



**“Go Fashion (India) Limited  
Q3 FY22 Earnings Conference Call”**

**February 07, 2022**

Hosted by ICICI Securities



**Management:**

- 1. Mr. Gautam Saraogi – Chief Executive Officer**
- 2. Mr. R. Mohan – Chief Financial Officer**

**Moderator: Mr. Manoj Menon – ICICI Securities**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY22 results conference call of Go Fashion (India) Limited hosted by ICICI Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you and over to you, sir.

**Manoj Menon:** A very good morning, good afternoon good evening, depending on the part of the world you are joining this call from. Representing ICICI Securities, it's our absolute pleasure to host the very first results call of Go Fashion (India) Limited after the listing. The company is represented today by Mr. Gautam Saraogi – Chief Executive Officer, and Mr. R. Mohan – Chief Financial Officer. Over to Gautam for the opening remarks and post which we will open up for Q&A. Thank you.

**Gautam Saraogi:** Good afternoon. A very warm welcome to everyone present on the call. I hope you are keeping safe and healthy during this time. I would like to thank the entire investor community for the tremendous support during our IPO in November 2021. It was a proud moment for all of us. Along with me, I have Mr. R. Mohan – our Chief Financial Officer and SGA, our investor relations advisor. Hope you all have received our investor deck by now. For those who have not you can view it on the stock exchange and the company website. Since our company has just been listed and we are doing the earnings call for the first time, I would like to share a brief overview about our company and the growth path ahead.

Go Fashion (India) Limited is a women's bottom wear brand in India with a market share of approximately 8% in the branded women's wear space. We are engaged in the development design, sourcing, marketing, and retaining a range of women's bottom wear products under the brand **Go Colors**.

The women's clothing market in India has evolved in the past decade from the traditional one piece apparel like a saree, to a two-piece mix and match apparel with bottom wear becoming an essential category that caters to the basic and functional needs of consumers. Today bottom wear has become a must have that provides comfort as well as style. It is a round the year universal category that is not subjective to seasonal trends. We are among the few apparel companies in India to have identified the market opportunity in women's bottom wear and have acted as a category creator for bottom wear.

We were the first company to launch a brand exclusively dedicated to women's bottom wear category and have leveraged the advantage to create a direct-to-consumer brand with a diversified and differentiated product portfolio of premium quality products at competitive prices. We offer one of the widest portfolios of bottom wear products among women's apparel retailers in India in terms of colors and styles. Our bottom wear products which include Churidar, Leggings, Dhoti, Harem-pants, Patiala, Palazzos, Culottes, Pants, Trousers, and Jeggings are sold across multiple categories, such as Ethnic Wear, Western Wear, Fusion Wear, Athleisure, Denims, Plus Size and Girls making our product portfolio universal for every occasion.

We sell bottom wear in over 50 styles and in more than 120 colors. We design our products to cater to women across all age groups and girls and fits that are suitable to various body types and physiques. We endeavor to provide our customers with premium quality products at a pricing that caters to all income segments and the price range of our product ranges from ₹ 249 to ₹ 1,599, while the average selling price of our products at EBOs for the 9M FY22 is ₹ 659. These factors coupled with the lack of seasonality ensure that our product portfolio is resistant to redundancy from fashion trends. The strength of our Go Colors brand and round the year relevance of our product portfolio allows us to typically retail our products at full price. Our full price sales for 9MFY22 was around 97%.

We serve our customers primarily through our extensive network of 476 EBOs operated primarily through a company owned company operated model that are spread across 23 states and Union Territories in India. Our cluster-based approach to opening and operating EBOs allows us to pursue the COCO model which results in better operational control and greater store profitability. In our experience, retailing through EBO caters better brand recall. Our EBOs are located in high streets, malls, residential markets, in major Metros, large cities and Tier 2, Tier 3 and at airports. In addition, our distribution channels include large format stores including Reliance Retail Limited, Central, Unlimited, Global and Spencer retail, among others. We operate through 1,330 large format stores as on 31<sup>st</sup> December 2021. In addition, we sell our products through our website and online marketplaces and other multi brand outlets.

Our in-house design and merchandising team designs and develops bottom wear products across categories with their deep understanding of consumer requirements, in-depth market research and data analytics helping in creating the fit and comfort of our products. The efforts of our design and merchandising are supplemented by our extensive sourcing network and manufacturing network undertaken through 73 suppliers, 42 job workers across 11 states and Union Territories.

We have strategically undertaken brand building initiatives to gain visibility with prudent use of resources like incurring limited branding and marketing expenses. We retail our products under a single brand for improved brand recall and better marketing of our products which has yielded one of the highest revenues per unit spent in the industry.

**We have a strong unit economics with an efficient operating model.** We have a standardized and scalable developed model of our EBOs based on our know-how and experience. In determining our store rollout, we assess optimum store size and layout and lease agreements that are typically long-term in nature and revenue share agreements. Our ability to identify and determine the optimum location and size of the store as well as manage rental cost and marketing leverage of our EBOs are critical to ensure visibility among target customers and sustainability of store profitability resulting in our company having one of the highest sales per square feet among key women apparel companies. Our unit economics has allowed us to expand our EBO network across various regions in India including the new EBOs in Tier-1, Tier-2, Tier-3, Tier-4 cities and towns.

Our products being core and essential to customers has enabled us to operate a business model where we offer limited discounts and sale of our products is typically at full price and experience results in greater

profitability. We staff our EBOs with limited people per store which is among the factors that contribute to our store profitability while ensuring adequate attention to customers. In addition, our EBOs average selling price has increased continuously primarily on account of value-added products, including pants, trousers and plus size products that we have introduced in our product portfolio. During the last quarter, we launched three new winter wear, bottom wear such as Suede Treggings, Corduroy Jeggings and Warm Kurti pant.

**We have an extensive procurement base with a highly efficient and technology driven supply chain management.** We manage our inventory and logistics as well as our entire supply chain of our channels from our 99,100 square feet warehouse in Tirupur, Tamil Nadu and which is capable of handling complex SKU mix. We have automated our entire procurement and supply chain through our ERP systems which allows us to maintain flexibility and enables to meet our requirement in an efficient manner without relying on any one vendor, supplier or factory. Our ERP system enables us to streamline our procurement needs, including the quantity required and enabling us to avoid over or under stocking as well as handling complex SKU to meet our supply chain requirements of our extensive distribution network. Our inventory management ensures that we are able to maintain inventory levels across our wide range of SKUs and our distribution network. As part of our inventory management, we also track business intelligence reports generated by our system to address changing trends and customer preferences which would result in minimal write-offs.

**Now coming to our company strategy –**

**We continue to expand retail networks with our focus on EBO.** As part of our growth strategy, we intend to expand our EBO network in other regions across India. We plan to expand by 120 to 130 EBOs every year. We intend to follow the COCO model that we ensure better operational control over our stores. Given our cluster-based approach of establishing EBOs primarily in Tier-1 cities, we will also focus on establishing additional EBOs on a similar model across Tier-2, Tier-3 and Tier-4. We expect to leverage our existing extensive store network and our ability to expand our store network in particular EBOs to tap this growth opportunity. This could allow us to maintain the quality of our operation while also improving the visibility of our brand and a standardized customer experience. We intend to leverage the experience of our operations and business development teams to grow our network in existing and newer geographies. Our expansion in newer markets offers us potential for market share gain, increased brand recognition and economics of sale. We will also look at selectively expand our presence across large format stores as our large format stores grow their presence in India. During the last quarter, the company has added 19 EBOs and during the nine months, the company has added about 38 EBOs. 11 stores have been shut down due to COVID related impact. In the coming quarter, we expect to add approximately 25 additional EBOs.

On an average, one EBO would require an investment of ₹ 35 lakhs with an average payback period of 15 to 18 months. With increased focus on EBOs we expect increased cash flow generations will increase in revenues from EBOs and reduce debtor days and reduce working capital requirements. This will lead to a healthy and sustainable business model, increase profitability and better return ratios in the future.

**One of our important channels for growth is the online channel.** E-retail in India has witnessed rapid growth in the last few years. Sales from online channel for Go Fashion is ₹ 9.25 crores in 9M FY22 which is 3.24% of our sales. It has grown at a CAGR of ~72%, from 9MFY20 as compared to 9MFY22. We continue to focus on further strengthening our online sales to benefit from evolving customer trends in our market. We intend to make investments in digital channels to build an omni channel engagement experience for our customers and have a dedicated team for our e-commerce operation. We also intend to leverage our existing capabilities to increase our online presence by improving and upgrading our website. Our focus is to target customer acquisition, to drive sales through our website and online marketplaces. In addition, we intend to invest in content generation to build engagement with the younger audience. We will continue to focus on analytics technologies to create personalized journey for our customers. Through these measures, we aim to expand revenue generating channels, as well as become a digitally relevant brand for Indian women in the bottom wear segment.

**Leverage technology to bring cost efficiency and enhance customer experience.** We intend to further improve our operating efficiency and ensure efficient supply chain management through global best practices. Among the measures that we intend to undertake investing further in our infrastructure to improve productivity and time savings. We will look to upgrade our warehouse to optimize our inventory and supply chain. We intend to implement new technologies to further expand and improve customer delivery and enhance customer buying experience with faster dispatches. We intend to also undertake data analytics that will allow us to understand better customer preferences, including sales and help scale our operation.

With this, I would like to hand over the call to our Chief Financial Officer, Mr. R. Mohan for the update on Q3 & 9M FY22 financials.

**R. Mohan:**

Thank you Gautam and good afternoon, everyone. The company has posted a strong performance for the Q3 & 9M ended 31<sup>st</sup> December 2021 backed by the increased demand across product categories. Our revenues for the quarter stood at ₹ 142 crores as against ₹ 97 crores in Q3 FY21, registering a growth of 47% year-on-year. This growth was led by a strong demand across our product portfolio. Our EBITDA for the quarter stood at ₹ 52 crores registering a growth of 72% year-on-year as compared to ₹ 30 crores in Q3 FY21. Our EBITDA margin which stood at 36.7% have seen an improvement of 540 bps on a year-on-year basis. PBT for the quarters stood at ₹ 33 crores and 95% year-on-year growth from Q3 FY21. PAT for the quarter stood at ₹ 24 crores, a 33% year-on-year growth from Q3 FY21. Profits have been lower due to increased tax payout during the quarter. Coming to sales growth we have seen a 43% SSSG if compared to Q3 FY21, that is last year and an SSSG of 10% if compared to Q3 FY20, that is the pre-pandemic period.

Coming to our 9M FY22 financials. Our revenues stood at ₹ 285 crores as against ₹ 161 crores in 9M FY21, registering a growth of 77% year-on-year. This is not a comparable growth due to a high impact of COVID in last year. Our EBITDA for 9M FY22 stood at 81% as compared to 22% in 9M FY21. Our EBITDA margin which stood at 28.5. PBT for the 9M FY22 stood at ₹ 33 crores whereas PAT for the 9M

FY22 stood at ₹ 23 crores. SSSG for nine months is not comparable due to COVID related lockdowns during the last financial year.

With this we will open our floor for the questions and answers. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arpit Shah from Stallion Asset.

**Arpit Shah:** We want to understand how economics are different from an LFS sale and from an EBO sale.

**Gautam Saraogi:** In EBO our margins are higher because we are selling to customers directly on full price. Whereas when we are selling through a large format store, we have channel margins which are part of the revenue. Usually for us in the EBO channel, we require an average investment of about ₹ 35 lakhs including inventory to put up a store and we are able to get the payback period in about 15 to 18 months on average. In our large format stores, we usually have 40% to 45% channel margin which we are giving to the LFS partner. So, when we compare EBO and LFS from an operating margin perspective, the operating margin of LFS would be half of what an EBO would be in terms of profitability. In terms of working capital days, EBO is a much lighter model compared to the LFS, because the stock what we have in large format stores are on SOR basis and that is one of the reasons why our receivable days is on the higher side.

**Arpit Shah:** Typically, going towards EBOs, 2-3 years down the line, the share of EBOs would increase more than the LFS?

**Gautam Saraogi:** What we are planning to do is currently our EBO contributes to about 72% of our business. Our immediate plan is to increase it to 80% in the next few years. We are able to sell to our customers directly, we have a control of our channels. This will also show an improvement in gross margins and the profitability of the company as well as in reach and expansion.

**Arpit Shah:** What is the online strategy, currently the sale is 2.5%, would that increase to 10%, 12%, in next one or two years?

**Gautam Saraogi:** Online is a very-very important channel for us and that's one of the reasons why even we are implementing an omnichannel strategy which is under development right now. We are upgrading and building a new website. Our idea right now, our sales are coming from 2% to 3% from the online business, we want to take it to double digit in the next few years. Online is going to become a very-very important channel in collaboration with our EBOs to customers.

**Arpit Shah:** I just want to understand how are you keeping in line with fashion? Leggings was a big thing a couple of years back. Palazzos are right now the big thing, how are you going to keep up with the fashion trends?

**Gautam Saraogi:** We have a data analytics approach to this business. Though we are in a core product on a long-term horizon basis, you very rightly mentioned products do keep changing. Sometimes leggings are going to be in

fashion, tomorrow it might be some other product. So, our data analytics of sale helps us to understand the life cycle of a product in terms of sales. Whenever we see a product on a long-term horizon basis dipping, and we see another product sales increasing, automatically our inventory management at the backend changes. Over and above our data analytics and business intelligence, we also have a very experienced team of in-house designers who study the entire retail market in women's apparel market, and we come out with new products every year to stay relevant in this category.

- Arpit Shah:** Typically, you don't have any inventory in this?
- Gautam Saraogi:** We don't have any inventory absolutely, because most of our colors and products are round the year products and go year after year, year after year without going out of fashion.
- Arpit Shah:** Your inventory days actually should reduce if you keep increasing the data analytics?
- Gautam Saraogi:** Absolutely. Unfortunately, because of COVID, our inventory days became a little on the higher side. Historically, our inventory days used to be between 90 and 100 days. Our endeavor is to bring it back into that range in the future.
- Arpit Shah:** Anything below that, any number below 90 to 100 days?
- Gautam Saraogi:** Our first target is to get to 90 to 100 days back to our old number and then as efficiencies keep coming in and we keep increasing our data analytics, we keep optimizing inventory quarter-on-quarter.
- Arpit Shah:** This is not typically fast fashion?
- Gautam Saraogi:** This is not fast fashion.
- Moderator:** The next question is from the line of Vicky Punjabi from JM Financial.
- Vicky Punjabi:** I believe you have shown that the SSSG versus the December 2019 quarter was somewhere around 10.5%. I just wanted to understand if we had to compare the revenue versus the December 2019 quarter, what was the growth there? And just an extension to this is, I understand the business is completely core driven business, but is there any seasonality between quarters for this business which kind of makes revenue say in a December quarter better than what we would achieve say in a March quarter or something like that?
- Gautam Saraogi:** Very well pointed out. So, same store sales growth for our stores have been very encouraging. It has been 10.5% when I compare to pre-COVID level. If I look at an EBO channel level, at an overall EBO channel level we have grown at 29% compared to pre-COVID Q3FY20. And at a company level we have grown at around 27%. So ~18.5% has obviously come from newer avenues of new store expansion.
- Now as far as seasonality in sales are concerned, though we don't have seasonality in our products essentially. Quarter 3 definitely is one of the stronger quarters because of festive and better shopping mindset of the customer, but for us the fall in sales between individual quarters is not very large because

of our being a core and round the year product. Q3 being the strongest even if we go to the next quarter there will not be a very sharp fall in sales because ours is a daily wear essential for the lady customer.

**Vicky Punjabi:** Just an extension to that. Is there any impact that you have seen from the third wave right now?

**Gautam Saraogi:** So, the Omicron variant which has come in has seen January sales taken a hit, there's no doubt about it. But the good thing now is the lockdowns all have been removed by January end. And in February, we are seeing all our stores functioning in full swing like before. So, we are very hopeful and bullish on the sales coming back in February and March strongly.

**Vicky Punjabi:** I Just had one housekeeping question. Can you also help us understand what was the EBITDA margin for 3Q on a pre-IndAS basis?

**Gautam Saraogi:** Pre IndAS basis, our EBITDA margins would be about 24% to 25%.

**Moderator:** The next question is from the line of Tejas Shah from Spark Capital.

**Tejas Shah:** My first question pertains to terms of trade in LFS. You briefly spoke about it while answering the first question, but if you can explain a bit, how do we account for SOR in our books and a bit more in detail and how margins are recorded in our books?

**Gautam Saraogi:** The sale of what we do with a large format store is basically on a principal-to-principal basis. And when it is in a principal-to-principal basis, so, when we dispatch the goods to their respective store, we have to account for it as a sale in our books because of this principal-to-principal relationship. So, in accounting terms we have to book it as a sale, and it shows as debtors in our book. Now, we realize the money only when they sell further. So, when they sell further is when we get payment for that. Revenue recognition, ideally the channel margin for a particular LFS would be around 40% - 45%. For example, if the MRP of a product is ₹ 100, just for conversation's sake, and if the channel margin of LFS is 40%, I would be recognizing ₹ 60 as revenue in my book and will show debtors in my book. So, when the LFS sells it further, then is when I get the ₹ 60 back into my system as a payment. This inventory that is there at the large format store is debtors in my book until I realize the payment. And as far as profitability is concerned in terms of what kind of EBITDA, we generate from my EBO level, it is half of the profitability of what an EBO would be on MRP.

**Tejas Shah:** That's largely because your denominator in LFS is lower by, it is net of trade margin. Otherwise, ideally it should be higher in EBO versus LFS?

**Gautam Saraogi:** That is what I am saying, the LFS is half of the EBO profitability. The EBO is higher, correct.

**Tejas Shah:** Second, while answering the previous question you spoke about there is no seasonality in our business in terms of volatility in revenue, and the fact that we don't have any pricing pressure because of the kind of product and brand positioning that we have. So, is it correct that even profitability is not very much driven



quarter-on-quarter? And this is slightly a new business for us to understand, so that is why pardon my ignorance on asking a basic question here?

**Gautam Saraogi:** One of the most important things in our business is our full price. Ours is a core product. Our product does not go out of fashion. When a product doesn't go out of fashion, there are limited discounts what we offer. Historically even pre-COVID we had more than 95% of our sales coming on full price. Even in fiscal year 2022 for the nine months, we have reached a situation where more than 97% of our sales are coming on full price. When as a brand we are able to command more than 97% on full price automatically that reflects in very strong gross margins, then very strong EBITDA margins. So, the fluctuations in gross margin, EBITDA margins and PAT margins will be negligible quarter-on-quarter because of our full price mechanism.

**Tejas Shah:** And just one bookkeeping question, what was our first six months profit or loss for FY22?

**Gautam Saraogi:** For the first six months, we have broken even at a PAT level, almost broken even. And in Quarter 3 we have generated ₹ 23.6 crores of PAT.

**Tejas Shah:** This was largely because of the second wave?

**Gautam Saraogi:** It was largely because of the second wave. So, our first quarter we had a loss of about 17-18 crores, and which was primarily because of the second wave lockdown.

**Tejas Shah:** Barring these exigencies, you should not have this kind of volatility number for the fact that you just mentioned in detail.

**Gautam Saraogi:** Yes, absolutely.

**Moderator:** The next question is from the line of Aniket Kheri from ICICI Securities.

**Aniket Kheri:** On the gross margin bit you did mention that EBO expansion will kind of lead to a better gross margin profile, but could you also discuss the product mix angle over here for gross margin, basically the growth in the non-leggings part of the business?

**Gautam Saraogi:** We as a company, our gross margin for all our products whether it is leggings or whether it is a trouser, whether it is a palazzo is very consistent. We don't want to charge higher multiples on our new products because we want to keep the product as affordable as possible. Our company motto is very premium high-quality garments at affordable prices. So, our multiplies and gross margins from product to product is very similar. So, it does not really differ. But in terms of a mix perspective, today 50% of our sales comes from Leggings and Churidars which are our core products and the balance 50% comes from the other value-added products like Trousers, Harem, Patiala, Palazzos, etc.

**Aniket Kheri:** In this, how has the share trended over the past and how much do you expect it to be in the next 2-3 years?

- Gautam Saraogi:** Earlier historically yes, leggings and churidars was a much larger market. It used to occupy two thirds of the business. But today how westernization has come in India, the sale of the other products has increased. Though we have actually seen an increase in volume for the leggings and churidars, but its contribution has reduced to about half of the business now.
- Aniket Kheri:** And this half is on a value basis or on a volume basis?
- Gautam Saraogi:** Both, both are similar. There is no real big disparity for us between volume and value.
- Aniket Kheri:** Because the new products, the assumption is, would be at a slightly higher price point, right?
- Gautam Saraogi:** It will be more or less in the same range. It won't differ too much.
- Aniket Kheri:** Second, the outlook of adding 120 to 130 stores for the next 2-3 years, how many new cities are you looking to enter in the next 2-3 years and if you could also break this expansion in terms of South and West versus Northeast where you are relatively less present?
- Gautam Saraogi:** We follow a very unique model of expansion. We follow the cluster-base expansion model. For us rather than spreading ourselves, we like to go deep in one territory and open more number of stores. For example, if you see the 476 stores, about 58% of the stores comes from the top eight cities. And even in these top eight cities right now, we feel there's a lot of scope of expansion. From an expansion perspective, we are going to continue growing into the cities where we are present especially the top eight cities, because we have seen the scope is going to be very large. But at the same time, we are also going to enter into new cities. So, our idea is to enter in about 8 to 10 new cities every year. It's going to be a continuous expansion in Tier-1 and Tier-2, but also an equal important focus on Tier-3 and Tier-4.
- Aniket Kheri:** Lastly, anything you are looking at the large format stores as a key growth driver or the share should keep on coming down going forward?
- Gautam Saraogi:** Large format stores is definitely going to be a key driver for us. You look, our sales from large format stores have increased year-on-year. If I compared to fiscal year 2021, we have grown at 30%. So, it's going to be a very-very important growth driver because what large format store does is, it gives us access into a newer city, it gives us the experience of that particular new city before we can open an EBO. So, a large format store is a very-very important channel for newer geography expansion. Having said that, our EBO expansion is going to outgrow our LFS expansion. So, LFS would continue to grow at a same store sales growth level and a new store expansion level, but EBO is going to outgrow it and that's why we see the share of EBO increasing in the business and LFS reducing as a percentage.
- Moderator:** The next question is from the line of Akshen Thakkar from Fidelity International.
- Akshen Thakkar:** I had two set of questions. One was around GST rate change, that was introduced and then rolled back. Could you just talk, what was the pricing action that you had to take, and did you reverse it and stuff like

that? The second question was around the margin structure, if you look at the gross margins at this level are pretty healthy, with Tier-2 roll forward 18-24 months, do we see scope for expanding the gross margins from this level or we are satisfied with gross margins? So, I am just trying to understand if EBITDA margins have to move up from here will it be driven more from gross margins or from operating leverage? Those two questions from my side. Thank you.

**Gautam Saraogi:**

As far as GST is concerned, the government had come out with the notification that it is going to become 12% from January 1<sup>st</sup> and it got deferred. We as a company, and we as an industry, I would in fact talk on behalf of the industry, we are hopeful and quite positive that it will stay at 5%. Because if that happens, I think there would be a situation where brands might have to increase their selling price. So, from that perspective we are quite positive and hopeful that such increase in percentage should not happen. As far as we are concerned, we did take a price hike a few months back because of the cost of raw materials going up. The cost of raw materials as far as yarn fabric is concerned, has increased over the last 24 months by more than 40%-50%. So, we did take a price hike. So, that was last when we had taken a price hike. And as far as GST is concerned, we are very hopeful that it stays at 5% and does not increase to 12 in the coming quarters or months.

As far as margins are concerned this increase in margins is obviously because of the EBO sales mix increasing. Today we are delivering a 60% gross margin because of a large business coming from EBO. As our EBO business keeps increasing as a percentage, we are wanting to increase it to 80% in the next few years or in the next 8 quarters.. With the road of going from 70% to 80%, the gross margins will automatically keep increasing. And as our gross margins keeps increasing, you will see an upside in the EBITDA and PAT margins as well. But having said that, with revenues growing more and more, there are many fixed costs of the company which will also further optimize. So, there's going to be an upside on the EBITDA, not only from a gross margin perspective, but also in terms of operating efficiencies.

**Akshen Thakkar:**

Just a quick follow-up. Even if I adjust for seasonality in Q3, which obviously might have had some benefit on margins and then I add the two drivers that you mentioned that EBO going up leads to better gross margin and operating leverage, like we should see given the kind of store additions that you will have, should then mean that a high 30s or early 40s type of margins should be doable. I am not saying next year, but let's say in a journey of 3 to 4 years, that's not inconceivable, right?

**Gautam Saraogi:**

Currently our EBITDA margins are about 36%. I think there will be an increase in those EBITDA margins as our gross margins and company revenues go up.

**Moderator:**

The next question is from the line of Mayank Kant from TCS.

**Mayank:**

Till 2018 I observe in the balance sheet of the company that the company's asset turnover ratio was approximately 7:1, and the same store sales growth was somewhere around ₹ 18,000 per square feet which post pandemic we were badly hit. Since then, I notice that the company has increased the fixed assets by 10 times. Assuming that there is no lockdown this year do you think we can regain the same level of efficiency in terms of asset turnover ratio and SSSG? And if yes, can we extrapolate this to revenue?

**Gautam Saraogi:** In this there is a very big impact of IndAS 116. What happens in IndAS 116 is your lease rentals are all amortized in the books. So, your fixed assets which is showing it ₹ 280 crores, which would be much higher because of this notional IndAS 116 entry. So, our asset turnover ratio has really not changed over the last few years. It's just that because of IndAS 116, the number looks very large in the balance sheet.

As far as future is concerned, we are very hopeful we have been able to deliver 10.5% same store sales growth in Q3. We are hopeful that as now consumer sentiment is further improving this number will keep improving in the further quarters which in turn will bring efficiencies back in the revenue as far as cost is concerned.

**R. Mohan:** Adding to Gautam, this actual asset is only ₹ 67 crores whereas this IndAS effect is ₹ 211 crores. That's where the right to use is capitalizing as per IndAS 116 is having an effect.

**Mayank:** Could you elaborate IndAS 116? I didn't get that part.

**R. Mohan:** IndAS 116 was introduced in 2020 which has an effect that the comparison between the companies which is operating on a lease asset model versus own asset model, they have introduced world over and in India it is called IndAS 116, wherein the lease rentals for the lease period is being capitalized as an asset and then a corresponding liability is also created, and it is amortized over the period as depreciation and interest. So, there will be an interest amortization over a period of the lease period and there is a depreciation amortization over the lease period, wherein the rental paid actually will be adjusted against the lease liability. So, there won't be any rental expenditure in the line item of a P&L, whereas there will be an expenditure in the form of interest and depreciation. This process is a very technical process where we have to calculate based on the lease life of the assets, based on the return on loan, average interest, all those things. It is a very complex working we have to do because of IndAS 116.

For example, as on the 31<sup>st</sup> December we have a right to use assets of around ₹ 211 crores and we have the corresponding liability also to the extent of around ₹ 200 crores. This is a matching entry, and the balance sheet is skewed accordingly. This is what the present status. Hope you understand what I am trying to tell you. If you have anything you can ask?

**Mayank:** That answers the question, thanks.

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

**Devanshu Bansal:** You have alluded to it, but I want to reconfirm this. Based on rough calculations, your annualized run rate in Q3 for revenue per square feet is about 23,000. And this number was about 17,000-18,000 in FY20. You alluded that seasonality is not there. Was there a pent-up component here which showed demand from Q2 shifting to Q3? This 23,000 revenue per square feet is sustainable going ahead.

**Gautam Saraogi:** I think we saw a pent-up demand in Q2 because when things started. See, I think the first lockdown was around June end or ended around July end. So, in August and September we did see a little bit of pent-up

demand. But I think from a festive perspective, what we have seen these are pure and play festive sales, what we have seen in October, November, December, and it has been very healthy for the entire industry. Even in the coming Q3s in the next few years, I think it's very much sustainable. We are going to keep growing on this.

**Devanshu Bansal:** New stores that we have been adding are of relatively much higher size than what we have added before. So, what is the average size of stores that we should expect going ahead?

**Gautam Saraogi:** See, we have not really dramatically increased those sizes. There are very few stores which have opened of larger sizes. We are still sticking to the old model of about between 300 and 400 square feet. So, our store sizing strategy has really not changed, barring of those very few stores which we have opened in a large size, but otherwise we are sticking to the old model of 300 to 400 square feet. So, today our average size is ranging between 350 and 400 square feet and even in the years to come it will be in similar range or might slightly increase by say 50 sq. feet.

**Devanshu Bansal:** I have two bookkeeping questions. One is, have costs like rentals, employees and advertisements normalized compared to pre-COVID levels or they should increase in these quarters coming ahead?

**Gautam Saraogi:** The employee cost for us historically if I take pre-COVID also has been in the 12% to 13% mark. If I take for quarter three, we are at about 11%. As far as rentals are concerned, historically pre-COVID if I reverse IndAS and see rental as one line item, our rental cost has been in the 12%-to-13%-mark pre-COVID and today also we are having at about 11.5% to 12%. So, to a very large extent our rental line, staff welfare cost has been normal as a percentage of revenue.

**Devanshu Bansal:** You indicated pre-IndAS EBITDA margins at 24%. What is this pre-IndAS PAT number in Q3?

**Gautam Saraogi:** See, pre-IndAS PAT number would be similar to the current number. It does not really change. There's no very big delta difference between our 23.6 crores and the pre-IndAS PAT. It will be a very-very similar number.

**Devanshu Bansal:** One last question, any guidance on reduction of receivables based on lower LFS mix over the next few years?

**Gautam Saraogi:** See, the absolute number of LFS receivables is not going to come down because of the SOR logic I explained. But as our EBO business keeps increasing as a percentage, and we eventually touch the 80% number or higher, receivables as an overall number, as a percentage of total revenue will fall. So, this will keep optimizing in the coming quarters.

**Devanshu Bansal:** Just to get some numbers around it were at 60 days. Any number that you can highlight next 3-4 years where we can reach?

**Gautam Saraogi:** It's very difficult to estimate that. But we will definitely see a good reduction.

- Moderator:** The next question is from the line of Anirudh Shetty from Solidarity Investment Managers.
- Anirudh Shetty:** I am a bit new to the business. I had some basic questions. What was the thought process behind doing an only bottom wear kind of business? And look at it from the customer's viewpoint, when they are shopping, do they prefer to go to a store which is only bottom wear or would they want something which has everything at one place, top wear, bottom wear? And implications for us, do we plan on expanding beyond bottom wear as well in the future?
- Gautam Saraogi:** When we started the business in 2010, we were trying to look at a category where there are limited number of players and where it would be easy to enter. And it was around at that point of time when we saw that the women's market was moving from a saree market to a two-piece separate market, where the bottom wear was of prime relevance. So, in that bottom wear space, we saw that there were very few organized players. So, that's why we selected bottom wear as a category and not top wear. Now, when we selected bottom wear as a category, what we have now noticed is that look we are keeping all bottoms in our stores, ethnic, western, fusion, athleisure. Basically, if a lady thinks about bottom wear, she should get that bottom wear in our store. Now, customers obviously prefer buying with that available range. And that's why we have seen so many customers coming to our EBOs to buy bottom because of the range of colors and products we are giving under one roof. So, one of our large selling points is that we collate all our bottom wear products under one roof.
- Anirudh Shetty:** Do we plan on expanding beyond bottom wear in the foreseeable future?
- Gautam Saraogi:** As of now No because the market is very large. Today, according to our research reports, the market is going to become as big as 11,000 crores by 2025, the women branded bottom wear. See, the overall women bottom wear including unorganized would be about 23,000 crores. But the branded wear would be about 11,000 crores. So, the market is very large for us to grow. Currently in the current market share we have only 8%. So, not only do we have an opportunity to increase the 8%, but our addressable market is going to become 11,000 crores by 2025. So, we are planning to stay completely razor sharp focused on ladies bottom wear.
- Anirudh Shetty:** Next question is on, your SSSGs look at it in the last few years, you all have outperformed the industry and the other players as well. So, what has contributed to this market share gain? And going forward, don't want a guidance, but what is essentially a broad range of growth that one can expect given the industry is growing, you guys are getting share, doing well, expanding the number of stores, so what is the broad range of top line growth that one can assume that this is a reasonable growth assumption for long periods of time?
- Gautam Saraogi:** See, I'll tell you, the SSSGs are healthy in this business. This bottom wear category is a very new category in women's wear. It's been there only for the last 15 years in terms of relevance. There is a very-very huge tailwind which we have, because there is a huge shift from unorganized to organized. Because there is a huge shift from unorganized to organized, we have these tailwinds of SSSGs behind us and that is why we have had decent SSSGs compared to the entire market. Now, on a sustainable basis we see these SSSGs

sustaining or improve in the future based on market sentiments. And there's a very long runway for growth as far as growth expansion is concerned. So, at a company level, we see ourselves grow at a CAGR of more than 20% very easily for the next few years without any problem.

**Anirudh Shetty:** Just one final question, I understand there is an accounting change due to IndAS 116 so your return on investment and capital, your margins are a bit skewed. But if I just look at your ROE which are not so impacted because of all of this, what is the long-term sustainable ROE that you guys think you can manage?

**Gautam Saraogi:** Our current ROEs are very healthy, it's around the 20% mark if I am not wrong. But I think as our EBO sales improve, as our profitability increases, it is going to further improve in the years to come.

**Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.

**Gaurav Jogani:** I am pretty new to the company to that extent, and some of my questions could be very basic. So, pardon me for that. My first question is with regards to the inventory management. You have clearly highlighted that your ~ 97% sales is a full price sale and your inventory management has been tech based. So, if you can help out how do we go about it, a bit more in detail?

**Gautam Saraogi:** Our inventory management is completely tech-based and look, when I mean tech-based, what we do is we monitor sales on a real-time live basis. Any SKU, though our product is not seasonal, we have to also keep an eye on how the product is maturing over quarters and over years. I'll give you an example, previously Churidar used to outnumber and outset leggings. Then slowly what happened over quarters and over years on a long-term horizon Churidar sales started falling a little bit and leggings sales started to increase. This transition from that one product to the next product is basically done by tech. So, we at a company level, analyze the sales of each SKU and see it on a long-term and a short-term basis and then see what is coming into trend and what is going out of trend. So, when any product sales are increasing, the inventory automatically increases at the backend. And whenever the sales of a particular product decrease automatically the system decreases the inventory at the backend. For us everything is backward calculated from a sales approach is what we use, and that's why we are able to have our inventory under control.

**Gaurav Jogani:** I am not very sure but is the manufacturing done at your end or is it outsourced? How does the manufacturing process work here?

**Gautam Saraogi:** Well, so our entire manufacturing is outsourced. Though we buy our own fabric, we buy fabric from suppliers and then we give it for job work conversion to the job worker. In our inventory, you will find finished goods and raw materials, but we are not into direct manufacturing. We don't have factories, or we don't have units. We buy fabric and we give it for conversion to a garment suppliers. And there is a certain percentage of sourcing what we do direct, and we buy finished goods directly as well.

**Gaurav Jogani:** Just a follow-up on this, in your case as you mentioned that you find at times that a particular product is selling higher or lower. So, for example, during this festive season you would have definitely seen a lot of



products selling a lot better than what would be in your earlier expectations? In that case, how do you manage the production with these third-party vendors or the other players.

**Gautam Saraogi:** Like I told you, we have to look at a long-term horizon. On short term horizon we really don't take such calls. We take a combination of short-term and long-term sales and then we arrive at how we want to manage inventory at a backend level. Just going basis of one quarter would not be the real right approach to decide.

**Gaurav Jogani:** The last question is with regards to, while you have been doing this EBO model and it clearly seems to be profitable and contributing to the gross margin profile of yours. But given now you are a network of around 450 odd stores as of now, and your brand is now well known across. Haven't you explored the franchise model yet, given that it would be asset-light, could help you explore faster. Also, then you can gradually reduce the margins, or the channel margins given your brand becomes popular.

**Gautam Saraogi:** Here the point is, look, we are not against the franchisee model, but because we follow a cluster-based expansion model, we are able to manage our EBOs efficiently well. Look, in our current 476 stores we have 11 franchisees. So, it's not that we are against that model, but because we followed a cluster-based expansion model that cluster based expansion model gives us the liberty to manage those stores directly. And that's why even in the coming years, we are going to cities where we can open more number of stores in one territory rather than spreading ourselves. And because our return on investment is pretty decent in our EBO model, we would rather enjoy the channel margin by following the COCO Model.

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

**Ankit Kedia:** My first question is on your SSSG growth. In last nine months we have an ASP increase of around 11%. Is it fair to assume our volume SSSG over pre-COVID would have been negative growth and broadly the SSSG is on back of prices increases we have seen in the system?

**Gautam Saraogi:** Our volume SSSGs are at about 1.5% to 2%. Nine months is not comparable because of different lockdowns, but if I compare at pre-COVID levels where we are generating 10.5% of same store sales growth compared to pre-COVID, we would have had a volume same store sales growth of about 2%.

**Ankit Kedia:** Going forward because of the aggressive CBO expansion the SSSG which you are targeting double digit would come purely from price increases in future as well or we are talking of some volume growth as well factoring that in the numbers?

**Gautam Saraogi:** For us, our price increasing happens because of our new products. We, as such, as a company don't increase the pricing of our current product portfolio every year, we don't do that. We do it only if there are long-term cost increases. Otherwise, we really don't touch the pricing of a product. But yes, our ASPs have increased because of newer products coming in which are of slightly higher selling price. So, the future SSSG is going to be a combination of new products, as well as volume growth. It is going to be a blend of both.



- Ankit Kedia:** Are you comfortable with more stores in the same city or do you think the new stores are cannibalizing the old stores and hence you are seeing a low single digit kind of a volume growth SSSG?
- Gautam Saraogi:** That's a good question. I'll tell you; we are currently in a state where we are looking at same store sales growth where most of our stores are growing very well year-on-year. But see what will happen is, today for example, if I open more number of stores in one territory, I will look at, instead of looking same store sales growth, I will look at same area sales growth of that one territory and how many stores I have, combine the rental and employee cost and then make a P&L of that one area and then calculate same store sales growth. See, then what happens is today we have not reached that situation where our stores are getting cannibalized, because like I told you, there's a very big shift from unorganized to organized. So, we are currently not seeing cannibalization. But tomorrow when we open more and more stores in one vicinity, a few stores will definitely get cannibalized, but then the right way of looking at it would be looking at same area sales growth of that vicinity, adding up the rental and employee cost of that entire vicinity and then calculating the EBITDA for that particular area.
- Ankit Kedia:** So, you are comfortable with a low single digit volume growth and SSSG growth.
- Gautam Saraogi:** It's not about being comfortable. We see that this volume growth also will further improve. See, right now things are coming back to normal after COVID, sales are going to keep coming back. This volume growth also will in its own way keep increasing.
- Ankit Kedia:** My second question is on your cashflows. Can you talk of first nine months pre-IndAS cashflow from operations post-tax? Because the number which you have shared in the presentation is post-IndAS cashflow. Can we get a pre-IndAS cashflow from operations? Is it possible?
- Gautam Saraogi:** For us, if I take pre-IndAS cashflow, we have a negative cashflow of about 25 crores of negative pre-cash. Because our inventory has increased. Our working capital has increased by about 66 crores and because of the lockdown we have a negative cashflow post that and after investments, after the stores we have added.
- Ankit Kedia:** You mentioned on the price increases which you take is only if you see, a significant RM inflation. Currently speaking, given that RM prices continue to increase and also in Tirupur where we do our manufacturing, the industry out there is also asking for higher job work rates. Do you think our current price, the Rs. 50 which you have taken an increase in the month of June, we are comfortable with that and next six months we don't need to take a price increase?
- Gautam Saraogi:** Whatever price increase we have taken in the last six months, Ankit, we are pretty comfortable with that. We don't see a problem.
- Moderator:** The next question is from the line of Aditya Sharma from Ambit Capital.
- Aditya Sharma:** I think I have missed, if you have earlier shared the quantum of price hikes that we have taken.

- Gautam Saraogi:** We have taken some price hikes in March and April, where we had increased prices of certain products, we had increased the products pricing by Rs. 50 and certain products we have also increased it in the month of December end based on the raw material prices which had gone up.
- Aditya Sharma:** I was just trying to get some assessment in terms of what would be the contribution of product mix and the price increase, if you could separate that for us, it would be really helpful.
- Gautam Saraogi:** So, right now if I take the bifurcation, so our average selling price is about Rs. 650. Very little has come from the new price because the inventory which is there at the store end always keeps selling at the old prices. See, when we change the pricing of any current product, only the new production and the new pieces which go into the store will sell at the new price. So, largely I would say this increase in average selling price is driven by the new products and not by the price increase which has happened for Q3.
- Aditya Sharma:** My second question is you talked about the rent and the employee cost is largely as a percentage of sales. So, just wanted to understand as a retailer what contribution at some level would be variable for these costs and how much of it would be fixed? Because there are different ways of operating in retail, right?
- Gautam Saraogi:** For us, largely both these line items which is employee cost and rental cost are fixed. There are some malls which have a revenue share arrangement, but all those malls also work on a fixed rent and high streets are all fixed rentals. So, for us as far as rent and salaries are concerned, these are fixed in nature. So, that's why in Q1 when we had the specific lockdown, the company incurred a loss because of these two line items being fixed in nature.
- Aditya Sharma:** Just one final question, looking at your financials we are already at a very good margin level. And as our gross margins improve with the increasing mix in the EBO, I think we will reach a very high margin level and probably invite a lot of competition in apparel market which is anyway a very difficult market to operate. So, I am just trying to understand, are we looking to give back some of the margins back to the customers so that we can keep our offerings more sharp?
- Gautam Saraogi:** Like I mentioned, when we do a price increase, I will give you an example, whenever there are short term fluctuations in pricing, we actually don't increase our prices. Because we understand that these are short-term fluctuations. But when there is long-term increase in cost of goods sold in terms of sourcing, that is when we increase the price. So, once we increase the price, we really don't decrease it. And we are very careful when we are increasing the price so that we should not be in a situation where there is a situation to deal.
- Moderator:** The next question is from the line of Naitik Mody from OHM Portfolio.
- Naitik Mody:** Coming back to the working capital, could you spend some time on looking at various components and how do you intend to reduce the overall working capital cycle?

- Gautam Saraogi:** Currently are working capital is about 170 days as on December 2021. And pre-COVID we were at about 150 days. The 20 days have largely increased because of inventory days. We have higher inventory than what we were maintaining before. But this number is looking higher in terms of days because we had a lockdown in this current year. On a steady state basis, we see our inventory days which are currently at about 120-130 days coming down to about 90 to 100 within that range. And our receivable is what we were at about 50 days right now. As our EBO sales increases, that 50 days number also would keep coming down. So, on a long-term basis, we would be able to bring this to about 120 to 125 days of working capital days on a long-term basis, with the EBO sales increasing and the debtor days falling, and we bringing down the inventory days to about 90 to 100 which has been our past month.
- Naitik Mody:** So, 120 days is a more sustainable number.
- Gautam Saraogi:** 120 to 125 days is the number which we are going to be targeting on a long-term basis to achieve which is currently at 170.
- Naitik Mody:** Secondly on EBO side, what is the breakup of CAPEX and the inventory investment?
- Gautam Saraogi:** Out of the 35 lakhs, the CAPEX would be about 15 lakhs. The inventory would be about 10 to 12 lakhs and the balance would be security deposit which is refundable from the landlord.
- Naitik Mody:** What is the incremental rental per square feet that you are setting up for the new stores?
- Gautam Saraogi:** Usually, what we do is when we are taking a store because our store sizes are small, the rent per square feet will vary from town to town, from city to city and from zone to zone. We usually look at a rent to revenue ratio of about 15% to 16%. That is the range what we look at when we sign a store. So, actually what we do is first is that we estimate what is going to be the revenue of that particular store and then we see what is going to be rent to revenue ratio and then see whether the store is feasible for us or not. On a per square feet basis, it becomes hard to quantify because each zone each city has different square feet rates for such small sizes. It's not consistent.
- Naitik Mody:** Could you share the volume numbers, quarterly, annually, whatever you can share.
- Gautam Saraogi:** For the 9M FY22, we have had very healthy volume growth of about 25%.
- Naitik Mody:** I mean more in absolute numbers.
- Gautam Saraogi:** Sorry, absolute numbers, I don't have it right now with me, but as a percentage we have seen volume growth of about 25% over last year.
- Moderator:** The next question is from the line of Himanshu Nayyar from Yes Securities.

- Himanshu Nayyar:** Just wanted to understand on the investment front. You said you are going to invest aggressively on the Omni channel and digital capability, and I believe with such a fast pace of expansion you might be needing more warehousing space as well. So, on these two areas have you formalized the investments that you need to make over the next two to three years?
- Gautam Saraogi:** See, what we are doing currently, we are working currently on a single warehouse model and the single warehouse model is working very well for us. Currently our warehouse is very well equipped to handle our future growth without any problem. We had moved into the new warehouse only in 2018. So, a large part of our future growth can be taken care by the current premises. Having said that, tomorrow if there is a need in our current warehouse also, we have place to expand. So, as the business keeps increasing, we will be very open to expanding our current warehouse space without any challenge. For us, a single hub distribution point works better than a regional, and we want to stick to that model.
- Himanshu Nayyar:** And on the omni channel side any specific technology investments or any significant CAPEX other than the normal one that we need to look at?
- Gautam Saraogi:** On our omni channel what we are trying to do is we are trying to integrate our entire new channel with our digital channel. Today what we are trying to create is, a customer should have a 360-degree view of what she's buying from Go Colors. So, today if she buys online, she should be able to pick up the piece from the store, she's at the store level not found what she wants, that the piece can get delivered at her house as an online order. So, I am saying online or physical buying or exchange or return should be seamless through an omni channel for our customer. And that is what we are trying to do by integrating our EBO channel with our digital channel. And the investment in this particular line is not going to be very large because there are many good solutions available in the market for this integration.
- Himanshu Nayyar:** Any number you can share? How many of our stores are already offering this, or this is still work in progress.
- Gautam Saraogi:** This is still work in progress, this is under development, and we are hopeful that that in the next few quarters we should take this live in a phased manner.
- Moderator:** The next question is from the line of the Binoy Jariwala from Sunidhi Securities and Finance Limited.
- Binoy Jariwala:** Could you explain me when you set up an EBO, typically how many months of sale you keep as inventory?
- Gautam Saraogi:** This is a very difficult question to answer, and I'll tell you why. It depends on the sales of the store, and it depends on the square feet. See, sometimes what happens is because you have a particular size of a store, even though your sales of that particular store is on the lower side, but you can't keep a particular shelf empty in a particular store. So, in some stores you have to maintain six months of inventory. There are some stores in which, because of the sales being on the higher side, you can maintain even one month of inventory. So, in all, your inventing stocking in that particular store comes down to what is your actual square feet and what is going to be your revenue. So, for a lower performing store it's not easy for me to

cut down the inventory based on our inventory mapping. Usually, we maintain about 2 to 2.5 months of inventory on sale at a particular EBO on average.

**Binoy Jariwala:** Our 95%-97% of sales is full price sales. So, inventory write off and shrinkage should not be a problem, but for the accounting purpose typically what is our inventory write off policy and what is the typical shrinkage that we have?

**Gautam Saraogi:** Our shrinkage is very negligible because we do stock audits on a quarterly basis at all our EBOs, so it is a very-very negligible amount. It is less than Rs. 1 million, less than 10 lakhs in terms of quantum rupees a year. In terms of write off policy., yes, our inventory is non-seasonal, there's no seasonality to our inventory, but we have a write off policy. So, any inventory at our warehouse which is more than 365 days old are finished goods. We do a provisioning on that. And similarly, for any inventory which is there at our store level, which is more than 550 days old, we also provide for that. So, we have an inventory provisioning policy in place which we use.

**Binoy Jariwala:** So, you fully provide or 50%?

**Gautam Saraogi:** It depends. We usually provide at the market rate. At what rate it can sell. So, we provide it on that basis. Cost or market whichever is lower.

**Binoy Jariwala:** We are a fairly new company. Have we undertaken any refurbishment of the existing store network or what do you think, if we have not taken then what is the typical refurbishment cycle for the store?

**Gautam Saraogi:** This is a good question. See, for us because of the nature of our products, it does not really matter, because if you see our stores, they are fairly very simple with racking, so if we look from a refurbishment perspective many of our stores which are greater than four years and five years also have not come under renovation. But, yes, there are some situations where we are relocating from one location to the other location on the same road for the better visibility of a store or for better operating metrics. So, there are certain cases where we do replacements, we move from one location to the other nearby location or better visibility location. But our number of stores which we renovate for creating more space in the existing space is not very large because of the type of product we have. See, most of our products are folded and kept. So, there's really no need for us to renovate our stores beyond a point. We do small mini partial renovation if there is any problem with our lighting or air conditioning or with the fixtures we have, but there's no major renovation required because of the nature of our products.

**Moderator:** The next question is from the line of Akhil from Centrum.

**Akhil:** My first question is on the ASP spend. How has it deferred in Tier-2, Tier-3 towns to our top 8 cities? The question is in regard to whether the customers really have a propensity to spend Rs. 600-650 for the bottom wear in Tier-2, Tier-3.

- Gautam Saraogi:** We have seen very consistent ASP, even Tier-2, Tier-3 versus Tier-1. I'll tell you the reason is majority of our products we are pricing it less than 1000. More than 70% to 75% of our products are less than 1000. And because of this reasonable pricing of keeping it under 1000, we have seen that our ASPs between a Tier-3 and a Tier-1 have been fairly similar. So, we have not seen big disparity between the two.
- Akhil:** Second is on repeat customers. Do you maintain a data for what percentage of our sales come from your repeat customers?
- Gautam Saraogi:** We do map and we have seen that more than 40% to 50% of our customers are repeat customers.
- Akhil:** Last question on the footfall growth or decline and conversion rates compared to nine months of FY20.
- Gautam Saraogi:** In fact, I will give you the example. After COVID, we have seen actually conversion rates actually slightly improving. We have seen a lot of customers coming and buying a lot more at one time than what it was before. So, conversions are definitely if not same but actually improved compared to fiscal year 2020. As far as footfalls is concerned, we right now currently don't track footfalls. We don't have a current solution to see how many footfalls or walk-ins we have. We are thinking about our software where we can map footfalls, but currently we don't have a real concrete data around how many footfalls we receive.
- Moderator:** The next question is from the line of Anirudh Shetty from Solidarity Investment Managers.
- Anirudh Shetty:** My first question was on brand building strategy. Wanted to know what's the thought process here in having one mother brand, instead of having multiple sub-brands. And typically, what does this translate into a sustainable A&P spends as a percentage of sales for you guys?
- Gautam Saraogi:** I'll explain a little bit of that. I will come to the brand part second; I'll talk about the advertising and marketing expense. There are two types of advertising, you do offline advertising, and you do digital advertising. There are two broad buckets of advertising and marketing. Now, as far as our offline physical advertising is concerned that entire advertising is taken care by our EBO. We locate our EBOs in very high footfalls zones, in good malls and airports where a lot of customer eyeballs are caught. So, a lot of our advertising is indirectly done through our EBO in the offline world. In the offline world, we really don't have to take hoardings or bus shelters in a very large way to communicate our message. As far as digital advertising is concerned, digital advertising is a huge medium for advertising where we feel a lot of our customers are spending a lot of time on social media. Today social media and digital advertising is the new age of advertising. So, we are building our team. As we increase our digital advertising, our digital sales also will increase. So, we see because we are largely going to be digital in terms of advertising our spends are going to be between 2% and 3% of our revenue on a steady state basis and not increase more than that.
- And coming back to the brand, see, we don't really have any plans to do brand extension. For us we have created one power brand in the name of Go Colors where we are giving high quality products at reasonable

prices, so we are able to reach out to the entire audience in the country. So, rather than bringing out brand extension, we feel that keeping one brand, the recall of the brand also will be far better.

**Anirudh Shetty:** My second question was on the online business; we want to take the share from 2% to 3% to double digits. Can you just break it up into what do we expect to do through our own propriety channels vis-à-vis third-party aggregators? And how does the economics for online compare vis-à-vis our other channels like EBO and all?

**Gautam Saraogi:** Currently two-thirds of our online revenue comes from marketplaces and one-third of our revenue comes from our own website. What will eventually happen is once we improve our website, this ratio should become a 50:50 ratio. So, we feel even when this becomes a double-digit number, we feel that 50% of our revenues will come from our own website and the balance half would come from reputed marketplaces.

Now, from an operating margin's perspective currently we are seeing that our operating margins in our online versus an EBO are similar. But it's too early to say because it's only 2.5% of our business currently. So, as we get to double digits, then we will know really the steady state margins of this particular channel. Currently it is on par with the EBO channel as far as profitability is concerned.

**Anirudh Shetty:** From a working capital perspective?

**Gautam Saraogi:** From a working capital perspective, the working capital is fairly light. It would be similar to a working capital for an EBO, and I will explain to you why. In EBO you have inventory days, and you don't have receivable days, but in online you have receivable days, but don't have inventory days. So, I would it is fairly similar between an EBO and an online as far as working capital days is concerned.

**Moderator:** The next question is from the line of Tejas Shah from Spark Capital.

**Tejas Shah:** Just wanted to know, what will be store shutdown number in company's lifetime so far?

**Gautam Saraogi:** If I take the overall, it would be under 50 stores and most of these 50 stores have come in the last two years, because post-COVID there are some areas or some locations which have not recovered post-COVID, let me put it that way.

**Tejas Shah:** And what would be the primary reason apart from COVID for shutdowns?

**Gautam Saraogi:** I would say there are some stores which were doing average revenue, but revenue has fallen post-COVID. There are some stores where the rental costs were exorbitantly high, but pre-COVID those stores because of the revenue it was generating we were able to steady state sustain. So, those revenues have fallen. So, if I had to single out the main reason is drop in revenue in those stores.

**Tejas Shah:** Last one, you spoke about the understanding with LFS that we have and at the other end the pricing, the split and then the no discount discipline that we follow. Usually, we have seen that that kind of pricing

control or pricing parity is possible only when you are running EBOs. Because LFS for example, if Reliance Retail or Trends goes on a discount or an end of season sale, do you not participate in that format, how do you manage parity in that kind of scenario?

**Gautam Saraogi:** Very good question, I will explain this. See, in a LFS here are two types of discounts, one is the discount what you give on your product, if you decide to give. And the other is LFS running their schemes and promotions. So, in our product we don't give too much of discount because like I told you our product is not seasonal. But having said that LFS do run their schemes. But when LFS is running schemes and discounts and promotions, the discount is not at a product level, but it is at a market level. I will give you an example. If today one of the LFS is running, say, buy 3 get 25% off on the basket. That basket is not only for me, but it also means that the overall purchase of a customer in the large format stores. If she's buying two pieces of another brand and one piece of mine; she gets a discount. So, that's more of the basket level and not at a product level. At a product level there is no disparity between the price what I am selling in a LFS versus an EBO.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Gautam Saraogi:** Thank you everyone for joining us. I hope we have been able to answer all your queries. We look forward to such interactions in the future. Once again, I would like to thank the investor community for their tremendous support shown during the IPO. We hope to live up to the expectations of you all in the future. In case you require any further details, you may contact Mr. Deven Dhruva from SGA, our investor relations partner. Thank you. Take care.

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