Management Discussion

Sameer Gupta - Analyst, IIFL Capital Services Limited
Thanks, Anum. Uh, good evening everyone. At IIFL Capital, it is our pleasure to host the management of Relaxo Footwears Limited. Before we proceed, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with business risks that could cause future results, performance, or achievements to differ significantly from what is expressed or implied by such forward-looking statements.

To take us forward through the financial results and developments and to answer your questions today, we have the senior management of Relaxo Footwears Limited, uh, represented by Mr. Ramesh Kumar Dua, Chairman and Managing Director, uh, Mr. Gaurav Kumar Dua, Co-Chief Executive Officer and Whole-Time Director, uh, Mr. Ritesh Dua, Co-CEO, and Mr. Amit Roy, Chief Financial Officer. Without taking more time, let me hand it over to Mr. Amit Roy for the opening remarks.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Thank you, Sameer. Good afternoon, everyone, and thank you all for joining us for Relaxo Footwear Q2H1. Financial year '27 earning call. I hope you all have had the opportunity to review our results and investor presentation which are available on the stock exchange and website. I'll straightaway take you to the, to the financial performance of the 2nd quarter or the first, uh, first half of FY27. In Q2 FY27, revenue on operations stood at Rs 702 crore compared to Rs 629 crores in Q2 FY26, a year-on-year growth of 11.6%.

Is being registered. EBITDA was Rs 85 crore, up by 5.1% from Rs 81 crore to Rs 85 crore. In the same quarter last year, EBITDA margin was 12.2% in Q2 FY27. Profit after tax was Rs 37 crore, up by 2.2% from Rs 36 crore, with PAT margin of 5.35%. For Q1 FY27, for Q1 FY27, Revenue from operations stood at Rs 1,407 crore compared to Rs 1,283 crores H1 FY26. A growth of 9.6% is registered. Growth was broad-based across channels with all channels delivered year-on-year growth in H1. General trade maintained steady momentum supported by our strong distributor and retailer network, while retailer- retail benefited from the store expansion and improving productivity.

E-commerce, modern trade, and export also contributed positively. EBITDA grew by 7.1% to Rs 193 crore from Rs 181 crore, with EBITDA margin of 13.8%. Maintaining profitability was challenging during this period. This was mainly due to raw material prices volatility arising from the continued conflict in West Asia along with higher labor cost from statutory minimum wages revision. We also made selective investments in brand building and distribution capabilities and retail expansion, which are reflected in our other expenses.

Profit after tax grew by 8% to Rs 92 crore from Rs 85 crore with a PAT margin of 6.5%. Expanding our EBO network and enhancing the retail experience remaining key priorities. We added 16 stores during the quarter, taking our network to 445 EBOS and remaining on track to reach 500 stores by year-end. We are also refreshing our store format with better merchandising, product visibility, and dedicated brands zones. Along with retail expansion, we continue to strengthen our presence across e-commerce and modern trade.

Our balance sheet remains strong and well-capitalized, which gives us the flexibility to navigate the current environment and continue investing in the business for the long term. As we enter H2 FY27, we remain cautious, optimistic- cautiously optimistic while staying mindful of input cost volatility and

evolving consumer demands. Our focus remains on driving revenue growth, improving product mix, enhancing operation efficiency, and expanding consumer reach. We also want to share some exciting milestones in our global growth journey.

Relaxo's strategic expansion in Kenya- we are, we are partnering with Kenafit Group to establish a joint venture named Relaxo Ganafit Footwears Limited with total investment of Rs 70 crore. Relaxo will hold 51% majority stake up to- stake up to Rs 30.57 crore investment, making RKFL as subsidiary to RFL. This project makes a major step towards strengthening our international footprint across Africa by combining Relaxo Manufacturing's expertise, iconic brand and product portfolio ranging from slippers to gumboots.

With KenAfrique's local operational strength and distribution network, we are hoping to build a strong presence in Africa region. With that, I would like to hand over, hand over a call to the moderator for question and answer session. Thank you.

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Mr. Sameer Gupta from IIFL Capital Services Limited. Please go ahead.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Hi, hi everyone, thanks for taking the question. Firstly, on the input cost inflation, sir, so it continues to be volatile and evolving, and when I look at the ASP growth of 23%, I am presuming it is largely pricing and very little mix. Please correct me if I am wrong. So just wanted to understand, are we done with most of the pricing actions which are foreseeable, or do we expect more in the near term for the covering of overall inflation?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Yeah, hi Samir, this is Gaurav, Gaurav Dua. And you are right, like there was a price increase because of 2 factors. One was raw material, second one was the labor, the cost, the labor cost increase. We have already taken price increases in all the categories, and in future it's very difficult to say any more price increase will happen, but more or less we have increased the prices of our products.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Got it, sir. Now just wanted to understand the thought process here. Now I understand there is inflation wage as well as RM. But given overall inflationary pressures across the board and our target customer is more price sensitive, also, I mean, labor inflation may be peculiar to Relaxo as a company versus most of the peers who are not very Haryana-focused. So are you not risking market share loss here? And I remember last time we had a prolonged period of steep volume decline when such a situation had arisen.

So just wanted to understand more on the thought process and strategy.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So what, uh, as you have rightly said, there is some pressure in the mass category which is Hawaii. So the, uh, there the volume we have, uh, there is a volume dip also, but because we have changed our portfolio mix in the other categories That's why we are able to grow in other categories, and that growth in value has come to around 10%. So definitely this is an evolving, uh, category, you know, though we are changing the product mix, seeing the demand of the market.

Sameer Gupta - Analyst, IIFL Capital Services Limited
And plus, plus

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
There is a good growth what we are seeing in sports and sneaker footwear. There we have grown in double digit. So that market is growing not only for us, but as whole the market is growing for sports and sneakers, and we are putting more focus there now.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Yeah, got it. So just to follow up, so I was more pertaining to the steep price hike that we have taken. Uh, one, your peers are not taking such steep price hikes. Too- it could have been a little more calibrated is what I'm trying to understand, because sharp price hikes typically will result in market share loss, something that happened last time around. Are you seeing something which is different this time, or, or it was just too, too much of a pressure to, you know, withstand for, for coming quarters and these price hikes were warranted?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So this time we have gradually taken the price increase, not just immediately pass on all the price. We have launched around 150 new articles, you know, so we are trying to change the product mix so that consumer does not get hit because of too much of, uh, you know, price increase. So it is very calibrated. You have taken time.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Got it. So definitely in mass market

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Category there is an issue. In mass market like slippers where it is very price sensitive, we are feeling that there is not a volume growth but value growth is there.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Got it, sir. I'll come back in the queue for follow-ups. Thank you again.

Operator
Thank you. The next question comes from the line of Devanshu Bansal from MK Global Financial Services Limited. Please go ahead.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Hi, sir. Thanks for taking my question. sir, I just wanted to check. We have taken realizations have

improved more than twenty percent. Yet there is a dip in EBITDA margin, right? So can you help me better understand despite such a steep increase in prices, what are the key drivers for this margin dip? If you could just help me understand that.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
See, I, I'll tell you, there are other costs which are, which are, which are there, you know, which is, which is again, uh, direct cost, indirect cost which is there, which is causing trouble to us for, for, for this EBITDA loss and all. Though there is an increase in top line, but otherwise there has a lot of increase in, in managing it, uh, cost-wise, because price has also gone up and, and, uh, wages, same salaries also on. That is the main reason to, to, to get the hit on the, on EBITDA.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Uh, can you confirm if there is any change in revenue recognition across any of these channels which might have led to, uh, this improved realization? Maybe are we sort of recognizing full MRP in any of the channels? Is there a change in terms of revenue recognition?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Yes, definitely. There are 2 brands where we are able to pass on the price increase and there's a growth coming, which one is Sparks footwear and, and plus flight. So in that category, the- we are able to pass on the price impact in the market.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
No, no, I was checking if there is a change in revenue recognition. So, uh, is it like earlier we were- yeah,

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
No, as such there is no change in the revenue recognition. I'm saying it again, again, the basis is the same as we have declared in our notes to accounts as well. So there is no change in that.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Okay, okay, got it. Uh, so secondly, I wanted to check, we are going very aggressive on EBO expansion, right, after a prolonged period. Uh, and, uh, from competitive, uh, scenario perspective, all these players- Campus, Asian, Neiman's, uh, Aretto- everybody is sort of indicating, uh, a very, uh, sort of strong network expansion. So just wanted to check what, what has actually- what is actually driving this kind of an expansion in the footwear industry and whether sort of the industry is ready to absorb this kind of an expansion.

So just if you could throw some light there.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
You're absolutely right. Uh, we have opened more than 30 outlets if you compare H1 to H1. So now we are at 445 outlets. Out of which we have opened 50 outlets which are called Reimagined Stores. We have changed the look and feel of the outlet. So, and plus we are getting at least 23% growth in revenue from the retail channel. So definitely we are very optimistic about this channel and the growth happening here.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Uh, sir, I wanted to check what are the key drivers. Is it like general trade channels? As such, from a longer-term perspective, you are, you are feeling that this is a channel which is going to suffer. Should we see it in that light that now focus is incrementally shifting towards the own D2C channel?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
As you are very well aware, like, you know, whole market is shifting towards the premium portfolio like sneakers and sports shoes. These channels definitely support [Foreign Speech] of categories, calls, issues and speakers. [Foreign Speech] in line of her growth strategy.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Hi, I'm Mitesh. Even we have covered with the premium range in PU light PU category. Does also help in giving in the growth detail channel.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Got it, sir. Lastly, interesting updates on can if the plan is to sort of ramp up presence in the entire Africa continent, or, uh, initial, uh, plan is to sort of restrict ourselves to Kenya only. What is the overall opportunity, uh, for players like Relaxo in the Africa continent? If you could just share some knowledge.

Unidentified Speaker - Unidentified Speaker, Relaxo Footwears Limited
Okay, uh, can you hold? Actually, we were not able to hear you because of some disturbance.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
So

Unidentified Speaker - Unidentified Speaker, Relaxo Footwears Limited
Will reconnected, the moderator can you reconnect? I just give you another number. short

Operator
Sir.

Unidentified Speaker - Unidentified Speaker, Relaxo Footwears Limited
Okay, I just [Foreign Speech]

Operator
Ladies and gentlemen, thank you for patiently holding. The management line has been reconnected. Over to you, sir.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So, Mr. Diwanshu, can you repeat your question?

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Yes, sir. So I wanted to check on the Africa opportunity. Uh, so, uh, how are- what is the overall opportunity that we are seeing? Are we going to restrict ourselves to Kenya only? Or the plan is to sort of ramp up presence in the entire Africa? That was part one. Secondly, will this be an export relationship, as in we will manufacture in India and export to Africa, or do you plan to sort of set up

manufacturing in the Africa continent? That- these were the questions on the Africa space.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
I'll take over this side. Uh, the idea behind- earlier we have been exporting, we were having the export-led model, uh, to Africa region from India. And seeing the challenges what we have been facing last so many years, uh, on the account of, uh, tariff barriers, then the logistic challenges, so we thought of having our local presence there, manufacturing there. So whatever we are going to produce there, whether it's range of Hawaii slippers and some gumboots which are locally, uh, have good demand.

So, uh, those products we are going to manufacture in Kenya and we will be selling this to various countries of other countries of Africa. So we will going to focus, start with focusing on the East Africa region. Eventually, depending upon how the, how the response come, we will spread out to the other African countries.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Got it. Sir, can you-

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Potential is concerned, it's a huge potential, there's no doubt on that. Because already, uh, we have seen whatever we have been experiencing in last few years in export type model, we have been getting good discounts from the consumer. And because the standard what we have maintained, uh, while exporting, so we are going to have the same quality standard when we are exporting things, uh, we are producing there and selling from there.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Got it. Uh, sir, can you help me better understand over next 2-3 years, uh, across channels, if you could help us better understand what is a reasonable level of growth that we can expect in terms of general trade, new channel, retail, and exports?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So you're talking about the future expansion, right, channel-wise?

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Yes, sir. Yes.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Yeah, so what we are seeing is that retail is the fastest currently growing channel for us, followed by e-commerce and modern trade, then comes general trade. So I think this trend will continue for next 2 to 3 years. Uh, as I told you before also, that premiumization, sneakerization, plus sports shoes growth will drive this kind of, uh, growth in these channels.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
So some bit of, uh, numbers if you could help us better understand. So overall, what growth are we expecting across these channels, how that growth is going to be constructed, will be helpful.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
We can tell you about right now, uh, we are seeing double-digit growth in retail, uh, and followed by the e-commerce. Plus, uh, uh, if you talk about general trade, definitely growth will come. Only thing is that it has to be adjusted with the prices and the volumes. So if the- what we are expecting is next quarter onwards, now all that raw material and labor cost has been passed on, most of it. So that's, uh, we expect that summers will be better next year.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Got it, sir. Thanks for taking my question.

Operator
Thank you. A reminder for all the participants, in order to ask a question, you may press star and 1 on your touchtone telephone. The next question comes from the line of Prerna Junjunwala from DAM Capital Advisors Limited. Please go ahead. Thank

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
You for the opportunity. Uh, first question is in Africa. Um, you wanted to explore, uh, Africa region to scale up your supplies, but I did not understand why the reason for starting a manufacturing facility before that. Can you please give me- explain me the reason of setting up this capacity plus exploring that market?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
See, uh, the major reason has been the tariff barrier. There has been heavy import duty when we are exporting out of India to African countries. So this had been a major tariff barrier, and other strong reason had been the, the, uh, logistic challenges whenever we were sending our goods, the timelines were not certain when you have- when our customer is going to receive it because of the various logistic challenges at the ports of Africa. So seeing all these challenges, we have thought of, uh, manufacturing there and selling from there.

And the, uh, when we are exporting from the- like, uh, suppose we talk about when we are starting with Kenya and we focus- start focusing in the East Africa region, there is already a pact So wherever we export in the East African countries, there will be zero duty between these countries. So that tariff barrier is gone once we start producing there in Kenya.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, and what is the capacity of this facility?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
So is

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
It operational already?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
No, no, no. So, uh, capacity we are eyeing at around 50,000 pairs per day. So, uh, we are going to, uh, start around financial year '27-'28 first quarter.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
And, uh, second question is on the growth in open footwear versus closed footwear for the quarter, and how is the demand for, uh, in both the categories given the inflationary environment in, uh, as you pass in the prices to the customers? And this is Obviously it's industry-related price hike, but what is the price hike you have taken in both the portfolios separately, if you could help me understand? And how's the growth and demand environment?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So as you know, we have talked before also that open footwear is around 80% of a contribution to our total sales, and we have taken around 15 to 18% price increase. In open portfolio. Now we talk about closed portfolio. Here we have Spark shoes, in which we have taken roughly around 6 to 7% price increase. And if you talk about growth, quarter 3 is the period for these Sparks to grow maximum, being closed footwear and winters. Plus, uh, you will, you'll be happy to know that we have hired Tamannaah Bhatia and Lakshya for Sparks brand.

Which is now, uh, on air from October onwards, and we are getting good results. Plus, in flight, we have hired Ali Fazal and Sanya, and we came with the new ad here also, which is doing good for the brand.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, and, uh, so how do we look at growth from next 2 to 3 years perspective?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Uh, so we are definitely hopeful that now the, uh, what price increase we have taken, it has been adjusted by the trade. So Q4 onwards, there will definitely be a growth coming in, double-digit growth coming in. That's what we are, we have, we are seeing.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, and, uh, what is the scenario at the raw material level, uh, whether it has stabilized or Still seeing some, um, challenges on inflation.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
It is still volatile, uh, because some of the materials are still going up. For example, rubber, which has crossed Rs 300 kg, that's the highest ever. Uh, they, they- it's still, uh, it's very volatile. It's very difficult to say how will be the Q3. Same thing, as you know, war scenario can erupt anytime, so it's very difficult to predict, you know, next one quarter and 2.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Understood. So, um, so margin will continue to remain under pressure in such scenario, or, uh, you've taken- for, for current price levels, is the price hike enough to manage margin?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
So, uh, actually on margin front, what we are doing is already we have taken good, uh, price increases in last 6 months or so. So we are going to put a lot of, uh, focus on the cost front, like productivity increase and all these things are a prime focus for us. So it could really help us in, uh, bringing our bottom line at a, uh, in a better way and improving track.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Understood, sir. I'll come back to the questions if there are any further questions. Thank you.

Operator
Thank you. The next question comes from the line of Simran Kumari from Narnolia Financial Services Limited. Please go ahead.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Uh, hi sir, good evening. Uh, my question is related to, uh, margin. Uh, like, uh, could you provide an outlook for the, uh, key raw material prices and how much the company will, uh, take for the price increase to protect the margin? And do you think this maintains the guidance of 100 basis point margin improvement for FY27?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
See, uh, this is Amit Roy. Um, as far as the, the, um, I'm saying it absorb- absorbent of- I'm saying it the increase of, of the, um, this the price price impact and, and the wage impact is being partly, uh, absorbed by us, partly is passed on to the enterprise. But I'm saying it, the margins are- I was going to be now again under pressure, and in future also I am not seeing that unless the war situation is going to be arrested or is going to be settled now, this margin is going to be further under pressure and all.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, okay, okay. My next question is like, uh, could you just provide my revenue breakup between Sparks and slide portfolio? I am in percentage-wise is also okay.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Can, can you repeat the question? The question we are- yeah,

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Yeah, I'm just asking the, uh, revenue mix between, uh, Sparks And flight portfolio.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So, uh, we do roughly around Rs 1,000 crores of Sparks. If we- and similar is, uh, and around similar with flight. Rest has come from the Hawaii and Bahamas category.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Is there in this Sparks, like, uh, how much is come from, uh, just shoes?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
You're talking about only shoes?

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Yeah, yeah, around

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
500 crores only shoes, closed footwear.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, okay. And how- what was like, what was the estimation for that shoes?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So we have grown by 18% in sports shoes and we try to maintain this in future.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
No, uh, 18% in shoes.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Yes, yes, growth, growth rating for 6 months.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
It will remain same for the next 2 to 3 years.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Uh, see, we are trying- this is the category which is growing the fastest, so we try to grow in double digit in this shoe category and sneakers.

Prerna Jhunjhunwala - Analyst, DAM Capital Advisors Limited
Okay, okay, thank you so much.

Operator
Thank you. A reminder for all the participants, Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. The next question comes from the line of Jay Gandhi from HTSC Securities. Please go ahead.

Jay Gandhi - Analyst, HTSC Securities
Yeah, hi, thank you for the opportunity. Uh, just one thing I missed, uh, you guys mentioned Open Footwear, uh, price hike was how much? Was 15 to 18%? Just to be clear.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
You're right.

Jay Gandhi - Analyst, HTSC Securities
Okay. Right. And so, uh, also if you could help me understand the working capital increase, I mean, on a YOY basis it's been quite a steep one. So, uh, if you could help us understand the components to that.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So if you talk in terms of days, uh, it has been increased by 10 days, uh, from 134 days to 144 days. And primarily because, uh, we expected the volume growth will be there, but we could not achieve that. So that is one of the reason, uh, that you can see the inventory has been increased by 10 days,

Jay Gandhi - Analyst, HTSC Securities
Right? Uh, see, on that, if I could just double-click now. Sorry, you had- you wanted to say something?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Yeah, plus there's an inflation effect also, no, because of that, uh, 15 to 20% increase in price here,

Jay Gandhi - Analyst, HTSC Securities
Right? No, fair, fair point. Now since, so you mentioned that, you know, uh, growth effectively is likely to come from closed footwear. For the next foreseeable future. Uh, closed footwear typically, you know, requires a sizable retail presence, right? So is it that we are dislocated in terms of product and channels that we have? Uh, and probably a significantly high CapEx might be needed to, you know, probably marry your product portfolio in the next- for the next 3-4 years. Through the channel mix that you have?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So you're right, actually what we are seeing is that retail is growing fastest and in retail the closed footwear contribution is highest. Plus our focus has been more on the sneakers and sports shoes, seeing that in e-commerce also again there is a huge potential for sneakers and sports shoes. Slowly companies are making more efforts grow this category. Plus, in open footwear also, we have launched a premium portfolio of Flight, which is also doing very well in the market. So Flight category overall is also growing.

There is no- it's only the Hawaii where we are feeling little challenged because it's very price sensitive,

Jay Gandhi - Analyst, HTSC Securities
Right? So does that make Relaxo a more CapEx-heavy model going forward?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
No, no, we don't think so. A lot of CapEx is required. We already have good capacities with us, so CapEx is not that much required to grow this category.

Jay Gandhi - Analyst, HTSC Securities
Got it. And just one last question, so if I may, uh, since you brought up capacity, there's been some recalibration in the production capacity the way you mention it. It used to be 10, 10.5, or come down to 9. If you could help me understand what recalibration have you done?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
You know, capacity has been, uh, not that we have reduced the capacity, it is only the product mix that has changed. So we are launching more and more, uh, premium products which are complex, so it will require more of, I mean, utilization of the machinery. We have not reduced number of pairs. if you go per higher premium article, number of pair and the process [Foreign Speech] time required for that goes up. So that is the way we are revising, optimize our overall capacity.

Jay Gandhi - Analyst, HTSC Securities
[Foreign Speech] and the coming time of

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Also demand for premium article is improve and

Jay Gandhi - Analyst, HTSC Securities
The Right, right. Well, that's all from me, sir. Thank you so much for the opportunity.

Operator
Thank you. The next question comes from the line of Devanshu Bansal from MK Global Financial Services Limited. Please go ahead.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Yes, sir. Thanks for the follow-up opportunity. Uh, sir, uh, the footwear industry as such, uh, has seen very strong tailwinds, right? So there was a lot of dumping that used to happen from China Uh, that should have ideally stopped with BIS. Uh, there was this great big GST difference, right? Earlier we were at almost 12-odd percent, now we are at 5. But still, if we see your volume performance, right, over last 2-3 years, uh, we have seen your volumes continuously dipping, right? Uh, in '25 also we saw a volume dip.

In '26 also and now in H1 also. So despite these tailwinds, uh, uh, what are the key reasons that are sort of driving this volume dip? Because the general expectation in your commentary also, when all these changes sort of happen, we were expecting big tailwinds, but that is actually not played out. So wanted to check, uh, whether we will sort of see these statements in the coming periods, or this is coming as a disappointment to us also, uh, versus our earlier expectations. So just your thoughts there.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So we recognize that we have not delivered the growth that investors expected over the last few years, and we are not satisfied with the performance either. The footwear industry still continues to offer significant opportunities. But the competitive landscape has changed. Like, you know, consumer preferences are evolving, competition has intensified, digital channels are becoming more and more important, and consumers are increasingly looking for a differentiated product rather than affordable footwear.

So we believe the next phase requires us to move beyond this predominantly volume-driven footwear company to become more consumer-centric and innovation-led footwear organization. So I think we are making certain changes in our portfolio which will definitely help us to grow in future.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
So, uh, sir, how should we see this, right? So is it like the China cheap imports is still happening or the unorganized players are still sort of there? This is one scenario. The second scenario is that there is no whole new competition that has come in, be it in terms of D2C players who are providing these innovative products in line with evolving consumer needs. So which scenario sort of correctly, uh, sort of depicts, uh, the current, uh, industry state? So if you could just throw some light.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
I think, you know, China matter that government has put on quality control, uh, standards, and that has only affected 10% of the industry. 90% still exempt out of it. And it is on- rather, it has become a little bit affecting our performance because we have to comply with all those quality standards and keep our articles above those specifications. And as well, the market is concerned, they can produce whatever standard they require. So that has created some kind of unhealthy atmosphere. So, you know, this unorganized local players, they have been able to significantly reduce their cost.

And that- so that is, uh, working pregnant because some of the share and created the competition intensity too much. And as far as, you know, the import from China was concerned, as for our category like Hawaii EVA, that was not there. Maybe there are other segments which were there and government wanted to control that, but somehow those articles still coming by Bangladesh route and no duty. So it is a very complicated situation. I don't think that China putting all this thing has helped the industry.

It has made the things very complicated. People are routing the material to Bangladesh and there is no duty on it. It is- and there are people who are manufacturers here, they're not getting advantage out of it. So we have to be cautious. So keeping in view this kind of scenario, we're trying to see what are the articles which are an opportunity to premiumization we are focusing on, and other categories where we can have good inroads in the market. And that all steps we are taking. China has not majorly done any good for the industry, I will call it.

Yes, it is. I don't know why it has done it.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Got it, sir. Just, uh, one small follow-up. Uh, so from, uh, this Rs 50 crore, uh, top-line exemption that is there for BIS, right? So are we making representations? Uh, do we have any, uh line of sight [Foreign Speech] government will sort of implement BIS for the smaller SME and MSMEs which manufacture footwear. do you have some view over there? if you could share?

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
90 percent people are exempted, so though there is interest. and government does not want to h That it should go away. They are benefited. But till that exemption is available to them and not available to us, they are having a little better opportunity for them.

Devanshu Bansal - Analyst, MK Global Financial Services Limited
Okay, got it, got it, sir. I understood.

Operator
Thank you. The next question comes from the line of Mr. Sameer Gupta from IIFL Capital Services Limited. Please go ahead.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Hi, good evening everyone. Thanks for taking my question again. So just during the course of this call, I've picked up on the EBOS which are being reimagined. So just wanted some details here. What kind of changes are we making here in terms of- are these larger store size? Is it materially higher CapEx needed? Uh, as the portfolio of products which is sold here materially different than what we sell in other EBOS? And you mentioned 15 reimagined stores. If I know- if I can know where exactly are these located, is it largely in northern part of India or is it well spread out so that it gives you a

flavor of the entire India before you- before you strategize on expansion going forward?

Anything that you can give or share around these details would be helpful, sir.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So basically what we have done is we have opened 51 outlets. Out of that, 30 were absolutely new outlets. And this Reimagine means there is more display, there is prominence given to the premium article more, and these square feet area is almost similar. There is not increase in the square feet area. Plus we have started with North India first, and what- wherever we open new outlet is coming with that format only. South also, we have come this time in Bangalore with around 10 outlets in Karnataka.

So these are all new format, new Reimagine stores. So more prominence is given to sneakers and sports shoes with the display, good display.

Sameer Gupta - Analyst, IIFL Capital Services Limited
And, uh, what would be the total number of new Imagine stores out of the 450-odd that we have?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
We have total 51 right now, and I think within this year we'll add 50 more in next 6 months.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Got it, sir. Are there any in Mumbai?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
We have, we have outlets in Mumbai, but we, we don't have- we have 10 outlets in Mumbai, but we have, we have not changed into Reimagine store yet. In next, uh, I think one year, that will also be changed here.

Sameer Gupta - Analyst, IIFL Capital Services Limited
We'll wait for it, sir, no worries. Uh, so the CAPEX material is not very different, I'm assuming, given the area is similar, unless you have putting more fit-outs or more premium stuff in the, in the, uh, looking, look and feel of the store?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Definitely there is increase in the CapEx because, uh, there's more display, the outside boards are more, much more attractive. So slight increase, not much.

Sameer Gupta - Analyst, IIFL Capital Services Limited
And what would be typically the CapEx per store for us?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
We have roughly around 22 lakhs, uh, roughly per store.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Got it, sir. Another question, sir, on the strategic aspect. Now you're saying that the market is moving towards premium sports sneaker and not necessarily value-oriented but differentiation-oriented. But if I look at Relaxo's journey over time, I would imagine that our core strength would still be on the manufacturing side, and this new set of challenge probably requires a different set of sales skill set in terms of trying to find out new trends in the market, marketing your product in a different way.

So, uh, are we planning to change our way of working here? Are we looking at hiring any consultant in the near term to chalk out this journey? Like some time back we had hired consultants, uh, uh, are we thinking on those lines? Are we hiring new people, new teams to, to help us out with this new journey, or are we still going with the same set of people that we have?

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
So in general trade, we have divided team into 2 parts. One is Sparks and the other one is the Hawaiian flight division. So this is the big thing what we have done to give more focus towards the closed and the Sparks portfolio, and we are appointing even distributors also, uh, in, in this category separately. Plus, regarding the consultant, we are always in touch with the, uh, people, you know, who guide us how to make a shift from mass to premium article. Plus, we are launching exclusive articles in e-commerce, you know, and plus in our retail shop also.

So it's a gradual process, but we have to be there in line, you know, in the market. Whatever market expect, uh, demands, we have to fall accordingly.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Sure. And, uh, this splitting of sales team in Sparks and Hawaii, when has this been affected? From,

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
From 1st April

Sameer Gupta - Analyst, IIFL Capital Services Limited
This year, FY26.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
This year, correct.

Sameer Gupta - Analyst, IIFL Capital Services Limited
Uh, 2026. Okay, got it, sir. Uh, that's all from me, sir. Uh, thanks and all the best.

Gaurav Kumar Dua - Co-Chief Executive Officer and Whole-Time Director, Relaxo Footwears Limited
Thank you.

Operator
Thank you. A reminder for all the participants, Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. Ladies and gentlemen, we will take this as the last question for today. I now hand over to the management for closing comments. Over to you, sir.

Amit Roy - Chief Financial Officer, Relaxo Footwears Limited
Thank you very much. This is all from our side. We thank all of, all of you for joining us on the call. Looking forward for, for taking it further in case you need any help in this for the next call. Thank you very much.

Operator
Thank you. On behalf of Relaxo Footwears Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.