May 18, 2022

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Scrip Code – 530517	Scrip Code - RELAXO

Sub: Conference call Transcript

Dear Sir,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q4 FY 22 results which was hosted by the company on May 13, 2022 at 4:00 PM (IST).

The same is for your information and record.

Thanking You,
Yours Sincerely,

For **Relaxo Footwears Limited,**

Relaxo Footwears Limited Delhi

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

Encl : As above

"Relaxo Footwears Limited Q4 FY-22 Earnings Conference Call"

May 13, 2022

MANAGEMENT:	**MR. RAMESH KUMAR DUA – MD, RELAXO FOOTWEARS LIMITED**
	MR. RITESH DUA – EXECUTIVE VICE PRESIDENT, FINANCE, RELAXO FOOTWEARS LIMITED
	MR. GAURAV DUA – EXECUTIVE VICE PRESIDENT, MARKETING, RELAXO FOOTWEARS LIMITED
	MR. SUSHIL BATRA – CFO, RELAXO FOOTWEARS LIMITED
	MR. VIKAS TAK – COMPANY SECRETARY, RELAXO FOOTWEARS LIMITED
MODERATOR:	**MR. AKHIL PAREKH – CENTRUM BROKING**

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY22 Relaxo Footwears Limited Earnings Conference Call hosted by Centrum Broking 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. Akhil Parekh from Centrum Broking Limited. Thank you and over to you sir.

Akhil Parekh: Thank you Ryan. Good afternoon, everyone. On behalf of Centrum Broking Limited, I would like to welcome you all to Relaxo Footwears Quarter 4 FY22 Earnings Conference Call.

From the management we have with us today Mr. Ramesh Kumar Dua – Managing Director, Mr. Ritesh Dua – Executive Vice President, Finance, Mr. Gaurav Dua – Executive Vice President, Marketing, Mr. Sushil Batra – CFO and Mr. Vikas Tak – Company Secretary.

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

Sushil Batra: Thank you Akhil. Good afternoon, everyone. Ladies and gentlemen thank you very much for attending our earnings call for the financial year 2021-22. We have already shared our earnings press release and result presentation. Hope you got an opportunity to go through that. I will start with Q4 FY22 Financial Performance followed by full year FY22 Financial Performance.

In Q4 FY22 Relaxo booked operating revenue of 698 crores as compared to Rs. 748 crores in the corresponding period of previous year. Revenue during the quarter was affected due to disruption caused by Omicron variant of COVID, GST rate hike from 5% to 12% w.e.f. January '22 on footwear priced below Rs. 1,000 and subdued demand due to high inflation.

EBITDA during the quarter is at Rs. 111 crores as compared to Rs. 163 crores in the corresponding period of the previous year. Our EBITDA margin for the quarter is 15.9%. EBITDA margin decreased mainly due to steep increase in raw material prices and extra support provided to trade towards GST rate differential on inventory. Our profit after tax is Rs. 63 crores for the quarter as compared to Rs. 102 crores in the corresponding period of previous year.

For FY2022 our revenues stood at Rs. 2,653 crores as compared to the Rs. 2,359 crores which is a growth of 12% year-on-year. The growth in revenue is achieved mainly due to calibrated price hike taken during the year to mitigate impact of high raw material prices. EBITDA is at Rs. 416 crores as compared to Rs. 495 crores in the previous year. Our EBITDA margin for the year is 15.7%. The decline in EBITDA margin is mainly on account of increase in raw material prices and normalization of selling, marketing and administrative expenses in FY22 as compared to FY21. Our profit after tax is Rs. 233 crores as compared to Rs. 292 crores during the previous year.

During FY2022 we generated cash of Rs. 140 crores from operation and spent Rs. 140 crores in CAPEX. At the end of March 31st, 2022, we have 394 exclusive brand outlets which contributed around 7% of our FY22 revenue. Export crossed Rs. 100 crores mark and is picking up with opening of market and its contribution is more than 4% of revenue of FY2022.

Going forward we are cautious about our continual extraordinary inflation and remain cautiously optimistic on the basis of strong recovery across category, especially in the high-value closed footwear category after opening up of offices, schools, and colleges. We believe that we are well positioned in the footwear marketplace by providing the right price value equation to our customer while making sure our product remains affordable and accessible. We remain committed to all our stakeholders by creating a strong foundation for the future which can provide a sustainable and profitable growth for the long term. Thank you. We can now open the floor for questions. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Tejas Shah with Spark Capital.

Tejas Shah: Just will start with a couple of basic questions. If you can help us to understand the realization split increase which has happened between price increase and premiumization if any happened during the year and during the quarter?

Sushil Batra: Price increase, because this full year was lot of inflation, raw material prices went up. Price increase was in the range of 25% across all the categories, in few categories more and few categories less. This is majorly due to the price increase and product mix because closed footwear was sold much more as compared to FY21. That mix also happened in this year. Overall increase majorly is due to price increase.

Tejas Shah: This 25% price increase would be at customer level, because of GST increase as well but that would not have totally reflected in our numbers, right?

Sushil Batra: No, it's a mix of raw material and GST. GST came only in January '22 that was the last increase which we took but overall, from start of the year from May onwards raw material prices were going up so we took three to-four price increase in full year.

Tejas Shah: Second, though initial period yet, but almost 4-5 months have passed by after GST increase has happened. What is the initial feedback in terms of customer and both channel whether they have absorbed this price hike easily or it will take some more time for demand and channels to settle down on this?

Gaurav Dua: So, it's been 4 months you are right. What we are seeing is in first 2-3 months there was a pressure because it was new for the trade. So, there was a lot of resistance. People were talking about taking this price back from 12 to 5, they were giving lot of representation to the government but now it is settled. The rates have been settled. Post that there is definitely a pressure because of inflation, consumer sentiments are still not so great and whatever the pass on off price what we have done, or the industry has done its taking time for the consumer as well as for the trade to take it.

Tejas Shah: The last one, based on the recent channel checks which has been done on the sector it has seen that there's a huge traction in online channel for closed footwear especially the sports footwear or athleisure footwear. So, have we seen any such traction in our number a) what was our exposure to online channel for the full year as a company and also within the Sparx brand in particular?

Gaurav Dua: Yes, Sparx brand has done very well in e-commerce platform and we can see the growth rate was more than 40% in e-commerce platform. There is a traction of a sports shoe selling more on e-com.

Tejas Shah: What will be the total exposure of online as a channel for us?

Gaurav Dua: We were last year around 10%, now it is 11.5%.

Tejas Shah: No. I'll come back in queue for follow-up questions on this.

Moderator: Our next question comes from the line of Gaurav Jogani with Axis Capital.

Gaurav Jogani: Thank you for taking my question. My first question is with regards to the RM inflation as you have highlighted. Is the bulk of the RM inflation now done or do we need to take further price increases to mitigate the RM inflation that we have seen?

Ramesh Kumar Dua: Raw material situation continues to remain unpredictable. You cannot say for guarantee that everything is settled. Always we are getting news of different kinds, sometimes packing material, chemicals, polymers. So, things are not stable as yet, we can’t say confidently things are stabilized as far the raw material situation is concerned. But we have to be watchful of it and accordingly we have to see market dynamics also and accordingly keep on taking appropriate action.

Gaurav Jogani: To put the other way round if assuming whatever the RM prices are today, does it cover whatever the price increases that we have taken as on today, RM price do we cover it or do we need to still take further pricing action to cover the impact? Because the impact on margin is huge as can be seen from the results. Still do we need to take more price increases to even cover today's RM inflation.

Ramesh Kumar Dua: No, we have to wait and see all these things. Ultimately our goal at the moment is to focus on our market share in the market and keeping in view the article that we are in, which are meant for masses, lower rank of society. So that's very important that we will be keeping strict vigil on it and accordingly take appropriate actions at appropriate time.

Gaurav Jogani: My next question is with regards to your volume if we see this particular year, so the volume this particular year has even seen a decline if we compare versus FY20. While I do agree that there was some impact during the first quarter due to Omicron and even this quarter was impacted. But how do you see the volume trajectory going ahead in the light of the sharp RM inflation that we are seeing given our target customer is very price sensitive?

Gaurav Dua: Last year if you remember in May we had this Corona wave where everything was shut down and followed by January also we had a small Omicron variant coming in. So definitely there has been a pressure on volume in term, because last to last year the open footwear was selling a lot because people were at home and there was extraordinary sales happening on last-to-last year. So, to sustain that was a challenge. Going forward the consumer sentiments are still not so buoyant. We feel I think after maybe Quarter 1 the things will come back but very difficult to say right now because of unpredictable supply chain things are not settled, raw material prices are not settled but we are hoping that Quarter 2 onwards we can see some recovery.

Gaurav Jogani: One last question from my end is regarding the sportswear segment. The sportswear or so to say the casual footwear segment has been seeing very good traction as such. In this light we have seen lately, one of our competitors getting listed on the exchange and they have been showing smart growth in Q4 as well. In that light if you see what is our action towards the sportswear segment what are we doing to address that?

Gaurav Dua: So, we have three brands. Basically, for them it is athleisure brand what we hear. That is one third of our business. We are also seeing a good growth rate in athleisure and sports category. We are growing in line with the industry.

Gaurav Jogani: Anything that you're seeing, because on a general market check suggests that they are higher on the market share percentage-wise given that they are very dominant in that segment. Anything that we are doing in terms of product launches or expanding our reach on the online that you can highlight that we are increasing our presence there?

Gaurav Dua: Definitely we are taking some steps. I think it's like for example we are increasing some A&SP spends on e-com and having new tie-ups with different channels also. So, it's a continuous process.

Moderator: Our next question comes from the line of Bharat Chhoda with ICICI Securities.

Bharat Chhoda: Generally, when we see Relaxo has a good working capital cycle of around 50 days but this time it appears to be on the higher side of it closer to 90 days. What is the reason for the same? Is it more of raw material being accumulated or is it the finished goods? Can you just provide a brief view on that?

Sushil Batra: This has been because there was a pressure upon sale and price also. Our inventory has increased abnormally more than expected and there are two reasons for the inventory increase, one is the pressure upon sale and also the prices because your cost of goods and everything has increased. So, it has also given a multiplying effect upon the inventory. That is the one reason.

Bharat Chhoda: Your words were not clear. Could you please repeat? I was not able to get it.

Sushil Batra: Just repeating. Inventory is the major reason for working capital disturbance in this year and there are two reasons, one there was pressure upon the sale and second because the cost of goods has also increased, even raw material also. We were carrying little more inventory just to be more cautious about the future price increase, so inventory has increased in the balance sheet. That is visible also. Second, there is a slight increase in some debtors. So, these are the two reasons the working capital is under pressure.

Ramesh Kumar Dua **Material locked up includes raw material also.**

Bharat Chhoda: We have seen this the realization being significantly higher at this level do you see we would see we would see an impact on the volumes going ahead and probably also what is the margin we should work with? Is it 17%-18% kind of a margin that is possible for us to maintain with the current level ?

Sushil Batra: Margin definitely because this year being a little tough year comparatively and FY21 was a best year but if we compare FY20 the margins are definitely achievable, and we intend to and we are hopeful that will be achieved on FY20 base if you see.

Bharat Chhoda: FY20 base is what we should work with for FY23?

Sushil Batra: Yes. We can say, FY20 was 17 and this year we achieved lower than that, so definitely we intend and it's possible also.

Bharat Chhoda: At this level do you see the consumer actually like the volumes are they being impacted or how is it because that could you please provide a view on that how the consumer is reacting, the volumes have been down or how is it at this price levels? Initially there has been a comment from your side probably but post that stabilization is that volume again picking up?

Gaurav Dua: As you're well aware that because of inflation the purchasing power of the lower end of the pyramid, the mass market, they are feeling the pinch of inflation. Some of them are looking for cheaper alternatives you can understand because they have no money in their pocket. So, they are going for cheaper alternatives. There is a volume pressure no doubt about it. I think from Quarter 2 onwards this thing will be much better.

Moderator: Our next question comes from the line Mythili Balakrishnan with Alchemy Capital.

Mythili Balakrishnan: I just wanted to get a couple of data points from you. I want to go understand the mix between the different brands Sparx, Bahamas, Flite and the normal Hawai.

Gaurav Dua: We are doing Hawai and Bahamas come under Hawai division. That is around 25% and Flite is 37.5% and similarly Sparx is 37.5%.

Mythili Balakrishnan: Within Sparx 50% were sandals and the rest 40% were the closed toes, has that portfolio changed in terms of the mix?

Gaurav Dua: Yes, it has changed now. It is 60% shoes and 40% sandal as athleisure growing tremendously.

Mythili Balakrishnan: Are the sandals part of the business under pressure or both of them are doing well?

Gaurav Dua: Both are doing well. The only thing is there is a good demand in athleisure and sportswear. That e-commerce is growing much faster because of India becoming more fit and demand of these products going high.

Mythili Balakrishnan: Could you also help me understand the distributor and channel mix for us currently, how much EBO, online and wholesalers?

Gaurav Dua: We have around 650 to 680 distributors and online contribute around 11.5% of our sales, 7% is contributed by retail and 4% by exports.

Mythili Balakrishnan: My last question was on CAPEX. We have spent around 140 crores this year. Just wanted to get a sense of is some larger CAPEX in the footing given our venture into the south etc.?

Sushil Batra: We don't have any intent to spend in south but definitely we are expanding our capacity in north where we have our own set up. So, we are integrating our backend operations and for that we are working. This year also we have intent to spend around INR 100 crores, so it will add to the backend operations mainly.

Moderator: Our next question comes from the line of Manish Poddar with Motilal Oswal Asset Management.

Manish Poddar: Just three questions. If you can help me with this extra trade support which you've given to the channel, how much is the quantum for that?

Sushil Batra: Extra trade support we gave in Q3 because we were having inventory in December and GST was effective from January. In that quarter we gave around the INR 15 to 18 Cr because we were carrying some inventory at our end also, we gave the support in this quarter also. That is around INR 8 to 10 crores in this quarter.

Manish Poddar: You said the prices in the channel now or the inventory in the channel liquidated or has got the new pricing, is that the fair understanding?

Sushil Batra: Now new price material is coming the market. So that old inventory is almost clear. So now everything is through in the system.

Manish Poddar: Just two more data points if you can, you said now 650 odd distributors are there. How many distributors have we added in the full year?

Gaurav Dua: That is roughly around 10% what we have added.

Manish Poddar: Just in terms of SKUs, would you be able to help me how many articles do we have and what is the addition on a YOY basis?

Gaurav Dua: 400 articles we have right now. If you talk about SKU, it is 12,257 SKUs we have.

Manish Poddar: What is the change, is it the reduction in that because mainly it's a reduction just wanted to understand what is the numbers say in from FY21?

Gaurav Dua: No there's no reduction in SKU.

Sushil Batra: Its around 10,000 to 12,000, generally it always keeps changing also, some articles are plus and some minus. It's always changing but range is around 10,000 to 12,000.

Moderator: Our next question comes from the line of Ashish Kanodia with Ambit Capital.

Ashish Kanodia: The first question is in terms of capacity addition, so in terms of volumes what is the capacity addition plan for the next 2 years and across which brands or categories will we be expanding those?

Ramesh Kumar Dua: Already we have reached the capacity of 10 lakhs pairs per day and utilization is around 65% and within this category we are focusing to free some capacity of whatever is required in shoe division.

Ashish Kanodia: Second thing in terms of price hike, I think the full-year price hike was 25% but in terms of the price hike taken in 4Q apart from the 7% which you might have taken because of GST, was there any other price hikes as well?

Sushil Batra: The last price hike we took in December. That was inclusive of GST as well as material impact also, so that was the last one.

Ashish Kanodia: Last question, there is an inflationary trend in RM prices but is there any disruption in the supply of RM as well or at least on the supply side that's not a challenge?

Ramesh Kumar Dua: No, we are getting supplies. What we are doing is, we have maintaining inventory of the material because this uncertainty is always there. So, we have to keep some raw material in inventory for any possible disruption if it is there.

Ashish Kanodia: Just on the inventory side, is it possible to share out of the total inventory which we are carrying at the year end, what percentage would be pertaining to finish goods and what percentage would be of raw material?

Sushil Batra: Percentage, so overall maximum inventory related to **FG (Finished Goods)** because most of the materials we keep around 50 to 60 days inventory in the system but this time it was little higher. Average we keep around 40 days but this time it is higher. So, in percentage term you can say around one-third, around 30% will be raw material and rest is WIP and **FG**.

Moderator: Next question comes from the line of Nikunj Gala with Sundaram AMC.

Nikunj Gala: Just want to understand on the pricing front, you mentioned 25% increase which we have taken, this increase is at a consumer level or if I look at your realization increase on YOY basis for FY22, it is also nearly 22.7%. Similar kind of increase is also at a consumer level?

Gaurav Dua: On MRP you can say, consumer level, yes.

Nikunj Gala: Even at a MRP it's a 25% increase on a YOY basis and this includes the GST increase also from 5% to 12%, right?

Gaurav Dua: Yes, but it depends upon category to category also. 75% across all categories, in some category more, some category less, so depends upon the raw material.

Nikunj Gala: If I look at our realization on a 3-year basis, it would be 7%. So just wanted to understand this 7% increase on a 3-year basis, how this muchhas impacted the consumer from the volume perspective because our volumes are down to 2% on a 3-year basis. Is that a very meaningful impact you are looking at the external environment that the demand has been impacted so much purely on account of this kind of a price increase?

Ramesh Kumar Dua: The price increase has happened more in Hawai Slippers, Bahamas, and Flite EVA because they are having high content of polymers which became very expensive. Their price increase has been extraordinarily high and that has affected the demand of the articles. So the 25% what you are talking that average is across all categories.

Nikunj Gala: I understand. Sorry to dwell more on this. Can you just help us with this, let's take an example of average, the large part of your chunk of your product would be selling at approximately Rs. 250-300 article at a consumer level. On that you have taken 20%-25% increase, so that 250 to 300 like Rs. 50 per pair would have such a deep impact on the volume just want to understand that.

Gaurav Dua: Yes, you're right. In some categories we can feel the heat that you are saying Rs. 50 increase is there. It has definitely affected some volume, but going forward this thing will improve because other people are also increasing their prices. It will take consumer some time to really adjust to the new prices.

Nikunj Gala: This last one question; on a very sustainable basis what kind of a working capital you think would be doable in the medium term? I understand this year it would be high on account of high RM but what is the target threshold level you work with?

Sushil Batra: Threshold from which angle, amount term or what you are saying?

Nikunj Gala: On a very sustainable working capital days

SushilBatra: Sustainable working capital, if it’s 3 months things are workable smoothly, 3-3.5 months maximum.

Nikunj Gala: If I look 7-8 years where it was 2 months. Now we have shifted to 3 months kind of working capital.

Sushil Batra: Because this shoe category is growing much faster. It's a high value item, so it's lead time is much more, and we have to give little more credit to trade also because it is high value item. So that’s why it is increasing and moreover the raw material prices have also gone up like anything. So overall in value term it is definitely putting pressure upon the working capital side.

Moderator: Our next question comes from the line of Akhil Parekh with Centrum Broking Limited.

Akhil Parekh: My first question is on the price hike. What is the price differential now between Relaxo footwear and unbranded and some of our peers like Aqualite, VKC footwear?

Ramesh Dua: Can you repeat the question, your voice we can't hear?

Akhil Parekh: I'll repeat my question. How is the price differential between the Relaxo versus our peer and versus the unbranded?

Gaurav Dua: What it was last year we have maintained the same gap. It is not that there is a huge gap in terms of what it was one year back. I can just say that we are always expensive than unorganized. You cannot compare brand with unorganized. It's very difficult because they do pricing on daily basis, so we do not do. It's very difficult to compare with the unbranded but if you talk about other brands whatever difference was there before it is same.

Akhil Parekh: And how much that would be roughly?

Gaurav Dua: Depends upon brand to brand. There are so many other brands also. If you're talking about Aqualite, so 5% to 10% difference is always there.

Akhil Parekh: Does that lead to downtrading, for example given that the unbranded is cheaper and they can sacrifice on quality. Have we seen a trend where consumers have shifted from the branded players to unbranded?

Gaurav Dua: Some parts of India or you can say bottom of pyramid where people are feeling the heat of inflation a lot. They are doing it because again the money in the pocket, whatever money they have and it's getting depreciated, so they are going towards the unorganized. But that is a short-term phenomenon because the quality is not that good. They will come back to the brand.

Akhil Parekh: My second and last question is in terms of the retail touchpoint, if I look at fourth quarter '21 presentation, we said we had the 50,000 touchpoint and now we say we have 60,000 touchpoint. So, any specific geographies where we have added 10,000 outlets in last 1 year?

Gaurav Dua: It is across actually, but major in west and south.

Moderator: Our next question comes from the line of Nisarg Gandhi, an investor.

Nisarg Gandhi: My first question is regarding how are the customers reacting to the significant price increase and will you be willing to reduce the prices if the raw material pressure softens which is something if I recall correctly, you have never done in the past?

Ramesh Kumar Dua: We have to always remain relevant to the market conditions and also keep our prices competitive. Keeping in view our input cost we have to act accordingly and that will keep on happening.

Nisarg Gandhi: Do you see an increasing contribution from e-commerce like as high as 15% to even 20% from 11.5% this year in medium term and if you can outline what is your growth strategy for incremental sharing e-commerce?

Gaurav Dua: As everybody knows that digital is growing and e-commerce is the fastest growing category in footwear. 11% to 15% in one year will be difficult but we are definitely having high aspirations and we will grow to a good number. But it's difficult to say right now if it will become 11% to 15% in just 1 year.

Nisarg Gandhi: I was just looking to know more about the strategy that you are deploying to increase your revenue share from the e-commerce channels.

Gaurav Dua: Strategy if you ask, we are going to increase the spends on the different channels be it e-com. That is one and we are going for SMUs or whatever products specific, whatever calls we have to take we are doing that, and we are adding more channels in that.

Moderator: Our next question comes from the line of Priyam Khimawat with ASK Investment.

Priyam Khimawat: First you highlighted a sales mix as 25% in Hawai and Bahamas and 35% each in Sparx and Relaxo. So, was that volume break-up you are referring to or was that a value break-up?

Sushil Batra: It's a value break up.

Priyam Khimawat: And how would the volumes be then? If you could share that please?

Sushil Batra: Volume generally we don't share but overall,

Yes, maximum, Contribution comes from Hawai, Hawai is including Bahamas also and second is the Flite and last is Sparx. So, this is the breakup.

Priyam Khimawat: Secondly on your price increases. You highlighted that our last price hike was in December '21. Right now, we are already in May and I assume that raw material prices would have further inched up from December up to now. Are we contemplating any further price increases in the near term or the increase taken in December was sufficient for us to maintain a margin at the desired level?

Ramesh Kumar Dua: Currently we like to continue with what pricing has been already there. Let the things stabilize. Every now and then changing pricing destabilizes a market and creates lot of uncertainty.

Priyam Khimawat: Can we see some pressure on margins then in Quarter 1-Quarter 2 because there will be a lag in price increases?

Ramesh Kumar Dua: Yes. That will be there. After all things are in the system, new things are getting adjusted, but things will improve in the next quarter. Maybe somewhat this quarter also.

Priyam Khimawat: You highlighted our online share is 11.5% on the overall volumes. But if I take closed footwear category as a whole, what will be our online share there? I was just trying to understand are we in line with competition or ahead of them?

Gaurav Dua: Can you just repeat your question?

Priyam Khimawat: Our overall share in online is 11.5% as you highlighted. I just wanted to understand what would be the share in closed footwear category, sports, and athleisure primarily?

Gaurav Dua: If you talk about online, in Sparx 60% is shoes and 40% is sandals even in online. So, majority of sales are coming more than Rs. 500 MRP in online.

Priyam Khimawat: Let me put it other way. Out of that, in our Sparx brand, what would be the online contribution?

Gaurav Dua: It's more than 25%.

Moderator: Our next question comes from the line of Mr. Umang Mehta with Kotak Securities.

Umang Mehta: In the online channel at the EBITDA level, considering that delivery and all those expenses as well; would it be profit making for the company?

Gaurav Dua: We try to keep same margins what we have online-offline and retail. We last time also discussed that we do not want that goods flow from one channel to another because of prices. So, we keep it same.

Umang Mehta: Same margin you mean the gross margin, right? But considering the expenses of fulfillment of those orders, would you still be making same level of margins, EBITDA level?

Sushil Batra: It's the same. We just keep everything same.

Umang Mehta: Just one quick question on the geographic breakup. Would it be possible to share some broad numbers on region wise sales?

Gaurav Dua: Our major sales come from North India that is around 50% and then 18% comes from East, same West 18% and around 13% from South.

Moderator: Our next question comes from the line of Deven Kulkarni with Marcellus.

Deven Kulkarni: Around 2 years ago our distributor count was around 800 and today it has come down to around 650. Why has the distributor count reduced over the last few years?

Gaurav Dua: We want quality distributors so less than Rs.10 lakh sales per month. So, they were many in numbers. So, we have cut down the tail. We are focusing on the cost of reaching them it was not viable. We are focusing on good number of distributors who are doing more than Rs. 10 lakhs per month. That is how we decided. It was a tail. We have to cut the tail.

Deven Kulkarni: Is this exercise now over or it is a work in progress?

Gaurav Dua: Can you repeat?

Deven Kulkarni: Is this exercise of cutting the distributors over or it is still work in progress?

Gaurav Dua: It is a continuous process. We add 50 or we remove 25 who are not performing. So, it's a continuous process.

Deven Kulkarni: Secondly your presentation says that you have added around 10,000 retail touch points over the last 1 year or so and despite that we have seen a volume decline. Now given that this is an essential category and replacement cycle of the Hawai would be two times a year roughly. So, what explains the volume decline?

Sushil Batra: The volume decline is mainly due to price reason, and GST impact. So, we definitely added new touch points but ultimately there is an overall pressure from the demand, so this is the reason for volume decrease.

Deven Kulkarni: Is there any channel destocking because of the price hikes?

Gaurav Dua: Channel what you said? Channel destocking?

Deven Kulkarni: Yeah. I mean reduction of inventory in the channel because the prices have gone up by 20%-30%.

Gaurav Dua: Yes. The distributors and retailers are very cautious because of so many changes in MRPs. So, they're keeping less stocks.

Deven Kulkarni: Will it be possible to quantify what will be the reduction in inventory in the channel in terms of volume terms. roughly?

Ramesh Kumar Dua: We don't have it. Distributor inventory and the system and the retail level just not possible. We don’t have.

Moderator: Our next question comes from the line of Girish Pai with Nirmal Bang.

Girish Pai: You had an 8% decline in volume in FY22 versus FY21. Did the market also decline at the same rate and if not, who gained the market share?

Ramesh Kumar Dua: Over all category of Hawai and EVA, it is actually gone down because this year the market has opened up and outdoor people have started to be in the market. So, closed footwear is doing good and chappals and these things have gone down and at the same time because of high inflation, buying power of these masses has gone down. So, they're trying to hold on to their old slipper also and so delaying their purchase.

Girish Pai: No, I was trying to understand whether we've lost market share to any competitor, unlisted competitor, maybe somebody who's come from the South for instance?

Ramesh Kumar Dua: No, that's not there.

Sushil Batra : You see, last year because it was an abnormal, exceptional year open footwear sale was much higher than the normal. That's why you are seeing there is a de-growth in the number. That is the only reason because last year we sold more open footwear, this year demand was less comparatively, and closed footwear picked up in this year. We don't see there is some shift in market share from here to there. It’s an overall number has come down due to open footwear and closed footwear.

Ramesh Kumar Dua: If you got to 3 years back, this segment was 25%.

Girish Pai: What was a mix of open to closed footwear in FY22 compared to FY21?

Sushil Batra: This year it is around 20-80. 20% in closed footwear, 80% in open footwear and last time it was 15-85.

Girish Pai: Did you see any difference between urban versus rural demand?

Gaurav Dua: Yes. Rural we are feeling more pinch, there's more pressure in the rural side of India. Urban still there is a movement but in rural India they are not able to absorb the inflation or price hikes.

Girish Pai: Lastly there was a mention that you will start doing better starting from Quarter 2. What exactly do you mean by that?

Gaurav Dua: As we have increased prices in December and still there are three to four MRPs lying with the retailers and they are liquidating that. We are hopeful that whatever prices we have taken that will be absorbed and all the old inventories will be out of the system. There's a lot of confusion with retailers having multiple MRPs with him. We are thinking that once they liquidates their stock and the new rates will be adjusted.

Girish Pai: My last question is on ad spend. What was that a specific to sales in FY22 versus FY21?

Sushil Batra: FY21 being a tough year, the spent was less intentionely, it was a less but definitely this year we spent as we have been doing around 4%. This is the gap between FY21 and FY22. FY'22 was a normal year, FY21 was a little different year.

Moderator: Our next question comes from the line of Ankit Kedia with Phillip Capital.

Ankit Kedia: Do we sell to B2B players like Udaan and Ajio Business and what would be our contribution from them?

Gaurav Dua: We started with Udaan and Ajio, but our contribution is quite less. It is less than 1% you can say that. So, it's a new channel for us. The problem with them is that they are playing a discounting game which we do not want to disrupt the market. We are cautiously watching them and going forward then we'll see how we have to do business.

Ankit Kedia: Because one of your competitors' books double-digit revenues through these channels in the sports category. So, do we sell directly to them or we'll sell them through a distributor channel?

Gaurav Dua: Through our distributor.

Ankit Kedia: My second question was while you did say South is only 13% and we added more MBOs to West and South. Could you share that the maximum volume decline would have come more in the North market or it was evenly spread North-South-East-West?

Gaurav Dua: No, it was more in North and East part of India, West and South did well. One more reason being West, and South was affected more because of COVID lockdown which they bounced back very well last year.

Ankit Kedia: In these two geographies, 2-years down the line do you think both these geographies together can contribute around 40%-45% of our revenues in 2-years' time or they will still remain in that 30% kind of a ballpark range?

Gaurav Dua: It's very difficult to say right now how they will grow exactly to 45% or remain that 30%-35%. So, but definitely they have a more growth rate.

Moderator: Our next question comes from the line of Vikas with Equirus.

Vikas: My first question on the raw materials side. Can you quantify what has been the jump in the raw material prices for the quarter versus 3Q and versus 4Q of last year? Any number to attach to it?

Ramesh Kumar Dua: Different material have different prices; we can tell you as an average. Average of different kinds of material, inflation or you want to know specific raw material wise?

Vikas: Whether we talk about a major part of the raw material number so an average?

Sushil Batra: You want Q4 versus Q4 or full year versus full year?

Vikas: Q4 versus Q3 and Q4 versus 4Q of last year?

Sushil Batra: Q4 versus Q4 there is huge jump definitely last year it was a very good year from raw material point of view. You can say in some material it was around 80% which is also a major contributor in the material side. So, Q4 versus Q4 overall there is a huge jump you can say around 50%-60% but Q3 versus Q4 was less because material had already peaked out. Gap is comparatively much lower maybe around 20% in Q3 versus Q4 in overall.

Vikas: Another question similar to it, there are two parts; first the GST hike that has too passed on and second is the RM inflation that has too passed on in the price hikes that we have taken? So can we say that the GST pass on is almost done and it is only the raw material price hike that has to be taken or even the GST part is also left to be reflected in the price that we have to take?

Sushil Batra: GST has been done now. That is now history. By and large it has been settled in the market. It's really taking time but yes it has been settled now. So raw material is only left-over item and overall inflation is everywhere on all fronts in the system;

Ramesh Kumar Dua : There are two things. One thing is cost of input has gone up because of raw material itself and GST also. Other hand the buying power of the consumer has gone down. Both things have affected actually.

Vikas: Your view as to how the market or probably our competition is strategizing with respect to the taking the price hike? Are they taking more of the price hike or they are cutting back on taking the price hike just to ensure that the demand does not get hit by this time?

Gaurav Dua: Raw material is quite common for all of them. They have also taken price hike and all of them are also feeling the heat. There's a limit to pass on the price to the end consumer. For now it is wait and watch. Let us see how prices go in next quarter.

Moderator: Our next question comes from the line of Tejas Shah with Spark Capital.

Tejas Shah: Couple of follow-ups. In most categories we are competing with unorganized and across categories in our channel checks we are picking up that wherever unorganized are dependent on Chinese imports, they have been struggling both on inflation and also availability count because their supply chain has been disrupted badly. Are we seeing any benefit of that in our favor because our supply chain will be relatively much more robust than unorganized competition in the three segments that we operate in?

Ramesh Kumar Dua: No, the materials that we're using in our Hawai slippers or Flite, EVA, we are always keeping good inventory in the system. There's no disruption in our manufacturing. We have been cautious, and we have to be cautious on that.

Tejas Shah: Yes, precisely that is the point. Definitely we are actually better off than some of the unorganized players. So, are we seeing that natural gain happening in market share because unorganized is not as competitive compared to let's say they were 2 years back or 1 year back?

Ramesh Kumar Dua: The material like polymers, EVA, PU, PVC, and all-natural rubber, they are available in domestic also. So that's not an issue for them. Material is available. Now it is the question of prices. A year back, the prices were very high in local market, but now there is comfortable pricing. So we are very clear and not very concerned for these categories.

Tejas Shah: If I see our volume, we are actually lower than FY20 volume. Understandably our capacity utilization will be lower than what we had in FY20 because we had CAPEX also in the last 2 years. Again, we have guided for Rs. 100 crores of CAPEX this year. This looks a bit higher on maintenance CAPEX side. Just wanted to understand what does this outlay for.

Sushil Batra: No, because every year it’s a very fast-moving article and we have to create new designs. Lot of money goes in the mould side, around Rs. 25-30 crores, it’s a recurring CAPEX every year we have to do. Then we are setting up some back-end operation that is almost in the final stage. So, few expenses definitely will go there. These are the two major and other routine expenditure around IT that is around Rs. 8-10 crores. So Rs. 100 crores almost in this year, it’s always there.

Moderator: Our next question comes from the line of Mrs. Trivedi with Trident Capital.

Mrs. Trivedi: Ramesh ji, my question is to you. It seems we are in a rather difficult situation whereas you mentioned in some ways the volume or the top line is not in our hands because the consumer is stressed because of inflation and the margin is also not in our hands because the raw material has a lot of pricing concern. Under these kinds of scenarios, how do you manage the business? What are the numbers and metrics that you focus on these days?

Gaurav Dua: We are going to increase our A&SP spend plus we are going to have a competitive range introduced soon so that we are able to get the top line fixed first. So that is the priority number one. There will be some measures in appointment of new distributor, adding more outlets. So, definitely I think we will be coming back with the numbers.

Mrs. Trivedi: As the situation is unfolding, there are so many different scenarios that are possible, and which is the scenario that you would be most worried about? And I'm thinking for example, if there is protracted inflation increase for the next let's say 18 months-24 months then I would imagine that there will be a lot of pain in the system. But I'm curious to hear from your experience what is it that you worry about the most in terms of future expectations?

Ramesh Kumar Dua: Sometimes we have to first protect our market share and top line and we have to keep our pricing very competitive so that we are there. Once the things settle down then you can always have your better pricing and margins also.

Mrs. Trivedi: Can I ask you a follow-up on this? I think at least a couple of times during this call you have emphasized on market share. Why do you care so much about market share and why do you think if you have market shares and pricing and margin and everything else follows but I think it's very interesting your keen focus on market share?

Ramesh Kumar Dua: It's very important we have the market share; we cannot lose our shelf space. We have to be there in the minds of the consumer always, that is of prime importance. Once we are always there and everything else will only then follow. If we lose our market share, then what are we left with.

Mrs. Trivedi: In your experience and I'm thinking let's say in early 2010 when the inflation was 10% or 12%; if you compare that period to now, any learnings and lessons that you can apply from those times to today?

Ramesh Kumar Dua: This time inflation has been very severe. For example, the EVA material which was at Rs. 120 costing 1.5 years back if that becomes Rs. 300, it is very severe. It never happened in 2010. At that time inflation was there but it was gradual and gradually price hikes were taken, and things settled like that. This year it has been very fast. So far as we have to take four prices increases in the last 1 year, it has never happened. And still today also uncertainty continues. That’s it.

Mrs. Trivedi: But in these times while it is bad for the economy and unfortunate for the consumer but in some ways, is this not a good time for Relaxo to really feel and take market share from unorganized players for whom the pain will be much more?

Ramesh Kumar Dua: No, pain is for all. They are in the system; they will always remain in the system. We all generally co-exist. Share can go down here and there that's it but doesn’t mean somebody will be wiped out in the system.

Mrs. Trivedi: You feel more competition from unorganized players given your price points or from all of these organized players particularly the ones who are now going public as well and face pressures from their investors to show good results?

Ramesh Kumar Dua: Competition is from unorganized also and organized also but we have to always remain competitive on all fronts. We can't just look down upon anybody lightly.

Gaurav Dua: They were selling before, now also. So listing and non-listing does not make any difference

Ramesh Kumar Dua: They were always in the system. They will remain always in the system.

Mrs. Trivedi: Ramesh ji, my biggest concern is succession plan for Relaxo? Is this something that is actively discussed in the company or is this something that the board is discussing? What are your personal thoughts on this?

Ramesh Kumar Dua: That thing is in process. We are serious on it, but we can't divulge beyond anything now.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to Mr. Akhil Parekh for closing comments.

Akhil Parekh: Thanks Ryan. On behalf of Centrum Broking, I would like to thank the entire management team of Relaxo for answering all the questions very patiently and in detail. I will hand over the call to the management team for closing remarks if any. Thank you.

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

Moderator: Thank you. On behalf of Centrum Broking Limited that concludes the conference call. Thank you for joining us and you may now disconnect your lines.

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