



Quality Par Excellence

# Transcript of Analyst Meet on 24th September, 2015

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## **RELAXO FOOTWEARS LIMITED**

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Mr. Sushil Batra, CFO RFL, welcomed all invitees and introduced them to the company management. The meeting began with a brief overview of the company and past performance (presentation uploaded on the company website). This was followed by a question and answer session. The details of the same are provided below -

**Question :**

Parallel market of SPARX is going on in Mumbai, Delhi and other part of India, what are the initiatives Company has taken in this regard to stop piracy?

**Answer :**

Whenever we come across with pirated brands we take appropriate actions which includes police raid and other legal remedies, as applicable

**Question :**

What is the product-wise and brand- wise EBITDA.

**Answer :**

Our EBITDA on all our brands is more or less the same. We maintain a comprehensive portfolio of designs for all our brands.

**Question :**

Is the pricing power of SPARX higher and does the brand command higher margins?

**Answer :**

We have different articles with different margins but the difference is minimal amongst brands. We, as a Company, do not have an opportunistic approach to pricing. Our strategy focusses on making a reasonable margin from all products.

**Question :**

We see gross margin growth in the Company. Is it due to reduction in raw material cost? Are the raw material prices directly linked to crude?

**Answer :**

Our primary raw materials are textile, rubber, PU and EVA . Crude has a marginal impact on the prices of PU and EVA. However, raw materials prices are largely governed by market forces and supply-demand dynamics

**Question :**

What is the reason for increase in gross margin?

**Answer :**

Increase in gross margin is largely on account of factors like product mix, raw material prices, value added articles and premiumization of portfolio.

**Question :**

You have 208 Retail Stores. Is it generally for branding?

**Answer :**

Our retail structure helps not only in branding, but also in understanding consumer needs and in ensuring product availability.

**Question :**

Are you focussing on online business and are the margins better in the space?

**Answer :**

We have similar margins across traditional and online sales channels. We are making special products focussed on e-commerce to ensure that there is no cannibalisation of sales vis-à-vis traditional channels.

**Question :**

What is volume growth and realisation growth?

**Answer :**

Overall growth last year was 22% and volume growth was 14%. Going forward, both the parameters will be determined by macro-economic factors governing the market.

**Question :**

Quarter 1 we had reported 15% EBITDA margin. Is this figure sustainable?.

**Answer :**

Ours is a seasonal product with every quarter being different. Subsequent quarters cannot be forecasted on the basis of Q1.

**Question :**

Generally how many products does Relaxo introduce in a year?

**Answer :**

The company introduced approximately 200 designs last year, spread across categories and brands

**Question :**

Does Relaxo give any special incentive, credit terms etc. to clients in the southern region to uplift sales? Do you have different strategies for the southern & western markets?

**Answer :**

We have increased the number of regional distribution centres in south India. We are also planning to come up with regional portfolios for each of our markets.

**Question :**

How much business comes from north?

**Answer :**

North is our biggest region followed by east.

**Question :**

How do you decide the quantum of money to plough back into each of the brands for your company?

**Answer :**

We try and take a holistic approach and invest in innovation and technology irrespective of brand.

**Question :**

Are you open to margin expansion?

**Answer :**

We are a market driven company and leverage any surplus towards improving product quality and innovation.

**Question :**

Will Relaxo continue to be a domestic brand or is there any thought of increasing international presence?

**Answer :**

95% of the footwear industry in India is driven by domestic sales with approximately 5 % coming from exports. India is a big market with a lot of potential and hence will continue to be our primary focus for growth. However, we plan to be relevant in international markets by building our own brand.

**Question :**

Going forward are you planning to grow internationally only under the Relaxo brand or are you also open to exploring contract manufacturing opportunities for other brands?

**Answer :**

While we are working with private players internationally, our focus continues to be the growth of Relaxo brands. Internationally we are trying to get our brands registered all over the world and drive sales through our brands. We ensure world class quality for all Relaxo products.

**Question :**

What will be the effect of GST on Relaxo?

**Answer :**

GST will ensure a uniform tax regime across the country. At present, the tax rates can vary from zero to 14% depending on state. This leads to an unfair advantage to some players. With GST, the tax rate will be same all over India ensuring a level playing field for all, which is a good thing for established players like us.

**Question :**

Whether the company has any plan to enter the leather sector/ other non- leather sectors in which it is not currently operating?

**Answer :**

We will continue to focus on growing our existing categories. We strongly believe that developing a core competency is more important than being a generalist in many categories. We recently forayed into PU and with that, we feel our non-leather category is comprehensive and offers a big enough market to focus on.

**Question :**

What would be RFL's strategy for growth? Is it volume driven, price focused or margin focused?

**Answer :**

You should be master in what you do rather than being jack of all trades. We started with a vision to manufacture best quality slippers at a competitive price. We have come a long way since then to become market leaders in our categories. The idea is to focus on key categories, achieve scale and efficiency and launch market relevant products.

**Question :**

Whether inventory management is a challenging task due to fashion industry keep on changing and whether any special provisions need to be made in this regards

**Answer :**

Generally provisions are not required. For inventory control we leverage clearance sales and try and not sell products below cost.

**Question :**

If there are 6000 SKUs, then how many articles are there?

**Answer :**

We have more than 400 articles in different colours and sizes.

**Question :**

How competition will effect RFL as more players are entering into wholesale market

**Answer :**

We have to be mindful of what is happening in the market and potential opportunities and threats. The key is to remain in touch with your consumers and launch relevant products. We do a lot of customer research to identify product needs proactively and stay ahead of competition.

**Question :**

Are you looking for any other Celebrity for your brands in place of Mr. Salman Khan?

**Answer :**

We are in various stages of discussion and will keep you updated on the developments.

**Question :**

To further growth, would you want to focus on outsourcing or invest in your manufacturing setup?

**Answer :**

The decision will depend on the expertise of the outsourcing party and specific customer needs.

**Question :**

What are capacity expansion plans at Relaxo

**Answer :**

Currently we have sufficient capacity to cater to our present and future requirements. We always try and plan ahead of the curve to take care of the long lead times involved in setting up a manufacturing unit.

**Question :**

How much Capex will be there for FY 2015-16

**Answer :**

It should be around 70-80 Cr, primarily funded through internal accruals. If needed, we can also avail loans.

**Question :**

Are you planning to open more Regional Distribution Centres?

**Answer :**

This is the way forward. However, the decision to open new regional distribution centres will be governed by volume growth opportunities and potential changes in the tax regime

**Question :**

With the emergence of e-commerce, the unorganized sector has a new platform to sell. What are your views regarding the same?

**Answer :**

We are conscious of the developments in the e-commerce space. However, we would focus only on premium categories for online sales platforms and drive sales through brand recall. For other categories, we will continue to leverage our traditional channels.

**Question :**

What are the biggest challenges to growth of RFL?

**Answer :**

The consumer behaviour has witnessed a sea change in recent years. The consumers today are more fashion conscious than ever before, which leads to smaller product life cycles. This implies that we must introduce a higher number of designs in shorter time frames and yet maintain our scales of economies. The growing overheads costs, shortage in skilled manpower and the complexity of managing a large workforce adds to our business challenges.

Post the question and answer session, the CFO, on behalf of Relaxo Footwears Limited, thanked all the participants and concluded the meeting.