welcome you all to the Relaxo Footwear’s Q4 FY20 Earnings call. From the management side we have with us Mr. Ramesh Kumar Dua – Managing Director, Mr. Gaurav Dua – Executive VP – Marketing and Mr. Sushil Batra – Chief Financial Officer. Without taking much time, I will hand over the call to Mr. Dua for his opening remarks and post of which we can open the floor for Q&A session. Over to you Sir!

Ramesh Kumar Dua: Mr. Batra will take the opening remarks.

Sushil Batra: I am Sushil Batra, I am starting with opening remarks.

Akhil Parekh: Sure, you can start it Sir.

Sushil Batra: Good afternoon to everyone. Ladies and gentlemen, thank you very much for attending our earnings call for the financial year 2019-20. We have already shared our earning press release and result presentation, hope you got an opportunity to go through that. I will start with the Q4 FY20 financial performance followed by Full year FY20 financial performance.

In Q4 FY20, Relaxo booked an operating revenue of 540 cr down by 15% Year on Year. This impact was mainly due to nationwide lockdown. Due to adoption of IND AS 116, our rental expenses have reduced, and simultaneously depreciation and interest expenses have increased. The total impact of this new accounting standard on EBITDA is an increase of 45.23 cr. Our EBITDA margin for the quarter was 17.8% vs. EBITDA margin of 15% in Q4FY19. EBITDA margin of 17.8% for Q4FY20 stands at 15.7% without IND AS 116. As informed earlier our Company has chosen to exercise the option of lower tax rate of 25.168% as introduced by the Taxation Laws Ordinance 2019. Our Profit after tax was 52 cr for the quarter, down by 4.8% YoY with a PAT margin of 9.58%. For FY 2020, we registered a revenue of Rs 2410 cr, up by 5% with Gross margin of 56.88% and EBITDA margin of 17%. Favourable raw material prices and premiumization supported this growth. Our PAT of 226 cr in FY20 with a PAT margin of 9.4% grew by 29% YoY mainly due to cost control initiatives in manufacturing excellence and lower tax rates. During FY20, we

generated a cash of 319 cr from operation and spent 208 cr in capex and repayment of current and non-current borrowings.

At the end of 31st March, 2020, we have 390 exclusive brand outlets which contributed 8% to our FY20 revenues. We have added net 47 new stores in this period. Exports have expanded to new territories and is contributing 4% of revenues. During the ongoing crisis, we are undertaking all necessary measures to ensure safety and well-being of our employees and partners. The Company is strictly adhering to Government guidelines and have started operations in plants and offices. Prior to starting of operations, we have developed detailed SOP for safety of its employees. Proper equipment and sanitization material and mask has been provided at all locations. We continue to support and provide assistance to our dealers, distributors and customers.

Due to nationwide lockdown overall demand for overall footwear is subdued but demand for open slipper segment has improved during the period. However due to restrictions in manufacturing operations fulfilment of such demand will be a challenge in short term. The Company has paid all long term debts in FY20 and its liquidity position is comfortable. Moreover, with start of business activities the liquidity position of the Company will continue to be comfortable. Relaxo has always been one of the most trusted brands and we believe that the Company is well placed to emerge stronger in post COVID world. We will continue to adopt strategic initiatives to strengthen our brand positioning, improve our product innovation and expansion into newer geographies. We can now open floor to questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, first question is if you can give us some color on channel wise and region wise business scenario post lockdown and even in the recent weeks when lockdown has been relaxed?

Ramesh Kumar Dua: Currently a lot of areas are still under lockdown, south and west markets are still in lockdown position. It is only the north, east and central where things are opening and there our business is picking up. So, till the lockdown in the western and southern markets is lifted, the business will remain challenge.

Tejas Shah: Roughly 70% to 80% of markets where you operate, are they open for business now?

Ramesh Kumar Dua: around 50% are open

Tejas Shah: Now unlike other models your model is very MBU driven and I believe a lot of inventory would have been there because the lockdown was sudden, so ballpark figure on how many

months of inventory you believe that will be in the channel already before you start seeing primary pickup happening at your level as well?

Sushil Batra: Inventory in the channel will be in the range of 60 days, but depends upon the dealer capacity as well.

Tejas Shah: Is it a fair assumption that it will take some time for us to see pickup in primary level because this was quite sudden shock in terms of demand planning and all?

Ramesh Kumar Dua: Maybe by the next quarter things become clearer.

Tejas Shah: You also mentioned in your opening remarks Mr. Batra, that we will be looking at new geographies for expansion this year, so any new territories we are planning or within the same areas we are planning for deeper penetration?

Ramesh Kumar Dua: All these are ongoing process, wherever we find that there is a market we keep on developing our distribution, finding distributor and expanding, that we have been doing in the past, and would continue doing so.

Tejas Shah: There was a very strong trust when we started this year on online channel you call out in your half-year call as well so what is the exact contribution from this channel as on March for the full year?

Ramesh Kumar Dua: 7% to 8%.

Tejas Shah: Lastly one bookkeeping question, looking at the demand scenario are we planning to do any major capex this year now?

Ramesh Kumar Dua: No major capex, but it is ongoing process, so wherever and whatever is the need will be done, for example there are molds, small machineries etc. In the past it was around 100 Crores, this year also we expect that kind of a capital expenditure.

Tejas Shah: That is all from my side Sir. I will fall back in queue for more questions. Thanks.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Sir my question is on the current situation since the lockdown is gradually improving and people would be getting out of home and still the permissions are not at the optimum level so which of the categories of Relaxo would see higher demand in the current situation, also schools have not reopened, which of the categories would see demand in the current situation?

- Ramesh Kumar Dua:** From our experience, open footwear i.e PU, EVA, Hawaii, Bahamas is in demand more than the sports shoes or sporty sandals.
- Kaustubh Pawaskar:** What would be the approximate contribution from this to your overall revenue?
- Ramesh Kumar Dua:** Two third.
- Kaustubh Pawaskar:** It is expected that the schools would reopen somewhere in the August, which at current juncture look to be unlikely, but the government is planning to slowly start with the educational institutions, so can we expect the school demand or demand for the school shoes to pickup post August maybe in September and what is the contribution from that particular category for you?
- Ramesh Kumar Dua:** It is very insignificant. School shoes are very insignificant contribution in our scheme of things.
- Kaustubh Pawaskar:** One question on the raw material prices, this quarter despite the fact that the revenues were down and on gross margins level we have seen significant improvement, so how is the raw material cost position now and do you expect this gross margin expansion to sustain in the coming quarters?
- Ramesh Kumar Dua:** Raw material prices have been by and large stable in the last year and this quarter also they will be benign, so we would be able to sustain this level of margin.
- Kaustubh Pawaskar:** I can squeeze in, in your presentation you mentioned that the Indian contribution to overall global export is just 2% compared with China, which was at around 40%, so post-COVID do you expect this contribution to go up, are you seeing some kind of orders coming from the international markets, which have slowly started opening up?
- Ramesh Kumar Dua:** No, we are already doing lot of effort in our export promotion, but even overseas markets have been impacted
- Kaustubh Pawaskar:** Correct. Okay, thanks for the opportunity.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.
- Bhargav Buddhadev:** Sir assuming that the demand comes back by say September or maybe October do you think that we can sort of ramp up production to say around 80%, 90% by September, October?
- Ramesh Kumar Dua:** Now once we see the demand coming, we will be able to utilize our capacities to ramp up, I think migrated labors will also start returning.

- Bhargav Buddhadev:** In terms of your vendors from where you sort of procure raw material, semi raw materials or semi finished goods how is the situation over there?
- Ramesh Kumar Dua:** Supply is not an issue.
- Bhargav Buddhadev:** So, you do not think there will be any production challenges by September?
- Ramesh Kumar Dua:** From the raw material point of view no challenge.
- Bhargav Buddhadev:** Secondly Sir what could be two or three cost saving levers, which you can sort of use to contain cost in FY2021?
- Ramesh Kumar Dua:** Depending on market conditions we will relook into our sales incentive schemes, brand building exercises and try to reduce some cost in other areas.
- Bhargav Buddhadev:** There were a few new competitors who had emerged and who gave us a strong competition on the Sparx brand especially the footwear segment, the sport shoe segment, so post lockdown do you see these new entrants continuing with their competitive intensity or you think they will sort of slowdown?
- Ramesh Kumar Dua:** Competition is always there, and it is a healthy part of business. We have been growing at fairly good rate even with the competition and expect to continue doing so.
- Bhargav Buddhadev:** Do you think FY2022 can be better than FY2020?
- Ramesh Kumar Dua:** At the moment market conditions are very unpredictable. We need to observe, quarter by quarter development on how market evolves. FY2022, I think it should be better than 2020. By that time things will be very clear and stabilized, things are expected to be very good.
- Bhargav Buddhadev:** Okay Sir. Thank you very much I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhimrajka from Bharti AXA Life. Please go ahead.
- Dhruv Bhimrajka:** Sir want some details on your raw material procurement and sourcing so what are the main raw materials that you use, do you source it locally or through exports can you just give a detailed description about that we do?
- Ramesh Kumar Dua:** In the non-leather footwear industry there are lot of materials, main are the polymers like natural rubber, ethyl vinyl acetate, JVC, PU, certain material like EVA and PU are imported, but that is not an issue. Natural rubber is available locally also.

- Dhruv Bhimrajka:** If I have to ask this EVA and PU, which is imported what are the major countries that you import them from?
- Ramesh Kumar Dua:** 7-8 countries.
- Dhruv Bhimrajka:** That would be great and what would be the largest component of raw material say rubber is what part of your raw material component, but if you could just give us range that would also be helpful?
- Ramesh Kumar Dua:** As on date largest is EVA, followed by PU and natural rubber.
- Dhruv Bhimrajka:** What would the percentage be Sir?
- Ramesh Kumar Dua:** Article wise different consumption, difficult to tell.
- Dhruv Bhimrajka:** But these three would be the major raw materials?
- Ramesh Kumar Dua:** As far as polymers are concerned, Polymer is the main cost in non-leather footwear.
- Dhruv Bhimrajka:** Last question, what would be breakup of revenue for north, south, east, west India?
- Ramesh Kumar Dua:** Different articles will have different things, open slippers are having different scenario, products like Sparx have a different scenario. It will be difficult to give regionwise break of revenue.
- Moderator:** Thank you. The next question is from the line of Dhaval Mehta from ASK Investment. Please go ahead.
- Dhaval Mehta:** Sir my question is related to open footwear this is a category where you are seeing right now maximum growth, so how is the competitive intensity in this category because where I am coming from is that in this category predominantly the unorganized pie was doing a sizable business, so have they are facing constraint in terms of manufacturing, which is helping us, so I just wanted to know more about it?
- Ramesh Kumar Dua:** Competition is part of every business and we have been coexisting for last so many years, so there is nothing to fear from it. Some of the local players are also getting organized so that is not an issue.
- Dhaval Mehta:** So even the local or the unorganized players are back in full capacity, so they are not facing more of a manufacturing constraint as of now, is this the right assessment?
- Ramesh Kumar Dua:** What are they internally doing I cannot comment on that.

- Dhaval Mehta:** My second question is with respect to our distributors, our distributors income will also be impacted because of the lockdown so are we giving some extended credit or helping them in terms of by supporting them in terms of few of the benefits, is that happening or how the things are there at the distributor end?
- Ramesh Kumar Dua:** No, it is not necessary, currently demand is there with supply constraint. We are giving less discounts to retailers, so distributors are able to make up their margin accordingly.
- Dhaval Mehta:** Most of our factories are located in the northern region and the south and the west market was the market where we were getting maximum growth so when you expect the supply chain to be normalized and is it already normalized?
- Ramesh Kumar Dua:** In south the markets have not opened; supply chain is a challenge but it's not that we are not able to supply. Once demand starts coming in, we can serve those markets also.
- Moderator:** The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta:** Sir just to kind of ask the same question again which other participants have asked, so you touched almost 60% gross margin this quarter and I can see that crude prices have turned even more benign versus where let us say I would assume that you would keep an inventory of three, four months, so the inventories at which probably you will be procuring some of the polymers might have further fallen and that inventory probably will come in your consumption in the next three to four months, so should we expect that margins may improve and you have been indicating that you have been taking some price hikes also, so on a broader basis should this 60% gross margin that you have reported can actually further improve is that a fair expectation in FY2021?
- Ramesh Kumar Dua:** We have to watch market conditions, and see what kind of demand is coming up in different categories. With most of the new ways of SOP setting in the factory, lot of precaution are being taken, social distancing is being maintained, so production capacity of every unit is getting affected, so that is one way we will be raising our cost. So in three, four months we will really know where we stand as far as the cost is concerned, accordingly then we will take appropriate steps.
- Ritesh Gupta:** Sure Sir. No, the question here is on the gross margin side, so I understand that will impact your operational cost and your employee cost, etc., but purely from a raw material standpoint let us see even if I look at from 1Q FY2020 to 4Q FY2020 you have improved from 54% to 60%, which in a way tells me that the raw material benefits come to you with a lag, but essentially even from a 4Q level the RM prices have declined and RM prices clearly will not have any impact of social distancing, etc., so that was my question is it that you hedge your inventory to some extent and hence some of the benefits may not be there in the

future quarter or it is a usual three-month lag, which inventory is kind of get back into your gross margins?

Sushil Batra: Ritesh I think you are seeing only Q4, you have to see full year performance say gross margin in full year is around 57% so do not expect that 60% margin will be there in every quarter. In Q4 you can see there is increase in inventory, there is a less trading good so it has impacted and that is why it looks like there is a big jump in the margin, but that is not the case let us see the full year, which is around 57% that is sustainable again subject to so many things how manufacturing take shape and how material prices cost and then we will take the appropriate action so don't get carried away with Q4 results, let us see the full year results and that will be a right indicator of the performance.

Ritesh Gupta: Got it Sir and just another thing I think you also talked about distribution incentives, etc., and this is general question in a market wise demand probably would be we are just seeing some bit of challenges do you think you will have to, how should we think about the discounting at the trade level would the discounting at the trade level would increase to clear the inventories or you may have to give better margins to distributors to push your products how does that happen and in that context how much is the pricing flexibility that you have as well would you have to roll back some of the price hikes you have done in the past?

Gaurav Dua: If you see the market, we have three brands one is Sparx, Flite and then Bahamas. In the open footwear there is a lot of demand coming up because in India migrants labour is going back, and due to lockdown people are sitting at home so demand of open footwear has gone up compared to the closed footwear. Three to six months from now on I think the demand can pickup for closed footwear.

Ritesh Gupta: Got it Sir and you told us that the ratio is two third to one third?

Gaurav Dua: Yes, correct.

Ritesh Gupta: Okay Sir, thank you so much that is all.

Moderator: Thank you. The next question is from the line of Devang Mehta from Bay Capital. Please go ahead.

Devang Mehta: Just wanted to understand on the current strategy of streamlining distributors we have called out by the lot of them from more than 900 to 700 now so is the process over or how do we see this number of distributors and the regions that we are adding?

- Gaurav Dua:** So now currently we have 800 distributors, last year we have added more than 100 new distributors and new territories, it is an ongoing process, but because of COVID for the last three months nothing is happening and we suspect next one or two months will remain same, post that again the drive of finding new distributor new territory will be there.
- Devang Mehta:** What will be the universe of retailers, endpoints for footwear in India?
- Gaurav Dua:** See what data we have collected last year, we discussed in last meeting that it was 75000 we have updated the list to 85000 outlets and our presence is roughly around 45000 outlets, so this I am talking about direct reach, indirect reach is much more.
- Devang Mehta:** 45000 is direct without wholesale that is what I understand right?
- Gaurav Dua:** Correct.
- Devang Mehta:** In terms of inventory in the system you said there is 60 days of inventory in the channel and the demand is weak and for especially the closed footwear the demand is weak, so how do we see new footwear being so, are we going to obviously there will be some slack in terms of new design, but how do we see launching new products going forward?
- Gaurav Dua:** I think we must recalibrate our strategy and go for value for money product more because premiumization in this scenario looks little difficult.
- Devang Mehta:** That would be across all the categories?
- Ramesh Kumar Dua:** Correct.
- Devang Mehta:** Okay great thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Kumar:** My question is regarding the volume degrowth in FY2020 2.7% so is it because of full lockdown or some product mix changes, low end product we have sold lesser and high end product we have sold more, so we have seen overall 8% realization growth also in FY2020, so can you elaborate what are the key reasons for that?
- Sushi Batra:** Degrowth is 2.7%, it is right, it is a mixture of both lockdown and definitely we could not sell in the last 10 - 15 days in the month of March. In full year, if you see we were selling more premium product and with lot of value addition, that is why value was growing much faster than the volume and the lockdown has impacted it, that is why this growth in volume is -2.7%.

- Sumant Kumar:** So, going forward our focus is more to sell our value added product so whatever the low end product like you have Relaxo Hawaii and Bahamas that realization is lower so going forward we have a higher growth in that other segment?
- Ramesh Kumar Dua:** No, here it depends upon the market. Currently market demand for this value footwear is more especially for Hawaii slipper, Bahamas, Flite, so we are selling them accordingly. Brand like Sparx shoes is there, but volume is always more in these kinds of verticals.
- Sumant Kumar:** So like Relaxo, Hawaii plus Bahamas, Flite and then Sparx three broader category?
- Ramesh Kumar Dua:** High value I think just we have been sharing that there are three categories majorly. So one is the Relaxo including Bahamas then second category is Flite for youth that is the fast growing brand and the third is Sparx. You can say Hawaii segment is one fourth, I am talking about the last year number and the rest of the categories are 50:50.
- Sumant Kumar:** So, you are talking about FY2019 or FY2020?
- Ramesh Kumar Dua:** FY2020.
- Sumant Kumar:** Volume mix or value mix?
- Ramesh Kumar Dua:** It is a value.
- Sumant Kumar:** Any indicative number for volume?
- Ramesh Kumar Dua:** Volume, I think Hawaii will be around 40% and then rest is balance.
- Sumant Kumar:** Flite you said 40%?
- Ramesh Kumar Dua:** Hawaii Relaxo is 40% then Flite and Sparx is the balance number.
- Sumant Kumar:** Okay thank you so much.
- Moderator:** Thank you. The next question is from the line of Neerav Chavaye from JM Financial.
- Neerav Chavaye:** Sir my question is more regarding this open footwear and closed footwear category, so we are leader in this open footwear category so just wanted to understand from a strategy point from that for the next two to three years how much revenue do we target from this closed footwear category particularly the Sparx brand?

- Ramesh Kumar Dua:** You know in Sparx, we have various segments of footwear, there is sporty sandal, there are SFG [Sparx fabricated sleepers (Gents)], there are slippers, and there are canvas sport shoes also.
- Neerav Chavaye:** For the sports shoe side particularly?
- Gaurav Dua:** In Sparx or overall?
- Ramesh Kumar Dua:** Total overall.
- Gaurav Dua:** Between 5% to 10% is the sports shoe segment, what we are catering.
- Neerav Chavaye:** If we were to see that revenue or realizations from that would it be substantially higher maybe 50%, 60% or even more than that realization of the product?
- Gaurav Dua:** If you compare this with the basic Hawai slipper then definitely it is much higher, but on overall revenue point of view it is between 5% to 10%.
- Neerav Chavaye:** Internally do we foresee a larger opportunity here in the next two to five years where the demand can be higher?
- Gaurav Dua:** It is little doubtful because we are waiting for the winter season to come and then we have to see how the closed footwear performs.
- Ramesh Kumar Dua:** This year because of COVID-19 challenge.
- Neerav Chavaye:** Right, but I am saying in particular if we see for the next two to three years from a strategic point of view is there a big shift where you see this at a larger opportunity since your penetration in this segment?
- Gaurav Dua:** Pre-COVID you can say because everybody was saying pre-COVID it was there, but post COVID how it will be we have to wait and watch.
- Neerav Chavaye:** Also another thing is gross margins for our company for the last three quarters has been consistently growing even in this quarter it was about 600 basis points up so how much do you see is mainly for on account of lower raw material prices and how much can be on the back of premiumization?
- Ramesh Kumar Dua:** we see the overall cost and accordingly we do the pricing so that we are able to sustain the margins.

- Neerav Chavaye:** So, you feel that from at least one or two quarters point of view this premiumization thing would have a problem so like to understand that ASPs would go down in spite of lower raw material pricings?
- Ramesh Kumar Dua:** ASP will definitely go down when cheaper slippers or value slippers are selling, but gross margins and other things we would be able to sustain.
- Neerav Chavaye:** Also just wanted to understand the competitive intensity when we compare this two imported footwear and a lot of it also comes from China and India in this category so how do you see things changing on that side and those are not larger branded products do we compete hard with them or they are even cheaper?
- Ramesh Kumar Dua:** No, we have no competition, there is nothing to worry on that front and other way also government is protecting.
- Neerav Chavaye:** Being a branded player there is no big challenge from imported footwear company?
- Ramesh Kumar Dua:** No, we don't have much.
- Neerav Chavaye:** The last question if you can just help us online as a channel how much does it contribute for our category of products from Relaxo point of view?
- Ramesh Kumar Dua:** Around 10%.
- Neerav Chavaye:** Alright thank you very much that is it from my side.
- Moderator:** Thank you. The next question is from the line of Saurabh Pant from SBI Mutual Fund. Please go ahead.
- Saurabh Pant:** Two questions one just picking up from the last question this increase in import duty that we saw in the budget on footwear from 25 to 35 and on the accessories from 15 to 20 what changes have you seen in the industry and has it benefited players like us who are more backward integrated that is one, the second is in terms of the season I understand that there is hardly any fresh design where the summer season is almost over, so how you are preparing for the winter/fall in terms of bringing new designs or do you think this year we are not going to see any new introductions and what does that mean in terms of spend behind the capex or molds, etc.?
- Ramesh Kumar Dua:** We have to watch the market condition and the consumer demand, we may introduce smaller number of articles but in current situation we have different challenges to tackle like

for example supply chain, understanding the nature of demand etc. we already have good number of designs, and some of them we might introduce.

Saurabh Pant: During winter/fall you will have new designs?

Ramesh Kumar Dua: Yes definitely.

Saurabh Pant: So, does it reduce the capex intensity Sir this year because half the year has almost gone you would not have had any new designs?

Ramesh Kumar Dua: No, capex will continue because our one plant is coming up, some expansions are taking place, some machineries are required, so at least INR 100 Crores of expenditure is going to take place this year also.

Saurabh Pant: Any corresponding increase, in your setup it is tough to give a number in terms of expansion from a volume point of view, but what does it mean from an expansion of production in terms of this percentage increase does it increase the production capacity with this Rs. 100 Crores?

Ramesh Kumar Dua: There is new plant coming up in Bhiwadi whose first civil construction is going on so it may take another one-and-a-half year.

Saurabh Pant: This is for the Bhiwadi plant all of this 100?

Ramesh Kumar Dua: Like some of the machinery here and there or whatever they require, sometime old machinery has to be changed, new moulds have to be ordered somewhere because of some more machineries are required so that is important portion and we have been doing for last so many years, every year some capex has to be there.

Saurabh Pant: Bhiwadi will be a small part of this 100 Crores right maybe I do not know if you can give a number?

Sushil Batra: Out of 100 Crores, as construction is going on so 50% will go to civil construction and rest will go to mould and some changes in machinery and other routine expenses. So, the capex this year majorly is on the building part.

Saurabh Pant: Of this 100 Crores 50% will go to Bhiwadi and rest will go in terms of maintenance?

Ramesh Kumar Dua: And for mould and machinery also.

Saurabh Pant: Just on the first question if you can throw some light on the duties imposed by the government have you seen any noticeable impact?

- Ramesh Kumar Dua:** That is not going to play a much effect on us because these are the sports shoes that people import on low price under value whatever they do so that is not an issue our 90% of business is of the other articles.
- Saurabh Pant:** Is the competitive advantage meaningful for you that now it has been also imposed on accessories and also on the fully built shoes?
- Ramesh Kumar Dua:** No, it does not matter, we have been always among all kind of competition, this duty up and down does not matter.
- Saurabh Pant:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** Two questions from my side. First on the volume growth you mentioned that for full year there is a volume decline of 2.7% I missed on the Q4 volume decline if you can throw some light on that?
- Sushil Batra:** You can see there is a value degrowth of 15% in this quarter, so volume degrowth is also around 18% to 20% in this quarter because of lockdown and we have been selling premium product so this time value growth is mainly due to premium and product mix. Overall for the year it is -2.7%.
- Sabyasachi Mukerji:** Yes, overall for the year I understand. So, for Q4 if I can ask what would have been the growth or other than what was the growth till March 15, 2020 first 75 days of the quarter has there been any growth in for 75 days of the quarter?
- Ramesh Kumar Dua:** You are talking about this year or March?
- Sabyasachi Mukerji:** I am talking about Q4 FY2020 if I exclude the last 10, 15 days where we saw the lockdown impacting the sales what is the growth in the remaining period?
- Ramesh Kumar Dua:** We were growing in a double digit growth, we deliver 12% plus growth till December so we were growing in a good way double digit growth was there till mid March and then I think everything got impacted due to COVID, it would have grown double digit to this quarter also had there been no COVID.
- Sabyasachi Mukerji:** That double digit around 12% value growth you are saying so volume growth would be around 7%, 8%?

- Ramesh Kumar Dua:** We can say definitely there is a gap of 6%- 7% so at least 5%- 6% growth would have been there in volume.
- Sabyasachi Mukerji:** Second part much more on the industry we know that almost probably 60%, 65% of the industry is unorganized in nature and given this pandemic situation most of these players would be facing cash crunch liquidity issues do you see this pandemic moving into something like that this organized case will come out much more stronger and there will be a market share shift to some unorganized and organized players in the coming future?
- Ramesh Kumar Dua:** Let us hope for it. Government is trying to support SMEs like anything so nothing to worry we have a good position in the market, and we will keep on growing the way we have been growing. In the past also, competition activities always remain, and competition activity should be there always then only the whole industry grows, so even in the local, some people will survive but some people may not. Even in local some may invest stronger depending upon every management to management, on how they handle situation
- Moderator:** The next question is from the line of Chirag Shah from Valuequest. Please go ahead.
- Chirag Shah:** Sir my first question is on realization trend so if I look at your realization per pair this year it is up by 8% and historically last three, four years data you shared in the presentation was almost flattish so just wanted to understand first how do you define premium portfolio, what is the realization in premium portfolio, what is the current contribution and this 8% increase is increase in premiumization or existing product have also seen price increases?
- Ramesh Kumar Dua:** 20% of our business comes from premium articles and we keep on developing this article after understanding the volume need of the consumer so whatever consumer is needing, we are coming up with options; accordingly, we launch our premium articles.
- Chirag Shah:** How do you define the premium article?
- Ramesh Kumar Dua:** It will be very subjective for one person the article of Rs.200 maybe premium other may say no Rs.2000 is premium so Hawai slippers in our category we will say Rs.200 is a premium.
- Chirag Shah:** Is it fair to understand anything above Rs.200 per pair would be premium product?
- Ramesh Kumar Dua:** No, I mean it depends on category to category in sport shoes Rs.200 is nothing it is close to 1000 where we have basic category, but there is articles of Rs.2000 we may call it premium so we have in our own created segments within our own way of understanding the things and accordingly 20% of such articles we have categorized as our premium articles.

Moderator: The next question is from the line of Rakshit Ranjan from Marcellus Capital. Please go ahead.

Rakshit Rajan: Sir in your opening remarks you mentioned you have taken certain initiatives to come out stronger from this crisis can you elaborate a bit more on what are these initiatives, whether they are manufacturing and product development in distribution and any specifics you can share?

Ramesh Kumar Dua: Even in the past we always keep interaction with our consumers, distributors, our retailers, so by understanding the evolving need of the consumer our product development is taking place and these articles are more successful in the market that gives us a good edge in the market and post lockdown you know what we have seen at the moment where your footwears are much in demand and we are organizing within ourselves, trying to organize the things, improve the things, so maybe by next quarter when things will normalize then our sports shoe and another segment will also come up. So, we are better prepared than competition I should say to make use of the opportunity if it comes up after a stabilization of maybe second or third quarter.

Rakshit Rajan: The biggest difference that you expect to see in your business vis-à-vis competition is around manufacturing because of different degrees of return to normalcy on the labor front or is it more around the front-end distribution you can elaborate that as well?

Ramesh Kumar Dua: First of all demand has to pick up other things will follow, we have very good capacities, modern plants, so we are in a better position to serve them also and we have our warehouses spread throughout the country, so servicing for us is easier, so we can give better substance for the people. We have a good sales force on the field, so all these things put us in a good advantageous position to serve the market.

Moderator: The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir the center point of our long-term strategy for last many years has been identifying new geographies and leveraging our cost leadership and branding capabilities to gain market share, now the two geographies which we have been calling out for the last two years is south and west so when you index your brand strength and I know there is you have mentioned in the past it is difficult to comment on market share, but whatever competitors data you track in this market, what will be our market share rough market share gain in the last three four years if we have to give some ballpark figure?

Ramesh Kumar Dua: It will be only estimate we can give you, but information of competition is not at all available. There is no authentic source neither there is any neutral agency who can track

these things. So from all the known angle / sources we calculate, it is estimate, that we have a market share of 4% to 5%.

Tejas Shah: Still in south and west India we are single digit market share?

Ramesh Kumar Dua: I am talking total.

Tejas Shah: Total, but Sir your north India market has been way higher than your new markets so that is why I was asking?

Gaurav Dua: New market has better growth rate if you see compared to the overall growth we are growing doubly in the west and south market.

Tejas Shah: Gaurav would it be a fair assumption that your premium portfolio share also will be higher in south and west market?

Gaurav Dua: Yes definitely.

Tejas Shah: Last thing Sir there were some rough comments you made last year that east India is also looking very lucrative so any plans of entering east India in a big way this year or in near future?

Gaurav Dua: East India yes. West Bengal we are focusing, and we are seeing a very good growth rate there, so we will continue this process.

Moderator: The next question is from the line of Chirag Shah from Valuequest. Please go ahead.

Chirag Shah: Just wanted to check as existing product also have price increase or it was just premiumizing it like so this overall improvement in the realization? I just wanted to understand if 8% increase in realization per pair was due to that increase in share of premium portfolio or our existing portfolio, also some bit of price increase, which led to this overall increase?

Ramesh Kumar Dua: It should be a mix of both, some price revisions and premium vertical also getting a more share in our scheme of things.

Chirag Shah: Can you share what kind of price increase you would have taken in existing portfolio?

Ramesh Kumar Dua: It is very difficult we have 400 articles we have to be very selective where we can increase how much we can increase, so it will be very complex, and nobody can make any sense out of it.

- Chirag Shah:** Lastly on what would be our overall utilization levels currently, plant utilization levels?
- Ramesh Kumar Dua:** Around 70%.
- Moderator:** The next question is from the line of B P Rajesh from Banyan Capital. Please go ahead.
- B P Rajesh:** Sir could you share the ASP for the quarter and for the year, average selling price?
- Sushil Batra:** This year it would be around 135.
- B P Rajesh:** For fiscal year 2020 it was Rs.135 per pair, right?
- Sushil Batra:** Yes.
- B P Rajesh:** For the quarter was it any different or pretty much in line with this number?
- Sushil Batra:** Yes, it will be same I think full year average and quarter will be same.
- B P Rajesh:** My second question was in the last two months after the quarter end are you seeing a different demand trends in rural versus urban?
- Gaurav Dua:** Rural is picking up like anything because most part of India in rural was not lockdown so there was a constant demand coming from rural, but in the urban India there is lot of problem coming up for example retailer is hardly opening a shop even after government regulation they are not opening the shop, even if they are opening their opening would be for limited timings so rural India is more promising than the urban India so that is what we can see in next one month time.
- B P Rajesh:** That is very helpful. My last question is you were earlier talking about PU being imported and there is a player, which is in the process of putting up capacities do you think that is good for your industry in the sense that hopefully the cost will come down or if you can give some color on that particular event?
- Ramesh Kumar Dua:** Whether PU or EVA both are imported materials, so material is not an issue. Now we have to make what is the demand if more demand is on PU slippers we will make PU slippers more, for example currently Hawai slippers, Bahamas and Flite, EVAs their demand is more so we have focused more on that, but I think you have to know about the prices of raw material.
- B P Rajesh:** My question is that now that a player is setting up the capacity in India itself are you likely to buy from them or do you think the landed price of importing PU is still going to be cheaper?



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Ramesh Kumar Dua: No, , domestic also import the material and do the mixing only, , they are also importing so we have to see wherever we get some price advantage we will buy it from them.

B P Rajesh: Okay, thank you so much.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Sushil Batra: Thank you all for joining the call. This is all from our side, looking forward to joining you again. Thank you very much.

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

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