



Quality Par Excellence

RELAXO FOOTWEARS LIMITED

Annual Report 2013-2014



Quality Par Excellence

चलो तो
रेटाईल से।



HF-30



HF-28



HF-27



HF-26



Salman Khan is wearing HF-17

Corporate Information

BOARD OF DIRECTORS

Ramesh Kumar Dua	Managing Director
Mukand Lal Dua	Whole Time Director
Nikhil Dua	Whole Time Director
Deval Ganguly	Whole Time Director
Vivek Kumar	Independent Director
Pankaj Shrimali	Independent Director
Kuruvila Kuriakose	Independent Director

COMPANY SECRETARY

Kapil Garg

CHIEF FINANCIAL OFFICER

Sushil Batra

AUDITORS

Gupta & Dua
Chartered Accountants
9, Darya Ganj, Delhi-110 002

BANKERS

State Bank of India
HDFC Bank
Standard Chartered Bank
ING Vysya Bank
Yes Bank

SHARE TRANSFER AGENTS

M/s Karvy Computershare Private Limited
17-24, Vittal Rao Nagar
Madhapur-Hyderabad
Andhra Pradesh-500 081

REGISTERED OFFICE

316-319, Allied House, Inderlok Chowk,
Old Rohtak Road, Delhi-110 035

CORPORATE OFFICE

Aggarwal City Square, Plot No. 10,
Mangalam Palace, District Centre, Sector -3,
Rohini, New Delhi-110 085

WORKS

RFL-I & II Plot No. 326-327, MIE, Bahadurgarh, Haryana
RFL-III A-1130 & 1130 (A), RIICO Industrial Area,
Phase-III, Bhiwadi, Rajasthan
RFL-IV 30/3/2, Rakba Mooja Hasanpur
Tikri Border (Near Sales Tax Office), Bahadurgarh, Haryana
RFL-V 83-92, SIDCUL Industrial Area
BHEL, Haridwar, Uttarakhand
RFL-VI 342-343, Footwear Park, Industrial Estate,
Sector-17, Bahadurgarh, Haryana
RFL-VII Plot No. 328-329, MIE, Bahadurgarh, Haryana
RFL VIII Plot No. 37, Sector 4B, Bahadurgarh, Haryana

Contents

From MD's Desk	2
Performance Review	4
Management Discussion & Analysis	8
Financial Highlights	11
Directors' Report	12
Corporate Governance Report	18
Independent Auditors' Report	29
Balance Sheet	32
Statement of Profit and Loss	33
Cash Flow Statement	34
Notes Forming Part of Financial Statements	35
Accounting Policies and Additional Notes on Accounts	43



From the desk of **Ramesh Kumar Dua, Managing Director**

Dear Stakeholders,

It gives me immense pleasure to write to you at the end of another successful year at Relaxo. This is especially notable, given the fact that Indian economy was going through one of the most difficult times in recent past with consumer spending at an all-time low. Even in such a challenging environment, your company was not only able to accelerate sales growth but also significantly improve profitability.

FY14 revenue grew by 20% to over ₹ 1,200 Crore and Our EBITDA margins have improved from 11.04% in FY13 to 12.39% in FY14, a significant 34.7% increase in operating bottom line. Your company's PAT margins have also subsequently improved from 4.46% in FY13 to 5.44% in FY14. In conjunction to the company's performance, your Board of Directors have recommended a dividend of 50% for FY14.

With performance and accolades come higher responsibility and accountability. At this point of time, I would like to reflect over some of our initiatives that have worked well for us as well as our priorities for the future.

Our business has performed well across all operating parameters. Our deep understanding of our consumers and our trade and developing a 'forward looking' outlook has helped us build a comprehensive portfolio of products, catering to a large set of Indian consumers. Our Investments in technology have helped us to improve quality, processes and save material & energy costs. Our product innovation and R&D investments have helped us to maintain a cutting edge in terms of quality and freshness of design in our portfolio. We are gradually building a strong position across all categories and consumer needs in the footwear space.

Significant distribution related changes have been made in the last year and we continue to aggressively expand our distribution network to ensure that our wide product portfolio as well brand reach is translated into revenues. I am pleased to announce that Relaxo is now present in Modern Trade and E – Commerce channels, which will redefine the operating model in times to come. We also continue to expand our retail distribution network, and during the year, our fully owned retail outlets have increased from 168 to 179 and the trend will continue in the years to come. With increased distribution, we have not lost sight of our ability to serve. Our investments in Manufacturing and Supply Chain continue to help us serve our customers faster and better. Our production capacity has increased from 4.54 lacs pairs to 5.35 lacs pairs per day. With the slippers capacity expansion at Bhiwadi and the central warehousing facility at Bahadurgarh, Relaxo is well positioned to capitalise the increasing demand for our products and enhance service at all levels.

After one of the most sought-after elections in the history of India, everyone is looking forward to a new dawn. There's a long list of things that has to be reviewed by the new government and the common man is very hopeful about the bright future. The new government is expected to open new avenues for an unprecedented industrial growth. It is predicted that under the new government, India is likely to witness a golden era of industrial revolution. To give boost to the footwear industry, the government has already announced relaxation in the excise duty on footwear in the price range of ₹ 500 to ₹ 1000.

I would like to recognize that your company has always counted on decisive support of its Board of Directors, consumers, business partners, the management and all the valued employees for their significant contribution and stellar performance in last year. We would also acknowledge the support of our shareholders and feel privileged for an opportunity to create value for all of you. We sincerely thank you all and share the success that Relaxo has achieved with all of you.

With best regards

Ramesh Kumar Dua

Managing Director



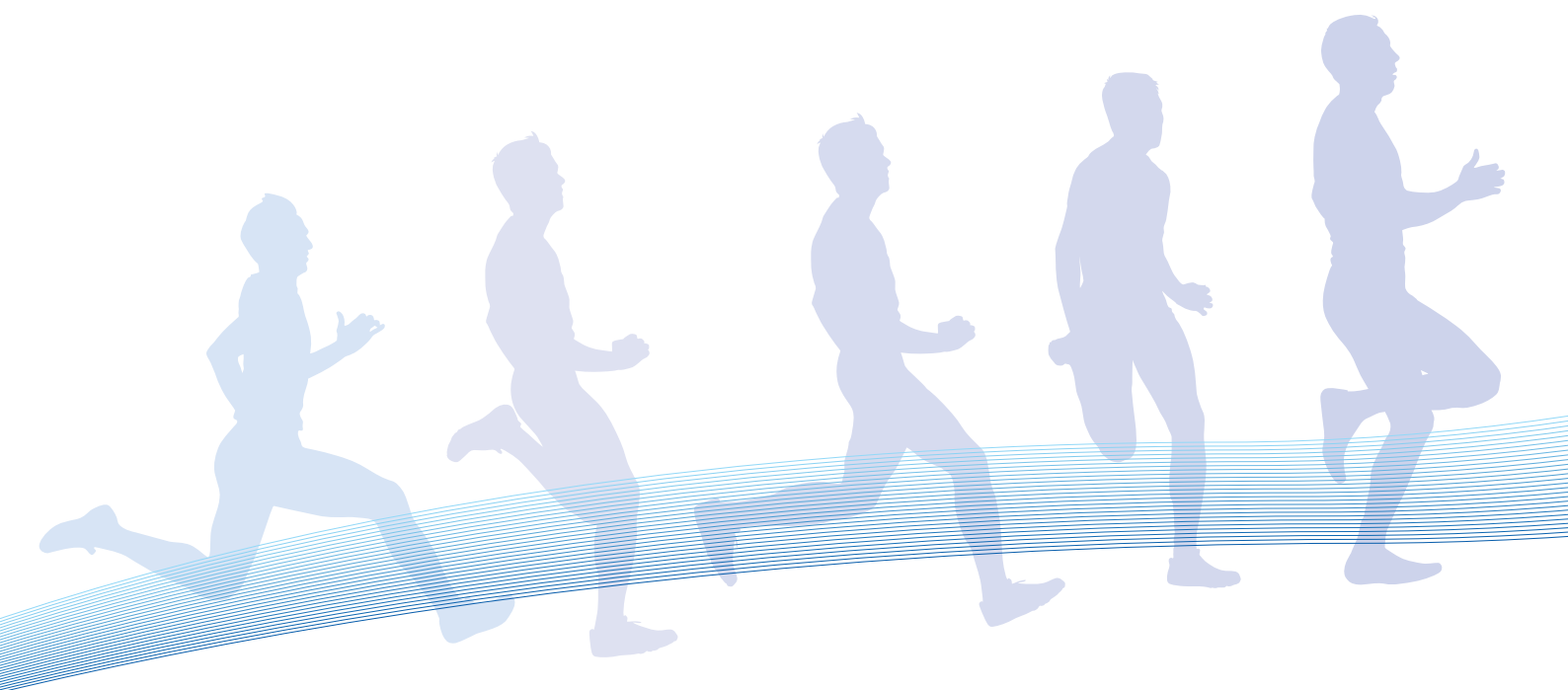
PERFORMANCE – AN OVERVIEW

Your Company has demonstrated the resilience of its business model amidst operating in a volatile and uncertain industrial environment.

Business Plan for Growth

To imbibe the principle of planning, Relaxo has initiated to work upon a long term business plan with a clear-cut direction in preparing annual operating plans so as to meet its long term objective. Relaxo, regularly assess the Company's performance against the plans and targets for which they already have set the bench mark, to meet out the Company's objectives. At Relaxo the management reviews progress every month. This regular assessment helps in taking corrective and preventive measures so as to bridge the gaps.

Relaxo plans are always more specific and precisely defined, the objectives set for functions are realistic and deliverable. At Relaxo the business plan includes a summary of what our business is all about, how it can be developed better and what can be achieved. In particular, it covers the entire strategy for improving our working and control mechanism through well defined processes to achieve the desired growth.



Revenues – Driving Growth

Your company's Net Sales has increased by 20% YoY, from ₹ 1004.83 cr to ₹ 1205.83 cr in the period under discussion. A significant increase, when compared with last year and with respect to industry benchmarks amidst the uncertain political and economic environment last year. The revenue increase is attributed to a healthy mix of volume driven growth as well as premiumization.

Our significant sales growth has been possible on the back of strong Go-to-Market strategy defined by the company with clear cut action points in each sales area. Some of the key driving factors behind this growth have continuously drive to penetrate in new towns & channels, constant investment behind our strong brands and internal operational efficiencies. We believe these changes will improve sales effectiveness & transform the sales function in future also.

The retail division has witnessed a healthy growth of 26% on overall sales, in line with the best retail organizations in the Indian context. Targeted initiatives towards customer centricity and product portfolio management have ensured that the business performs on par with Industry benchmarks. We have also implemented several initiatives towards improving our supply chain and distribution with an aim to satisfy our customers. In the upcoming financial year, Retail business will increasingly focus on achieving increased market penetration and ensuring increased customer acquisition by targeted marketing initiatives.



Advertising & Sales promotion – Building Brands

We have consciously focused on increasing our selling expenditure throughout the entire last year in line with our objective of brand building. Relaxo has engaged with three well known celebrities for its brands which have taken our Brand Metrics (Awareness, Trial and Conversion) to an altogether different level. We have also taken cognizance of our trade's requirements and our Sales Promotion spends have been targeted to deliver 'Bang for buck' for our distributors.

With its never ending focus on quality, product innovation and value for money products, Relaxo has built specialist brands - Relaxo Hawaii, Flite, Sparx and Schoolmate, which cater to different footwear requirements of consumers.

Material & Manufacturing Costs – Driving Efficiency

Our Material & Manufacturing costs have shown significant efficiency improvements in the year gone by. This has been possible, as a result of initiatives undertaken as part of Research & Development as well as easing of Raw Material costs.

We have embarked on an organization wide manufacturing excellence program called as "Parivartan". As part of Parivartan, we are working towards standardization and cross plant collaboration to enhance the learning curve as well as horizontal deployment of best practices followed in one plant to another plant.

Our Parivartan initiative is incomplete without the mention of thousands of workers and staff who have been working on the ground to make this change happen. We are committed towards greater employee satisfaction & capability enhancement and will continue focusing on the same in the times to come.



Fixed Costs – Controlling budgets

A significant degree of transformation has been achieved in last year in terms of controlling our fixed expenditure. This is where our large volumes, widespread distribution network and well maintained facilities provide us benefits of economies of scale. We have managed to put a measured check on elements such as people cost by ensuring productivity, while at the same time maintaining Market relevant compensation for our employees.



MANAGEMENT DISCUSSION & ANALYSIS

Industry Structure & Development

The Indian Footwear Market is standing on the threshold of a revolution. The facets of this revolution lie in the inherently dynamic operating environment, the evolving income – demographic pyramids and more importantly the changing consumer behavior.

The Dynamic Operating Environment

FY 14 has been one of the toughest years for the Indian economy. The declining GDP growth rate driven by falling consumption and investment has led to significant changes in consumer behavior, supply dynamics and competitive rivalry in the industry. High inflation led to a serious cut in consumer expenditure whereas a weakening rupee placed tremendous bottom line pressure on organizations involved in import of raw material. It becomes extremely important to be able to attract, delight and retain consumers in the marketplace, which will act as a shield against the relentless pressure on both revenues and margins, the likes of which were seen last year.

The Evolving Income - Demographics

The income – demographic profile of the Indian consumer has also been evolving fast over the last couple of years. India is known as a country of young people. With our declining population growth rate and general longevity in life span due to advancement in the field of medicine, the years to come will see a shift in the age profile of the people. The demographic trends suggest that while Kids and Youth will continue being dominant segments, it is the Middle Age Segment that will expand in the next 10 – 15 years. Similarly the changing income pyramid provides opportunity to those firms which can leverage their market position in the middle class consumer segment. The rural per – capita consumption has also seen a significant increase in the last few years. One of the key imperatives thus becomes to consolidate position in urban markets while focusing on rural markets for the next wave of growth.

The Changing Consumer Behaviour

Indian consumers are also evolving with the market - habits, lifestyles, tastes and preferences. The advent of organized retailing malls and multiplexes has transformed the shopping habits and purchase behavior of the Indian consumer. There are significant changes that can be seen in the purchasing behavior of Indian consumer. A typical upper middle class young consumer is looking beyond the utility aspect of a product to seek intangibles like brand and lifestyle statement associated with the