



GO FASHION (INDIA) LIMITED

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Dear Sir / Madam,

Subject: Transcript of Earnings call – Q3 FY 23-24

We hereby enclose the transcript of earnings call for the financial results for the quarter ended 31st December, 2023.

This is for your information and records.

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

Gayathri Venkatesan
Company Secretary & Compliance Officer

Encl: As above

Go Fashion (India) Limited

(Formerly Known as Go Fashion (India) Private Limited)

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“Go Fashion (India) Limited
Q3 FY'24 Results Conference Call”

February 06, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on February 06th, 2024 will prevail



MANAGEMENT:

1. MR. GAUTAM SARAOGI – CHIEF EXECUTIVE OFFICER – GO FASHION (INDIA) LIMITED
2. MR. R. MOHAN – CHIEF FINANCIAL OFFICER – GO FASHION (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '24 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 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 hand the conference over to Mr. Gautam Saraogi. Thank you, and over to you, sir.

Gautam Saraogi: Thank you. Good evening, and warm welcome to everyone present on the call. Along with me are Mr. R. Mohan, our Chief Financial Officer, and SGA, 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 the company website.

The retail sector in India has continued to witness weak demand during the third quarter of FY '24. This demand sluggishness also moved into the festive season. Despite these ongoing industry level challenges, the company maintained its growth trajectory and has strong focus on operational efficiency. Revenue for 9 months FY '24 grew by 15% on a Y-o-Y basis. Our SSG was flat during Q3 FY '24 and 9 month FY '24, whereas our SCSG stood at 12% and 13%, respectively.

During the last quarter, our SSG volume has actually improved from being negative in Q2 to being flat in Q3. While individual store performance may have remained flat, our ability to drive across cluster reflects our resilience and agility in navigating dynamic market conditions. We maintain confidence in the company's capacity to handle such short-term fluctuations and achieve sustainable and consistent growth in the future.

Moving on to operational metrics. The company has demonstrated consistent success in maintaining high amount of full price sales, reaching 96% for 9 months FY '24, alongside an increase in ASP, which stood at 752 compared to 723 for the same period last year. This highlights of the uniqueness of the business showcased a strong brand recognition and customer loyalty.

For 9 months FY '24, the company added a total of 74 net stores, bringing our grand total store count to 704 stores in line with the commitment to increasing accessibility and convenience for our customers. We aim to add 100 to 110 stores on a net basis for the full year of FY '24.

To elevate customer satisfaction, we're exploring omnichannel approaches to merge technology with physical and online shopping, widening our customer base across various cities. We've expanded our EBO to 14 more cities in the 9 months ended in FY '24, strengthening our presence and reaching more customers.

Coming towards working capital and cash flow. The company has achieved a strong positive operating cash flow of INR104 crores, pre-Ind AS 116, which was INR0.5 crores for the same period last year. This is on account of strong inventory management system, combined with continuous inventory rationalization where required. This further aligns the company's commitment to sustainable growth, driven by cash flow generation. We are fully committed to improving our operational efficiency and having significant progress in managing our working capital.

Our working capital cycle has been reduced to 125 days as on December 2023. Specifically, we have reduced our inventory by 29 days from March '23 to December '23 and now stands at 97 days, which is reflecting the positive operating cash flow generated by the company for the period.

Given the current weak demand scenario in the retail industry, the short-term outlook may appear challenging. However, when viewed from a broader long-term perspective, there are encouraging signs and opportunities for growth.

While immediate consumer spending might be subdued due to various factors impacting demand, such as changing consumer behaviour of slowing discretionary spends, the underlying fundamentals of the retail sector stays strong. The industry's resilience and our ability to adapt to evolving market conditions, coupled with investments in technology, product innovation positions us well to achieve sustainable growth going forward.

With this, I would like to hand over the call to our CFO, Mr. R Mohan for an update on the Q3 and 9 months FY '24 results and financials. Thank you.

R Mohan:

Thank you, Gautam, and good evening, everyone. The company continues to maintain a strong operating performance despite the challenging business environment. First, I would like to give you all financial highlights for Q3 FY '24. Our revenues for the quarter stood at INR202 crores as against INR176 crores in Q3 FY '23, a growth of 15% Y-o-Y.

Gross profits stood at INR124 crores, a growth of 19% Y-o-Y, with a GP margin of 61.5% for the quarter. Our EBITDA for the quarter stood at INR68 crores, as compared to the INR60 crores in Q3 FY '23, a growth of 13% Y-o-Y, our EBITDA margin stood at 33.4%. Profit after tax for the quarter stood at INR23 crores, a degrowth of 4% Y-o-Y. PAT margin stood at 11.6%.

Coming to a 9-month FY '24 performance. Revenue stood at INR581 crores in 9 months FY '24 as against INR504 crores in 9 months FY '23, a growth of 15% Y-o-Y. Gross profit stood at INR355 crores, a growth of 17% year-on-year with a GP margin of 61.2% for the 9 months ended.

EBITDA for 9 months FY '24 stood at INR189 crores as compared to INR163 crores in 9 months FY '23, a growth of 16% year-on-year. Our EBITDA margin stood at 32.4%. PAT for 9 months FY '24 stood at INR70 crores as compared to INR68 crores in 9 months in FY '23, a growth of 3% Y-o-Y. PAT margin stood at 12%.

Our advertisement spends during 9 months FY '24 stands at 1.94% of the revenue. ROCE and ROE on an annualized basis stood at 15.5% and 16.7%, respectively. Cash and cash equivalent stood at INR197.2 crores as on 31st December 2023.

With this, we will now open the floor for the questions and answers.

- Moderator:** We have our first question from the line of Devanshu Bansal from Emkay Global.
- Devanshu Bansal:** Congratulations on a very good working capital optimization. Sir, first question is on ASP. For H1, we did see very good ASP growth, but Q3 ASP sort of indicates that it is largely flat. So what is the reason for this? And are we also sort of seeing lower items per bill in case this is a down-trading phenomena because of the consumer sentiment?
- Gautam Saraogi:** Devanshu, thanks for question. See this ASP is flat compared to Q3 last year is largely because of two reasons. One is product mix. This time, the slightly lower value products are sold a lot more in terms from a product mix perspective. And the second smaller reason is that this time, we have run some effective bill level promotions in November and December, in half of November and 2 weeks of December. So these are the 2 main reasons why the ASPs have remained flat. The larger reason is because of the product mix and slightly the lower ASP product is sold little more than the higher ASP. That's why the ASP on a Y-o-Y basis for quarter 3 has remained flat.
- Devanshu Bansal:** And any comment on items per bill, sir? What is the trend there?
- Gautam Saraogi:** Fairly similar. No change on that.
- Devanshu Bansal:** Second question is on this 12% to 13% SCSG that we have reported for Q3 and 9 months. So how should we see this growth number? Is this like indicative of market share gains in those particular clusters or the market itself is growing at 12%, 13% as per your assessment?
- Gautam Saraogi:** No. I mean, look, it's very difficult to know at what speed the market is growing. It's -- because we've always had the cluster base expansion model in our real estate business development. This is just an attribute to we adding more stores in our existing clusters and strengthening our business. So it's very difficult to compare with what those cluster market rate is growing at. We don't have that data. But this basically attributes to our expansion strengthening in cluster.
- Devanshu Bansal:** Got it sir. On gross margin trend, Gautam, last year, there was some higher sharing of discounts also with LFS partners, which Go Fashion sort of called out. In my view, that should also have resulted in about 200 bps of benefit on that account itself. Can you explain as in whether we have started to realize the benefit of low cost inventory or that is still...
- Gautam Saraogi:** So very, very rightly you pointed out, Devanshu. In quarter 3, we had such provisions in our LFS revenue, which you rightly pointed out, last year, same quarter. So this year, I would attribute 1%, 100 bps increase because of cotton prices.
- Devanshu Bansal:** Okay.
- Gautam Saraogi:** So I think we've reported 170 bps of increase in gross margin if I'm not wrong. Sorry?

- Devanshu Bansal:** 200.
- Gautam Saraogi:** Yes, out of the 200 basis points, about 1% would be pertaining to cotton price.
- Devanshu Bansal:** Got it. And lastly, if you could also explain the seasonality of gross margin for your EBOs, not for the entire business. Just for your EBOs as in between quarters, how the trend pans out between Q1, Q2, Q3, Q4?
- Gautam Saraogi:** Usually, Q1, Q3 and Q4 will be similar. Q2 is the highest because Q2 is usually when the EOSS period happens. So I would say Q1, Q3, Q4 will be similar. Q2 is when slight dip in gross margin happens.
- Devanshu Bansal:** Slight dip in gross. Got it, sir. Got it.
- Gautam Saraogi:** Slight dip in gross margin because that is the EOSS window.
- Moderator:** The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** I have two. So firstly, I noticed that in the opening remarks, you mentioned that store opening guidance for this year is 100 to 110 stores. And you have always mentioned this to be 120 to 130, so there is a dip there. So going forward also, you had earlier guided for a 150 to 160 store additions. So is there any recalibration there? Or there it is still the same? And just a clarification, this number pertains to gross additions or net additions, that would be helpful?
- Gautam Saraogi:** So Sameer, all our guidance as far as new stores are always net addition. That's what we guide. So we usually guide very rightly. You pointed out, we guide between 120 to 130. Actually, what has happened this year, we had 13 closures. And because we have had 13 store closures, our net additions have fallen. So that's why instead of achieving 120 stores, we will be slightly lower because of store closures. Now these 13 closures, what these 13 closures are?
- These 13 closures are the historical stores, which did not recover post COVID and they were breaking even for the longest time. Last couple of quarters, we noticed that these stores have become negative, and that's why we've taken a call. So this is more like a one-off item which has happened. So that's why our net additions are a little lower because of the 13 store closures.
- As far as next year is concerned, we are looking to adding about 150 stores, net addition. We're keeping that guidance good because we feel from next year onwards, demand should pick up, and we will be keeping that expectation of adding 150 net additions.
- Sameer Gupta:** That is helpful. Secondly, just a ballpark calculation on pre-Ind AS EBITDA suggests that you've largely maintained it around 19.5% this quarter versus similar last year. And with a flattish SSSG and the gross margin benefit being taken away by increase in ad spend, I'm just wondering why there is no negative operating leverage coming in. In fact, if I do a ballpark calculation on the fixed rental per store, it has actually declined by 5%. I mean these are ballpark numbers. So I mean -- but still, you get the point, right? So just...
- Gautam Saraogi:** Yes, Sameer, but actually, there is a fall in pre-Ind AS EBITDA. So last year, in Q3, we had a pre-Ind AS EBITDA of 22%. And this year, we have a pre-Ind AS EBITDA of 19.7%.

- Sameer Gupta:** Okay. Maybe my calculation on that last year is wrong.
- Gautam Saraogi:** There is a fall. There is a fall, basically, this fall is largely because of the higher salary and rent cost because of flat SSSG.
- Sameer Gupta:** Higher? Sorry, higher?
- Gautam Saraogi:** This fall in operating margin from 22% to 19.7% is because of higher salaries and rent costs.
- Moderator:** The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.
- Ankit Kedia:** Sir, first question is on the inventory. Commendable job on inventory in the peak season. Just want to know, is this sub 100 days now sustainable going ahead or given the festive, the buying was low. And as we enter Q4, we will see some increase of inventory buildup there?
- Gautam Saraogi:** So Ankit, this is pretty much sustainable. So right now, currently, we are on 97 days based on 9 months average sale. On the March number also, I think we will be similar. So I think over a period of time, this 97 days should stabilize at around maybe about 88 or about 90 days. In March ending, we might hold some higher inventory because for summer season, we will introduce some styles. So we might hold slightly higher inventory, but it shouldn't make the inventory days go up dramatically.
- Ankit Kedia:** And this reduction is inventory -- if I look at the storefront, we are not seeing reduction at the store level inventory. This is purely from the warehouse inventory where the reduction has come in. So from cover perspective, what has been done at the warehouse level by you in terms of pure RM and finished goods inventory?
- Gautam Saraogi:** See, if you look at my March numbers, we were actually having a lot of high inventory at the warehouse level as far as finished goods and RM is concerned. So we have reduced our FG at the warehouse in March was around INR99.9 crores, which we reduced to INR71.7 crores in December. Our RM inventory also has slightly come down from INR43.5 crores to INR35 crores.
- We basically fine-tuned the base stock or the appropriate stock levels in our ERP. And once we change the ratios in our stock management ERP, it automatically starts showing in the numbers. So it's just a result of the bringing down the stock level. We felt that we don't have to have that kind of high inventory. So gradually over a period of 2, 3 quarters, it has shown us results and papered them.
- Ankit Kedia:** My second question is on the rental part. We are opening bigger stores and the revenue per store or the throughput continues to be the same or slightly lower given the subdued environment we are in. Are you looking at opening smaller sizes? Or you thinking that 500 square feet size is the base? And incrementally, throughput might remain at that 19,000, 20,000 sales per square feet or we might see an increase there as well, as the bigger stores inventory is now better at the store level?

Gautam Saraogi: Sure. So Ankit, this a good question. I will just take a minute to explain it. See, Ankit, whenever we are opening any type of store, for us, size is an important ratio, but what we really budget is, what is our rent-to-revenue ratio? If I get the perfect location in the market and if the rent is in my budget of, say, 13% or 15% to revenue ratio, then I might even take a bigger store or even a smaller store. For me, my prima focus selection of our outlet is based on the location itself rather than the size.

So moving forward, if you get the right location, we might even open up 600, 700 square feet, we might even open a 200, 300 square feet. It is all on the basis of location selection. Now what happens is between a 600, 700 and 200, 300 square feet, rental is anyways budgeted. The capex is not very different between the 2 formats.

And even your operating costs like your employee cost also, you might have only those 3, 4 people in our 600, 700 square feet versus the 200, 300 square feet. So your dynamics between a slightly larger store or smaller stores does not change unless your rental changes.

Now coming to sales per square feet, I've also guided in the past that we actually, as a company, don't look at sales per square feet because of this very reason. Because we go by rent to sales ratio and not by square feet, we always look at absolute averages of our store and what kind of EBITDA percentage it throws rather than looking at SPSF.

Ankit Kedia: Fair point, fair point. Sir, my third question is on the promotion in the quarter. I noticed for the first time since listing higher bill sizes, we're offering some vouchers to the consumers for the next purchases. And that's indirect discounting, right? So from that perspective, are you really seeing that kind of a slowdown in the market you had to cull out these offers to the consumer or this is a regular affair in the past as well?

Gautam Saraogi: This is a three-wall. We've done it for almost 4, 5 years See, what happens basically is during festive season to increase the ATV and the bill basket, we give out certain redeemable vouchers on a particular bill value. Now what happens, suppose you are giving out, say, 1,000 vouchers, or say, 100 vouchers, your conversion of these vouchers in terms of redemption are less than 15%.

So because the redemption has always been low, we've always carried the process of giving vouchers and making the primary bill a higher value bill. And this we've always done for the last 4, 5 years. In fact, we've been doing since pre-COVID. This is a very festive - arrangement we do. This is not from an inventory liquidation perspective. This is purely just to uptick the bill value.

Ankit Kedia: Sure. And lastly, on the pledges, we are less than one month away from your guidance on March end. Is there any update for the pledges reversal?

Gautam Saraogi: Yes. I'll give an update. See, we had planned for March, but unfortunately, it will be delayed by a few more months. I would like to reassure everyone that pledge is absolutely safe, and things are going in the right positive direction. We are just delayed by a few months but it will close soon. It is working in the positive direction. As far as promoters are concerned, it is on top of

our priority list, and this will close for sure. And I would like to reassure everyone that is absolutely safe. There's no problem with that.

Ankit Kedia: Gautam, on the pledges part, can we see any directional improvement like small pledges getting reversed? And then we see all you think is going to be a bullet reversal where 100% reversal will happen here?

Gautam Saraogi: When the clearance will start, Ankit, it will be clear in that way. So initially, one part of the pledge will get over, then the second part. So within the few months, most of the pledge should get over. What you said is absolutely right. One certain percentage will get released for, then the second. It goes in that manner.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv AMC. Please go ahead.

Sabyasachi Mukerji: My first question is on the SSSG volume. My calculation suggests that since ASP has been relatively flat and we reported a SSSG value of flattish, the volume decline has been arrested? Is that a fair understanding?

Gautam Saraogi: Yes. Yes, Sabyasachi, the understanding is clear. The volume SSSG in quarter 3 is flat, it is at 0. So it was about negative 5% or 6% in Q2 and it has improved to 0% in Q3.

Sabyasachi Mukerji: Right. So going forward, how do you kind of look at it in terms of footfalls or let's say, are we confident enough to say, let's say, this is the bottom or Q4, maybe, there might be again a decline in the volume front?

Gautam Saraogi: See, right now, it's little hard to say. We will get an understanding of Q4 probably after February 15. Usually midway point is when we have a full understanding of how the quarter will. So it's a little difficult to suggest. But I am at a company overall value level, a mid-teens type of growth in Q4.

Sabyasachi Mukerji: Sorry, this mid-teens level of growth, you are saying on the revenue?

Gautam Saraogi: On the revenue overall level. On SSSG part is little too early to comment because we probably will get a better idea of SSSG for Q4 probably when we are in the halfway stage. After 15 February is when we'll get a better clarity.

Sabyasachi Mukerji: Got it, got it. Follow-up to that is on the FY'24 revenue guidance of INR800 crores, still intact? Or are we kind of revising that?

Gautam Saraogi: No, we won't be able to achieve 800 for sure because our -- for the first 9 months, we have done INR581 crores number, and we are expecting a mid-teens type of number in Q4. So unfortunately, we've not been able to hit the INR800 crores this year.

Sabyasachi Mukerji: Next question is on the inventory. Can you please provide the breakup between the RM and FG and in FG between warehouse and store?

- Gautam Saraogi:** Sure. Our RM inventory as on December 31st is INR35.68 crores. Our FG is at warehouse is about INR71.7 crores and our FG at stores is at about INR98.44 crores. So our total inventory is INR205.84 crores versus INR230 crores in March.
- Sabyasachi Mukerji:** And so a follow-up to this is the kind of inventory reduction that we saw in the warehouse level since March '23. Is it purely because of the lower cotton cost and hence, the total inventory gets revalued at a lower cost? Or there is also an element of a lower number of items sitting in the warehouse as well?
- Gautam Saraogi:** No, no, this is not because of cotton prices. We've actually not been purchasing literally anything. That's why in our gross margin, we have not seen that kind of uptick in our GM. This inventory reduction is purely on the basis of optimizing sourcing and buying.
- Sabyasachi Mukerji:** Okay, okay. Got it. Lastly, on the A&P expenses, I believe this quarter, you have spent a little higher than I think probably what you have guided in last call. What would be the target for full year. 1.5%, I think, was the last communication from your side. This quarter, we have spent little higher, FY'24...
- Gautam Saraogi:** So for the 9 months, we are at about 1.9% of revenue. So it will be in similar lines by March. It will be under 2%.
- Sabyasachi Mukerji:** And any guidance for next year, you're looking at a similar 2% number?
- Gautam Saraogi:** Right now, we haven't budgeted for next year, maybe closer to March is when we're going to be budgeting the absence for next year. But more or less, it will be in the similar range only. I don't see it changing too much, frankly. It will be in the range of 2% only.
- Moderator:** Thank you. The next question is from the line of Prerna Jhunjunwala from Elara Capital. Please go ahead.
- Prerna Jhunjunwala:** Just wanted to understand your opening remarks statement that you mentioned that you are exploring omnichannel opportunities. So if you could just help us elaborate on that?
- Gautam Saraogi:** Yes, what we've been doing for the last year or 2 or little longer is that how we are able to convert an off-line customer to online sales. Because in retail, what happens is when you're running such a compact sized store, sometimes weekend it can become very difficult for the customer to get the entire set of colors or sizes. So there, we are trying to see if we are able to convert that off-line customer to online and then immediately by using an online tab at the store to place the order for the customer and get it home delivered.
- So in certain stores, we implemented it, and we are seeing some success. So it's taking some time for us to scale it. But this kind of omnichannel approach is seeing us not lose, we can say, in certain stores.
- Prerna Jhunjunwala:** I mean I'm just trying to understand the impact of missing the stores that you have implemented already?

Gautam Saraogi: See, we have seen in some stores where this is a success, we have seen an increase of 1% or 1.5% in sales on that particular store. And we feel that it's the trend and the trend of omni picks up, then maybe over a longer period of time, this can be a good additional contributor to the store's revenue.

Because at the end of the day, no store can vouch saying that there are no loss of sales because weekend -- all colors and sizes might not be available. So if there, we are able to convert, come into online, it can be a contributor to the revenue. Very difficult to say how much. I think once we implement on a more larger sample size of stores, we will know how much it can contribute as a percentage.

Perna Jhunjhunwala: Second question is around on LFS strategy. Going forward also, do we see the same kind of expansion in LFS of around 250, 300 or the stores across the Tier 2, Tier 3, Tier 1 cities? And also, if you could help us understand the demand in the various type of cities, which will help us understand the demand scenario in a better manner.

Gautam Saraogi: So Perna, see usually on a steady state basis, we always guide that the number of LFS stores we are going to be adding will be around 100 to 150 LFS stores. So I think for next year also, we are guiding about 100 to 150 more. As far as demand is concerned, see, our presence is largely in the metro cities and -- like 60% to 65% of our entire network is in the top 8 or top 10 cities. So from that perspective, demand in the metro cities has been weak and the same trend has been seen in the Tier 2 cities as well. We have not seen either have been outlier.

Moderator: Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: So my question is, so if I have to refer to 9-month trend, where our PBT growth is just 4%. SSG is 0 and cluster growth is 13%. What does this imply -- these 3 data points, if I have to put it together is that the new stores that have been added into the cluster have not added meaningfully to the sales.

While customers in that same cluster are buying, and hence, your cluster growth is 13%. So then why should we add new stores into the same cluster, lower the cost in the cluster and rather go on a national expansion? So just a thought around it would be helpful.

Gautam Saraogi: See, also, Priyank, what happens, why do we expand in clusters because shopping in the city happens in clusters. If you understand like, for example, now in Chennai, there is an area called Pondy Bazaar, which is in T. Nagar. Pondy Bazaar as a market caters to different, different parts of Chennai.

Now for example, if there's Jayanagar in Bangalore, Jayanagar as an area will cater to different, different parts of Bangalore. If I don't grow in the same cluster, I won't be able to grow my revenue. Because shopping does not happen by residential locality, it happens by shopping clusters. So in general and retail, if you have to continue growing your size and footprint, you have to keep growing in clusters.

Now coming to the point on operational efficiency. because SSG has been flat and the new stores, what we've added in this particular 9 months, the SSG is flat. Even your newer stores what you add will tend to underperform than the regular new store average. Because of that, we've had an operational reduction in March.

Priyank Chheda: So what I'm trying to understand is a new store in a Pondy Bazaar should also grow if that cluster is growing is what I'm not able to understand. Because if that new store is going to add a shopping experience or is going to save the logistics cost for a customer to travel 2 kilometre's to buy a INR700 article. So it means that new stores should meaningfully also grow in that cluster, is what I'm trying to understand?

Gautam Saraogi: Yes. So that one store, obviously, the addition has happened. The one store sales have been added to the overall revenue, but whereas the other stores have not grown in this weak environment. So the question is if I would not have added the store, would my SSG be positive, the answer is no. Because when we are adding another store in the same cluster, we are mindful of the cannibalization part. Wherever we've seen the stores are going to be deeply cannibalized, we don't add another store in that cluster. So it's basically trying to attract higher market share of that particular cluster by opening another store.

Priyank Chheda: Got it. Got it. And on the inventory side, sir, our key moat is to keep the number of colors, sizes available so that whenever a customer comes, customer the articles are available in our stores. So when we are rationalizing the inventory at the store, are we not compromising on the sizes, colors that Go Colors is known for it?

Gautam Saraogi: No. So Priyank, see earlier I had actually answered this question. See, when we had got into the optimization mode for inventory, we're very clear that we wanted to optimize inventory at the warehouse front. So what has changed for March till now is inventory has got optimized only at the warehouse. The stores front, the same inventory carries forward.

Priyank Chheda: Yes, I understand. So what I'm trying to ask is -- the article may be available at the warehouse. So a green color for L size would be sold. So once that is sold at the store, would get easily replenished from the warehouse. In that case, in case the green color is not available at the warehouse, wouldn't it affect the sales for that particular article?

Gautam Saraogi: No, I understand what you're saying. So basically, we have not optimized it to that extent that there is loss of dispatch from the warehouse at this point in time. See when we have optimized it, we had kept in mind what is going to be our throughput in our stores and how much is going to be needed for us to dispatch from the warehouse to store. Keeping that in mind, we had optimized it. So we have not overoptimized it as well where we have loss of sales or loss of dispatch.

Priyank Chheda: Got it. And what would be the number of stores that would be falling into the cluster, SSG calculations now in Q3?

Gautam Saraogi: It will be around 425, about 430, 432 stores.

Priyank Chheda: Last quarter, it was around 450. So would it remain same?

Gautam Saraogi: That is my bad. Then, maybe what number I'm leaving right now is wrong. I'll have to just check and come back to you on this.

Priyank Chheda: So on an average, in case, we are adding 25 stores. The similar way, 25 stores would also get added to the cluster with whatever the base number that we have in...

Gautam Saraogi: Not necessary. Because when we are adding x number of stores a year, some might be new cities as well and some might not be in clusters as well. It's not that our entire store count what we are adding are in clusters. That's not true. But any way, this -- how many stores across how many clusters, I'm not having it handy. I'll share it off-line through SGA.

Moderator: Thank you. The next question is from the line of Nilesh Saha from Julius Baer. Please go ahead.

Nilesh Shah: Yes. Hi, are you able to hear me?

Moderator: Yes. Please go ahead.

Nilesh Shah: So just a qualitative comment, right. I would like to understand from the management team, right basis the numbers that you have put out thus far, what is giving you confidence that you're not losing market share, right? And I'm asking this specifically because there are multiproduct companies, right, some retailers, some brands, right? There, at least there is some indication that they are able to succeed both on their offline stores and also online to an extent, right?

So -- I understand data is hard to get, right? But I do recall in the past that you used to maintain some information by capturing the mobile number of your customers. And so have you seen any drop in frequency of your loyal customers, right? And that's something perhaps you can quantitatively answer. But qualitatively, if you can also give further color, what is giving you confidence that you're not losing market share? In the bottom wear category itself?

Gautam Saraogi: Yes. So let's see one of this confident point is that even in a tough environment like we are in for the current retail, we've -- our overall company growth has been about 15%, we have seen volume growth at an overall company level. We've not seen volume degrowth in quarter 3. So where the industry has been going through a struggle, we have done -- performed decently well, especially in our vintage markets.

So that -- so keeping these points in mind and look we keep interacting with our customers. Our most vintage customers also keep coming back to the store to understand what's new, what new color has come up, what new product are going. So from a bottom ware perspective, we are very scheduled, because from a product portfolio, we're really involved.

In quarter 1, we had also come up with a jeans product, over a period of when we introduced new colors in the other bottom wear products as well. So from a product perspective, we are very fresh with the customers we are dealing with. So these 2 things gives us confidence that we are heading in the right direction and not losing market share.

Nilesh Shah: Okay. I think the only sort of area where I would probe further is to ask that essentially for your customers, right? If we believe that they are buying a bottom wear after having purchased a top

wear product elsewhere, like then for that transaction, right, you have to basically believe that you will do -- for you to stay in your market share and position in the minds of your customers, right, are you seeing that in micro markets where you operate, do you believe that your revenue growth in those clusters, right, are keeping pace with the revenue growths of, say, the larger peers who operate there, right?

Because also bear in mind, a number of them players have also become very large on the online segment, right, which you may not be able to capture in your local intelligence?

Gautam Saraogi:

So Niles, I understand where you're coming from. See, largely bottom wear category is more of an offline category because colors need to be matched. On an online platform for you to match so many colors becomes physically very difficult. It's not possible. So this is more of an off-line category. Secondly, why we feel we are currently relevant in today's times, as we are evolving also as we did, is because the ladies buying behaviour is that she wants to buy the top separately and the bottom separately.

What happens in a top wear store, because their focus area is top wear, they're unable to keep the range of bottoms what a dedicated bottom wear store would be able to keep. And that is why today, a lady is choosing to buy the top from the top wear store and the bottom from the bottom wear store.

And one of the reasons why we see we are not losing market share right now is because in terms of competition, we don't see too much of competition elsewhere, everywhere. We are seeing competition coming up. But right now, it's not made a very big dent or it's not made a dent at all in our market share

Niles Shah:

So that is where I am challenging your lens, right? I think perhaps one of the lens that you're using is, are there other bottom wear brands like Eleven or something? And are they doing better than you? But what I'm asking is, let's say, a company, an in-house brand of Westside right? If they are selling a consolidated products, the top wear plus bottom wear, are you losing market share to that? That's the question. I know that you are doing very well versus an Eleven and all that, but are you losing share to a consolidated product that a customer is choosing to pick up?

Gautam Saraogi:

So Niles, I'll explain. It's a very good question. So Niles, what happens is an LFS competes with another LFS. A private label of an LFS, like a Westside you mentioned, they will compete with another private label of another LFS. A vanilla brand like us will compete with another vanilla brand. That's why in the malls, today from variety of retail, you have a large format stores and your multiple vanilla stores.

A vanilla store and a vanilla brand will never compete with an LFS, and I'll tell you why. Conceptually, an LFS is a type of retail store where they have multiple different categories without going deep in any one category. So customer who's entering an LFS is entering in a very different mindset, whereas as a vanilla brand like us or a top wear brand will go deep in that one category and keep more options. So a lady, who is buying at a Go Colors is also buying at an LFS. It's just that her buying behaviour is different between stores. So I would say -- to put it in better words -- it's your apples to oranges comparison between an LFS and a vanilla brand.

- Gautam Saraogi:** Thank you. Nilesh.
- Nilesh Shah:** I see. Okay, great. No, I think thanks for that we will get in touch with you.
- Moderator:** Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi.
- Vaishnavi Mandhaniya:** I'm sorry if I missed this, but there has been a very sharp absolute increase in our employee expenses and other expenses line items this quarter. And their ad expenses don't seem to be much, like significantly higher, and the increases are higher than the network addition also that we've seen in the EBO stores. So what is the reason for the same?
- Gautam Saraogi:** So Vaishnavi, on the employee cost front, the employee cost sharp increase is because we've added new stores. So this is largely front-end employees. If I take our back end head office and warehousing employee cost, there's not much change in that. Apart from the increments we have given, but there's not much change in that. So this is largely increase from a front end perspective, which is EBO and LFS.
- On the other expenses line item, I think if I'm not wrong, there is a INR4.7 crores increase in other expenses between quarter 3 this year and quarter 3 last year. So this is largely advertising spend of INR2 crores. And another INR50 lakh, INR60 lakh was pertaining to stores which we have closed and taken a write-off in the PL. So about -- roughly about -- out of the INR4.7 crores, INR3 crores would be pertaining to ad spends and the few stores which we have closed, we have taken a write-off in the other expenses also.
- Vaishnavi Mandhaniya:** Ok. Understood. Thank you so much.
- Gautam Saraogi:** Thank you Vaishnavi.
- Moderator:** Thank you. The next question is from the line of Binoy from Sunidhi Securities and Finance Limited. Please go ahead.
- Binoy:** Hi Gautam, Thank you for the opportunity to ask questions. A few data points. I couldn't get the -- you said pre-Ind AS EBITDA margin for Q3 FY '24 was 19.7%. Am I correct?
- Gautam Saraogi:** Correct. Yes, correct.
- Binoy:** Versus 22% in Q3 FY '23?
- Gautam Saraogi:** Last year Q3, correct.
- Binoy:** Understood. Okay. Now -- and also, can you help me with the rental expense for Q3 of FY '24?
- Gautam Saraogi:** The rental cost, before Ind AS, our rental cost for Q3 is INR30.1 crores. This is non Ind-As rent paid.
- Binoy:** Pre-Ind AS, total rent, right?
- Gautam Saraogi:** Yes. Total rent paid, pre-Ind AS, is INR30.1 crores.

Binoy: Understood. Fair enough. Gautam, you said -- earlier in your remarks, you said that the gross margin season, right? So Q1, Q3 and Q4 is somewhat similar. While Q2, the gross margin is slightly lower due to EOSS, right?

Gautam Saraogi: Correct.

Binoy: I was just wondering like even Q4 gross margin should be somewhat similar to Q2 because of the EOSS?

Gautam Saraogi: Yes, it will be. But it will be somewhere in between Q2 and Q1, our regular quarter. The highest impact on the gross margin usually comes in Q2. It comes in Q4 as well, very rightly you pointed, but the impact from a trajectory perspective is more in Q2.

Binoy: Another question was on the SSG growth that we've got somewhat flattish range for the nine months, right? And that is just slightly negative. I understand that there has been consumer spending slowdown and there has been a little weak macros. However, if you look at your company's trajectory pre-COVID, right, you used to do SSGs well above 10%.

So I was just wondering, in these four years, also what has happened is that there has been a proliferation of national players. So would you say that the softness in the SSG is also because of hidden competition from national players?

Gautam Saraogi: No, I wouldn't say a competition from national players. See, our pre-COVID SSG was in high double digits. I had, in fact, we were guiding and estimating an SSG at a value level to 8% to 10%. From that high double digit, I came down to 8% to 10% because we've also added more number of our own stores in our own clusters. So sometimes, we become our biggest competition to our existing stores.

Having said that, when we are adding stores in a cluster, we do it from a mindset of non-cannibalization. So this 8% to 10% SSSG is what usually we guide. But unfortunately, the overall retail scenario has been a little muted, so the SSG has taken a hit.

Binoy: Fair enough. Okay. Another question I wanted to understand on your price architecture, right, that you have and you've maintained that. Obviously, you've taken a little bit of pricing to offset the commodity inflation. But by and large, you've maintained the price architecture roughly about INR250 to INR1,600 and 80%-plus of your products are below INR1,050, if I'm not mistaken.

So do you feel that is that -- having said this, most of your products are actually upwards of INR500, INR600, right, upwards of INR500, INR600, right? So having said this, do you feel there is a need to maybe introduce certain products at a very low price points, which can recruit additional customers into your fold?

Gautam Saraogi: Well, I don't think that's needed because the kind of customer segment we are targeting, an ASP of INR700 to INR800 is very, very competitively priced. So I don't think we have to lower our pricing to lure more customers. It's not needed. In fact, we are looking to increase our ASP and

take it as closest to INR1,000 as possible. We feel that the mid-level customer and the premium customers, that ASP will be well suited for those income centers without that problem.

Binoy: Understood. Okay. Could you help me with the volume growth for Q3? The overall volume growth, not the same-store sales volume growth?

Gautam Saraogi: Sure. Sure. I'll just tell it in a minute. Give me a second. It would be -- I think it would be around 10%. The overall volume will be about 6%.

Binoy: Sorry, 6%?

Gautam Saraogi: 6% for 9 months overall volume.

Binoy: No. Could you help me for Q3?

Gautam Saraogi: For Q3, it's 7.6%.

Binoy: Okay. And my last question, Gautam, just a small clarification. So while giving inventory breakup, you said the RM inventory was INR35.6 crores, warehouse FG inventory was INR71.7 crores and store FG inventory was how much?

Gautam Saraogi: INR98.44 crores.

Binoy: INR98.44 crores. Okay. So are you actually kind of reducing the inventory at a store level?

Gautam Saraogi: No, not at a store level. The optimization, what has happened has actually happened at the warehouse and at the -- at the warehouse level at the FG and RM level, not at the store level.

Moderator: The next question is from the line of Gautam Rathi from CWC.

Gautam Rathi: Just two questions. One, a clarification. So in one of the earlier questions, you said that due to store closures, you had an impact of about INR3 crores. Is that number right? What I heard, INR3 crores or is it...

Gautam Saraogi: In the INR3 crores, INR2 crores is relating to ad spend.

Gautam Rathi: Okay, INR2 crores. So INR1 crores is the net-net onetime impact.

Gautam Saraogi: Slightly lower than INR1 crores. Exact number, I'm not having handy. My understanding is INR60 lakh to INR70 lakh would be regarding to store closures.

Gautam Rathi: Due to the floods in Chennai and all, did we see an impact since we have a larger presence there, like some kind of impact, which is materialistic?

Gautam Saraogi: Yes. What has happened, one weekend got spoiled for Tamil Nadu, as retail because the flood situation in Chennai was bad, but even when other parts of Tamil Nadu, retail got impacted. So I think in the overall scheme of things, I think we lost a weekend sales -- one weekend sale in Tamil Nadu.

- Gautam Rathi:** And Tamil Nadu would be what proportion of your revenue roughly?
- Gautam Saraogi:** Would be about 20% of my revenue.
- Gautam Rathi:** 20% of your revenue lost a weekend? That's how it is?
- Gautam Saraogi:** Yes, one weekend, yes. Actually happened.
- Gautam Rathi:** Gautam, just one more question. Just wanted to understand. You also mentioned that you are at an ASP of INR750 and you are aspiring to eventually move towards the INR1,000 ASP mark, right, going with your customers. So I just also wanted to understand, do you also have a plan to go at a lower -- you don't want to target the entry-level customer or do you think, for you, this is the best way to scale, right?
- I'm just trying to understand for your 20% growth, is this the way you're thinking about it? Or could your growth be faster if you -- if you also look at it differently, right?
- Gautam Saraogi:** No, no. See, I think lowering the pricing will definitely not help because the kind of customers we are dealing with, we have, for example, our legging is INR599 product. And we feel an entry-level product of a much lower quality garment would be INR399. The customer who is buying the INR399 entry legging of a lower quality will also buy a INR599 legging.
- So I don't have to really decrease my prices to generate more volume. It's not going to increase the volume in any way. So for us, we feel the kind of customers we are dealing between the mid-level and the premium, the INR750, INR1,000 is a very good ASP to be part of. So anywhere when we're crossing INR1,000, then we are moving away from the mid-level. That carries a risk, which you rightly pointed out. Between INR750 and INR1,000 is a very good sweet spot.
- Gautam Rathi:** Actually, I just wanted to refine my question better so that I'm able to put it across properly.
- Gautam Saraogi:** No, no. The idea is very clear that we want to increase our ASP slowly up to INR1,000, not cross INR1,000 though, but take it up to INR1,000.
- Gautam Rathi:** But the question I have is you have a INR599 entry product today, which is your ending point, right? And I'm not seeing go down on the quality strata or whoever. But -- is it possible -- or in your mind, you are not looking at, giving the INR399 customer a better option...
- Gautam Saraogi:** No, no, we will not be looking at that.
- Gautam Rathi:** So we are looking at INR599 and we are waiting for the customer to come up to that strata. That is our approach right now today, right?
- Gautam Saraogi:** Exactly.
- Moderator:** Thank you. The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: Sir, my first question is on like, when we look at the other discretionary consumption companies or players or peer groups, I mean, a general observation is premium price points are outperforming the value price point. So in our case, the volume growth appears to be healthy. But given this context of value price point underperforming for many players, Gautam sir, I mean, if you could share some color with regards to our company that how are we -- I mean, how our numbers are stacking up?

Gautam Saraogi: We are having the best of both worlds. We are somewhere value premium. We are not so value, which is struggling in the market, and we are not extremely premium that we become too expensive for a customer. We are in the sweet spot of being a value premium product.

So I think from that perspective, I think our strategy holds good moving forward also. We are not going to do premiumization because the premium categories and other in retail, we are not going to do that. Just for sake of doing that. We are going to continue in the value premium and I think the very good -- it's the best of both worlds. I would rather put it that way.

Varun Singh: Understood. I mean I -- if you would have done some analysis on price points related given the premium portfolio jeans leggings, etcetera. So I mean, I just wanted to understand, I mean, in case this segment is outperforming from a growth point of view?

Gautam Saraogi: So Varun, if I take it from a bottoms wear perspective, then we are going to be charging, say, INR1,100 for a pant or INR1,200 pant, that's already -- those are already premium price points. Those are not very cheap to begin with. Though they are not very expensive, they're not very cheap to begin with. And today, if I try making a pant pricing at INR1,800 to INR1,900, that is when my price disparity with the customer will start.

Varun Singh: Got it. Understood.

Gautam Saraogi: That's why I call ourselves as value premium segment. Rather than calling us as just value or just premium, we are more of a value premium segment.

Varun Singh: Sure. Understood. And sir, my second question is on same-store sales growth. So like how are we thinking about this number going forward, whether the bulk of it is going to come from higher volume or better sales mix or pricing driven growth? So I mean how should we be judging the -- or how are you thinking about the growth numbers given the base would already incorporate whatever subdued performance since, maybe, from Q1 onwards?

Gautam Saraogi: Currently, because we have a flat volume SSG, our first objective and aim to make this go positive. So very difficult to give a guidance right now because we are right now in the -- we are just in the starting of Q4. So probably when we look February will have a better idea. But our first target is to make this positive. Earlier, we had guided saying that we will do a 5% volume SSG and a 10% value SSG. But currently, because we are far behind having flattish, our first target is to make the volume as positive.

Varun Singh: Sure. I mean, the reason I was asking this question is to understand that incrementally we are doing more or are we expecting market forces to -- market forces led SSG improvement?

Gautam Saraogi: No, I think, look, it's a combination of both. I think -- but rightly we could be market determinant, but consumer sales slightly start picking up, that SSG number should start looking healthy.

Moderator: That was the last question for today. I would now like to hand the conference over to Mr. Gautam Saraogi for closing comments. Over to you, sir.

Gautam Saraogi: I would like to thank everyone for being part of this call. We hope we've answered all your questions. If you need more information, please feel free to contact Mr. Deven Dhruva from SGA, our Investor Relations Adviser. Thank you so much.

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