



**“Relaxo Footwears Limited  
Q2 FY2020 Earnings Conference Call”**

**November 05, 2019**

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DIRECTOR  
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MR. VIKAS TAK, COMPANY SECRETARY**

**Moderator:** Ladies and gentlemen, good day and welcome to the Relaxo Footwears Limited Q2 FY2020 Earnings Conference Call hosted by Axis Capital 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Jogani from Axis Capital Limited. Thank you and over to you Sir!

**Gaurav Jogani:** Good afternoon everyone and thank you for joining the call. From the management of Relaxo, we have with us today, Mr. Ramesh Kumar Dua-Managing Director, Mr. Ritesh Dua-Executive Vice President - Finance, , Mr. Sushil Batra-Chief Financial Officer and Mr. Vikas Tak-Company Secretary. I would like to hand over the call to Mr. Sushil Batra for his opening remarks and then we can have the Q&A session post that. Thank you and over to you Sir!

**Sushil Batra:** Ladies and gentlemen, thank you very much for attending our earnings call for the second quarter of fiscal 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 Q2 FY20 financial performance followed by H1FY20 financial performance.

In Q2 FY20, Relaxo booked an operating revenue of 622 cr up by 14.5% Year on Year. This revenue growth was the result of across-the-board performance with our Sparx and Flite, PU, Bahamas categories registering higher growth than other categories. Advantage of price increase took in past helped in the growth of this quarter. This quarter growth is a mix of value and volume growth. Benign raw material prices and increased premiumisation in some categories led to an improvement in the gross margin to 56% as against 53% in same quarter last year. Our employee expenses were 11.6% of revenue and almost similar to that of Q1FY20. The increase in absolute value of employee expenses in Q2FY20 as compared to corresponding period of last year is due to inflationary growth, creation of new position in sales and addition of manpower for our new production capacities. 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 11.8 cr.

Our EBITDA margin for the quarter was 16.8% vs. EBITDA margin of 16.4% in Q1FY20 and 13.5% in Q2FY19. EBITDA margin of 16.8% for Q2FY20 stands at 15% without IND AS 116.

Our Company has chosen to exercise the option of lower tax rate of 25.168% as introduced by the Taxation Laws Ordinance 2019. The full impact of this change has been recognized

in tax expense for the quarter and half year ended September 30, 2019. Our Profit after tax was 71 cr for the quarter, up by 79% YoY with a PAT margin of 11.3%.

For First half of FY 2020, we registered a revenue of 1270 cr, up by 15% Gross margin of 55% and EBITDA margin of 16.6%. Favourable raw material prices in FY20 and volume & value mix supported this growth. Our PAT of 120 cr in H1FY20 with a PAT margin of 9.5% grew by 41% YoY.

During H1 of FY20, we generated a cash of 160 cr from operation and spent 74 cr in capex and repayment of current and non-current borrowings.

At the end of Sep 30th, 2019, we have 370 exclusive brand outlets which contributed 7% to our H1FY20 revenues. We have added net 27 new stores in this period. Exports have expanded to new territories and are contributing 4% of revenues.

Going forward, we expect raw material prices to remain favourable. We would continue our efforts to grow our presence in untapped and under-penetrated markets and focus on strengthening our brands. We can now open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss Broking Limited. Please go ahead.

**Abneesh Roy:** What has been the impact of the online business if you could discuss in this quarter versus the earlier trends?

**Ramesh Kumar Dua:** Online businesses have grown by 37% in H1.

**Abneesh Roy:** Q2 will also have growth similar to the H1 growth or in Q2 you have seen a slower growth as compared to Q1?

**Ramesh Kumar Dua:** Q1 and Q2 both have grown around 35% to 37%.

**Abneesh Roy:** In terms of raw material, how do you see the scenario in H2?What is your outlook on that?

**Ramesh Kumar Dua:** I think raw material prices are going to remain stable and benign the way it has been in Q1 and Q2.

**Abneesh Roy:** That is all. I will come back in the queue.

- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. If you can size up the whole quarter for us in terms of demand scenario because we are seeing some of very low-ticket categories also face a lot of problems both at distributor end and also at the consumer end but we reported very strong numbers in this difficult environment. So what is working for us and if you can comment on the demand in general also?
- Ramesh Kumar Dua:** I agree that the market condition is not so good, but you know that the footwear industry is a little different from other industries. If you are able to have good articles & develop new articles, the demand of such articles then really helps the company. This year we have introduced a lot of articles and many articles have been well accepted in the market. As a result, our growth, even among challenging conditions, is quite satisfactory.
- Tejas Shah:** Is the industry also growing at this pace or have we gained a proportionate market share at this time?
- Ramesh Kumar Dua:** **It is difficult to find out growth rate for** unorganized industry, but I know the conditions are tough, however I can comment just on my own numbers. Industry may not be growing at that pace.
- Tejas Shah:** Sir, you mentioned about growth in online but what will be contribution of online on the overall numbers?
- Ramesh Kumar Dua:** This base is not very big but it is growing at a faster pace.
- Tejas Shah:** But the contribution of online will be...?
- Ramesh Kumar Dua:** Presently, 4%-5% is the share of online in the total scheme of things.
- Tejas Shah:** Sir, even though it does not show up in your balance sheet numbers, but are you seeing any stress in terms of recovery from debtors and money circulation in your channel?
- Ramesh Kumar Dua:** Yes, there is a market liquidity problem. You know we have our own control system, we do not extend credit beyond a certain limit, so we keep a control on that.
- Tejas Shah:** Lastly, can you share the capex plan for the year?
- Sushil Batra:** This year we have a plan of spending around INR 100 Crores in expansion.
- Tejas Shah:** This is in Greenfield or Brownfield?

- Ramesh Kumar Dua:** Greenfield also. And in the current scenario, certain new machines need to be added, that is the ongoing process. The major spent is going on our new project which is coming up in Bhiwadi.
- Tejas Shah:** Thank you, Sir. That is all from my side. All the best.
- Moderator:** Thank you very much. The next question is from the line of Sonali Salgaonkar from Jefferies India Private Limited. Please go ahead.
- Sonali Salgaonkar:** Thank you for the opportunity. Sir, my first question is again an extension of the earlier question in terms of demand. We understand that H1 has been weak but do we see any green shoots in terms of H2 demand being better than the H1?
- Ramesh Kumar Dua:** Well, at present, whatever the conditions may be, we are able to perform in those conditions and in the next quarter if the conditions are better than before, we will be even in a better position. But as we are in the month of October now, we do not find much of a change. The conditions are still quite challenging.
- Sonali Salgaonkar:** Sir, could you help us with an approximate number of your PAN India distribution and retail touch points?
- Ramesh Kumar Dua:** We have around 650 wholesale distributors across India and may be around 35000 retailers we are serving.
- Sonali Salgaonkar:** My last question is again related to the industry. Sir, currently how much proportion of the entire industry would be comprised by the unbranded players?
- Ramesh Kumar Dua:** You mean unorganized?
- Sonali Salgaonkar:** Yes.
- Ramesh Kumar Dua:** 65% to 70% is in the unorganized space.
- Sonali Salgaonkar:** Is this by value?
- Ramesh Kumar Dua:** Yes, this is by value.
- Sonali Salgaonkar:** Alright. That is it from me, Sir. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Ashish Kanodia from Ambit Capital Limited. Please go ahead.

- Ashish Kanodia:** Sir, if you can specify the volume growth during the second quarter & in the first half FY2020.
- Sushil Batra:** We had a volume growth of around 8% in the H1.
- Ashish Kanodia:** It was similar in Q2 as well?
- Sushil Batra:** Q2 was lower but Q1 was better, high value items were more in sale because it was a season period for those shoes which are at a higher price.
- Ashish Kanodia:** Sir, if I look at past trends, we have been doing some 16% to 17% volume and now because of economic scenarios and consumption slow down, we have moved to 8%. So, on the second half, do you see the same trend to continue or do you see an improvement in your overall volume growth?
- Ramesh Kumar Dua:** October-November-December, in this quarter, because it is winter time, more of closed shoes are going to sell. So, volume growth will be in the same way it was in Q2. The Q4, when the summer season comes up, then I think the volume growth may be better.
- Ashish Kanodia:** You talked about price increase earlier & how there was some change in the product mix. Can you throw some light on that? Also, what percent of value growth would be attributable to pricing and mix?
- Ramesh Kumar Dua:** There was an increase in price in only selected articles and now it is very difficult to calculate what you are asking. It is a mix of both- volume, price increase, premiumization, etc. New products are also coming & they are also part of it, maybe say 20% share our new product is also going into it.
- Ashish Kanodia:** That is all from my side.
- Moderator:** Thank you very much. The next question is from the line of Neerav Sawai from JM Financial Limited. Please go ahead.
- Neerav Sawai:** Good evening, Sir. My question is regarding this new project-the Bhiwadi project, can you elaborate on the new capacity expansion which is going to come and how much time will it take to commence operation?
- Ramesh Kumar Dua:** Regarding the new capacity, we plan to add around 1,00,000 base per day and it would take around three years.
- Neerav Sawai:** Three years for you to commence operation?

**Ramesh Kumar Dua:** The construction of the building has just started.

**Neerav Sawai:** What would be the total capex which we have outlined for this one lakh per day capacity?

**Sushil Batra:** Around INR 90 Crores.

**Neerav Sawai:** Around INR 90 Crores over a period of three years?

**Sushil Batra:** Correct.

**Neerav Sawai:** Is this is more for the Hawaii products or is it for premium products?

**Ramesh Kumar Dua:** We are now going well in two segments-Flite PU and Sparx shoes. So, we will focus on whichever demand is more. Presently PU is growing, our shoes category is growing so both will be expanded there.

**Neerav Sawai:** Sir also it could be very helpful if you can just give us a ballpark number in terms of breakup between your premium products or the traditional Hawaii products so we can get a sense on what is growing faster & especially driving the growth.

**Ramesh Kumar Dua:** The way we operate, we introduce the article at different price points and depending upon the demand we serve the market. You cannot say that this is premium or that isn't premium. There are different price points at which we are serving whether Sparx brand or Flite brand or our Bahamas brand. So in every category, there are certain articles, which are at higher price points and certain at lower points.

**Neerav Sawai:** So brands like Sparx and Bahamas are more on the premium side, is it the right way to look at it or is it SKU wise depending upon the article?

**Ramesh Kumar Dua:** You cannot draw a line of any category about whether this price is premium or not.

**Neerav Sawai:** Sir, if you can just help us with the total capacity what we have as on FY2019, bifurcation between Hawaii and non-Hawaii?

**Ramesh Kumar Dua:** We have not added any capacity in this year.

**Sushil batra:** 7.5 Lakhs capacity we have as on date.

**Neerav Sawai:** Okay, so that continues to be same for FY2019 as well.

**Sushil Batra:** Yes.

- Neerav Sawai:** 7.5 lakh per day capacity.
- Ramesh Kumar Dua:** Yes, per day.
- Neerav Sawai:** This includes the Bhiwadi capacity?
- Ramesh Kumar Dua:** Yes, that is right.
- Neerav Sawai:** That is it from my side. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Vaishnavi Mandhanian from Anand Rathi Financial Services Limited. Please go ahead.
- Vaishnavi Mandhanian:** Thanks for taking my question. I had a question regarding the balance sheet and cash flow. Sir, there is a write off of lease assets of around INR 205 Crores and the capex of around INR 74 Crores. Can you help me to realign the capex or the cash outflow?
- Sushil Batra:** You want to know for the first half year?
- Vaishnavi Mandhanian:** Yes, for the first half.
- Sushil Batra:** Total cash generation was INR 160 Crores and out of this we have spent INR 74 on the capex which we incurred in these six months and INR 205 Crores that is a notional entry due to Ind AS-116. So, we put some assets there that were related to long-term lease and land we shifted from the PPE to this category.
- Vaishnavi Mandhanian:** So how much did we shift from PPE to the part of the lease asset.
- Sushil Batra:** We shifted INR 50 Crores lease out land from the PPE to the ROU assets and then property which were on rent we converted due to Ind AS-116 around INR 158 Crores, so a total of INR 205 Crores has been shown and on the other side we have shown the liability.
- Vaishnavi Mandhanian:** Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Himanshu Nair from Systematix Group. Please go ahead.
- Himanshu Nair:** Firstly, if you can give us some color on our regional performance, just so as to understand whether this growth is driven more by higher distribution penetration in markets like South India and West where we are not that strong. If you can just give us some color on the zonal growth that we have seen in the North, East, West, and South?



- Ramesh Kumar Dua:** All territories are growing. But particularly new territories like West and South and also some part of East are now growing at a better rate because these are virgin markets for us. So, there is a lot of empty space in the market. Our Sparx brand and Bahamas are picking up in these markets.
- Himanshu Nair:** Okay can you share whether our key market, which is north, has that grown in the first half?
- Ramesh Kumar Dua:** North has also grown, but you know south and west are also growing at a faster rate because there is lot of empty space in those markets.
- Himanshu Nair:** Second question on the industry, Sir. You said around 60% to 70% is unorganized. So, can you share what that number was 2-3 years back? Is there a shift that we are seeing or are all branded players put together taking away share from unorganized guys?
- Ramesh Kumar Dua:** No not much of a change. Maybe some of the people who we call unorganized are trying to organize themselves after the implementation of GST and demonetization. Few years back it was not more than 30% as organized and 70% as unorganized.
- Himanshu Nair:** So that number broadly remains same?
- Ramesh Kumar Dua:** Gradually people will shift to organized, the way things are going, people are getting organized but not at a rapid pace.
- Himanshu Nair:** Sir, final question on our EBO, you said we have 370 EBOs as of now, so just wanted to understand that what is the company's strategy there? Are we looking at a very aggressive expansion in this EBO channel and is it more profitable for the company to sell more through these channels?
- Ramesh Kumar Dua:** We are not very aggressive on it. Our purpose establishing all these EBOs is to display and create awareness of our articles. Ultimately, multibranded outlets give us a maximum sale.
- Himanshu Nair:** In terms of margins, do we make any money here or so it is more like a marketing spend that we do?
- Ramesh Kumar Dua:** Not marketing, it is just cost neutral.
- Himanshu Nair:** Okay, this number will grow significantly in the next couple of years or not really?
- Ramesh Kumar Dua:** No we will be cautious on it.
- Himanshu Nair:** Alright sir. That's all from my side. Thank you.

- Moderator:** Thank you very much. The next question is from the line of Jason Soans from Monarch Networth Capital Ltd. Please go ahead.
- Jason Soans:** Sir, I just wanted some color on the industry size, for example you said you have a capacity of 7.5 lakhs pairs per day. Could you throw some color on who is the second largest player and third largest player?
- Ramesh Kumar Dua:** In value terms or volume terms?
- Jason Soans:** Both, if possible?
- Ramesh Kumar Dua:** It is only an estimation that we can give. Because when I say 70% is unorganized, figures are not revealed at all, so just to guesstimate, we have 5% share in the market.
- Jason Soans:** In terms of organized player, as you have 7.5 lakhs pairs of capacity, who could be the second and third largest player, probably Paragon or Campus?
- Sushil Batra:** Number of pairs wise, we are the largest and then VK Group is also having good numbers, Paragon is having good numbers, but again they being unlisted Companies, we do not know number wise data.
- Jason Soans:** I understand that you have large domination in the Northern and Eastern Indian markets, now in terms of the west and south, where you have a lot of traction for Flite PU as well as Sparx, just wanted to know - for example, like Bata has an exclusive business outlets where they can showcase their whole range of products but while at the same time Relaxo being a value added player/ price point player still does not have any exclusive price points for example in a major market like Bombay. So, what is your strategy towards that? I think that it could really help in terms of creating a lot of brand recall and a brand for our product and in terms of awareness as well, so what is your strategy towards that?
- Sushil Batra:** The strategy of setting up of all the retail outlets is basically to explain the entire range of products that we manufacture & to kind of display it so that the people are aware of what we actually make. Multi-brand outlets keep very few articles on their shelf or their display counters, so that was when we realized that how will our consumers know what we are doing, and with that objective in mind, we started opening the outlets as a marketing channel, display cum exhibition. It is a cost neutral model and our objective of it is not as that of a business model like Bata, we have a different consumer.
- Jason Soans:** That is all from my side. Thank you.

- Moderator:** Thank you very much. The next question is from the line of Devang Mehta from Bay Capital Partners. Please go ahead.
- Devang Mehta:** Thank you for the opportunity. Just wanted to understand that in terms of distribution, we have around 35,000 retailers having touch points at 35,000 points so what would be the split between north/west and what would be south and how are we growing in south, if you can highlight?
- Ramesh Kumar Dua:** Definitely North is the highest because we are situated in north. South and west are now growing, in Sparx and Bahamas brands and other brands are also coming up For articles like our Hawai slippers, there are regional players in that market & so there is stiff competition. Due to article like Sparx where there is no regional player, we got an easy entry into the market. Now other premium article like Bahamas is getting the entry and now Flite PU is also getting an entry there. So, slowly and steadily we are able to tap the market wherever there are empty spaces and in other markets also like Central India. Wherever we find our space and wherever there is any opportunity, we are trying to capture those unutilized markets.
- Devang Mehta:** But is there any target to reach any particular number of touch points in the southern market over the next three to four years?
- Ramesh Kumar Dua:** Wherever there is space we are going there. We cannot say anything specific. Wherever there is an opportunity, we are trying to use that opportunity and open up.
- Devang Mehta:** Our largest raw material, as I understand, is PU and rubber?
- Ramesh Kumar Dua:** EVA is largest rather.
- Devang Mehta:** Can I just get a broad breakup of these three raw materials as a percentage of total material?
- Ramesh Kumar Dua:** Highest is EVA, followed by PU, and then natural rubber followed by PVC.
- Devang Mehta:** Any percentage ballpark if you can highlight?
- Sushil Batra:** EVA is 15% to 18% and PU is around 14% to 15% and rubber is also around 7% to 8%. These are the ballpark.
- Devang Mehta:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Shirish Pardeshi from Centrum Broking Limited. Please go ahead.

- Shirish Pardeshi:** When you say that 20% contribution is coming from the new products, how often do you think that there is a change needed for introducing a new style or an article?
- Ramesh Kumar Dua:** Every year, we are introducing 200 new articles because the footwear industry has become more of a fashion industry. So, we have 400 total articles, every year, 200 new articles are introduced. We keep studying the nature of the consumer, how is it evolving, what are his needs, etc. through the retailers/distributors/consumer connects. So, as per the emerging needs accordingly we will develop our products and keep on watching regularly.
- Shirish Pardeshi:** So you mean to say that the older one you discard and you pick up the new article?
- Ramesh Kumar Dua:** Actually, we take low performers out of the production.
- Shirish Pardeshi:** So, at any point of time, what number of SKUs will you be dealing with?
- Ramesh Kumar Dua:** 400 articles, 3 colours, 6000 SKUs.
- Shirish Pardeshi:** You mentioned that 35,000 outlets are the distribution touch point that you have. So, would you be able to tell me if 400 towns or 800 towns is your coverage?
- Ramesh Kumar Dua:** We are targeting to cover most of the towns by this year.
- Shirish Pardeshi:** So what is the number you have?
- Ramesh Kumar Dua:** Two lakh population above.
- Shirish Pardeshi:** Thanks very much.
- Moderator:** Thank you very much. The next question is from the line of Akhil Parekh from Elara Securities Private Limited. Please go ahead.
- Akhil Parekh:** Thanks for the opportunity Sir. Sir, my question is on the competitive intensity especially from few of the big south based players. If understand correctly that last year the competitive intensity had gone up and was one of the key reasons why we had taken some price cuts. So, how is that doing for the first half and how do you foresee for the second half of this year?
- Ramesh Kumar Dua:** Competition will always remain. Now we have to introduce articles which are required by the consumer and the market. So, our attempt is to create articles which are needed by the consumer and then if you are able to have good articles at good affordable prices then we will be able to get in the market also. That is how we are focusing on developing the right articles and after studying the behavior of the consumer or through retailers

viewpoints/distributor viewpoints and once we are able to meet the emerging needs, automatically there is a good demand and we are able to survive even among the competition.

**Akhil Parekh:** /Has the pressure kind of slightly reduced for the first half as compared to what it was last year?

**Ramesh Kumar Dua:** Pressure will always remain but we have to excel in that pressure.

**Akhil Parekh:** Sir, one last question. Are we selling Sparx through modern retail outlets?

**Ramesh Kumar Dua:** Yes, we are selling online lot of Sparx.

**Akhil Parekh:** Is there any contribution number which you would like to highlight? How much is the modern format contributing to the sales?

**Ramesh Kumar Dua:** Around 10% is the total business coming from modern trade, e-commerce and all other large formal stores.

**Akhil Parekh:** Got it, Sir. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Sabyasachi Mukherjee from Centrum Portfolio Management Services. Please go ahead.

**Sabyasachi Mukherjee:** I was just referring to the primary versus secondary sales, if you could highlight something on that it would be helpful?

**Ramesh Kumar Dua:** We are selling around 80% through our distributors, rest is coming through our direct retail outlet, online and export.

**Sabyasachi Mukherjee:** Your EBO percentage would be?

**Ramesh Kumar Dua:** Around 7%.

**Sabyasachi Mukherjee:** On the price hike, when did you take price hike? What was the quantum?

**Ramesh Kumar Dua:** Every quarter we keep on reviewing and only when there is a need we take it that too on select articles only.

**Sabyasachi Mukherjee:** Out of the 15% growth, 8% comes from volume, the rest 7% we get from product mix as well as price hike, right?

- Sushil Batra:** Yes, premiumization too. It includes everything, NPD contribution, product mix, price hike, and raw material prices advantage, so it is a mixture of all. Yes, 7% is the value that is coming from all these areas.
- Sabyasachi Mukherjee:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Rajiv Shah from RMS Investment Group. Please go ahead.
- Rajiv Shah:** Can you explain the capex of INR 100 Crores which we have spent right now. Out of that how much has gone for the new factory and what is the rest of it for?
- Sushil Batra:** INR 100 Crores will be majorly related to building i.e. around INR 40 Crores, every year we spend on mold around INR 15-20 Crores, some machines and other miscellaneous things, so it is a mixture of buildings, mold, machines, and others.
- Rajiv Shah:** You will write off everything in the same year or do we carry forward for the next year?
- Sushil Batra:** Pardon?
- Rajiv Shah:** We will write off the small capex like machinery and other things within the same year or because for the new factory we are spending INR 100 Crores over three years and still our capex is INR 100 Crores for the six months, so probably we will be spending INR 160 Crores-170 Crores, right?
- Ramesh Kumar Dua:** No, the total capex is INR 100 Crores & we have given the bifurcation of this, we will spend it in this year FY2020.
- Sushil batra:** INR 100-INR 110 Crores maximum we will be spending this year. 70% of amount is already spent and the rest we will spend in the next half year.
- Rajiv Shah:** Can you give out the breakup of the sales brands?
- Ramesh Kumar Dua:** I cannot provide this information brand wise as it is sensitive for competitive reasons.
- Rajiv Shah:** Geographically? Or even geographic is not possible under geographical sales?
- Ramesh Kumar Dua:** Last time we also said that we are a north dominant company and around 50% we sale in north and 20% in east and rest is from south and west.
- Rajiv Shah:** Okay. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Ashish Kanodia from Ambit Capital Limited. Please go ahead.

**Ashish Kanodia:** Almost 4% to 5% is what you get from e-com, so what would be the average selling price in e-com and which would be the highest selling brand for you in e-com?

**Ramesh Kumar Dua:** Sparx is the highest selling brand in e-com. Our share is around 7% to 8% in e-com, modern trade, maybe this year we will reach 10% of the total business that we are doing.

**Ashish Kanodia:** Okay. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Gaurav Jugani from Axis Capital Limited. Please go ahead.

**Gaurav Jugani:** Thank you for giving the opportunity. Sir my question is in terms of the gross margin expansion that we have seen this quarter. So, are we planning to take this gross margin ahead or are we looking for some kind of pricing action so that we can then go ahead and push more volumes because historically also we have been gunning for volumes. Is there a change in strategy or anything that you would like to highlight?

**Ramesh Kumar Dua:** We keep on introducing articles based on the demand or the need of the consumers as per our understanding, at different price points and whatever is needed by the consumer we keep on manufacturing those articles. This year, our premium or better priced articles have been more in demand so accordingly we are making those articles. So, quarter to quarter we keep on understanding evolving needs of the consumer and accordingly we are trying to fulfill those needs of the consumer.

**Gaurav Jugani:** Point very well taken. My only point is that do we target a particular gross margin level that we have in mind or there is still scope for expansion going ahead in gross margins is what my question is?

**Ramesh Kumar Dua:** We have to be little judicious in these kind of things. We cannot just keep on expanding and there is a lot of competition and then we do not want to leave this space and give it to our competition, so we have to very intelligently improve margins also and still remain competitive in the market. That is the way we are operating now.

**Gaurav Jugani:** Sure. Sir, in terms of the distribution expansion, do we set a target every year? Like say that we need to expand our distribution reach by say 10%, 5% or any odd number? Can you share anything with that regards?



*Relaxo Footwears Limited*  
*November 05, 2019*

**Ramesh Kumar Dua:** You know it is an ongoing process. Wherever we find any empty spaces in the market, we keep on building, finding distributors and improving our distribution and that is an ongoing process. Even after 10 years, we will find some empty spaces & the same process will continue.

**Gaurav Jugani:** Thank you. That is all from my side Sir.

**Ramesh Kumar Dua:** Thank you.

**Moderator:** Thank you very much. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

**Sushil Batra:** Thank you all for joining the call. This is all from our side, looking forward to see you again at the year end. Thank you.

**Moderator:** Thank you very much Sir. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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