November 14, 2024

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| **BSE Ltd.**<br>**Corporate Relationship Department**<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Mumbai – 400 001 | **National Stock Exchange of India Ltd**<br>**Listing Department**<br>Exchange Plaza, C-1, Block G,<br>Bandra Kurla Complex,<br>Bandra (E), Mumbai - 400 051 |
| **Scrip Code – 530517** | **Symbol – RELAXO** |

**Sub: Conference call Transcript**

Dear Madam / Sir,

With reference to captioned subject, we hereby enclosed herewith the transcript of Investors call regarding Q2 & H1 FY 25 Results, which was hosted by the Company on November 11, 2024 at 4:00 P.M (IST).

The same is for your information and record please.

Thanking You,

For **Relaxo Footwears Limited,**

ANKIT JAIN

Digitally signed by ANKIT JAIN
Date: 2024.11.14 16:51:48 +05'30'

**Ankit Jain**
**Company Secretary & Compliance Officer**

Enclosed as stated above

“Relaxo Footwears Limited

Q2 & H1 FY25 Earnings Conference Call”

November 11, 2024

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| **MANAGEMENT:** | **MR. RAMESH KUMAR DUA** | **CHAIRMAN AND MANAGING DIRECTOR** |
| | **MR. GAURAV KUMAAR DUA** | **WHOLE TIME DIRECTOR** |
| | **MR. SUSHIL BATRA** | **EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER** |
| | **MR. RITESH DUA** | **EXECUTIVE VICE PRESIDENT, FINANCE** |
| | **MR. ANKIT JAIN** | **COMPANY SECRETARY & COMPLIANCE OFFICER** |
| **MODERATOR:** | **MR. SAMEER GUPTA** | **IIFL SECURITIES LIMITED** |

**Moderator:** Ladies and Gentlemen, good day, and welcome to the Q2 FY25 Earnings Conference Call of Relaxo Footwears Limited, hosted by IIFL 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Gupta from IIFL Securities Limited. Thank you, and over to you, sir.

**Sameer Gupta:** Thanks, Muskaan. Good evening, everyone. We have with us the Senior Management of Relaxo Footwears today, Mr. Ramesh Kumar Dua, Chairman and Managing Director; Mr. Gaurav Kumaar Dua, Whole-Time Director; Mr. Sushil Batra, Executive Director and Chief Financial Officer; Mr. Ritesh Dua, Executive Vice President, Finance; and Mr. Ankit Jain, Company Secretary and Compliance Officer. Without further ado, let me pass it on to Mr. Dua and team. Over to you, sir.

**Sushil Batra:** Thank you, Sameer. Good evening, everyone, and thank you for joining us on our Q2 and H1 FY25 earnings call to discuss the financial and operational performance of the company. We have already uploaded the earnings press release and the investor presentation on the stock exchange as well as on our website. And we hope that you have had an opportunity to go through them.

Before we begin the question and answer session, let me quickly go through some of the highlights of Q2 and H1 FY25 performance, beginning with Q2.

Revenue from operations in Q2 FY25 was at INR 679 crores as compared to INR 715 crores in Q2 FY24, a decline of 5% year-on-year. This is mainly due to weak market demand during the quarter.

Our EBITDA for the quarter was at INR 88 crores as compared to INR 92 crores in the corresponding quarter in the previous year. The company maintained its EBITDA margin at 12.9% during the quarter as compared to 12.8% in Q2 FY24, despite the subdued demand. PAT was at INR 37 crores as compared to INR 44 crores reported in Q2 FY24. PAT margin for Q2 FY25 stood at 5.4% as compared to 6.2% in Q2 FY24. Higher depreciation in the quarter has impacted the profitability of the company.

Now moving to our H1 FY25 performance. In H1 FY25, we recorded a revenue of INR 1,428 crores, EBITDA was at INR 187 crores compared to INR 199 crores in the same period of last year. EBITDA margin was at 13.1% as compared to 13.7% in H1 FY24. PAT for H1 FY25 stood at INR 81 crores against INR 101 crores in H1 FY24. PAT margin was at 5.7% as compared to 6.9% in H1 FY24. The company has incurred a capex of INR 49 crores till 30th September '24.

Our company continues to be net debt free and supported by positive cash flow from operations. Our company is in process of adding new distributors and focusing on to improve retail network through various initiatives. Further in line with our continued focus on cost efficiencies, we are working on optimizing our back-end operations, which would enable us to deliver a sustainable performance in the future.

Thank you. The floor is now open for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Videesha Sheth from Ambit Capital.

**Videesha Sheth:** My first question was on the commentary that you made in the press release regarding consumers down-trading to lower price on organized competition and your call to not dilute prices. So how do you see that impacting volumes and market share in the near term?

**Gaurav Kumaar Dua:** Hi. This is Gaurav. We are seeing a pretty poor footfall happening across the country what we have noticed. And there is a mushrooming of local players, the unorganized players, new and new unorganized players have also come into the play. So there was a pressure on us to reduce the prices which we have not. And we are in process of adding more retailers and distributors to counter that.

**Videesha Sheth:** So Gaurav, where I'm coming from is that during FY23 also when we faced a lot of pressure from RM inflation. We chose to increase prices, but we also then lost market share due to that. So do you see this call of not diluting or reducing prices affecting volumes as well or impacting our market share in that way?

**Gaurav Kumaar Dua:** Temporarily, we can say, yes. But in long term, I think we will be able to gain back the market share. It's because of 2 factors. There is poor footfalls, demand is also subdued and the raw material prices, all these things, because of multiple factors, they were able to enter. But I think now the wedding season, we are hearing like quarter 3, a lot of weddings are happening, there will be a demand uptake in the market and things will improve.

**Videesha Sheth:** Got it. And the second question was if you can share your observations on the channel inventory and some granular sense on consumption trends as well, while there is overall weakness, but if you could break it down into how we are seeing the move in rural versus urban and also the competitive landscape?

**Sushil Batra:** Channel inventory, we are maintaining, there is an increase in the inventory as compared to March. So it has increased due to subdued demand. And inventory, we are carrying almost in GT and new channel at the same level, but retail, it has increased a little bit. So overall, there is an increase on inventory front.

**Videesha Sheth:** Got it. And my last question is what would be your outlook for margins versus the earlier guidance of 15% to 16% for FY25?

**Gaurav Kumaar Dua:** I think company is taking a lot of steps to improve the margins. On the back-end front, we are working very closely with the manufacturing how to really improve our productivity and add on to our margins.

**Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.

**Shirish Pardeshi:** On the slide in the beginning, I observed that our average realization per pair has gone up by about 6% to INR 156 and the number of pair sold is lower. So I do understand there is a demand issue and other things. But is there any regional variation because we have a larger business coming from North. Is the difference between North and South and West and East is different in terms of this demand situation?

**Gaurav Kumaar Dua:** See, across India, we are seeing this issue of demand not being optimum. But East, if you talk about, East is most affected. So payments are very slow coming from Eastern markets. So East is the market which has been mostly affected.

**Shirish Pardeshi:** Okay. So we have been saying that we are trying to, in fact, improve the mix towards the premium end also. Any color, any mix you would be able to highlight at this point of time?

**Ramesh Kumar Dua:** Status quo. Our prices were more because we revised the prices in January. This is the effect of higher ASP.

**Shirish Pardeshi:** Okay. Okay. And in terms of Sparx contribution, would you specify how we should look at in second half? Because you said that you are focusing on the distribution angle also.

**Gaurav Kumaar Dua:** Sparx, I think we are able to maintain the momentum in Sparx compared to the other open footwear. So I think Sparx should definitely be better off compared to other 2 brands, that is Flite and Bahamas.

**Shirish Pardeshi:** Okay. So I assume that the first half, the situation demand down trading, regional competition, local competition, if the status quo is there, how we should be looking at second half? Because even second half was -- the base is benign at this point of time. But does last 30, 40 days give you some confidence that we will be able to recoup our volume growth?

**Gaurav Kumaar Dua:** Currently, like in October or whatever, you can see the start, we have not seen a great start. So we are hoping that because of this November-December having a huge number of weddings, so demand should improve.

**Moderator:** The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

**Prerna Jhunjhunwala:** Just wanted to check on closed footwear performance now that we've added capacity in last year. So has the mix change taken place in the first half and second quarter?

**Gaurav Kumaar Dua:** So it's same like what it was the last year and last quarter. There's not much of a change happening there.

**Prerna Jhunjhunwala:** So what is your strategy to improve our mix towards closed footwear?

**Gaurav Kumaar Dua:** Strategy we talked about, again, it is like appointment of distributor, adding more channels, for example, e-commerce. We were a little slow this time because of too much of ask from Flipkart and Amazon. So we are very cautious and then we are taking steps to improve our reach in Sparx.

**Prerna Jhunjhunwala:** So what could be the revenue growth that you are targeting for FY 25-26, given that your conservative demand is also weak and you're expecting improvement in demand coming forward in the quarters to come. So how should we see the growth coming in for you?

**Gaurav Kumaar Dua:** So we are really cautious of the market. And what we see is we have to grow, like we are appointing more distributors across territories. And we are hoping that we can grow around 8% to 10% in Sparx category.

**Prerna Jhunjhunwala:** Okay. And overall revenue growth that you're targeting?

**Gaurav Kumaar Dua:** Difficult to say as of now, but definitely it should be positive.

**Prerna Jhunjhunwala:** Okay. And what would be the distributor and retail reach increase for you in the next 2 years for both open footwear and closed footwear?

**Gaurav Kumaar Dua:** See it's a continuous process. We keep on adding distributors. So it is a continuous process. So adding retailers, like if you see 2 years back, we were at 55,000. Now we are at 70,000 retailers. So, it's a continuous activity, continuous process.

**Prerna Jhunjhunwala:** We can assume the same run rate to continue?

**Gaurav Kumaar Dua:** Yes, definitely.

**Moderator:** The next question is from the line of Sameer Gupta from IIFL Securities.

**Sameer Gupta:** I noticed that there is an ASP increase of 6%. I mean, I heard that you mentioned that you've taken a revision of price in January, but even from last quarter onwards, this is an increase of around 3%. So just wanted to understand is there a change in mix that is impacting this and some more color on this?

**Gaurav Kumaar Dua:** See, we have introduced premium categories in some of our brands. And because of that, there is an effect of increase in ASP, plus we have taken a price increase in the January in Hawaii category. And last year, the base level was also a little lower.

**Sameer Gupta:** Okay. But there is no price increase as such taken in this quarter?

**Gaurav Kumaar Dua:** No, no, we have not taken price increase.

**Sameer Gupta:** Got it, sir. Sir, second question on this competitive intensity increasing. What is the trigger for this? Has there been a sharp fall in raw material prices that has resulted in this intensity going up? And how is the company going to counter it? I mean, let's say, it continues for a few more quarters. So do you have a strategy in place to counter it at some point? Or do you keep waiting because it's unsustainable and it will go away at some point in time?

**Gaurav Kumaar Dua:** So you're absolutely right because of lower raw material prices, a lot of new competitors have come in. We are working with our marketing team to devise a new portfolio, a new portfolio strategy, so how to counter them. So we are working on cost optimization plus adding new products and to understand the regional needs. So we are really in touch with the market, what is happening.

**Sameer Gupta:** And is there a role of the BIS compliance also in this that the smaller players don't have to comply as of now? Is that also impacting?

**Ramesh Kumar Dua:** Yes, that could be a reason because all small manufacturers, they are exempt from Quality Control standards. So whatever quality they want to produce, they can downgrade and they can cause unethical competition also otherwise. So that also has some role.

**Sameer Gupta:** Got it, sir. Lastly, sir, if I may squeeze in. The other expenses have seen a decline of 3%. Just wanted to understand the broad constituents, which is resulting in this. And also, let's say, the volume growth comes back, do you see this growth in other expenses also coming back? Or this INR 220 crores number odd is the ballpark, which is here to stay?

**Sushil Batra:** Other expenses, we took a very calculated call. We have just reduced the advertisement expenses in this period as compared to last year. So that is the major item, which has come down.

**Sameer Gupta:** But do you see this going up going forward if demand comes back?

**Sushil Batra:** Yes. Next year, definitely. Not this year. Next year, definitely, we will review, and we may go back to the original percentage spend.

**Sameer Gupta:** So FY25, what is the number that you're targeting for ad spend, full year?

**Sushil Batra:** Generally, we used to spend around 4%. So this year, we have just thought about 3%, 1% lower than last year.

**Moderator:** The next question is from the line of Gaurav Jogani from JM Financial.

**Gaurav Jogani:** Apologies for the earlier, sir. And my question is with regards to the impact of BIS. I mean, while in the shorter term because these smaller players are given a relaxation of not complying with the norms. But on longer term, how do you see the norms impacting the industry on an overall basis and Relaxo specifically?

**Ramesh Kumar Dua:** Government has actually given exemption to the small industry for the time being. It doesn't mean they're going to go on always. That we have to wait and see how they see. But as far as we are concerned, we are strictly following quality control standard prescribed by Bureau of the Indian Standards.

**Gaurav Jogani:** Yes. So because you guys are following the quality standards prescribed by the agency, then can you be marketing your products as a better quality product and hence, they do ISI or BSI mark. So can there be marketing angle that benefit guys at the value end who are following these norms? Is there a case for that?

**Ramesh Kumar Dua:** No, no, on the long term, this will benefit the company. In the short term because of there's a market down trading, people are not having enough money in their hands, so they are going for cheaper products. But ultimately, cheaper product can never create a future. Future is always for the quality products that we are following.

**Moderator:** The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

**Prerna Jhunjhunwala:** I wanted to understand the capex for the year. What will be the full capex for FY '25 and '26?

**Sushil Batra:** FY25, already we have spent around INR 50 crores. So, it will be again in the range of INR 50 crores to INR 60 crores in next half. So, total will be INR 100 crores plus in this full year.

**Prerna Jhunjhunwala:** And what is it going to be spent on, INR 100 crores?

**Sushil Batra:** This majorly we have spent upon the regular items, which we spent around INR 25 crores to INR 30 crores. Then we are adding some machineries and some civil work also. So it's a mix of all these.

**Prerna Jhunjhunwala:** Okay. Okay. Can we assume any capacity addition in this?

**Sushil Batra:** No.

**Moderator:** The next question is from the line of Ankit Kedia from PhillipCapital.

**Ankit Kedia:** Sir, when you say October has been a slow month for you and you're hopeful for November, already primary sales for November would have been done now, and you would be generating demand for the next month. So are we seeing pressures in primary demand from distributors and they're sitting on high stock? And if you could answer separately for open footwear and closed footwear?

**Gaurav Kumaar Dua:** So it is same for both open and closed footwear. Still, we are hoping that next 2 months should be better compared to what has happened last quarter. So because of poor footfalls, these things are happening. So it would be gradual. It cannot be just immediate the things will change.

**Ankit Kedia** And sir, are we facing pressure from organized players as well like Walkaroo and Aqualite who have also become aggressive in the open footwear category? Or it's not from the unorganized only what you called out?

**Gaurav Kumaar Dua:** They are also facing challenges from unorganized. I think, they are also facing a lot of issues compared to BIS of unorganized players, lower footfalls. For full industry, it is the same.

**Ankit Kedia** And sir, 3 quarters back, last year when we had lost market share, you alluded that you go for market share gains and not for margins. And now again, as a strategy, you're going for margins and not for market share gains. So what is the long-term thought process of the company on top line growth versus margins?

**Gaurav Kumaar Dua:** No, we're taking a balanced approach. It cannot be one way. It cannot be only margin or only sales. We have to take a long-term view and take a balanced approach.

**Ankit Kedia:** Sure. But with a steady decline in volumes, consumer is downgrading and that is impacting the brand as well.

**Ramesh Kumar Dua:** No. On the long term, we have to see the thing. Our strategy has to be not based on what currently we are going through. We have to make quality product, and we have to sustain the things. We are adding distributors. We are adding retailers. We have introduced a retail app, our connect with the retailer is improving. And this base is improving of our retailers. Our reach improves, definitely, the sale will also improve.

**Ankit Kedia:** Sir, can you separately call out the growth in the North market versus the West and South, if possible?

**Gaurav Kumaar Dua:** Can you repeat it please?

**Ankit Kedia** Can you just let call out the revenue growth or the volume decline in North versus ex. North region?

**Gaurav Kumaar Dua:** There has been just a marginal 1% drop in some areas sustained in the West and South. So basically East, we have seen a little more dip compared to other regions.

**Moderator:** The next question is from the line of Aditya Khetan from SMIFS Institutional Equities.

**Aditya Khetan:** Yes. Sir, my first question is on to the volumes part. Sir, in H1, we had seen that the volumes have declined by almost around 5% as compared to the last year of H1. And sir, you have also stated that the muted demand and all, and you are hopeful for a good wedding season. Sir, so any guidance on to the full year volume side, if you can share, so whether we can see a positive growth or it would be flattish?

**Gaurav Kumaar Dua:** It would be flattish because it will take time to cover up the 6-month sales and volume loss.

**Aditya Khetan:** Okay. Okay. And sir, despite facing this muted demand, sir, so when we look at the operational metrics, like your gross profit per pair and EBITDA per pair. So that has gone up on a sequential basis by around so 3% to 4%. I wanted to know, is there any component of the better product mix which we have seen in this quarter?.

**Ramesh Kumar Dua:** EBITDA is by and large same in the first quarter, second quarter if you compare to last year's first quarter and second quarter, total H1, H2, just a 0.5% difference of EBITDA.

**Aditya Khetan:** Got it. On the gross profit, sir, we have seen a good improvement. Any comments over there?

**Sushil Batra:** Growth, definitely, there are 3 reasons for this. We took a price increase in January, so that is the advantage has come in the system. Raw materials has also, I think, eased out. And third is, if you see the percentage, there is an increase of inventory, so that percentage is, I think, 1% looks better than the last year. So these are the 3 reasons. So one is the price increase; second, raw material advantage; third, that is the accounting part. You can see there is an increase of inventory of around INR 47 crores in this, that includes a conversion cost also. That's why that margin looks better.

**Moderator:** The next question is from the line of Jasmine from VT Capital.

**Jasmine:** I wanted to understand your comment on reduction of the A&P cost. My understanding is that the demand is muted, the local players are kicking in. So what is the rationale of reducing our A&P spend when this time, I believe there should be more spend to garner more market share and hence increase the volume and sales?

**Gaurav Kumaar Dua:** So what we have done is we have reduced in advertisement but increased on schemes in sales and promotion. So because of trade, push is required for an immediate scenario, so we have increased our schemes expenditure.

**Moderator:** The next question is from the line of Sachee Trivedi from Trident Capital.

**Sachee Trivedi:** Okay. Great. This is Sachee Trivedi from Trident Capital Investments. My question is slightly more longer-term oriented. Now in the last 2, 3 years, we have seen 2 things happening: one is the shift of demand from open to closed footwear. And the second is a shift of demand from probably the physical channels to online channels. How did you not see this coming?

**Gaurav Kumaar Dua:** There were multiple factors. Like, for example, nobody saw that there will be such poor footfalls, leading to poor payments from the retailers. So it's very difficult to really gauge how the monsoon will come up, how election will what will be the result of that. And plus a lot of unorganized players coming up because of BIS issue. Like we never thought that government will give them a leeway you can enrol after a year. So many things you cannot predict how the things will operate, how government will come with the new policies.

**Sachee Trivedi:** Those are like monsoon and election and BIS, I think these are very I mean, I don't think that is frankly, the crux of this. We are talking about a very structural, a very secular shift in demand from open to closed footwear. You look around yourself, there's I mean people are wearing shoes, those athleisure sports shoes.

And there is a very structural shift on to online. In fact, online players are having disruption from being from e-commerce to quick commerce and whatnot. So there is a massive disruption happening in channel. Given how widespread you are, given how many contact points, retail points you had, I am surprised that you did not catch on to the changes, the tectonic shift, the structural changes that are happening in the industry?

**Ramesh Kumar Dua:** No. As for that, there's a conflict of channel, general trade versus online channel. There is also too much of discounting pressure on online channel. So strategically, we are there, but we have to be very cautious of our general trade.

Our multi-brand outlet, they get suffered when they see too much of discount. This year, we had to actually say no to Flipkart and Amazon because they generally give too much discount and that affects us. So we have to be very cautious in the changing scenario. Things are conflicting. They're very complex also.

So we are now creating separate portfolio for e-commerce. That is the thing, that in total, I mean, kind of conflicting and not complementary but sometimes totally opposite. Whatever we think about the general trade, that affects our e-commerce. And when we look for only for e-commerce, then heavy discounting, the sale may go up, but on the long term, our general trade gets affected. So we are grappling with this issue and trying to create a separate range for e-commerce, so that this conflict should get minimized.

**Gaurav Kumaar Dua:** And plus, consolidation will happen. Now this year, maybe last 2 years, you can see in online, there are multiple new brands have come up in footwear. Like earlier it was 20 brands, now they are more than 200 brands in footwear. So consolidation will happen. Now discount war will be controlled, like a lot of things are happening in online, yes.

**Ramesh Kumar Dua:** And our two-third business is open footwear, which will never go on e-commerce. Price is low price, masses article. It is not profitable to work on e-commerce on all these masses articles.

**Sachee Trivedi:** So this disruption because of the online is something to be not taken likely because we are seeing industry after industry being disrupted and completely changed and transformed because of this. Do you feel that this could have a struck, I mean, given your very, very rich experience over decades, do you think this is probably the biggest challenge that you are facing now simply because a shift in nature of demand.

And the channel of demand is causing and has allowed a lot many competitors, whether it is people who are coming today and selling maybe for 1 season and going away. But all of a sudden, they have the shelf space that they could never get in physical retail industry. And we are seeing in cosmetics, we are seeing in beauty products, new age players are coming up.

They have gained enough critical mass and the old legacy players are really suffering in volumes. Do you think this is the kind of challenge that you are facing? And I'm curious to hear how you place this challenge, the size of this challenge to everything you have seen in the decades of experience that you have?

**Ramesh Kumar Dua:** So no doubt, things are challenging. We are also mindful of the situation what is unfolding. But we have to see, we have to balance between general trade and e-commerce. In e-commerce, we can't, at the cost of general trade, promote e-commerce. E-commerce, we are mindful. We have started selling as brand as a seller where we can control our pricing also.

Earlier, we were selling directly to Flipkart and other distributors, there was no price control, which was affecting our general trade. So we are building our own brand as a seller and trying to sell direct to the consumer and watchful of the situation so that we can co-exist in the general trade also and e-commerce also.

And also two-third of the articles that we manufacture, they are meant for the masses. And these masses articles, they are not viable to sell on e-commerce. We have to do that business through general trade only.

**Sachee Trivedi:** So then 1 final question from me. Some articles, two-third of articles that you have for the masses. Now these people are probably not going online also. Why has there been no growth in this masses category over the last almost 3 years now?

**Ramesh Kumar Dua:** No, no. After all, market in open footwear, closed footwear is there. But in the general trade, in the 2 years, the demand has been low. And now in this year, you find a lot of unorganized, low-price articles have entered the market. There is a problem of money in the hand of the masses segment at the moment, what we are witnessing.

That is why they are trying to go for cheaper alternatives. But on the long-term, quality articles will also be the aim of the company and that will only help the company. We can't go for reducing the quality or do anything just for the time being.

**Sachee Trivedi:** Okay. And actually, if you don't mind, I saw that you have tied up with Disney and Marvel. Does it mean you are going to have some focus on the children's segment?

**Ramesh Kumar Dua:** Yes. That will help in the premiumization of our articles which are meant for children and others also. So we have done a slow beginning. But in the coming times, this will help us improve the ASP of the company.

**Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.

**Devanshu Bansal:** Sorry, I've joined the call late, so please pardon me if I'm repeating anything that has been answered before. Sir, I just wanted to check on your remarks that the industry has sort of witnessed an increase in lower priced unorganized competition. So firstly, I wanted to check what exactly is this unorganized competition. So earlier during this entire calendar year, the imports from China, etcetera, were on a decline.

But now over the last couple of months, I guess, the imports of such articles have seen an increase. Are you referring to this? Or are you referring to all those smaller-scale MSMEs that are operating from India and they have suddenly increased the competitive intensity in that space?

**Gaurav Kumaar Dua:** Yes, it's actually both. Plus 2 years back, there was a change of GST from 5% to 12%. Since then, like a lot of new players or unorganized competitors have come up. There are multiple reasons for that. One is the lower-priced raw material. When the raw material price goes down, definitely new players come in. And the price goes up, they really vanish. Plus, definitely, we can talk about these are regional players, which have been having no brand, not paying GST.

They don't have BIS compliance. So they are taking some market share. And there are a lot of imports happening, like what you were saying about China imports, it has not reduced, but it has increased because government have allowed them until September to import product. After that, they cannot because then the BIS will be applicable. So multiple factors, not one or two.

**Devanshu Bansal:** Understood, sir. And secondly, I just wanted to understand from your balance sheet perspective, the inventory levels are sort of up by about 10% odd. So any specific reason for that?

**Sushil Batra:** Due to subdued demand, and we have to run the factories and because there is pressure on the demand, that's why inventory has increased.

**Devanshu Bansal:** Okay. I just wanted to check because this time around, this festive season has been early. Despite that, the inventory levels are up and receivables are down. So I just wanted to check. I mean, is it like some demand levels in festive also sort of remaining low?

**Ramesh Kumar Dua:** So far demand has been subdued, even in the month of September and October. We are hopeful that November onwards things will improve.

**Moderator:** The next question is from the line of Lavita from Mirae Asset.

**Lavita:** I have 2 questions. So with respect to how we are positioned in the market, are we seeing any portfolio gaps in the open or closed footwear category since we have seen Crocs being successful last 2, 3 years? The way customers preferences have changed towards more comfort wear and fashion wear. So are we looking at newer categories in any of these open and footwear space? And second question.

**Gaurav Kumaar Dua:** Continue, please continue.

**Lavita:** Okay. So my second question is towards marketing strategies. Are we looking at any differentiated marketing strategy because we see the high-end brands have a different appeal towards the young millennials and customers? So what's your take on that?

**Gaurav Kumaar Dua:** So we are in touch with the market constantly. And we are always aligning our portfolio with the market. For example, like from basic slipper, people are moving to colored and printed slippers. So we are going to launch, whatever the gaps in the portfolio, we are at constant touch with the market and giving product accordingly.

Secondly, about our marketing strategy, definitely, the way world is moving, we are also moving from offline to online advertising. So we are doing a lot of branding in the digital space now.

**Lavita:** So I wanted to understand more on the specific categories. Is there a trend that is where we have not looked at? Is there something, any space in any particular category that we have not looked at and we are approaching towards it? And in terms of marketing, more towards different message that we can, a unique way of marketing strategy apart from being there online, which everybody else is? That's all.

**Gaurav Kumaar Dua:** So when you talk about the product gaps or portfolio gaps, like definitely, marketing is shifting from sportswear to athleisure. So we are in touch with the market, be it people are going for chunky soles or different color, different design. So we keep on doing this analysis and introduce products accordingly.

**Ramesh Kumar Dua:** Now sneakers at the moment.

**Gaurav Kumaar Dua:** Yes, the sneakers, like you know the sneaker trend is there. The street fashion is there. So we are in line with the market trend and launching products accordingly.

**Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.

**Devanshu Bansal:** My question is, sir, in India, there is a lot of footwear parks that are being created in Tamil Nadu, right, where all large Taiwan-based players are entering the space. Haryana is a state also has similar advantage from a cost of labor perspective, the footwear industry is quite well established in the state. Any thoughts around this incremental Make In India opportunity that is emerging? So your comments on that please.

**Ramesh Kumar Dua:** So in Tamil Nadu, whatever manufacturers, they are coming there from Taiwan. They are making for multinationals. And mostly they are making and then exporting. So that is not going to affect our domestic market in that manner so far.

**Devanshu Bansal:** I wanted to check if we can also sort of explore as in utilizing our facilities in the lean period for such demand that may be there? Any thoughts around that?

**Ramesh Kumar Dua:** No, we have to see what is required by Indian market, Indian consumer and what kind of the masses consumer that we have. How we have to address their needs. So we are developing our article as per the needs of our customers, and we are aligning that, value for money or quality, whatever affordable quality we can provide. That's what we are focusing on.

**Devanshu Bansal:** Understood. And sir, there were some news reports, thought it was not wide, but there were some news reports on this GST being reduced from 12% to 5%, right, for footwear. So any thoughts around that? Any representations being a leader that you have made to the government because there has been a lot of disruptions, right, because of this unorganized lower price competition that is there, any thoughts on this thing?

**Ramesh Kumar Dua:** Yes, representation by the industry is being made regularly at regular intervals. Currently also, industry has taken up this matter with the government authorities.

**Devanshu Bansal:** Any expectation, sir, from that perspective...

**Ramesh Kumar Dua:** Government would never commit. These things, you can only make representation. And then we have to wait.

**Moderator:** The next question is from the line of Sameer Gupta from IIFL Securities.

**Sameer Gupta:** Sir, just a follow-up. The separate portfolio for e-commerce that you have mentioned, any timeline that you can share by when do you expect to launch this? And is it going to be margin dilutive because this is being done primarily to bypass the e-commerce channels, discounting nature and its effect on GT?

**Gaurav Kumaar Dua:** So we have already bifurcated the online portfolio, e-commerce portfolio. Now second question is about the margin dilution. So we are not going to dilute our margins in that category.

**Sameer Gupta:** Then sir, how does it address the issue, which is basically the online players discounting and that affecting the channel? How does it affect that issue? I mean if we are not going to participate, then how is the separate portfolio going to help?

**Gaurav Kumaar Dua:** No, no. See participation was for the Big Billion Day and the Amazon Festival, where they were offering huge discounts. Other small activities or any other days, we will be there. Our only thing is to protect the interest of both channels. We have to see about the brand also, at what level we can give discount. And it should be in concurrence with us, how they decide the discounting policy.

It cannot be wherever they want, they can give what kind of discount they can offer like. So we are focusing on more of BAS, branded as a seller, compared to giving outright sale to them.

**Sameer Gupta:** Agreed. But when this separate portfolio, you will still be brand as a seller. You're not going to outright sell to the Flipkarts and Amazons.

**Gaurav Kumaar Dua:** In that scenario, it depends upon what will be the discounting philosophy of that brand. For example, Flipkart, we will not participate when the higher discounting are happening.

**Sameer Gupta:** And how does it work? So the discount is borne by the Flipkart and Amazon? Or it's kind of shared between you and...

**Gaurav Kumaar Dua:** See, on the special days like Big Billion Day or Amazon Festival, they give from their side without taking any approval from us or sitting together and deciding the price. So they just, whatever they feel like, they give discounts. So we do not appreciate like this kind of discounting practice.

**Ramesh Kumar Dua:** We have to protect our general trade also.

**Sameer Gupta:** But, sir, if the portfolio is bifurcated, it will protect, right? I mean I'm not able to understand this. So I understand the brand image part.

**Ramesh Kumar Dua:** So we have to be mindful of both the things. General trade, once you make the articles separate, okay, that thing is there. But still, we have to be mindful of how we have to manage both the channels and about the brand image, what kind of discounting we want to allow. We have to balance out all these things and take a very cautious move.

**Sameer Gupta:** Got it, sir. Second question, and I heard this during the course of the call that BIS for smaller players, you mentioned that a leeway of 1 year has been given, but my understanding was that right now, there is no such deadline to comply for small and micro enterprises. Just wanted your clarification on this, sir.

**Ramesh Kumar Dua:** This is what only the minister declared. But how they will do it, there is no writing on it.

**Sameer Gupta:** Got it. So officially, there is no such deadline. The Minister has said is what you're referring to.

**Ramesh Kumar Dua:** That was, he said our intention is that everybody has to comply, but for the time being, these small players are being exempted.

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

**Sushil Batra:** So this is all from our side and thank you all for joining the call. Looking forward to joining you again. Thank you very much. Thank you, everyone.

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

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