GO COLORS!
GO FASHION (INDIA) LIMITED

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Dear Sir / Madam,

Subject: Transcript of Earnings Call – Q1 FY 22-23

We hereby enclose the transcript of earnings call for the financial results for the quarter ending June 30, 2022

This is for your information and records.

Thanking You,
For **Go Fashion (India) Limited**

GO FASHION (INDIA) LIMITED CHENNAI 600 034

Gayathri Venkatesan
Company Secretary & Compliance Officer

Encl: As above

"Go Fashion (India) Limited Q1 FY23 Earnings Conference Call"

August 11, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th August 2022 will prevail

MANAGEMENT:

1. **MR. GAUTAM SARAOGI – CEO**
2. **MR. MOHAN R – CFO**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of Go Fashion (India) Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gautam Saraogi – CEO. Over to you, sir.

Gautam Saraogi: Good morning and warm welcome to everyone present on the call. Along with me, I have R. Mohan, our Chief Financial Officer and SGA, our Investor Relations Advisors. Hope you all have received our investor deck by now. For those who have not, you can view them on the stock exchange and the company website.

We have started FY23 with a very strong performance in the first quarter. Our revenue stood at Rs. 155 crores, highest ever quarterly revenue at Go Fashion. EBITDA and PAT stood at Rs. 53 crores and Rs. 24 crores respectively. Our volumes also have grown exponentially. This has been on the back of an improved product portfolio by continuously adding new products across all bottom-wear categories. Our revenues compared to FY20, i.e., pre-COVID levels have increased by 72% and SSSG per EBO stands at 30% for Q1 FY23 compared to pre-COVID level, i.e., Q1 FY20.

Our products being core and essential to the customers has enabled us to operate on a business model where we offer limited discount and sale of our products is typically at full price which in our experience results in greater profitability. 90% of our sales for Q1 FY23 are on full sales. In addition, our EBO's average selling price has increased primarily on account of value-added products that we have introduced as part of our portfolio. Our ASP for Q1 FY22 stands at Rs. 716, a 9% increase from the last quarter.

As mentioned on our last call also, the company is looking to invest in a brand-building initiative which will help us gain visibility and also to focus and grow our online sales to benefit from the evolving customer trends in our market. During the last quarter, we launched 3 new films on a pan-India platform for 6 weeks. Each of our films showcases the individual triumphs and journeys of women. The link of all advertisements has been added in the press release and presentation for your reference.

During Q1 FY23, the company has added 13 EBO stores and our EBO store count as on 30th June 2022 stands at 533 stores. As guided earlier, we will add 120 to 130 stores in FY23 which is in line with our growth expansion plans. We are also looking at omnichannel engagements for a seamless consumer experience building on a technology-driven growth strategy to reach consumers across all cities. We are leveraging 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. We will look to upgrade our warehouse to optimize our inventory and supply chain. Also during the last quarter, the company has taken a new warehousing facility in Bhiwandi in Maharashtra of around 12,177 square feet. This will help to cater faster and better to the western regions of the country.

Coming to the working capital front, we have reduced our working capital days to 133 days compared to 190 days on 31st March 2022. We are further working on reducing it.

We look forward to continuing our innovative and creative approach and launch more designs while providing more brand destinations for our consumers which will help us grow and gain market share in the coming years. Our focus will be to target customer acquisition to drive sales through our website and online market better. In addition, we intend to invest in content generation to build engagement with a younger audience.

With this, I would like to hand over the call to our CFO, R. Mohan, for the update on the Q1 FY23 financials.

R. Mohan: Good morning, everyone. The company has posted a strong performance for the quarter ended 30th June 2022 backed by an increased demand across product categories. Our revenues for the quarter stood at Rs. 165 crores as against Rs. 31 crores in Q1 FY22. Gross profit stood at Rs. 100 crores with GP margins of 60.6% for the quarter. Our EBITDA for the quarter stood at Rs. 53 crores as compared to minus 6 crores in Q1 FY22. Our EBITDA margin stood at 32.1%. Profit before tax for the quarter stood at Rs. 32 crores whereas profit after tax for the quarter is at Rs. 24 crores, a 73% YoY growth vis-a-vis Q4 FY21. Cash and cash equivalents as on 30th June 2022 stood at Rs. 130 crores.

With this, we will now open the floor for the Q&A.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. Our first question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Just wanted to understand this SSSG of 30% over pre-COVID in more detail. Could you share what will be the volume growth and value growth in this SSSG?

Gautam Saraogi: Ankit, this 30% what we have compared with is obviously the pre-COVID levels because last year same time due to COVID, the numbers are not comparable. So, when I compare with Q1 FY20 which is April-May-June 2019, our value SSSG is at 30% and our volume SSSG is around 16% to 17%.

Ankit Kedia: So, around 14% price increase and 16% volume increase?

Gautam Saraogi: No, 30% is the value SSSG and 16% to 17% is the volume SSSG for the stores which were live between Q1 FY20 and Q1 FY22.

Ankit Kedia: Sir, the reason why I am asking is because the price increase itself is 30% over pre-COVID if I take FY19 full year ASP and compare it to the current ASP. In that light, when you are saying 30% is the value SSSG, the numbers don't match up.

Gautam Saraogi: Ankit, we will have to check on that and come back to you. But it is from what we have checked is more or less in line because the price hikes also were taken at different stages, Ankit. Usually, when we take a price hike, the inventory which is there existing in the channel that over a period of time, the price transformation happens. We don't change the pricing of the pieces which are there at the store level. So, the price increase happens over a period of time and not immediately once we have introduced a new price. So, exactly, it is very difficult to connect the dots between the two.

Ankit Kedia: The reason I am saying is because FY19 full year ASP was around Rs. 559 and today your ASP is around Rs. 718. That makes it a 27% ASP increase over FY19 full year. So, Q1 FY20, I am assuming the ASP would be the similar Rs. 560, and on that, 28% is the price increase itself.

Gautam Saraogi: We will have to check on that and come back to you, Ankit. Probably through SGA, we will come back with a clarification on that.

Ankit Kedia: Sir, my second question is regarding the current demand environment. Could you explain where is this volume growth coming in the quarter 4 itself? Is there a seasonality angle in quarter 1 or it is pent up demand or inherently new product launches or your new advertising campaign is leading to this demand?

Gautam Saraogi: Ankit, our business is more on a YoY basis and a quarter-on-quarter business. In our business, usually the best quarter of the year is quarter 3, followed by quarter 1, then quarter 2, and then comes quarter 4. It is actually that quarter 4 is the weakest performing quarter of the year and quarter 1 is the second-best performing quarter of the year. And the reason why we have the seasonality in sales is because of different reasons. Q1 in particular does well because the entire industry goes on EOSS, and during EOSS, the sales and the footfalls in high streets and the malls are a lot more than quarter 4. So, the reason the sales have increased dramatically, and the volumes have increased compared to the preceding quarter is because of increased footfalls at malls and high streets.

R. Mohan: Sorry to interrupt here. The volume growth in Q1 FY23 vis-a-vis Q1 FY20 is 4% and value growth is 30%, Gautam. What Ankit is saying is reasonably correct because it is 4% and 30%. Just wanted to add.

Gautam Saraogi: I stand corrected, Ankit. I probably made a mistake on the numbers. The volume is 4%. What Mohan is saying is correct.

Ankit Kedia: The last question is on the working capital. We have seen significant reduction in working capital in the quarter. What has gone from quarter 4 to quarter 1 reduction in inventory and payable days if you can highlight, I will be appreciated.

Gautam Saraogi: What has really brought down the working capital days from 190 to 130 is just based on pure sales. There is no reduction in inventory or debtors as such. In fact, the absolute number from March has actually gone up as far as inventory and debtors are concerned. It is just that because the top line revenue has actually improved, we have seen a reduction in working capital.

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

Devanshu Bansal: Sir, you indicated out of this 30% SSSG versus Q1 FY20, 4% is volume and I guess 25% is realization. And within this 25%, I just wanted to check what has been the price hike that we have taken and what has been contributed by the mix improvement for value-added products.

Gautam Saraogi: Devanshu, the ASP increase would be largely because of the price hike. We have taken two price hikes and there have been a considerable amount of price hikes. It is difficult to quantify how much was contributed by price hike, but it would be largely price hike.

Devanshu Bansal: Given the way cotton prices are behaving, going ahead, how is the RM situation currently for you guys and will we require another round of price hike?

Gautam Saraogi: From an RM perspective, right now, we see it is pretty steady. The last 3-4 months what we have noticed, it has been pretty steady. We will have to wait and watch. As of now what price hikes we had taken have come from the raw material increased price what has happened over the last 18 months, but as of now, the price fluctuations are steady as far as RM is concerned from what we have seen in the last 3-4 months.

Devanshu Bansal: Secondly, I wanted to check we have been giving this commentary that we expect the share of LFS to sort of reduce and share of other channels to increase. However, if we look at the store additions in this channel, it has been quite impressive. Is there any change in outlook for this channel or we maintain our earlier commentary here?

Gautam Saraogi: We maintain our earlier stand, Devanshu. We grow our LFS business very selectively frankly. So, we have seen some very good opportunities in our current LFS partners and we have grown that many stores. We have actually added a lot more stores in this particular quarter. And that is why the skew is showing more towards LFS this quarter, but otherwise, our stand is very clear. EBO will continue to grow at a faster speed than LFS, and in the coming quarters, you will see the shift happening more towards EBO sales for sure. Growth in LFS will continue but in a very selective basis.

Devanshu Bansal: For working capital, just wanted to check as to how it has been calculated. In the denominator, we have annualized Q1 sales or we have taken trailing 12-month sales for calculation of working capital?

Gautam Saraogi: Q1 sales, Devanshu.

Devanshu Bansal: Lastly, I want to check on these ad expenses are sort of typically higher at about 4.5% versus 2% to 2.5% historically. Is this a quarterly thing where Q1 saw higher ad expenses or structurally also we expect higher ad expenses going ahead?

Gautam Saraogi: This year, we have budgeted the ad expenses to be a little higher because we have seen that consumer retail has come back very strongly, and because we have the scale right now, we feel that expending on little advertisement will help us build the brand on a long-term basis. So, what we have seen about 4.5% in Q1 will be also on an annualized basis as well. So, this year 12 months we are expecting our ad expenses to be between 4% and 5% which is a little higher than our general ad expenses.

Devanshu Bansal: Yes, it is about 200 basis points higher.

Gautam Saraogi: Exactly. This thing also we are estimating on an annualized basis, between 4% and 5% will be our annualized ad spends.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity. Please go ahead.

Akshen Thakkar: I had two questions. 1) How should we be thinking about gross margins? We have seen some sequential decline this quarter. I don't know if it is to do with mix or seasonality, but generally the raw material prices are pricing actions in pipeline. How should we think about gross margins? 2) Just building from your last comment that A&P would be higher which is obviously a great initiative to build a brand over here. But how do we think about EBITDA margins maybe this year or into the medium term?

Gautam Saraogi: From a GM perspective, we see from a raw material perspective, we estimate that we don't see any further increase in raw material pricing and for what was increased, we have already taken the price hikes. So, we see consistency in gross margins. This quarter, like very rightly you pointed out, our GM there is a slight decrease but that is because of channel mix because LFS being slightly stronger this quarter that has reflected in the gross margins. Otherwise, as quarter on quarter our EBO sales share increases, the GM will take an upside correspondingly.

The EBITDA margin what we reported in quarter 3 was around 36%. This quarter, we have reported about 32%. The decline of the 3% to 4% EBITDA margins is because of the ad spends. This year, we see the EBITDA margins to be around the 31% to 32% range. Next year ad spends, it is hard to comment right now. So, for me to tell what is going to happen in the next financial year will be a little tough, but this year, it will be in the range of about 31% to 32% as far as the EBITDA margins are concerned because our ad spends are slightly higher than last year.

Akshen Thakkar: Could you just take a sit back and talk through beyond seasonality how is the consumer demand shaping up because you have seen inflation both in your product category, in apparels in general, general inflation is high. Are you seeing as margin any slowdown in footfalls, etc., or any changes in behavior? This is macro, not so much particular to this company. Just would love to get your comments on that.

Gautam Saraogi: We have seen the consumer demand has picked up very well compared to Q4 and Q3, I think gradually the consumer demand like how it was pre-COVID has come back very strongly and that's why we have been very happy to report that we have had a 4% volume growth over Q1 FY20. So, the consumer demand, the consumer footfall, and the sentiment has definitely improved a lot in the last 6-7 months. And with Cinemas opening up, I think a lot of customers have come back to malls. I think that made a very positive impact on retail in general.

Moderator: We will move to our next question from the line of Hardik Doshi from White Whale Partners. Please go ahead.

Hardik Doshi: I just wanted to ask about the volume growth which I think is mentioned was 4% over a 3-year period, which works out to about a little bit over a 1% on an annualized basis. Isn't that a little low or how do you see same-store sales volume growth over the next let us say 2-3 years?

Gautam Saraogi: Hardik, whereas our volume growth at the same-store sales growth level has been a little slow, but at the overall company level, if I take Q1 FY20, we have had a 41% volume growth compared to Q1 FY20 at overall company level. The way after COVID, I think, considering how the market is slowly coming back to normalcy, we feel 4% is a very-very good number for stores which were present 3 years back.

Hardik Doshi: If I have to ask in other way, in the few years before COVID, what was your normalized kind of same-store sales growth that you used to see?

Gautam Saraogi: On a normalized basis, pre-COVID, we were seeing volume growth of about 9% to 10%.

Hardik Doshi: On same-store sales basis, right?

Gautam Saraogi: Yes, correct.

Hardik Doshi: Basically, this would imply that at least compared to pre-COVID to now, the consumer spending has not really fully come back or there is still more room for it to kind of….

Gautam Saraogi: There is still more room for improvement, but it has definitely improved a lot in the last 6 months compared to what it was probably in Q3. I think the improvement is considerable.

Hardik Doshi: In terms of inventory days now, have we pretty much reached an optimum level or is there still room to go up?

Gautam Saraogi: There is still room. Right now, we are at about 100 days, Hardik. We would ideally want it to be 90 days.

Hardik Doshi: Apart from that, in terms of payables and receivables, those are at optimum level?

Gautam Saraogi: On an adjustment basis, on an inventory plus receivables minus payables basis, I think we would ideally want to be at around 120 days. Currently, we are at about 133 days. Payables would continue to be at 9 to 10 days because we reduce our payable days as much as possible so that they get better prices and that gives us a positive impact on our gross margins. So, we want to keep payable days low. So, our overall working capital days, we would like to keep it at around 120 days ideally which is at 133 days today.

Hardik Doshi: Just lastly, in terms of the 30 new EBOs that we open, what would be the mix between metro and maybe tier 1 and tier 2? Just wanted to see the mixture.

Gautam Saraogi: Surprisingly, this time we have added a lot of stores in the top 8 cities. We are still seeing a lot of potential in our top 8 cities markets which are very strong. In fact, out of the 30 stores, majority of them would be from the top 8.

Hardik Doshi: I guess, in terms of overall mix, the share of the top 8 is still kind of being maintained or….?

Gautam Saraogi: In fact, I think it can get stronger because we are seeing great opportunity everywhere of adding stores in our…. In fact, in Mumbai city where we already have 50+ stores, we are still seeing to add another 20-30 stores in the short term. The opportunity in the top 8 is very big.

Hardik Doshi: Why is that? With so many stores in Mumbai, I guess you are still not covering the entire geography?

Gautam Saraogi: I think what is happening is that the top 8 cities also are growing continuously every year in terms of size and the number of people also moving to larger cities. That's the assumption I am making. So, we are still seeing a lot of potential there to that effect.

Moderator: The next question is from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

Manish Poddar: Did you mention that you expect EBITDA margins to be in the 31% to 32% bang for the full year?

Gautam Saraogi: Yes, absolutely. That's on account of higher ad spends of between 4% and 5%.

Manish Poddar: Can you help me explain. Because if you look at the ad spends for the full year last year, it was about 1.26% and this year you are saying 4% to 5%. So, there is a roughly 3.25% delta in terms of increase in cost and you are still expecting margins to improve on a YoY basis. Last year full year EBITDA margin was roughly 29.7%. So, there is a 450 to 500 bps delta on an annual basis. What is really driving that?

Gautam Saraogi: Last year, we had an EBITDA margin of 29% but because the first half of the year, Manish, was impacted because of COVID. So, the full year EBITDA margin of 29% does not really reflect the true EBITDA picture. On a quarterly basis, Q3 was our stronger quarter where we had about 36%. Because we have actually increased our ad spends by 2.5% to 3%, that is how conservatively I have arrived at the 31% to 32% estimate.

Manish Poddar: In terms of doors which you roll out for LFS, how many doors do you plan to roll out this year?

Gautam Saraogi: We actually had our plan of about 100 to 150 doors, and we have added a good number of them in the first quarter because we got the right opportunities where we wanted, but on an annualized basis anywhere between 120 to 150 doors.

Manish Poddar: So, incrementally, there wouldn't be any addition from this channel. Is that how one should look at it? Because, you have already added 120 say in the first quarter.

Gautam Saraogi: I believe that would be our estimate, but in case we do get some good opportunities, we might also increase that number. Manish, LFS is a very good channel for us where we are able to create our presence in newer towns where we want to expand in the future years to come. So, sometimes when we get those very good opportunities, we would ideally take them.

Manish Poddar: Would you be able to help me with the cash flows from operations for this quarter?

Gautam Saraogi: We have generated close to about Rs. 40 crores in cash and we have had an increase in working capital by about Rs. 48 crores. So, cash flow from operations is negative at about -8%.

Manish Poddar: And the entire CAPEX for this quarter was roughly about Rs. 10 crores?

Gautam Saraogi: I think it is around Rs. 6-7 crores if I am not wrong.

Manish Poddar: Your Bhiwandi warehouse, would that be Rs. 2-3 crores?

Gautam Saraogi: No, it would be much lower. That's a very small micro fulfillment center. The CAPEX there wouldn't be too much. It wouldn't be very material in nature.

Moderator: The next question is from the line of Aniket Sethi from ICICI Securities. Please go ahead.

Aniket Sethi: Gautam, a few questions on the LFS part, a few follow-ups. The first is, what would be your store penetration with your existing partners? Just to kind of understand the headroom. Second, have you recruited a new partner or was it more from the existing retail partners? The third bit is, if you could also highlight is it more of a pull from the retail partners' side or you have your discretion based on the location of every specific LFS store?

Gautam Saraogi: We have full discretion of what stores we want to select with our LFS partners. It's not that we select everything what comes by our way. We strategically select based on the zone and the kind of city we are getting and then we decide whether we want to do that particular new addition or not. That is never a concern from addition perspective. As far as the new stores what we have increased in the quarter, this has largely come from our existing partners. One of our major bigger existing partners is Reliance and we have added a good number of doors in the line. Now, the new partner what had added last quarter or the quarter before that was Pantaloon but our presence in Pantaloon is still very small. We are there in about only 15 to 16 doors. So, the major expansion what has happened has come by a new line.

Aniket Sethi: What would be our penetration with the Reliance currently in terms of number of stores?

Gautam Saraogi: We haven't checked the overall database of stores recently, but we would be in most of them.

Aniket Sethi: Second, on the ad spends, can you share some initial results? You have increased your ad spends after let us say a couple of years. Most of the brands were kind of invested for the last 2 years. What are the kind of spends you are doing? How are you measuring the effectiveness? You have also stated that the current campaign was running till end of July. What are the other kind of things you are planning over here?

Gautam Saraogi: Aniket, I will tell you the kind of ad spends we are doing. There are two types of advertisements. There is a bottom of the funnel performance advertising and there is a top of the funnel brand-building advertising. What we are currently doing is, top of the funnel brand-building advertising, and this brand-building advertising results which we will see over a period of years and quarters. It is not a result which you will get immediately. The advertising what we have done right now is very hard to say whether that has created upsides in our June and July sales because this is more from a brand-building perspective. And we wanted to maintain a good ratio of ad spends to revenue and we got that 4% to 4.5% even from a percentage perspective and also as an absolute amount is a good amount to do brand building. This quarter, we had run a 6-week campaign which has ended July end. Our second campaign should ideally start during the festival.

Aniket Sethi: A lot of this is digital spend, right? On YouTube and social media?

Gautam Saraogi: No, this has been largely television.

Aniket Sethi: Lastly, just wanted to check on the stores addition bit. Besides pipeline and availability, you are confident of the 120-130 guidance, correct?

Gautam Saraogi: Yes, absolutely.

Moderator: The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.

Himanshu Nayyar: Firstly, if you can just give us some color on your e-com and omnichannel capabilities. I know that's a small proportion of our sales but just wanted to understand what all are you doing to scale that up and is there is a number in mind where you think this is the number you would want to achieve, and in terms of current capability, how many stores would you have supporting omnichannel if at all?

Gautam Saraogi: Right now, Himanshu, what we have done is the first target was to take our new website live and we have taken our new website live, and from a performance perspective and efficiency perspective, the website is doing well. If I take my absolute number of online sales, our online sales on an absolute basis has increased over quarter 3 and quarter 4 which is a very good sign. Though our online base is very small right now, we are trying to scale it as much as possible. Right now, currently it is 2.5%. So, our first target is that if we can take the 2.5% to about 5%. As far as omnichannel through stores are concerned, currently, our first target was get a site which is up and running. Now, we are integrating it slowly with our stores. Over the next, probably 2 to 3 months, we should see store deliveries and store dispatches starting for online sales in the next 2-3 months. That integration is under process right now.

Himanshu Nayyar: The second bit was on the competitive intensity. Just wanted to understand whether you have seen any significant increase in the last few quarters. Has the demand sort of come back, maybe from other brands or even the private labels of larger retailers? Any color there would be helpful.

Gautam Saraogi: Yes, Himanshu. We have seen a national player entering the space and we are seeing many regional players also doing this type of strategy. But I think as far as demand is concerned for our product and our brand, we have not seen any slowdown because of competition. And we understand that competition is there and we are also increasing our footprint so that we have a competitive edge.

Himanshu Nayyar: But is there typically any conflict that you see with these LFS partners? I believe at least a few of them would have their own private labels in the same space as well. So, any conflict in terms of getting shelf space in a few of those large format stores?

Gautam Saraogi: LFS private labels are not competition to us, Himanshu, because LFS private labels are actually not really very big competition to any of the external brands frankly because the kind of range they carry in bottom wear is much lower in terms of number of colors and number of compared to what we have. So, I would not take LFS private labels as competition. In fact, for example, we have been in LFS for a very long time and we have been coexisting with their private labels for a very long time and even they do very well and even we sell very well. There is no real competition between us and private labels. We are not competition to them and they are also not competition to us, let me put it that way.

Moderator: The next question is from the line of Rajiv from DAM Capital. Please go ahead.

Rajiv: Sir, my question is on your cash. We have generated cash and cash equivalents of Rs. 130 crores versus Rs. 106 crores. Can you give a breakup of where is it coming from and if you can specify the absolute inventory number for this quarter?

Gautam Saraogi: Our absolute inventory would be about 180-185 crores. Around Rs. 40 crores of cash we generated in the quarter and we had an increase in our working capital by about Rs. 48 crores. So, our cash flow from operations has actually been minus 8 crores. In fact, our cash balance from March to June actually has come down in absolute terms.

Rajiv: What you reported in Q4 was 106 if I am not wrong.

Gautam Saraogi: Yes, but that would probably not include our mutual funds and liquid funds. This Rs. 130 crores what we reported this quarter is cash in hand, fixed deposits, and your liquid and mutual funds.

Rajiv: You are saying in 106, you didn't have that mutual fund thing.

Gautam Saraogi: Yes, we didn't have the mutual fund thing.

R. Mohan: That is shown as a separate line item as investments because it was a statutory year and finalization.

Gautam Saraogi: It is shown as a separate line item in the balance sheet.

Rajiv: In terms of the positioning bit. Because we have taken close to Rs. 170 price hike from Q1 FY20 to till today, have we found competitors which are filling in this space? And are you happy with the 4% volume number? Is this what we should build in for the old stores?

Gautam Saraogi: Yes, 4% is a very good number, in fact. I think it's a good number considering that market is coming back and older stores are growing on an average of 4%, I think it's a very good number to begin with. Of course, our endeavor will be to strengthen this 4% which goes without a doubt but, yes, as management, we are very happy with the 4%.

Rajiv: This 550 to 718, the price band which you have increased in the last 3 years….

Gautam Saraogi: That 550 to 718 would not be fully on the basis of price hikes. We have taken a price hike in the last 2-1/2 to 3 years of about Rs. 100 between FY20 and FY22. The balance would be because of the product mix.

Rajiv: What would be the leggings portion as of today?

Gautam Saraogi: Even today, leggings continue to be strong. Leggings and churidars contribute to about half of the business even today.

Rajiv: Let us say if the prices were to come down, historically, is there a trend that you will maintain the gross margin and break down the prices proportionately?

Gautam Saraogi: Even if the RM price goes down, we will not bring down our selling price because if we even think about doing that, it will create a very negative impact in front of our end customers. They would not understand why we are bringing down the price. So, we would never bring down the price even if there is a decrease in RM.

Rajiv: And you said there is minimal CapEx on this warehouse.

Gautam Saraogi: Yes, nothing material because it is a small micro fulfillment center which was opened and it is not a material investment.

Moderator: The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: What would be the mix of value added and how do you define it in your mix?

Gautam Saraogi: Deepak, our entire product category is essentials and core, but if I have to bifurcate in that, leggings and churidars which are our oldest core products that contribute to about half of the business, the balance half comes from products like trousers, pants, jeggings, harems, patialas, palazzos, and the other bottoms basically. So, anything which is not leggings and churidars, we bucket it as other bottoms – the value-added bottoms.

Deepak Lalwani: What will be the price differential between the core products and these newer value-added products?

Gautam Saraogi: They will not be too different. Our leggings and churidars are at about Rs. 599 and the other value-added products would be between Rs. 750 and Rs. 900. It will be around in that average. For us, what we have done, Deepak, is 80% of our product portfolio we are pricing it less than Rs. 1,000. And we don't want a situation where we are coming up with newer products priced very high. We don't want to do that.

Deepak Lalwani: On the margins, you mentioned that 31% to 32% is possible. If you could give some sense on channel-wise margin and also your online and LFS margins specifically because those were the lower margins previously, right?

Gautam Saraogi: EBO margins are the best which goes without doubt. Before corporate and advertising overhead, EBO gives us about 33% of EBITDA at the channel level whereas an LFS would give about 25% and online would give about 20%. Because our mix is heading more towards EBO which is of higher profitability, that will improve our EBITDA margins any which way, which I have not factored in when I have given the estimate of 31% to 32%.

Deepak Lalwani: Gautam, on your volume growth which has come down from 9% pre-COVID to around 4% today, despite adding new stores in the last 2 years, this number looks a bit lower. Is there some challenge on the….

Gautam Saraogi: Deepak, this is SSSG, 4%. Our overall volume growth from Q1 FY20 till now has been 41%. These are the same stores which were operational in Q1 FY20 and are operational today. Those stores have grown at a volume level of 4%. The overall business has grown at a volume level of 41%.

Deepak Lalwani: Just wanted to understand from you on the new stores which you are adding, how many months is it taking you to ramp up all these stores to get to where your matured stores are? And if you can highlight a bit as to what the difference is between a tier-2 customer and a tier-1 customer, if there are any challenges on upgrading you to the higher prices that are today?

Gautam Saraogi: Deepak, from a matured store perspective, when we open a store, usually our store tends to mature between a year and a half or two years it takes to reach some sort of maturity. So, when we open a store say this quarter, probably by middle of next year or end of next year, we should probably see some sort of maturity in these stores. As far as tier-1 and tier-2 are concerned, because our product is core and essential, the customer buying behavior between a tier 2/tier 3 versus a tier 1 is not very different. Maybe leggings as a category might sell a little more in tier 3 and pants as a category might sell a little more in tier 1 and some colors may sell better in tier 2/tier 3 and some colors might sell better in tier 1. Apart from these small minor changes, I think overall the consumer behavior has been very similar for us in tier 3 versus tier 1.

Deepak Lalwani: From hereon, we should be making about 4% to 5% of SSSG on your older stores and the newer stores will just add to the volume growth, right?

Gautam Saraogi: Absolutely. In the current stores also, we target at least 4% to 5% of volume growth moving forward on SSSG basis for the current stores.

Deepak Lalwani: In your opinion, are there any levers maybe to add another category to beef up this 4% to 5% which you are doing on the existing stores today?

Gautam Saraogi: Currently, we see a lot of scope in bottom wear. We will continue to add new categories of ladies bottom wear, but we are not currently at a strategy looking outside ladies bottom wear for now because the scope here and the depth we can go in is very long.

Moderator: The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Continuing on the last question, what are the steps we are taking basically to increase the throughput or increase the volumes from our older stores? Because one of the challenges I feel is the store size for Go Fashion is limited. So, to increase the SKUs, that's going to be a challenge mainly because of shelf space is limited and second is, you can't increase the footfall beyond a point because the store size is 300 to 500 square feet, which leaves with only other option that is to increase the sales from the older stores through the increase in ASP basically by either doing the product mix or the price hike. Would that be a fair assessment?

Gautam Saraogi: For us, to sustain the volume growth, of course, is a good question. I feel, at the end of the day, the company has to build a lot of brand equity and brand value. That's why we started brand building initiatives. Also, as our store expansion happens, I feel our newer stores will also drive volume in our older stores because more the customer sees a brand in terms of visibility, that much the brand builds in the minds of the customers. So, with the expansion plans what we have about 120 to 130 stores and we are continuously adding newer categories of bottom wear, I think our older stores should be able to deliver 4% to 5% of volume growth on a steady state basis.

Coming to store size which you rightly mentioned, for us, we don't see our store sizes dramatically going up and I will tell you why. What are continuously fine tuning our inventory. Our artificial intelligence at the back end on the basis of which product is selling and how it is selling, it keeps optimizing the inventory what we have. For example, if a product is selling slightly less than the new product that is being added, I will reduce the number of quantities in that particular SKU and bring in the new product category. Because I am optimizing inventory on an ongoing basis in the store, for me to get the new products and coming into the stores, there will not be any size constraint. We don't see that as a problem.

Akhil Parekh: But if we remain confident that 4% to 5% volume growth should be there and then probably….

Gautam Saraogi: We should be able to achieve that because the market is growing at a very fast pace and 4% to 5% volume growth as a company we should at least target as SSSG for our older stores.

Akhil Parekh: My second question is on the rent-to-revenue ratio. If I look at it, same topic, tier-2 and tier-3 stores, broadly how different they would be?

Gautam Saraogi: The rent-to-revenue ratio would be similar between a tier 1 and a tier 3, but the absolute rent will be lower. What happens in a tier 3 is the revenues also are lower, the rents also are lower, and the other Opex also in store as well. So, from a percentages perspective, tier 3 and tier 1 are similar. We don't see too much of disparity in the rent-to-revenue ratio. There are some cities where rent to revenue is generally high. For example, a city like Delhi, in general, rent-to-revenue ratio is a lot higher but that Delhi is just 1 city as an exception. Otherwise, more or less, between tier 1 and tier 3, it is very similar if we are looking it as a percentage.

Akhil Parekh: Just wanted clarity on the LFS side. Are we selling on a consignment basis or is it SoR basis?

Gautam Saraogi: It is SoR principal-to-principal basis.

Akhil Parekh: So, it means that if the inventory doesn't sell, the LFS can return back the goods to the company. Is that correct?

Gautam Saraogi: Yes, absolutely.

Moderator: The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: I just had two questions. Given you mentioned that your quarter 3 is your best quarter followed by quarter 1, quarter 2, and quarter 4, could you in any way give a sense of what percentage of revenue comes from these quarters on a general average level historically?

Gautam Saraogi: Broadly, we have seen 33% of our business comes from quarter 3 and 25% to 27% of the business comes from quarter 1. These are just broad numbers from my old XL sheets. Actually, what has happened is post-COVID some months pre-COVID used to do average of post-COVID has changed and the trends of seasonalities have a little bit changed post-COVID. But on a broad basis, Q3 contributes to about 33% of business.

Vinayak Mohta: Just I was trying to understand like volume growth is something you mentioned that would be 4% to 5% on the SSSG level and then you will have some growth coming from the new stores.

I wanted to understand how further can you see? The ASP is increasing because given your bringing in 80% of your products in the lower-than-1,000 category, on an average, do you think that your current ASP of broadly 718 to 750 would be the upper threshold for the ASPs or do you think that eventually….

Gautam Saraogi: I understand what you are saying. There will be still room for growth. The ASPs eventually will grow up between 800 and 900 slowly.

Vinayak Mohta: And this would be led by more of a higher product mix towards the higher end categories.

Gautam Saraogi: Exactly, other categories, absolutely. But our strategy is very clear that we want to price the product below 1,000. Eighty percent of our products are below 1,000.

Vinayak Mohta: Broadly, what kind of growth rate expectations is the management carrying for the next 2 to 3 years at least or if you have a longer-term vision something that you are looking at?

Gautam Saraogi: At least, the company expects to grow at a CAGR of more than 20% in the short-term planning.

Moderator: The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: A couple of questions from my side. You spoke about store achieving mature state in a span of 12 to 18 months. I just wanted to understand what parameters, financial ones, you use to qualify a store as a mature one? Is it largely time period or you use financial parameters as well?

Gautam Saraogi: Largely time period. There have been some cases where the store has also matured only by the 36th month. For example, we opened a store in a tier-3 city in North. The first 2 years were very average but slowly it started picking up and now the store is doing very well. Sometimes, a store does pick up after 3 years, but in most cases, we are seeing from a time period perspective between 18 and 24 months, a store should reach some sort of reasonable revenue. That is more from a time parameter perspective.

Tejash Shah: So, at the first place, you have to identify an overachieving store or an underperforming store. The time period has to reflect into some sort of financial parameters. It could be volume throughput or value throughput. So, just wanted to understand out of the two volume and value, which parameter and what is that number that you….

Gautam Saraogi: We see a value parameter. At least, if a store is able to reach a 60 lakh a year revenue benchmark, then we know that it has reached some sort of maturity.

Tejash Shah: This usually happens either in 18 or 24 months?

Gautam Saraogi: It ranges but it broadly happens between 18 and 24.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing remarks. Over to you, sir.

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. 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.

Moderator: Ladies and gentlemen, on behalf of Go Fashion (India) Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.