GO COLORS!

GO FASHION (INDIA) LIMITED

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August 07, 2023

BSE Limited Scrip Code: **543401**	**National Stock Exchange of India Ltd.** Trading Symbol: **GOCOLORS**

Dear Sir / Madam,

Subject: Transcript of Earnings call – Q1 FY 23-24

We hereby enclose the transcript of earnings call for the financial results for the quarter ended 30th June, 2023.

This is for your information and records.

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

GAYATHRI KETHAR
Digitally signed by GAYATHRI KETHAR
Date: 2023.08.07 12:36:22 +05'30'

Gayathri Venkatesan
Company Secretary & Compliance Officer

Encl: As above

"Go Fashion (India) Limited

Q1 FY '24 Earnings Conference Call"

July 31, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on July 31, 2023, will prevail

Management

1. **Mr. Gautam Saraogi - Executive Director & Chief Executive Officer – Go Fashions (India) Limited**
2. **Mr. R. Mohan – Chief Financial Officer – Go Fashions (India) Limited**
3. **SGA – Investor Relations Advisers – Go Fashions (India) Limited**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1FY24 Earnings Conference Call of Go Fashion (India) Limited. This conference call may contain forward-looking statements about the company, which are based on 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 participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now like to hand the conference over to Mr. Gautam Saraogi, Executive Director and CEO. Thank you, and over to you, sir.

Gautam Saraogi: Yes, thank you. Good evening 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 Advisor. I hope you all have received our investor deck by now. For those who haven't, you can view them on the stock exchange and the company website. The retail sector in India has experienced a notable decline over the past few months, and the current operating environment has presented significant challenges for businesses in this industry. While market as a whole has paused, our company has demonstrated exceptional resilience and growth allowing it to outperform the market. We delivered a revenue of 190 crores registering a growth of 15% Y-o-Y.

Our PAT also grew by 8% to INR26 crores. This growth has been on the back of volume growth and consistently increasing number of EBOs. Despite the challenging environment, our SSG grew at 2.46% for Q1 FY '24. Same cluster sales growth was at 16% on a Y-o-Y basis. 96% of our sales in Q1 FY '24 are full priced sales. The average selling price of our EBOs stood at INR771 for the quarter. In Q1 FY '24, the company has added net 25 new stores for the quarter, and Our Total EBO Stands at 655 stores. An essential aspect of our expansion strategy is our focus on venturing into new markets and establishing our presence in different cities.

In line with this, we have expanded our network to 6 new cities during the quarter, bringing our total presence to 149 cities. This strategic move reflects our commitment to tapping into untapped markets and catering to its diverse needs consumers across different regions.

We plan to expand by 120 to 130 EBOs every year. We focus on establishing additional EBOs across Tier 2 and Tier 3 towns and deepen our presence in in existing geographies and also grow our existence in newer geographies. This expansion aligned with the aim to bring our products and services closer to the consumer, enhancing accessibility and convenience. To further enhance customer experience, we are also exploring omnichannel engagements, leveraging technology to create a seamless shopping journey that transcends physical and online boundaries, reaching consumers across various cities.

We are present across 1,822 large-format stores. Our LFS business has come back to normalcy during the last quarter. As part of our efforts to improve the efficiency of our business operations, we have prioritized maximizing the utilization of our working capital. During the previous quarter, we were able to reduce the number of days in inventory by 19 days. Overall, our working capital days stood at 136 days in Q1 FY '24. The strategy has enabled us to optimize our operations, resulting in increase in our operating cash flow. Our Pre Ind AS 116 operating cash flow stood at INR25 crores, and our Post Ind AS operating cash flow stood at INR49 crores.

Our ROCE and ROE for the business on an annualized basis stood at 19.1% and 19.8%, respectively. A critical factor contributing to our success has been establishing a robust branding team. This team has played a pivotal role in crafting a clear and compelling brand identity, effectively communicating our unique position to our target audience only and creating a strong and lasting presence in the market.

The Indian retail industry is projected to maintain a steady growth rate of 9% CAGR till 2030, driven by increased discretionary spending, increasing urbanization, changing fashion preferences. India's fashion and apparel retail sector is expected to contribute significantly, accounting for 45% of this growth. By the end of the decade, the industry in market value is estimated to exceed $2 trillion. Looking ahead, we are enthusiastic about the future and remain committed to our innovative and creative approach in the bottom wear.

Our determination to introduce new designs will respond with our customers, driving further brand loyalty and engagement. By expanding our brand destination, we aim to offer our customers a more delightful shopping experience, which in turn will enable us to achieve a growth rate of 20% plus CAGR and gain a larger market share in the years to come. With this, I would like to hand over the call to our CFO, Mr. R. Mohan, for the update on Q1 FY'24 results and financials. Thank you.

R Mohan: Thank you, Gautam, and good evening, everyone. The company has delivered strong growth despite subdued demand and a challenging environment. Our revenues for the quarter stood at INR190 crores as against INR165 crores in Q1 FY '23, a growth of 15% year-on-year. Gross profit stood at INR117 crores, with a growth of 16% Y-o-Y with a GP margin of 61.3% for the quarter. GP margins increased by 70 bps on Y-o-Y. Our EBITDA for the quarter stood at INR64 crores as compared to INR53 crores in Q1 FY'23, a growth of 21% year-on-year. Our EBITDA margin stood at 33.8%.

Profit before tax for the quarter stood at INR35 crores, a growth of 9% year-on-year, whereas profit after tax for the quarter stood at INR26 crores. An 8% year-on-year growth from Q1 FY '23. Our PAT margin stood at 13.8%. With this, we'll now open the floor for the questions.

Moderator: Thank you very much. The first question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Congratulations on a good set of numbers under challenging circumstances. Gautam, I note that the ASP for the company has increased by 7% to 8% in Q1, while the reported SSG is at about 2.5%. This suggests mid-single-digit or even higher volume degrowth. So just wanted to understand 2 things here. One is, what are the drivers of this better ASP, which has grown by

7% to 8%? And secondly, obviously, times are challenging. So what are your sort of initial expectations on volume growth revival?

Gautam Saraogi: So on the first question, see, the 7% growth, what we had in the ASP is largely driven by the change in product mix. So just to go a little deeper, if you take the 2.5% of SSG we have, in that only to the extent of 1% or 1.2% was impacted due to the historical price hike. The balance has been completely driven by product mix. So our volume degrowth SSG number is minus 4% and reported SSG plus 2.5%. So in this, plus 1% to 1.2% would be related to price hikes, which were done in December 2021. And the balance is because of the product mix. So the price hike impact on SSG is largely tapered off.

Devanshu Bansal: Got it. And how sustainable is this Gautam-- just to complete this question. So from a better revenue mix perspective, so this rest, I would say, is about 6% growth in ASP. Is this what you expect to continue going for the next 3 quarters?

Gautam Saraogi: We are hopeful, Devanshu that it will continue at 5% to 6% increase in ASP. And I think because of the newer products what we are coming up with the slightly higher selling price. So I think we should be able to keep our original target of SSG which was 10% on a value level and 5% on a volume level. So we would idly hope that our product mix can drive about 5% to 6% increase in ASP.

Devanshu Bansal: Okay. And about the volume growth revival, what are your initial expectations on that?

Gautam Saraogi: See, the consumer market has been a little stubborn over the last 46 But look, we're very hopeful that this festive season will be a good in Q3. So Q2 onwards, we are very positive that we should start normalizing a little bit. And maybe by the Q3 festive quarter, we should have a good big success. we are expecting to have more degrowth in volume e . I think we've done a good job. We've delivered a minus 4% on the SSG level. We would be hopeful that this coming quarter in Q2, we'll be able to make that negative as zero at least. In Q2. So our first target that is minus 4, should come down to zero before we think about positive volume growth in Q2.

Devanshu Bansal: And secondly, on the cash flows and working capital. So we have generated about INR25 crores operating cash in Q1 versus last year, full year, we delivered about INR20 crores cash. So just wanted to understand, can we expect this kind of cash flow to accrue in coming quarters as well? Or this is more of a seasonal thing, and you will be investing in working capital going into next --

Gautam Saraogi: This is a good question. We have generated good operating cash flow because we have created some efficiencies in Inventory, we have optimized inventory. But see, what will happen is in Q2, our inventory will slightly go up because that's going to be a quarter just before the festive quarter. So on a quarterly basis, cash flows will go a little up and down because of the seasonality perspective. However, on an annualized basis, we are expecting that we will deliver 50% of Pre Ind-AS EBITDA to operating cash flow. Right now, we are at 65%.

If I do my current conversion of Pre Ind-AS EBITDA to operating cash flow right now, converted 65% of our operating EBITDA to for OCF. On an annualized basis, we will be looking to convert 50% of our Pre Ind-AS EBITDA to OCF on annualized basis. Some quarters might be up and down, but on an annualized basis, we would look to maintain 50%.

Devanshu Bansal: Just a related question to this Gautam. So my estimate suggests that you may end up generating about INR 170 crores, INR80 crores of operating cash this year, so based on 50%, whatever. And we already have about INR140 crores, INR150-odd crores of cash. So does this suggest that we will be sort of increasing our pace of store expansion? So what are the plans for utilizing that cash on the balance sheet?

Gautam Saraogi: Yes, it's going to go towards store expansion. So this year, we are going by a target of 120 to 130 stores. And next year, we will try increasing that number to 150 to 170 stores because we are building on BD team as well. And we've had new recruits in our BD team and it will take some time for them to settle down because the Business development also is a unique skill set. So I think by next year onwards, we should target to look to open about 150 to 170 stores. But this year, our target will remain the same at 120 to 130 stores.

Moderator: The next question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta: Firstly, I want you to address this challenging quarter for retail. What, in your opinion, are the reasons for this? And in your experience, have you encountered such an environment before? And typically when -- or how much time does it take to turn around? And in this context, can you give some broad consumer trends within your category, which are the segments which are more affected or less affected geography-wise, price point-wise, any color on making us understand the slowdown a little better?

Gautam Saraogi: Yes, sure. So see, I think the slowdown from what I understand is that the consumer sentiment has been skewed towards more services than hard real consumer goods. And you've seen the consumers that have preferred spending on services like travel, leisure, hotels.

So I think the little priority of consumers over the last couple of quarters has shifted towards that. In my experience, look, we see that to come back to normalcy. It's very difficult to predict how long. But we are hopeful that by Q3, we should have some sort of normalcy. Q2 will be like a transition or revival quarter. So by Q3 is when we feel that demand from a consumer perspective should be back to some sort of normalcy. What was the second question?

Sameer Gupta: Any broad consumer trends that you can see?

Gautam Saraogi: I think what has happened is, for us, what we have noticed is that the metro cities or Tier 1 cities have done fairly better than Tier 2, Tier 3. But our presence is more Tier 1 to begin with, more metro cities to begin with. So we have done better than most other companies from that perspective. And we have seen like for us, North India has done fairly well. Like Delhi NCR, if I take in Q1, Delhi NCR was the city which had the highest same store, sales growth.

So for us, certain pockets have done very fairly well and some pockets have struggled. But because we are a more metro city brand or top 8 city brand, the impact of the slowdown has been far lesser on us that probably than compared to others.

Sameer Gupta: Got it, sir. And any trend on footfalls? Are you clocking similar footfalls as you were or is it primarily…

Gautam Saraogi: No, see, what we have started doing is we have started tracking footfall by the mechanism of a bill cut. So we have seen that in Q1 we had seen a decline in bill cuts so when bill cuts drop it's a clear indication that footfalls have dropped at a store level. because there is a drop of bill cuts that's why there has been a degrowth of minus 4% on the volume SSG.

Sameer Gupta: Got it sir. Second question if I may, this 2.5% SSS growth this quarter and I understand that you are still expecting for normalcy in 2Q but are we still good to guide for a double-digit SSS growth and a 20% plus sales growth this year? Or you think that that may be a stretch given the first quarter performance?

Gautam Saraogi: See, I think we will be in a better position on for an annualized basis, what rate we would end up achieving, we will be probably in a better stage to give it probably at the end of Q2. But in Q2, we are hopeful that if we are able to get a 5% SSSG in the current scenario of things, if we are able to do a 5% SSSG with no volume growth, I think we will be in a good position.

Sameer Gupta: Got it sir. Third question if I may. Other expenses are down 7% and this is despite some 24% increase in stores. So is it just ad spend phasing or you know there are certain costs that we have cut down and these are likely to come back

Gautam Saraogi: These are largely ad spend. See I will tell you the rationale behind spending less this quarter and I will tell you from my experience of so many years in retail whenever there is a slowdown in the market, advertising should be very frugal. See, because when the consumer's intention of buying is not there, doing very high ad spends don't make sense.

So the reason we didn't do ad spends was because we didn't want to waste money. I mean, the idea was not being that, look, we want to maintain our margin, that's why I spend less on advertising. That was not the mindset. The idea was that the consumer is not willing to buy that easily right now. And in a tough environment like this, spending higher on advertising and wasting money does not make any sense.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. So we would like to understand this reduction in inventory days. We saw a reduction in Q4 as well as now in Q1. So what steps we have taken and how sustainable these reduction in inventory days are?

Gautam Saraogi: I think they are pretty much sustainable. We put in a lot of effort. We've evaluated how much raw material we had, how much finished goods we had at the warehouse, and we have taken those necessary steps to optimize them.

Today we have about INR221 crores of inventory, which is about 107 days. So we are looking to bring it down to 90 to 95 days by the end of the financial year. See in Q2, inventory days might slightly go up again because we would be building some stocks from a festive perspective.

But on an annualized basis, we would ideally expect our inventory days to come down to about 90 to 95 days.

Prerna Jhunjhunwala: Okay, and this is largely with store rationalize, like store increase and rationalization of inventory or any other step apart from this that you have taken?

Gautam Saraogi: See, the only way inventory days can actually come down is either the revenue goes up or the absolute inventory will come down. We are looking at both. So A, because of higher revenue growth this year, the inventory days should come down and we are also reducing our inventory at the warehouse.

See, the inventory at the store level is optimum. I don't see any further efficiency there. So what inventory we're looking to optimize is more at the warehouse level. So reduction in the warehouse inventory and increase in revenue, both will contribute to further reduction in terms of the inventory day, from 107 to 90 to 95 by the end of the financial year.

Prerna Jhunjhunwala: Okay understood sir. So second question on competitive intensity with the raw material prices coming down, competitors would be looking forward to reduce their ASPs. How is the competitive intensity in your segment and how are you reacting to the same?

Gautam Saraogi: See, currently the competitive intensity in our segment is low. Having said that, this product is also made by the likes of the other large format stores and other topware brands. No one has actually reduced the prices because the way the cotton prices have actually fluctuated in the past, it will be very unreasonable or risky for us to reduce the prices and then tomorrow if the RM prices increase again, then again we will have to take a hike.

So for any brand to reduce the bottomware prices right now, very unlikely. Not only bottomware, whether topware or bottomware, any form of apparel for them to reduce the prices will be very unlikely right now. And we've not seen anyone do that.

Prerna Jhunjhunwala: Okay, and so any color on revenue performance till date, because you are expecting volume degrowth to come down to zero for the second half. So some color till date would be helpful?

Gautam Saraogi: Yes, I mean, look, we did a 15% growth at the value level on a Y-o-Y basis at the company level and we've had 7% volume growth at the company level so if you ask me if I'm happy with the performance it's a good performance. Ideally I would want it to be as close to 20% and our endeavor will be that in the coming quarters we'll try pushing for that number but as such considering how the overall market scenario has been, 15% is a good number.

Prerna Jhunjhunwala: Okay, and EOSS , how has been the EOSS? I know you don't discount, but end of season generally people prefer to buy and purchase more. So how have you experienced EOSS?

Gautam Saraogi: See for us, our EOSS usually happens in quarter 2 and end of quarter 3 or starting of quarter 4. So quarter 1, we've not had any EOSS as such and our pooled price-sales ratio has been also intact like before. In July we have started our regular EOSS like what we have done before. So it's pretty much the same trend like what we had in historical years. There's no real change there.

Moderator: Thank you. The next question is from the line of Rakesh Wadhwani from Monarch AIF. Please go ahead.

Rakesh Wadhwani: Hi sir. Thank you for the opportunity. Just wanted to understand in a bottomware which products are doing better because we have seen a volume decline but our realization is going up. So which products are doing good?

Gautam Saraogi: So Rakesh, we have not seen any one particular product standing out. Our product mix perspective has been pretty similar to earlier quarters. So our Chudidar legging which used to contribute to 45%, 50% of the business has continued the same ratio. And even our other value added products have pretty much been at the same pace. So I think from a product mix perspective, there's nothing, any one product which has stood out or performed badly. There's no such product.

Rakesh Wadhwani: And second question regarding the store opening. You guided like 120-125 stores FY '24 and then the coming year we'll be looking to add around 150 stores. So you will be looking at the space continuously. Where do you think the stores will be coming? Will it be coming in top 8 cities only or will it be going down to Tier 2, Tier 3 cities also? Tier 1 or Tier 2?

Gautam Saraogi: See, I think, Rakesh, what is going to happen is that the ratio of top 8 to Tier 2, Tier 3, what we have currently, the same ratio will maintain. So our expansion also will happen in the same ratio. But if you ask me from a region perspective, it is going to be definitely a lot more concentrated in South and West of India. North and East is going to be relatively slower in expansion compared to South and West. Because by default, South and West has a lot more larger cities than North and East.

Rakesh Wadhwani: Okay, just a discussion on the store point. Do you think that we have that much space available for store opening? Or it may also lead to a cannibalization of the sales going to other outlets? Do you think that much space is available for you to open the stores?

Gautam Saraogi: Yes, definitely. We are still very under penetrated in South and West. So in terms of expansion, we have a clear roadmap and we are very confident that we'll be able to add those numbers in South and West. Now coming to the cannibalization perspective, see look, when you're growing in clusters and that too in deep clusters, some stores do get cannibalized.

And that is why we monitor the rate SCSG, which is same cluster sales growth. So, when the sales cluster sales growth is going at a good rate, that means the cluster-wise growth is pretty healthy. That even if a few stores get cannibalized, the overall growth of that cluster is pretty large. So we don't see a problem in that penetration in South and West from that perspective.

Rakesh Wadhwani: One last question from my side, the stores that are open in last 1-2 years or 2 years max, how they are performing? Have they reached to the level where the older stores are performing or they are lacking?

Gautam Saraogi: No, this is a good question. See, the newer stores that have opened in the last 6 months have actually lacked in performance. I wouldn't say lack but has been little below the average of how a new store does. The reason being because of the consumer environment. See, what happens in a consumer environment is, usually the newer store suffers more than the vintage and the older settled store. Because you want your footfalls to be driven in the newer store, right? For it to reach some sort of maturity. So in a tough consumer environment, the newer store suffers more. So our new store have slightly struggled, and we've seen that as a consumer sentiment improves, that number also will come back to normal.

Moderator: Thank you, the next question is from the line of Nihal Jham from Nuvama, please go ahead.

Nihal Jham: The first question was on the part of cannibalization that you mentioned. When I look at the difference between the SSSG and SCSG that you report, in a way, it strikes as whether it was a potential cannibalization **[inaudible 0:27:02]** Yes, I was asking of this 120 to 130 stores, would a share be similar cluster which can increase the difference between SSSG and SCSG?

Gautam Saraogi: Yes, see I mean look we are growing in clusters and that's how our growth expansion has always worked. videos are an excellent medium of advertising And then we open more and more in clusters. It acts as a stronger medium of advertising. So I think as we keep growing in clusters, there will be a gap between SSG and SCSG. Now how much gap will be maintained is very hard to comment.

Ideally, this 2.5%, I don't think it's fully impacted because of the cannibalization factor. I think the consumer sentiment is a little weak. We would have estimated that after cannibalization also, we would have delivered an SSSG of 6%, 7%, minimum. So I think this reduction of SSSG more than cannibalization is to do with the overall consumer sentiment.

Nihal Jham: Got that. And the question was that currently, if I look at the last few quarters, we have been disclosing this metric, the difference is around 12%, 13%. So, would that difference be ball park similar in the next few quarters You expect based on your store plans that maybe this number could increase with more cannibalization and more stores?

Gautam Saraogi: You're talking about the SSSG and SCSG? Yes. The difference between the two? Yes. See, so I'll tell you, we have seen from our experience that SCSG is usually double of SSSG. But the SCSG is a new data point what we have started tracking in the last two, three quarters. It's very early days for us to to say at what rate that will settle down versus the SSSG but immediately at immediate trends what we have seen is usually SSSG would be half of SCSG.

Nihal Jham: The second question was in your press release you mentioned about the branding team is it an incremental initiative or something more that's been done and you can just highlight that?

Gautam Saraogi: No, see, look, though we have cut down the cost on branding, on advertising, we have cut down considerably, but we have started doing a lot of influencer marketing for many of our products. And in fact, denim was one product. We launched a couple of styles in denim, which did fairly well, and we had a good digital campaign. So our branding team, digital team, I would rather put it that way, has strengthened this quarter.

Nihal Jham: Got that, so basically you're saying that the incremental could be more SEO, more influencer driven, which is a new avenue that we are taking and that…

Gautam Saraogi: Influencer was there, influencer was always there, and look, this what we have spent today, this 1.5%-2% whatever we have spent on advertising, this is largely towards brand building and brand building advertising is usually through YouTube, through influencer and that we have always been doing. Is just that the additional advertising what we have done is what we have cut down quarter.

Nihal Jham: Okay. Sir, I think I'll come back to the Q&A for the question. Okay.

Gautam Saraogi: Thank you.

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

Manish Poddar: Gautam, can you just, so three questions. One is, can you explain this working capital which is corrected? If I had to just make up between RMFG and work in progress, how many number of days would have got corrected? And is it also linked to, let's say, mark-to-market of RM?

Gautam Saraogi: Sorry, your last point was? It linked to?

Manish Poddar: It linked to mark-to-market. Let's say, cotton price is going down and inventory being valued at lower of, cost of market value or the purchase price?

Gautam Saraogi:

Manish Poddar: And just one more thing, how do you calculate working capital? Let's say when you give it for quarter one, do you multiply this quarter and you take it into four or you take last trailing 12 months as the working capital, this number of days? Sorry, thanks.

Gautam Saraogi: See, usually from what, on the revenue part, you take this quarter's revenue. And on the inventory part, usually it is a metric of opening and closing inventory, you take an average. Mr. Mohan can correct me if I'm wrong. I think that's the way it is done. Inventory days is calculated based on taking the opening and closing inventory, we take an average and then we use the quarter achieved revenue and then we calculate inventory days.

From a working capital days perspective, it's basically inventory plus debtors minus payables and that's how we calculate working capital days. Now coming to your question on the absolute inventory, look, INR223 crores is the inventory what we have as of June, 30.

I'm not having an exact breakdown with me right now as far as how much is finished goods at the warehouse and RM at the warehouse, but what reduction we have done is largely on the warehouse front. I can share this offline, I'm not having it handy right now, but the inventory what we have reduced is on the warehouse front, at the RM, and especially at the RM level.

R Mohan: The slight update, it is not opening and closing. Gautam, it is only closing, whereas on a particular date, inventory,

Gautam Saraogi: Yes, so it's closing date, Manish. So basically closing inventory divided by your monthly quarterly sales that's how we have calculated 170.

Manish Poddar: So effective this quarter multiply by four is what you're doing to get the number of days. So you're not getting your seasonality in the in the sales for this inventory that's what, I'm saying?

Gautam Saraogi: Yes, absolutely. Yes, we have taken the quarter sales as is and then done the division, converted that into monthly, and the numerator is the absolute value of 223,

Manish Poddar: Got it. So, and then the second question is, let's say you take this SSG or the cluster growth, whatever number you want to take, 2% or 16%. and if I just look at the EBITDA number. Operating profit excluding ad spends there is roughly about a you know 200 bps to 250 bps gross EBITDA margin compression. So, are you trying to say let's say at 2% or 2.5% SSG the margins would contract with roughly 200 bps to 300 bps with the rate of expansion which...

Gautam Saraogi: No, it's difficult to make that correlation, but I'll tell you, I'll answer your question in a slightly different way. Because usually if you take a rent to revenue ratio at a company level, Manish, it will be in the range of 12% to 13%. This time it has been higher, it's been in the range of 15% to 16%.

Because the revenue has been muted, the rent to revenue ratio automatically has gone up and even the salaries to sales revenue ratio has automatically gone up. That's because of muted revenue. So even though we've had operating margin increase, that's because of lower advertising spends, our rent and salary ratios to revenue has gone up because of muted sales.

Manish Poddar: So if I take ad as capex and not as not as an opex with this SSG number, let's say if this is the same 3% band, give or take 1%, you should have let say, 200 bps to 300 bps EBITDA margin contraction, if you want to open the kind of stores which are operating. That's how one should think about it, right?

Gautam Saraogi: Well, Manish, I think, look, you're partly right. The only thing is because there is a new store sales element also in the company revenue, exactly correlating the SSG with the EBITDA would be slightly difficult. I know what your question is, but because there's a new store sales element as well, it will be very difficult to exactly come down on how much would be the increase or decrease in EBITDA because of SSG.

Manish Poddar: Okay, I'll take this offline probably, sir. So, and the last one just.

Moderator: Mr. Poddar, I am so sorry to interrupt me.

Manish Poddar: Just one last one if I can, just a data point

Manish Poddar: If I look at the number of suppliers sequentially, there is, number of suppliers have increased materially. So what are you changing vendors? What are you doing up here? Just helpful.

Gautam Saraogi: No, we're not changing vendors. We're just increasing our supplier base. This is at a CMT subcontracting job work level also and target suppliers also. See, but right now our current volumes are still the same with the same suppliers. It's just that our base is increasing.

See, as a company, we are adding more stores, our company is growing year-on-year at a rate of 20%. We are also investing a lot of time in getting new suppliers on board. But have the numbers changed with our existing suppliers from a sourcing perspective? The answer is no. The ratio still remains the same.

Manish Poddar: Okay, got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir, three questions from my side. First is, given that, we have seen more revenue, mixed change, towards premiumization, a lot of our old stores are 300 square feet stores. How are we managing our inventory in these older stores, given the mix change you are seeing from a consumer demand perspective?

Gautam Saraogi: So, Ankit, I think, look, we have started signing slightly larger stores. I mean, our average is usually between 300 and 400 square feet. We have started signing stores slightly larger of 450, 475 square feet to accommodate those additional sizes. But in our existing store also, we don't have too much of a trouble because for bringing in the new products, some other ratios of other existing products are optimized to bring in these new SKUs inside the store.

See, at the end of the day, our product type, we are holding our garments and keeping at the store level. So if you're slightly optimizing on the ratios of the existing SKUs, it's easy for us to bring in the new size. It is a challenge, but we are able to manage it. That's why in the newer stores what we are signing, we're signing slightly higher, we're signing 50 to 70 square feet higher stores.

Ankit Kedia: So is it fair to assume that, in the older stores, leggings and churidars, inventory would be lower today than it was couple of years back itself?

Gautam Saraogi: Not only the existing stores, even in the new stores, because see what happens is, leggings and churidars historically used to be 70%- 80%, Over a period of time, it's come down to 45%- 50%. So the inventory ratio at a store level will dynamically change with the sales. So if the churidar sales are coming down, hypothetically I'm telling you, and legging sales are coming down hypothetically, so even the ratio of legging and churidar at the store level will automatically reduce. So that's an ongoing thing. It happens on a real-time basis. It has nothing to do with historical or new stores.

Ankit Kedia: Understood. My second question is regarding the LFS. We are seeing revenue per LFS declined by 10% in the quarter. Now quarter four, we had some issues with reliance, POs coming in. How is that now and have things gone back to normal? Or we are seeing more demand pressures coming from LFS and hence, the revenue is declining out there?

Gautam Saraogi: No, see, at an LFS level, things have started normalizing, started normalizing day onwards. So if I say how things are today, things are absolutely normal with LFS from a dispatch and operations perspective and demand perspective. It is just because some part of April was impacted that's why our LFS growth is only at 3% on a Y-o-Y basis. But how things stand today, it's normalized. So in probably in Q2 you will get the true picture of how LFS is growing.

Ankit Kedia: And if I have to see the volume growth last quarter you shared at the company level versus the EBO level, what should be volume at the company level? Growth?

Gautam Saraogi: So at the company level, we've had 7% volume growth. At the EBO level, we've had 10%. And at LFS level, we've had minus 2%.

Ankit Kedia: Understood. And my last question is on the rentals. What could be a fixed versus revenue share rentals if you can share? Because last two quarters we are seeing rentals increase obviously because the SSG or revenue growth is being slightly muted. So just to, are we signing more fixed rental deals? Are there more revenue share deals? How should we look at that?

Gautam Saraogi: See, from our perspective, maybe some of our best performing stores in malls are on revenue share. But if I take a proportion of rental versus revenue share, we are largely fixed rental because majority of our stores are also high street. So the ratio of fixed rental to revenue share, the fixed rental will be much higher.

Ankit Kedia: Understood. Thank you so much.

Gautam Saraogi: Thank you.

Moderator: Thank you, the next question is from the line of Sabyasachi Mukerji from Bajaj Finserv, please go ahead.

Sabyasachi Mukerji: Yes, hi, thanks for the opportunity. My first question is, on the ad spends, you said that the environment is not that great and hence you have kind of cut down on the ad spends, but what would be your guidance for the full year? Do we see an increase in the ad spend going ahead in Q2, Q3?

Gautam Saraogi: See from an ad spend perspective, we will be anywhere, see this quarter we have been just below 2%. I think on an annualized basis, this will be between 2% and 3%, this year. Last year we were between 3% and 4%. This year we'll end up between 2% and 3%.

Sabyasachi Mukerji: Between 2% and 3%, okay, noted. And on the store closures, we had three store closures during the quarter. Are these airport stores? What was the reason?

Gautam Saraogi: Actually, one of the three stores where we had two stores in the market. So we had actually opened a relocation store. And one of the relocation stores, the newest store opened last quarter and usually whenever we relocate a store in an existing market, we let the older store be there for three months. So I think out of the three, one is more of a relocation and the other two stores are high street, they're not airport.

Sabyasachi Mukerji: Two high street stores that were closed during the quarter.

Gautam Saraogi: Two closed and one was more, one was also closure, but it was more of a relocation closure.

Sabyasachi Mukerji: Any specific reason behind the closures? Not the relocation, but the two closures?

Gautam Saraogi: No, the rental cost was very high. These are some of the markets where sales have not improved after COVID. And historically these markets have been good. See, we wanted to take some time before we decided to close it.

Sabyasachi Mukerji: And on the rental part, you mentioned that the rent to revenue ratio has increased this quarter. This is, purely because of the, muted sales that we have on an EBO basis or is it like we are facing some serious, rent escalations from the owner

Gautam Saraogi: No. I think it's 100% related to muted sales. The escalations are pretty much standard, which are at about 5% or 15% every three years. So it's not the escalation. It's largely to do with the muted sales.

Sabyasachi Mukerji: Got it. And if you have handy the break up between the inventory of fabric garment warehouse stores.

Gautam Saraogi: Actually I am sorry I don't have that file with me right now otherwise I would have shared it. I will share it offline through SGA. I will do that. But I can like I know for a fact that, our inventory which has come down from INR230 crores to INR223 crores, the reduction has largely happened at the warehouse level.

Sabyasachi Mukerji: It was INR100 crores I think at the end of Q4. So basically, and INR230 crores overall, INR7 crores inventory that has come down purely that is coming from the warehouse reduction. Is that a fair assumption?

Gautam Saraogi: It's purely warehouse reduction. From what I understand, it's completely warehouse reduction. At store level, we have not optimized inventory because we had about 45 to 50 days of inventory at a store level, which was adequate.

Sabyasachi Mukerji: Got it. Thanks, Gautam. That's all from my side.

Gautam Saraogi: But through offline, I'll share this data through SGA

Sabyasachi Mukerji: Sure, sure. Thank you.

Moderator: Thank you. The next question is from the line of Gautam Rathi from CWC. Please go ahead.

Gautam Rathi: Just a couple of questions. I just wanted to understand, how many clusters do we have because we talk about this same cluster growth rate. The question I'm trying to understand is how many clusters do we have and what has been the trend around that, right?

Gautam Saraogi: See, we have about, so I'll tell you what qualifies to be a cluster. Any cluster which has two or more multiple stores that qualifies to be a cluster. So we have about 150 to 160 clusters and about 400 to 440 stores are mapped in clusters.

Gautam Rathi: So 400 out of your 650 odd stores, 450 are cluster based stores and 200 are...

Gautam Saraogi: 400 to 440, I don't have the exact number but 400 to 440. Somewhere between that is our mapped in. Because the number is changing, I'm not sure I have the exact number, but it's between 400 and 440 stores.

Gautam Rathi: Which is very fair. And the second, just a follow-up on this is, how is this number growing? How many new clusters have you been adding or do you look to add on an annual basis?

Gautam Saraogi: See, we don't have a target on how many clusters we would add because that's a by-product of how many stores you add. So, right now we've not set a target towards that, but in the last three months, four months we have not seen any increase in clusters.

Gautam Rathi: Okay, sir. So which is your growth -- your growth is very close to your existing market…

Gautam Saraogi: Yes, existing market. Correct.

Gautam Rathi: And the second thing is you mentioned that you are looking to see open slightly bigger stores to house the entire collection that you have in certain places. The follow-up on that is, that comes with the assumption that your revenue per square feet will remain constant which will mean that those bigger stores will mean higher revenue than your historical average of INR80 lakhs to INR1 crores right per store, is that true?

Gautam Saraogi: Yes, I'll clarify this. The bigger sizes when I mean is we are opening 50 square feet to 70 square feet larger. You know, dramatically increasing very large stores. Having said that, in our model of business, whether I have a 400 square feet or whether I have a larger store, my operating expenses in that store are the same. My capex also is pretty much similar. Only what is the differentiating factor is the rent. So today, if my rent is in my rent to revenue budgeted ratio, then my store-level EBITDA will not fall.

Having said that, if you calculate it on a per square feet basis, then the sales per square feet will fall, but my absolute EBITDA as a percentage to revenue does not fall. So more than sales per square feet in our business, the more important thing to track is, whether the averages of a store is falling and are the EBITDA percentages of a store falling. Those are the two important ratios which has to been impacting us in our business. Because ideally if I find a store slightly larger in size but the rent is very much in my budget, I'll take the largest store because tomorrow I might have the benefit of adding more SKUs also tomorrow available. So for me, my decision factor to open a store is on the basis of rent rather than square feet.

Gautam Rathi: which is absolutely fair. I was just trying to understand, is this a deviation from the strategy? Or it is more, if you find bigger stores, you will take it, right? And if it is a deviation from strategy, then I'm pretty sure that, I'm just trying to understand that, that should we, because one of the way, we think about it is the number of stores into the revenue that the store could generate, has the revenue generation potential also gone up? That was probably the thought process.

Gautam Saraogi: Yes, so our process is that our average which are currently at INR80 lakhs, INR90 lakhs per store that should increase. See for us sales per square feet does not matter too much beyond the point. For us the averages of a store matter. The averages of a store and the average EBITDA.

Gautam Rathi: So that should increase with slightly bigger stores, right?

Gautam Saraogi: Exactly, that should increase. The sales per square feet might fall because the square footage has increased, which actually does not mean anything.

Gautam Rathi: You are saying that slightly higher stores, your sales per square feet might fall a little, but the absolute increase in square feet will mean that your overall revenue from that store will be higher per store?

Gautam Saraogi: Higher, without compromising on EBITDA margin.

Gautam Rathi: Which is perfect. Very, very helpful. Thanks a lot, Gautam.

Gautam Saraogi: Thank you. Thank you, Gautam.

Moderator: Thank you. The next question is from the line of Mehul Desai from JM Financial. Please go ahead.

Mehul Desai: Hi, sir. Thanks for taking my question. Firstly, you mentioned that you will be happy to end up Q2 with flat volumes. Is this more an ambition or you are seeing something, a similar trend playing out in July so far?

Gautam Saraogi: Very early to say right now, Mehul. Early days, I think probably if we once enter August and we are halfway through August, we'll have better clarity. Because right now it's too early, because July is a complete EOSS month. So it's very difficult to judge based on July's performance. We have to probably by the middle of August, we'll have better clarity or end of August.

Mehul Desai: Sure, and how do you look at your gross margin trend for the balance year, given that your ASPs are trending well product mix is improving. And my sense is that, RM environment remains benign. So keeping this in context, how do you see the gross margin trend shaping up for you for the balance part of the year?

Gautam Saraogi: I think by the end of the year, we should deliver a gross margin on an annualized basis of about 61%.

Mehul Desai: Okay.

Gautam Saraogi: Last year it was around 60% so I think maybe this year we will be at about 61%.

Mehul Desai: Got it. Thanks for that, yes.

Gautam Saraogi: Thank you.

Moderator: Thank you. The next question is from the line of Binoy Jerrywala from Sunidhi Securities. Please go ahead.

Binoy Jerrywala: Yes, hi. Thank you for the opportunity. What would be the rent expenses in this quarter?

Gautam Saraogi: It is -- I'll tell you exactly, one second. It is INR26.9 crores. This is before Ind AS. This is rent paid.

Binoy Jerrywala: Right, and how much of this would be covered above the EBITDA line?

Gautam Saraogi: No, this I'm talking about pre-Ind AS rent. I mean, this is fully above the EBITDA line.

Binoy Jerrywala: Okay. Second is, Gautam, if I look at the other expenses, and if I adjust it with the advertising and sales promotion expenses, they would have been a flattish Y-o-Y, despite you adding roughly about 122-odd stores in the trailing 12 months. So I just wanted to understand here, are there any one-offs that was sitting in the base quarter? Or have we undertaken some cost rationalization exercises or anything?

Gautam Saraogi: We have not -- cost cutting and cost optimization is something as a company we have done for years. Every month, every quarter we do it. But having said that I think, other SMB and the other expenses column, ex-off advertising, I think it'll largely because certain costs are fixed, I guess. And with the increase in revenue, I think that gets rationalized over a period of time. That gets optimized over a period of time. But to my knowledge, we have not cut any significant costs or there's no as such one-off items in the base.

Binoy Jerrywala: Nothing to read from the freight expenses also or nothing of that sort?

Gautam Saraogi: No. Nothing. it's in the normal course of business, there's nothing like that.

Binoy Jerrywala: Understood, okay. And the last question is on the, you know, as of now you said that you are augmenting your the real estate BD team, right? So as of now as we speak, what is the bandwidth how many properties can you evaluate?

Gautam Saraogi: See currently I think, 120 to 130 is a given. I think by the end of this year, we should have a team that could deliver conversions of 150 stores to 170 stores starting next year. See we've already started recruitment some people have joined some people are getting trained. So I think we should get some positive result in the increase of number of stores by starting from say Q1 next year.

Binoy Jerrywala: Okay, so as you know based on the historical understanding that you know for about for delivering hundred and let's say for closing 120 to 130 stores, you need to evaluate roughly about 1,000-odd real-estate options, that's a strike rate of 12%, 13%, right?

Gautam Saraogi: Correct.

Binoy Jerrywala: So as of now also our bandwidth would be the same as 1,000 or that…

Gautam Saraogi: No. the 1,000 number would increase. See, because the 12%, 13% of conversion does not change. So even when we are delivering 150 stores to 170 stores, we'll have to evaluate a lot more options. And that's why we are building our BDteam. So many have joined, many will join again in the balance part of the year and they'll get trained by the end of the year. So we start seeing those results coming starting Q1. But the 12%, 13% does not change. So if we have to deliver 150 stores, 170 stores, we have to evaluate that many more options.

Binoy Jerrywala: In a year's time, okay, so you know, asking this differently, in a year's time, how confident are you that you will be able to evaluate 25% more real estate?

Gautam Saraogi: Because we are adding more people in our BD team, and once they get trained, it's a matter of time before the options start coming in. Everything is people dependent, so once we've added enough number of people in our BD team, and we will see those options start flowing in. Because the people in the BD team have to also be trained of how to evaluate a location and what is our criteria when we finalize a location. So it takes some time for them to also settle down in terms of what targets we set. So it should happen from Q1.

Binoy Jerrywala: Understood. And the final sign-off on the property happens through you, right?

Gautam Saraogi: Yes, so I'm part of the BD team, BD Committee which sits in our head office. So every property that gets finalized needs my final approval. I mean there's a lot of layers and there's a lot of team members who evaluated before I do. But I have the final sign-off.

Binoy Jerrywala: Fair enough. Okay, just a confirmation, pre-Ind AS EBITDA, was it roughly INR37-odd crores?

Gautam Saraogi: No. So our pre-Ind AS EBITDA margin for Q1 is 21.3%.

Binoy Jerrywala: 21.3%?

Gautam Saraogi: Yes, and our post-Ind AS EBITDA margin after capitalization of rent is 34.1%.

Binoy Jerrywala: Understood, okay, thank you so much.

Moderator: Thank you. The next question is from the line of Vaishnavi from Anand Rathi. Please go ahead.

Vaishnavi: Yes, hi, thanks for taking my question. Sir, on the gross margin this quarter, with relation to the raw material prices being softer, and if I look at the gross margin with the subcontracting expenses included, the gross margins, sorry, without the subcontracting expenses, only the pure COGS gross margins, it's down by almost 81 basis points on a Y-o-Y level and by around 300 bps on a quarter-on-quarter level. So does this have to do with the sales channel mix being more towards LFS and the other channels away from EBO?

Gautam Saraogi: No Vaishnavi, I think the right way of looking cost of goods sold will be combining subcontracting and material consumption. Because some quarters we might have garments which are purchased because we also buy garments, right, as a sourcing model. So for us to look at individually might not be the right way. The right way to be looking at it is as a single line-item cost of goods sold. So that we have delivered 61.3% or 70 basis points increase. This 70 basis points increase what we are seeing is because of the slightly increase in EBO sales.

The RM prices, I did a very detailed study and there's a lot of our RM was purchased when the prices were high. So right now, because that older inventory was purchased at the older price, we have actually not seen the benefit of the reduced cotton prices yet. Because we are in the stage of optimizing inventory, we have not been purchasing a lot of late. So our COG is largely based on the older RM price. So the 70 basis points increase, what you're seeing is largely because of the EBO mix, which was 71% earlier and 73% now.

Vaishnavi: And the quarter-on-quarter decline in the margin spend, which is almost 250 bps?

Gautam Saraogi: See, last year, Vaishnavi, Q4 was an exceptional quarter because we had some write-backs on the revenue because of the LFS discount reversal, if you remember. So Q4 is not the right quarter to compare with. I would compare Q1 versus the entire FY23 as a comparison, not individually Q4.

Vaishnavi: Okay, understood. Thank you.

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

Gautam Saraogi: Thank you everyone for joining us. I hope you've 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 if you have any further details, you may contact Mr. Deven Dhruva from SGA, our Investor Relations part. Thank you.

Moderator: Thank you. On behalf of Go Fashion India Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.