GO COLORS!

GO FASHION (INDIA) LIMITED

CIN: L17291TN2010PLC077303

November 04, 2023

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

Dear Sir / Madam,

Subject: Transcript of Earnings call – Q2 FY 23-24

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

This is for your information and records.

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

GAYATHRI KETHAR

Digitally signed by GAYATHRI KETHAR
Date: 2023.11.04 10:48:36 +05'30'

Gayathri Venkatesan
Company Secretary & Compliance Officer

Encl: As above

“Go Fashion (India) Limited
Q2 FY2024 Earnings Conference Call”

October 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 October 31, 2023 will prevail

MANAGEMENT:

1. Mr. Gautam Saraogi - Chief Executive Officer – Go Fashion (India) Limited
2. Mr. Mohan R. – Chief Financial Officer – Go Fashion (India) Limited

LADIES AND GENTLEMEN, GOOD DAY AND WELCOME TO THE Q2 FY2024 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 DATE OF THIS CALL. THESE STATEMENTS ARE NOT GUARANTEES OF THE 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 "*" THEN "0" ON YOUR TOUCHTONE PHONE. PLEASE NOTE THAT THIS CONFERENCE IS BEING RECORDED. I NOW HAND THE CONFERENCE OVER TO MR. GAUTAM SARAOGI. THANK YOU, AND OVER TO YOU SIR!

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

The retail sector India has sustained a subdued performance during the second quarter of FY2024; furthermore, the demand typically associated with the festive season has been delayed until Q3 this year resulting in a relatively stagnant same store sales growth. Despite the current operating environment our company has demonstrated robust operational performance for both the quarter and the first half of FY2024. We maintain confidence that the company will successfully navigate through the short-term volatility and continue to outperform in the years to come.

Revenue for H1 FY2024 stood at 379 Crores registering a growth of 15% Y-o-Y, our EBITDA also grew 18% to 121 Crores, this growth can be attributed to the higher realizations due to an improving sales mix, our SSSG was flat during the first half while SCSG for EBO is grew by 13% Y-o-Y during the same period, 95% of our sales in H1 FY2024 were at full price. The average selling price stood at Rs.752 for the first of the half year for EBO an increase from last year which further reemphasizes and cements the brand recognition and the uniqueness of our business model.

During H1 FY2024 the company added a total number of net 48 stores in line with the commitment to the increasing accessibility and convenience for our customers. We aim to add 120 stores on a net basis for the full year in FY2024. To further elevate the customer experience, we are also exploring omni channel strategies that leverage technology to seamlessly connect physical and online shopping experiences in turn expanding our reach to consumers in various cities. We have increased our EBO presence in more than 11 cities during the first half of the year further enabling and improving reach and helping us build a large customer base.

Coming to our working capital and cash flow, the company have achieved a strong positive cash flow from operations of Rs.63 Crores on a pre-Ind-AS 116 basis a significant turnaround from negative cash flows recorded during the same time last year. This further aligns the company's commitment to sustainable growth by cash flow generation. We strongly remain committed to operational efficiency and continue to see several improvements on the working capital front. We have successfully reduced our inventory days by 21 days as on September 30, 2023, compared to March 31, 2023, which is also indicative of the cash flows the company has generated. ROCE and ROE for the business on an annualized basis stood at 16.5% and 17% respectively. A growing economy is leading to higher discretionary spending, rapid urbanization coupled with evolving fashion preferences and an e-commerce boom with several structural improvements are going to be the major factors to contribute to the growth of the Indian retail sector going forward. We remain committed to introducing a wider range of designs while expanding our customer base and market share through addition of new stores in multiple locations. This strategic approach will enable us to realize sustainable and cash flow driven growth for our company for the years to come. With this I would like to hand over the call to our CFO, Mr. Mohan R. to update on the Q2 H1 FY2024 Results and Financials. Thank you.

Mohan R.: Thank you, Gautam, and good evening, everyone. The company continues to maintain a strong operating performance despite the challenging business environment. First, I will like to give you financial highlights of Q2 FY2024.

Our revenues for the quarter stood at Rs.189 Crores as against Rs.164 Crores in Q2 FY2023, a growth of 15% Y-o-Y. Gross profit stood at Rs.115 Crores, a growth of 16% Y-o-Y with a GP margin of 60.7% for the quarter. Our EBITDA for the quarter stood at Rs.57 Crores as compared to Rs.50 Crores in Q2 FY2023, a growth of 14% Y-o-Y. Our EBITDA margin stood at 30%. Profit after tax for the quarter stood at Rs.20 Crores a 4% Y-o-Y growth from Q2 FY2023. PAT margin stood at 10.6%. Coming to the H1 FY2024 performance, revenue stood at Rs.379 Crores in H1 FY2024 as against 328 Crores in H1 FY2023 a growth of 15% Y-o-Y. Gross profit stood at Rs.231 Crores a growth of 16% Y-o-Y and gross profit margins of 61% for the half year. EBITDA for H1 FY2024 stood at Rs.121 Crores as compared to Rs.103 Crores in H1 FY2023 a growth of 18% Y-o-Y. Our EBITDA margin stood at 31.9%. PAT for H1 FY2024 stood at Rs.46 Crores as compared to Rs.44 Crores in H1 FY2023 a growth of 6% Y-o-Y. PAT margin stood at 12.2%. Our advertisement spends during H1 FY2024 stands at 1.45% of the revenue. Cash flow from operations pre-Ind-AS for H1 FY2024 has turned positive and stood at Rs.63 Crores as compared to negative Rs.2.5 Crores for H1 FY2023. With this now the floor is open for the questions.

Moderator: Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Yes Sir, hi, thanks for taking my question and congratulations on a very strong turnaround in cash flow generation. Gautam we are seeing some sluggishness in our revenue growth so wanted to check if this slowdown is entirely due to weak macros or there is some element of increase in competition as well?

Gautam Saraogi: I think it is largely driven by macro from a competition perspective I do not see too much of impact because because what kind of competition we have today we also saw last year as well, there is no significant increase from last year in terms of competition presence, so this slowdown what we are seeing in overall revenue and flattish SSG is because of the overall macro conditions scenario it is not pertaining to competition as such.

Devanshu Bansal: What is the level of SSG or trends that we have seen so far into Q3 festive if you could provide some color on this?

Gautam Saraogi: Unfortunately what has happened in Q3 for everyone for all the retailers last year Q3 in October we had all the festivals like Diwali and all the festivals around Diwali in October itself and this time these set of festivals have actually moved in November, so when I am comparing October on a Y-o-Y basis with October last year I am not able to get the clear picture because of that, so probably by the middle of November or end of November we will be able to know what growth levels we can achieve in Q3. As of now we are comparing ourselves with the festive sales which is not the case right now because festivals are coming in November.

Devanshu Bansal: Secondly I wanted to check on this cash flow generation, in H1 we have added about 50 odd stores, which have sort of led to increase in our inventory by about 10 odd Crores despite of this we have actually reduced our inventory by about 12 odd Crores in H1, so together this is about 20 plus Crores of efficiencies on this front, so I wanted to check as in what are the drivers of this improvement as well as are these levels sustainable going ahead or there is some more improvement that can happen on this front?

Gautam Saraogi: The drivers are basically like I mentioned earlier also we are continuing to optimize our inventory at a warehouse level, so if I take our warehouse inventory, raw material inventory what we had in March which was about 43.5 Crores now we have bought it down to 36.7 Crores. Finished goods what is then the warehouse level in March was 99.9 Crores which we have bought it down to 84 Crores, so there has been a significant reduction at the warehouse level. At a store level very rightly you pointed out because the number of stores have increased the absolute inventory at a store level has gone from 86 to 97, so 11 Crores of inventory has increased because of new stores also, so the major optimization what has happened is actually happened at a warehouse level, and from a future perspective we are continuing to optimize we want to go back to pre-COVID level currently we are at about inventory days of about 105 days our eventual target is to take this 105 to 90.

Devanshu Bansal: This further 15 days of reduction will also happen at the backend level?

Gautam Saraogi: No, there will be a reduction at the store level, but majorly is going to be that.

Devanshu Bansal: I have more questions Gautam I will get back in the queue. Thanks for taking my questions.

Moderator: Thank you so much. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Hi, good evening, Sir, and thanks for taking my question. Firstly if I look at the other expenses excluding the ad spends which you have reported in the presentation if I just do that number it is up sharply by 39% Y-o-Y and even on a Q-o-Q basis this is up some 20% just wanted to understand if there are any one-offs here, have we taken any write-offs, one-offs or payable write-offs?

Gautam Saraogi: I will explain Sameer. The only one-line item which is slightly exceptional is that we have shut certain number of stores and the write-off of the fixed assets for those certain stores comes to about a Crore. Apart from that 1 Crore there is no real outlier, all the other items are relating to sale, they are all variable expenses which are relating to operating of store. So, these expenses are more linked to revenue, but the only exceptional line item which we can see here is only that 1 Crore which is relating to the write-off of fixed assets and the certain stores which we have closed.

Sameer Gupta: Got it Sir and if you can quantify the number of stores that have been closed?

Gautam Saraogi: See we have closed 9 stores in H1 and there are some 4 or 5 stores we had relocated for better opportunity. That 1 Crore will be a combination of the nine stores and the four or five stores which we relocated, but relocation in the due course of business we do so I cannot call it as an exception line item. The nine stores are you can consider that as an exceptional line item.

Sameer Gupta: Got it Sir that is fair. Secondly if I include the subcontracting expenses as a cost and then calculate the gross margin I see that it is up 80 bps, now cotton prices or raw material prices have seen a sharp reduction during the course of the year and there was an expectation that some of this will flow into gross margin and we are carrying high inventory of previous cost and that is why it has not flowed through, is that still the understanding that it is going to flow through in coming quarters or are we largely done and this is what our gross margin needs to be even after this cotton price going down?

Gautam Saraogi: On the GM part you are comparing Q2 versus Q2 the right way of really seeing the gross margin H1 versus H1. So H1 versus H1 if we compare there is a 40 bps increase in GM. In the coming quarter we will start seeing slight improvement because of the cotton prices. I also mentioned in my earlier calls that because we had bought a lot of inventory at the higher price and now since we are optimizing inventory and not buying at the lower price the upside of the cotton prices in our cause will take some time for it to come. So now we are seeing that improvement slowly, so you can see there is a 40-bps improvement over the next two, three quarters you will see little, little more improvement and gradually you will see a gross margin uptick.

Sameer Gupta: Fair enough Sir 2Q to 2Q is actually 80 bps is what I called out.

Gautam Saraogi: Yes, but Q2 to Q2 the reason is because in Q2 versus Q2 maybe this Q2 we had slightly lesser EOSSs contribution to last year maybe, so maybe because of that the gap of the increase in gross margin higher in Q2 versus Q2 that is why I am comparing H1 versus H1.

Sameer Gupta: One last question if I may squeeze in, so 2.5% SSS growth last quarter to -1% this quarter and there is an element of festive mismatch which I understand, so if I have to understand this difference of 3.5% points can you attribute this entirely to the festive mismatch or there is an element of slowdown further slowdown versus 1Q?

Gautam Saraogi: It is a combination of both; I think the slowdown continued into Q2; the festive mismatch has kind of made it worse.

Sameer Gupta: The slowdown has worsened if I have to believe then versus 1Q?

Gautam Saraogi: I would not say necessarily I think this 2.5% going to minus I think it is a combination of both, it is very hard to say whether the slowdown has increased or whether the festive mismatch has caused this 2.5 to become minus, it is very hard to articulate, it is a combination of both.

Sameer Gupta: Fair enough Sir and just a followup to this I understand you said October Y-o-Y it is difficult to compare, but we can still compare a Puja-to-Puja or a start of the festive last year to the element we are this year on a Y-o-Y basis to get a trend that would be helpful?

Gautam Saraogi: Very hard to comment right now because what upside we see during festivals is around Diwali and this time Diwali is not in October, so we are unable to compare. As far as Puja is concerned, Puja when we compare on a Y-o-Y basis because this time Puja came in October not in September. Puja, we have seen decent amount of sales, so our each SSG if I compare Puja versus Puja, it has been in around 4%-5%.

Sameer Gupta: Got it Sir, that is very helpful. Thanks. I will come back in the queue if I have any followup.

Gautam Saraogi: Puja is a very difficult number to compare because our presence in East also is very less and Puja is only for a particular window so I would not use that as a comparison for Diwali.

Moderator: Thank you so much. The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv Asset Management Company. Please go ahead.

Sabyasachi Mukerji: Hi, thanks for the opportunity. My first question is what has been the SSG volume decline in 2Q?

Gautam Saraogi: It is in Q2 volume decline is -6% and in Q1 it was around if I am not wrong about -3% - -4% it must have been around that.

Sabyasachi Mukerji: So last time in 1Q call you mentioned that the immediate priority would be to arrest this volume decline and I believe it has kind of worsened one part of obviously the festive shift, but what steps probably are you taking to arrest this decline and how do you see the H2 panning out?.

Gautam Saraogi: I think look we are definitely trying to ensure that our sales executives are well trained, we are ensuring right inventory there across all those channels, at that front we are trying our best, but these kind of things of SSG going negative is largely macro related, so we just have to wait out till the overall selling environment gets better. So, there is very little we can do during this time. During this time as management what we can put focuses on important line items like optimizing inventory, keeping costs low, these are the things we can focus on. As far as pushing the revenue number is concerned it is very macro related but having said that we have taken this time as an opportunity to also increase our omni channel, trying to shift some of our omni channel dispatches from the source so that, that will in a long run push the SSG number. On the H2 part like I mentioned because October Y-o-Y we are unable to compare it is very difficult for us to give approximate idea of how H2 will look out, but I think closer to middle of November or November end we will have a better clarity.

Sabyasachi Mukerji: Last time the revenue guidance was probably somewhere around 800 to 820 Crores for entire full year 2024 do you stick to that, or do you want to change that number?

Gautam Saraogi: No, currently I am sticking to the same number we have guided because right now we do not know how festive will go, if festive goes well following which Q4 does well then, we can get to that 800 number. So right now, I am not really changing the guidance I will be in a better position to ascertain H2 after middle of November.

Sabyasachi Mukerji: Last question from my side is so you have done a net store addition of 48 stores in H1 to reach 120 net addition roughly around 70-72 stores are you confident that it will kind of add 120?

Gautam Saraogi: No, we should reach I do not see any reason why we should not reach, some of the projects which we had signed has actually got delayed and they did not open in H1. Some of the malls, some of the high street projects which were newly under construction they got delayed that is why our H1 number is slightly lesser than what we usually do, so we are quite confident that we will get to the 120 net number by the end of this year.

Sabyasachi Mukerji: For the next year your guidance would be around 150 to 170?

Gautam Saraogi: Yes, so as of now we are sticking to that guidance because we are continuing to strengthen our BD Team.

Sabyasachi Mukerji: Got it, thanks. That is all from my side. Best of luck.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital Management Private Limited. Please go ahead.

Mythili Balakrishnan: Just a couple of bookkeeping questions. It looks like our ASP for the quarter has actually fallen because last quarter we had an ASP closer to 771 and this quarter we have 752 so wanted to check whether it is a conscious decision to reduce prices or is it a mix issue?

Gautam Saraogi: No, see you are comparing it on quarter-on-quarter; it actually has to be compared on a Y-o-Y basis because Q2 usually has EOSS compared to Q1. So, the ASP in Q2 will always be lower than Q1, so if I compare with Q2 last year there has been a 5% to 6% increase in ASP.

Mythili Balakrishnan: Got it and in terms of a mix between Western and Indian Fusion, etc., if you could sort of just give us a broad indication of how it is heading?

Gautam Saraogi: We have checked it very recently even now our ethnic, western and fusion is the same as earlier one third, one third and one third, so there is no change in that ratio for us.

Mythili Balakrishnan: Also, just wanted to check with your CFO if you could give it in an Ind AS kind of a fashion of how it has moved because pre-Ind AS?

Gautam Saraogi: If I look at it at pre-Ind AS level if you reduce the lease liability payment under financing activities which is I think about 49 Crores if I am not wrong if you minus 112 minus 49, we get to 63 Crores of pre-Ind AS OPF after tax.

Mythili Balakrishnan: Last year this would have been?

Gautam Saraogi: That was minus 2.5 Crores.

Mythili Balakrishnan: Got it. Wish you all the best for a good festive season. Thank you.

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

Prerna Jhunjhunwala: Thank you for the opportunity. I was just trying to understand your gross margin uptick is that gradually we should see gross margin upticks, but I would like to understand the quantum that could come in given that the category has competition as well and while reducing the prices via discount etc., etc., as well, so where do you see the gross margin levels eventually settling at?

Gautam Saraogi: From a GM perspective I do not think competition will have an impact on GM because even competition has priced the products maybe at similar levels like us or maybe more because of competition you will not see us reducing our prices. As far as GM based on cotton prices is concerned like I also mentioned that we had bought a lot of inventory on the higher price and now we are optimizing when the cotton prices are low, so it will take a little bit of time for the upside to happen. My gut feeling is that the absolute GM increase should be between 100 to 150 bps is what I understand out of which right now about 40 bps is showing in the financials. So how long will it take to reach that 100 to 150 bps from 40 bps it will take a few quarters.

Prerna Jhunjhunwala: Could you also expand on your city expansion targets where do you think over long-term how many cities you can reach maybe in next two to three years and what kind of penetration levels we can see going forward?

Gautam Saraogi: We are at about 154 cities I do not see ourselves crossing 250 cities over the next two, three years because what is happening is we are continuing to see a lot of potential and space to expand even in our existing cities like if you take the top eight cities. Even if I today to look at H1 a good number of those have come from our existing market, so from a expansion perspective we are going to give equal importance to newer territory, but also importance to our existing territory, so in a two, three year window I do not see this number going beyond 250.

Prerna Jhunjhunwala: 250 is something that you have visibility?

Gautam Saraogi: Look we have a visibility of far more number of cities as far as expansion is concerned. I am just getting from a next two, three year window how much how far does this 150 city number go to, we feel that it might go to a 250 city number over the next two, three years, and in terms of potential I think we can go beyond 250 cities we have a clear roadmap, so we do not see any concerns there.

Prerna Jhunjhunwala: On your same cluster sales growth which was 16% in Q1 come down to 13% so would you like to highlight anything that we should look upon because it is a new metric, the demand slowdown?

Gautam Saraogi: No, I think look the slowness what you are seeing in the SSG number is also reflecting in the SCSG number at the end of the day it comes to the sales of a particular store and if sales of a particular store is impacted because of macro conditions SSSG takes a hit even SCSG will take a hit. Just because SCSG we are looking at a cluster level the number looks better than SSSG but both numbers definitely take a hit where the situation is slow. In fact, I would be surprised if SSSG is slow and SCSG is strong because in overall slowdown situation it has an impact directly on your sales itself for a particular store.

Prerna Jhunjhunwala: I thought maybe because you are opening more and more stores in the same cluster.

Gautam Saraogi: The gap between the SCSG and SSG is basically of the new stores what we have added in that cluster.

Prerna Jhunjhunwala: Thank you. Understood. All the best.

Moderator: Thank you so much. The next question is from the line of Jasmine Surana from VT Capital. Please go ahead.

Jasmine Surana: Hi, I wanted to understand the margin range in the sense that I understand the Q2 would be worse than Q1 and then Q3 and Q4 with the festive and the wedding demand that might be impacted but as a range on the margin I wanted to understand what is the kind of range that we could call it normal or it is stabilized?

Gautam Saraogi: On an annualized basis about 60% to 61% of gross margin, 31% to 32% of post-Ind AS EBITDA margin and about 12.5% to 13% of PAT margin and that is what we have been delivering consistently, so in the normal course of business I think this is the margin what we look to maintain.

Jasmine Surana: I also wanted to understand the trend of premiumization or the trend of mass products that are selling within the categories of ethnic and fusion so is there any visible trend of more premium products selling or more mass trend products selling?

Gautam Saraogi: Well on that front I think it is pretty similar to what we have done, even our mass products are doing fairly well, even our premiumized product what we have recently launched over last year also doing fairly well. So, I think from that bucket I think more or less the same mix what it used to be earlier. There is no any particular outlier we have seen.

Jasmine Surana: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikas from Equirus. Please go ahead.

Vikas: Yes, thank you so much for the opportunity. Sir, my one question is with respect to our performance of the stores probably in the metro Tier-1 versus Tier-2 and Tier-3 cities, any color or any comment that you want to say how was the performance of these two?

Gautam Saraogi: Our presence in the non-metro cities is fairly lesser compared to the metro, but when we analyzed it, we have seen that both have had a struggle. It is not that metros have been far better than Tier-2, Tier-3 I think both have struggled this quarter. So, it is very difficult to point out whether Rajkot has done better than Mumbai or Mumbai is better than a Rajkot, I think the decline has been across.

Vikas: Sure, Sir understood. Alright Sir. Thank you so much.

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

Ankit Kedia: Sir, after five quarters we have seen the contribution of LFS increase substantially and actually on Y-o-Y basis they have grown more than 10%-12% so what has happened on the LFS side of the business or are some of your peers where we are putting our products doing much better than the offline EBO market?

Gautam Saraogi: Not necessarily I think what has happened is in LFS also we are going deeper now. In Pantaloons we have added about 40-50 stores now in Q2, we are also getting an entry into Shoppers Stop as well. We are just on the verge of finalizing and re-entering Shoppers Stop starting in Q3. So, I think from an overall LFS environment perspective there were some operational issues what we had in February and March but that is behind us now. Our LFS business has come back to normalcy. If I remove the new store expansion and if I just compare LFS with EBO both are pretty much similar in terms of growth rate I do not see too much of disparity LFS is doing better or EBO is doing better both are relatively doing the same, but you are seeing higher and faster growth because we have added more number of stores in LFS during H1, but like the likes of Trends we have continued to expand even in Pantaloons we have added good number of stores and now we also entering Shoppers Stop in Q3.

Ankit Kedia: On product development how has been the response for denim which we had introduced couple of quarters back now, are you seeing repeat orders from customers come in, are we introducing more colors out there in the denim, what are the new product ranges you are looking at to introduce from a winter perspective because in North Market we have started to see pleasant weather, are you seeing winter demand come up sharply in the north?

Gautam Saraogi: Yes, winter has done very well for us last time. I will tell you I will give you an example North India for us in Q3 did very well last year because of the introduction of newer winter products, if I take our historical performance during the winter season in North it used to be a little subdued but last year we did fairly-well because of the introduction. Now this year also we have introduced a good winter collection, and a winter collection also continues to be core. So, the products what we had introduced last year is the same products continued in this time. We have introduced one or two additional products like the likes of Ponte Pants even in the regular pants category with the higher GSM fabric, so many winter products we have come out with increase as well. So these winter products we just put it in stores we will know how it performed during November and December, last year we had a very good response and now we have placed stores enough number of winter size across all the stores in North India and in fact in some areas like Bengaluru also where it becomes a little cold any place where the temperature is falling less than 20° we have kept our winter product. As far as denims are concerned, denim we introduced it in very small quantities in many of our stores, we have seen very good response, but for denim to start doing very well for us it will take a long time. For us we work on the pull mechanism as the sales increases our inventory at the back end starts increasing, so for denim to become a decent contributor in the sales it will take a long time, but as initial response the response has been very encouraging.

Ankit Kedia: From A&P perspective if I look at last year YTD A&P spends in the first half was around 4.5% this time is 1.5%, so from a second half perspective while I understand demand was not there so you could have curtailed your spends are now with demand expected to come back in the second half, are you also double downing on A&P and spending back to 3% or it will be still be sub 2%-2.5%?

Gautam Saraogi: Usually what happens is you attempt to spend majority of A&P in H1 than H2 even if you take the last year's trend it usually happens before festive. Now because there was a slowdown, we have not spent too much in H1 even in H2 we do not see ourselves spending too much. So currently what we are at about 1.5% if I am not wrong in H1, in H2 it might go to around 1.5%-2%, so it is going to be in the similar range. If demand starts coming back by Q3 and Q4 maybe next year we slightly increase our A&P. The A&P is all dependent on the outside demand in a sluggish market we do not want to spend money on advertising because it does not help.

Ankit Kedia: Sure, but also it helps in brand building while it might not relate directly to sales, but today competition is on the weaker footing so you can get more stronger with the brand building and new product launches which you are doing and also now we are going more digital in omni so it also helps on that from online perspective?

Gautam Saraogi: From a brand building perspective for us that too spend 2% or 1.5% what we are spending is completely from a brand building exercise, but understand for us our biggest brand building exercise is our stores, is our store location malls, airports, high streets and that is our brand mining, that is our advertising, incrementally for us to spend anything over and above that we do not have to materially spend anything more, so we feel in a year if we are spending 2% to 3% on brand building it is more than enough over and above what we are spending on for our EBOs.

Ankit Kedia: Last question is on omni channel you have made a comment that you have started to do delivery from the stores, so just wanted to know more on that supply chain because online still is a very small percentage sub 3% of our revenues, so how can that scale up and back end how are you looking at pure omni of delivery from the stores?

Gautam Saraogi: I think look from a technology perspective we have got it right. I think the perspective is that omni channel at stores is a very new animal for all brands. Now we had piloted this in about 9 to 10 stores and three, four stores we saw very encouraging response there, we were able to drive 5% to 6% additional sales in that store through omni and surprisingly in some stores which are a very good performing stores we did not see any movement. So, we have seen mixed responses as far as omni is concerned but wherever we have got a good response it has been very encouraging. So omni slowly be able to scale up today we are there in about 15 stores every quarter we will add about 15 to 20 stores in our network, and we have to slowly guide that number. If today I try implementing omni across my 650 stores in will fail. I need to put a focus of 15 stores or 20 stores every quarter and add that omni network. So, it will take a lot of time for that omni channel to completely settle down, but the initial response is what we have seen in certain stores has been very encouraging when we are seeing sales increase to the tune of 5% to 7%.

Ankit Kedia: These orders which are coming is purely from marketplace or from your own website. So even if that store number increases by 5% it is pretty much counted in the online revenue right it is not offline generated sales?

Gautam Saraogi: No, the 5% what I am talking about I will tell you is largely what you are saying is right suppose if I am doing a dispatch from a store from a channel bucketing perspective I will put it under online if I am doing a dispatch from the store I think where we have seen the biggest rise in a 4%-5% is not from the dispatch from the store, but from a customer coming into the store not finding the color what she wants and then and there we have converted that customer from a EBO customer to an online customer. I think that part that loss of sale what is potentially happen at a store we have covered it by the 4% to 5% increase through omni.

Ankit Kedia: Sure, that is very encouraging.

Gautam Saraogi: That is very encouraging, then I am saying that, yes, exactly because the loss of sale which we could never track through an omni if I am able to increase 4%-5% that is a superb number because that can potentially future drive the same store sales growth also for your existing network.

Ankit Kedia: Reason for the loss of sale was because the store was smaller in size and now you are opening bigger stores so some part of that could also be covered with your bigger store network?

Gautam Saraogi: No, it is not like that I think the real question comes down to on a weekend when a lot of shopping happens even when you are well stocked you cannot have everything at one place at every time right, so I think this omni thing has very well worked for us in weekends.

Ankit Kedia: Understood Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Good evening, Gautam. The first question was that the 6% ASP increase that we are seeing on a Y-o-Y basis how much of it is the price hike you have taken?

Gautam Saraogi: It is largely product mix and I think the price hike tapered off last quarter itself so this 5% to 6% ASP what we have achieved completely based on product.

Nihal Mahesh Jham: Understood that and historically if I look at your SSG the larger period say the last four, five years there has been a good element of new product launches which I think have triggered incremental demand would it be right to say that maybe versus last year that has been maybe one element which has not been as strong has been historically?

Gautam Saraogi: No, I do not say that new introduction of colors and products is very routine in the normal course of business I do not think we have not introduced enough number of products, I think we have infused fair number of products over the last 24 months. I think this slowdown in sales is because of the over overall inflation what is happening in the market. I think new product launches do not have an impact.

Nihal Mahesh Jham: Just one more question was that on the online side if I look at the business construct with the kind of gross margins we have which is 60% plus and also the fact that the ASPs are reasonably good at Rs.750 or higher why is it that our online share is still say at 3% you did mention of the omni initiative, but even if you look at the direct shipping model there is enough margins in our economics to make this an attractive channel for us so any reasons why this is a channel we have not tried scaling up significantly?

Gautam Saraogi: I think it is this channel is scaling up very fast we are growing at more than see there are companies growing at 15%, the online channel to the marketplace model and our website model is growing at more than 40%-50%, it is just that it is not really moving the needle as an overall contribution to business because of the size of EBO and LFS business what we have. The growth rates are very encouraging but for it to be a decent contributor it will take some time. Having said that the online business currently in India is very largely discounted and near a full price brand, for the online business to start moving from discounted to full price also will take some time. So as that transition happens even our transition from 3% to a higher percentage also will happen.

Nihal Mahesh Jham: Just to clarify on that from an inventory perspective everything would be listed online maybe just from the limitation on discounting is somewhere the scale is not happening because of a conscious...

Gautam Saraogi: Exactly, yes, absolutely. So, all our inventory is live and everywhere we are on the pure play marketplace model, we do not keep any of our inventory with any of our channel partners, it is completely dropship model where any order comes in it is shipped from our warehouse to the final customer directly to ofcourse the marketplaces transporter.

Nihal Mahesh Jham: Reach is also more or less to majority of the pin code that is also not an issue?

Gautam Saraogi: Yes, absolutely not at all problem.

Nihal Mahesh Jham: This is helpful. Thank you so much.

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

Binoy: Thank you for the opportunity. Could you help me with the rental expense for Q2 FY2024 as well as Q2 FY2023.

Gautam Saraogi: Which expense can you come again?

Binoy: The rent expenses.

Gautam Saraogi: The rent expense before Ind AS for Q2 is 28.83 Crores and for Q2 FY2023 last year Y-o-Y basis last year was 21.9 Crores.

Binoy: 21.9 Crores?

Gautam Saraogi: Was last year Q2 and this year Q2 is 28.83 Crores.

Binoy: Are we seeing a little bit of rental inflation here because if I look at the store count growth versus if I look at the rental growth the rent expense increase there is the rental expenses are growing at much faster than your store count growth, so are we seeing some rental inflation, are we signing properties at a higher rate?

Gautam Saraogi: No, I do not think so that is the case I think if I take the 12 months window between Q2 and Q2 we have added about 120 stores, so the new stores rent also have been added on an absolute basis between Q2 last year and this year. So, our current range what are getting escalated at 5% every year on an average sometimes 5% sometimes 15% every three years, but this large difference in rent what you see between 21.9 Crores and 28.8 Crores is because of the newer stores we have added. It is just that the percentage on revenue has increased the rent to revenue ratio has increased because of the slowdown in sales. If the sales were not slower than as a percentage, it would have been pretty much in line.

Binoy: No, I am not talking in terms of percentage only. So, if I look at the Q2 rent number it is up something like 31% and if I look at your store count number it is up something like 20%-21% considering 120 odd stores added so I am just coming from this angle?

Gautam Saraogi: Yes, the majority of the element would be attributed to new stores; some stores would have also come up for escelation, which happens in the due course of the time.

Binoy: But it is not a function that you are adding properties, and the properties are coming at an expensive rate?

Gautam Saraogi: No, that is not the case, see, and look for us rent to revenue ratio and EBITDA whenever we are opening a store, we always keep a very sharp eye on it that is why we have only a 12% to 13% conversion rate on the number of properties we evaluate. So, it is not high because we are signing the wrong property at the wrong rental that is not the case.

Binoy: Understood fair enough. Sir earlier in the call you actually called out the impact of Ind AS 116 on PBT can I get that again please?

Gautam Saraogi: No, I had given the non Ind AS number of cash flow where 112 Crores was our post-Ind AS cash flow and pre-Ind AS cash flow after removing the repayment of lease liability our pre-Ind AS cash flow comes to 63 Crores, that is where I have given the number.

Binoy: But is there any Ind AS impact on PBT?

Gautam Saraogi: I will tell you I will give you an example I do not have the exact number here from what we have seen in the past on a PBT level there will be an impact of 7 to 8 Crores every year. It can go from 7 to 10 Crores we do not have the exact number handy but it can range anywhere from 7 to 10 Crores can be an impact on your PBT because when you are taking up a new store the rent paid versus what you show in depreciation and interest the depreciation and interest has shown much higher than the actual rent paid. It depends on the period of agreement; it depends on lot of conditions that is where the challenge comes from.

Binoy: Fair enough I understand, and can I have the pre-Ind AS EBITDA margin for Q2?

Gautam Saraogi: For Q2 it is 16.5% and for H1 it is 18.9%.

Binoy: So essentially you are saying after rental expense your EBITDA margin pre-Ind AS is flat?

Gautam Saraogi: Yes, last year H1 was 19.6% and this year H1 has been 18.9%, so there is a 70 bps fall in the EBITDA percentage.

Binoy: Lastly Q2 FY2023 was how much?

Gautam Saraogi: Q2 FY2023 was 18% last year and this year Q2 is 16.5%. So, there is a 1.5% fall in Q2, absolute EBITDA has grown only the percentage is down.

Binoy: Understood. Now coming to the business right when we see the product which is women's bottom wear that is a very core product and low fashion component product right very sweetly priced, but more than 80% of the basket is priced below 1049 and the size at which we are I am just wondering that at the SSSG level why should we be looking at a very low single digit or a flattish muted sort of a sales growth and should this not be attributable to competitive intensity from the larger retailers.

Gautam Saraogi: Look I do not think so, like I mentioned the competition landscape is pretty much similar to what it was last year and the year before that. I think we also compare this SSG number with our SCSG number because we are growing in clusters and we are adding so many more number of stores in the same locality and in the same city the one thing which is very encouraging is that our SCSG number has been in double digits at a value level that means that a market is not degrowing. Yes, from a profitability and store hygiene perspective our SSSG has been flat, but our SCSG number has been very encouraging even in a tough environment like this. So, I do not really think that the competition landscape has anything to do with it. It is just that the overall purchasing power in the market has been a little subdued over the last 6-7 months.

Binoy: I understand I am also coming from very fundamentals of that SSSG or flat SSSG actually to maintain your margins at a store level you would need to maintain SSSG of roughly about 4%-5% give or take right?

Gautam Saraogi: About 5%-6% we will have to maintain.

Binoy: Right now, when you are generating flat SSSGs so essentially it puts a pressure on your store level profitability right and to offset that pressure you might look to offset it by higher gross margin which could disrupt your price architecture and the value proposition of your product?

Gautam Saraogi: I know where you are coming from, and I will explain little differently.

Binoy: Just to finish my point. In order that such a situation does not arise should you not actually focus on volume growth and how do you increase the volumes at a per store level rather than look at it a cluster level?

Gautam Saraogi: Ideally, we do look at a volume level only because we are a volume led business and not a value led business because we are not increasing our pricing every year though our ASPs are increasing so our focus is more volume. Now coming back to your specific question that how do you maintain profitability when your SSG is flat the SCSG makes up for it. Let me put it differently right today our SSG has been flat for the last six months, but if you take the company's P&L the impact on EBITDA has not been so much considering that the SSG has been flat that is because the SCSG has been good. So, the SCSG see at the end of the day one store, or two stores might get slowed down, but at the end of this the number of stores you are adding in one cluster then you should look at the revenue, the expense and the EBITDA as a cluster and not the store individually. So, the real way to make up the SSSG growth is by obviously pushing volumes, but the SCSG will be a very important factor in making up SSG. That is why even if you see in our current P&L our operating margin has not come down that much compared to our flat SSSG.

Binoy: I would perhaps take this offline. That is all from my side.

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

Rajiv B: Thanks for the opportunity, Sir. Will it be possible to call out what is the SCSG volume number this time and the previous year?

Gautam Saraogi: Our SCSG volume number for Q2 is 6% and for H1 is 7%. I am not having the Q1 number handy but Q2 is 6% and H1 is 7%.

Rajiv B: And the 11% SCSG Y-o-Y is basically equally split between price and volume?

Gautam Saraogi: Yes absolutely.

Rajiv B: Is it possible to call out what is the universe in the SCSG in terms of number of stores or the volume of let us say on a quarterly basis you do 1.9 million articles right?

Gautam Saraogi: Yes, look we have about 150 to 160 clusters about somewhere between 430 to 450 stores fall into clusters.

Rajiv B: Every quarter how does this cluster universe change and is it possible to put this in the presentation as well in terms of the SCSG universe?

Gautam Saraogi: We will look into it that is a good point; we look into it if we can show it in the presentation. This number does not dramatically change because see we are adding about

25-30 stores every quarter so I think probably this cluster number of 420 stores what we had last quarter should move by 10 to 15 stores every quarter is my guess.

Rajiv B: In terms of the articles per bill has that changed dramatically like a few quarters back you had called out 2.2 has that changed dramatically?

Gautam Saraogi: No, it is a same number even now it is a same number there is no change on that.

Rajiv B: Lastly on shoppers coming back to whole, I think during time of IPO they had dropped out?

Gautam Saraogi: Well we do not know, we had also approached them asking that if you could come back again and things worked out so we are doing a pilot of 10 stores with them and this festive quarter we are going to start dispatches soon, so things worked out well at the right time for us. We have been in touch with them for a very long time and this time we asked them, and they are more than happy to have us back.

Rajiv B: Though it is early on the MBO revenue, which small a portion of your entire book, but that number is down, so at close to 3.6 Crores, now does it lend anything in terms of the demand from the MBO side is weak for the festive or there have been slightly better billing?

Gautam Saraogi: Actually, I have not studied the MBO market too much because as a business we do not really concentrate on that front. Probably we will track over festive, and I will come back to you once feedback by the end of next year, but as of now I do not have concrete data on why the MBO has because as a focus area we are more focused on EBO, LFS and online.

Rajiv B: Sure. That is all from my side. All the best. Thanks a lot.

Moderator: Thank you so much. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Gautam Saraogi: I would like to thank everyone for being on this call. We hope we have answered your questions. If you need any more information, please feel free to contact Mr. Deven Dhruva from SGA our Investor Relations Advisor. I would also extend my heartfelt wishes for the upcoming festive season. I wish you a very happy Diwali. Thank you.

Moderator: Thank you. On behalf of Go Fashion (India) Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.