MUFTI
MUMBAI

CREDO BRANDS MARKETING LIMITED
(fka Credo Brands Marketing Private Limited)
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Website: Corporate: www.credobrands.in
Ecommerce: www.muftijeans.in
CIN: U18101MH1999PLC119669

February 20, 2024

To
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

Scrip Code: 544058

To
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Symbol: MUFTI

Dear Sirs,

Sub: Transcript of the Conference Call on unaudited financial results of the Company for the quarter and nine months ended December 31, 2023

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Conference Call held on February 15, 2024 on unaudited financial results of the Company for the quarter and nine months ended December 31, 2023, is enclosed herewith.

The same is also available on the Company's website at https://www.credobrands.in/investors/financials/#acc_42.

Kindly take the same on record.

Thanking you,

Your faithfully,
For **Credo Brands Marketing Limited**

SANJAY KUMAR MUTHA
Digitally signed by SANJAY KUMAR MUTHA
Date: 2024.02.20 16:53:36 +05'30'

Sanjay Kumar Mutha
Company Secretary and Compliance Officer

Encl. As above

Credo Brands Marketing Limited

Q3 & 9M FY'24 Earnings Conference Call Transcript

February 15, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 15th February, 2024 will prevail

MANAGEMENT:

MR. KAMAL KHUSHLANI - CHAIRMAN AND MANAGING DIRECTOR
MR. RASIK MITTAL - CHIEF FINANCIAL OFFICER

INVESTOR RELATIONS ADVISORS:

STRATEGIC GROWTH ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to the Credo Brands Marketing Limited Q3 and 9 months FY24 Earnings Conference Call. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kamal Khushlani, Chairman and Managing Director from Credo Brands Marketing Limited. Thank you and over to you, sir.

Kamal Khushlani: Thank you. Good afternoon, everyone. This is Kamal Khushlani and welcome all of you to this earnings conference call. I'd like to thank the entire investor community for their great support during our IPO and it's a proud moment for all of us. We want to convey our sincere appreciation to all our shareholders for entrusting their confidence in us.

I have with me Mr. Rasik Mittal, our Chief Financial Officer and SGA, our Investor Relations Advisors. I hope you all received the investor's deck. If not, you can view them on the stock exchange or our company website.

Since this is our first call, I'd like to give you a small brief on the company and the plan forward. The brand Mufti was launched 25 years ago, with a vision to redefine menswear. The brand was created as an alternative dressing solution and was designed to deliver a casual alternative with a focus on creative, bold and expressive clothing for the contemporary Indian man who wanted something more stylish, than what was commonly available at the time.

In order to keep pace with evolving fashion trends, our product mix has evolved significantly over the past several years from consistently of only being shirts, t-shirts and trousers in the year 1998 to a wide range of products including sweatshirts, jeans, cargoes, chinos, jackets, blazers, sweaters and other outerwear garments in the relaxed holiday casuals, authentic daily casuals to urban casuals, party wear to also athleisure categories as on date.

Our design team is constantly focusing on expanding our product range to meet a varied range of our consumer needs across different moments of their life. Our diverse product range comes under the mid-premium to premium price range of clothing in India. In 2019, we conducted an internal assessment and put our learnings to reinvent the brand philosophy.

As a part of the brand reinvention, we developed three things. A, a new brand identity. B, a new merchandise architecture for increasing our share of the customer's wallet by providing designs suited for specific occasions in our customer's life, ranging from relaxed holiday casuals to authentic daily casuals to urban casuals, party wear and athleisure etcetera.

And thirdly, a new retail identity. Now since we made the above changes, the brand has gained its salience and the same is reflected in the performance of the company. Our products are available through a pan-India multi-channel distribution network that we have built over the years comprising of exclusive brand outlets, large format stores, multi-brand outlets as well as online channels.

Our multi-channel presence is planned strategically in a manner that our products across categories are available to the consumers, at their preferred shopping channels. As of 31st December 2023, we are present in 592 cities having 1,818 touch points. We have a presence through 413 EBOs, 73 large format stores and 1,332 plus MBOs.

Our company had 16 distributors as on 31st December 2023 for distribution to the MBOs. Our well-established EBO network offers a holistic shopping experience for our customers. Our EBOs are located nationwide across 230 cities in high streets, malls and some airports as well and residential market areas.

We also have an online presence which is rapidly growing wherein our customers can shop through our website as well as through various other e-commerce partner channels. EBOs are central to our growth strategy with they offering a holistic in-store brand experience and help enhancing our brand visibility. Over the last three years, the average revenue per store has increased by 30% CAGR which shows the pull of our brand and products.

During the 9 months ended FY24, the company added a net total of 40 stores bringing our total EBO count to 413 stores in line with our commitment to increasing accessibility and convenience for our customers. We aim to add to 50-55 new stores on a net basis for the full year 2024.

For the 9 months ended December 2023, 55.7% of our revenue was through EBOs, 23.8% through MBOs, 2.9% through LFS and 14% through online and 3.6% with others. We have an asset light and scalable business model. We comprehensively focus on the design of our products and outsource the manufacturing of products to various partners. Our centralized sourcing of fabrics and accessories ensures supply to manufacturing partners at a cost efficient, timely and consistent quality.

We also conduct multiple levels of checks to ensure we have achieved the desired quality. Entirety of supply chain is managed end to end on our ERP Ginesys . This structure provides us agility with our long standing sourcing partners allowing us to manage our supply, based on the demand from various distribution channels. It also ensures optimum inventory at stores, as well as the mother warehouse in Bengaluru.

To enhance the brand awareness and strengthen brand recall for our brand, we utilize targeted marketing campaigns through digital and social media, billboards, multiplex cinemas and live events. In keeping with the above, we release our ad films across cinemas in the country driving a strong brand recall with our consumers. We developed a strong brand identity through effective brand advertising and multiple marketing campaigns for our brand.

Now coming to our growth strategy, we plan to expand our store network in existing, as well as new cities. We have identified several markets as having potential for opening further EBOs. This offers the potential for market share gains, increased brand recognition and economies of scale. Focused expansion of product portfolio to evolve the brand Mufti as a 360 degree men's lifestyle brand. We want to leverage technology to improve supply chain management and enhance customer experience. We intend to further invest in IT to improve productivity and increase operating efficiency and customize buying experience of our customers both in store as well as online.

Our aim is to create a brand for the future. We will continue to enhance brand appeal through focused marketing initiatives and we are doing targeting initiatives by projecting our brand based on our style, vision and our philosophy.

During the last quarter, we did increase our trends towards marketing initiatives to the tune of INR12.8 crores, an increase of INR8.3 crores over the last Q3 of last year. Going forward, we plan to spend in the range of 4% to 5% of our revenues on branding and advertising. Deeper penetration to grow sales through online channels, we want to capitalize on the increasing e-commerce demand in Indian retail and grow our share of sales from our website, as well as e-commerce partners. We also plan to invest in growing our social media presence.

The share of organized market for men's apparel is expected to increase from approximately 45% in FY22 to reach 60% approximately by FY27. India's predisposition toward casual wear has grown exponentially over the last few years. Some of the factors that have accelerated the rise of casualization for men's wear are increasing urbanization, social media connectivity, growth and influence of mobile internet and increased buying propensity amongst consumers and the concept of Friday dressing in the corporate world.

Every day seems to be a Friday, for some of our customers. Also, for time-pressed consumers today, casual western wear is easy to maintain and wear and thus become the preferred lifestyle choice. As a result, the categories such as denim, activewear, casual wear, athleisure and loungewear are growing at a CAGR greater than 20% as per the industry reports.

Going ahead, we aim to grow faster than the industry and increase our market share. Now, coming to our quarterly update, the company has remained steadfast in its growth trajectory despite persistent challenges at the industry level, placing significant emphasis on operational efficiency.

Throughout the third quarter of FY24, the retail sector in India experienced subdued demand which extended into the festive period also. Revenue for Q3 grew by 15% year-on-year for us. As mentioned earlier, during the last quarter, we spent a lot higher on branding and advertising to the tune of INR12.3 crores. For the nine months, it is INR23.7 crores. This has led to slightly lower margins than expected. And this was done with the objective of communicating the brand in its new avatar to the consumers.

The marketing spend has helped the company grow the revenue at 19% in this nine-month period despite the muted demand in the industry. Excluding this expense, our EBITDA would have grown at roughly 18-odd-percent year-on-year. In the context of the current subdued demand in the retail industry, the short-term outlook may seem challenging.

Nevertheless, taking a broader long-term view reveals promising indications and growth opportunities. Despite potential constraints on immediate consumer spending attributed to factors like shifting consumer behavior or reduced discretionary spend, the fundamental strengths of the retail sector endure.

Our sector's resilience coupled with our adaptiveness in responding to evolving market dynamics and our commitments to technological advancements and product innovation, positions us favorably for attaining enduring growth.

For FY'24, we anticipate a revenue growth ranging from 18% to 20-odd-percent and an EBITDA margin within the range of 28% to 30%. We foresee PAT remaining relatively flat for the current year, primarily due to a higher advertising expenditure aimed at enhancing the brand appeal. The fruition of this investment is anticipated in the coming time.

Looking ahead to the next fiscal year, we do not anticipate a significant uptick in advertising spending compared to the current year. Our goal is to achieve a revenue growth of 15% to 20% for the next year, which in turn will enhance margins and overall profitability.

With this brief, I'd like to hand over the call to our CFO, Mr. Rasik Mittal, for the update on the financial performance. Thank you.

Rasik Mittal: Thank you, Kamal. Good afternoon, everyone. First, I will give you the financial highlights for Q3 FY'24. Revenue for Q3 FY'24 grew by 15% year-on-year to INR150 crores. Our SSSG for the quarter stood at 1.4% year-on-year. Gross profits stood at INR90 crores, a growth of 19% year-on-year with a GP margin of 59.8% for the quarter.

EBITDA for the quarter stood at INR42.5 crores as compared to INR42.9 crores in Q3 FY'23, a degrowth of 1% year-on-year. Our EBITDA margin stood at 28.3%. This is mainly due to increased advertising costs. Excluding this expense, our EBITDA would have grown by around 18% year-on-year.

Coming to nine-month FY'24 performance, revenue for nine-month FY'24 grew by 19% year-on-year to INR434 crores. Our SSSG for nine-month stood at 0.5% year-on-year. Gross profit stood at INR252 crores, a growth of 19% year-on-year with a GP margin of 58% for the nine months.

Our EBITDA for the nine months stood at INR130 crores, a growth of 5% year-on-year. Our EBITDA margin stood at 29.8%. Profit after tax for the nine months stood at INR52.1 crores, a degrowth of 7% year-on-year. PAT margin stood at 12%. Our working capital days stood at 142 days as on December 2023. Going ahead, we will endeavour to reduce our working capital days.

ROCE and ROE on an annualised basis stood at 32.1% and 20.8%, respectively. We have confidence in the company's capability to handle short-term fluctuations and achieve sustainable and consistent growth in the future.

With this, we will now open the floor for question-and-answer. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suryanarayan Nayak from Sunidhi Securities & Finance Limited. Please go ahead.

Suryanarayan Nayak: Thank you for giving me opportunity, sir. In Q2, you have said that some of the revenue has slipped to Q3. But if you see the quarter-on-quarter growth, it is 9% down. And I don't think Q4 ,if you compare with the Q4 of last year, it was softer than Q3. So this year, the sales momentum is low already. So what kind of growth you could be achieving in Q4 that we would be getting a Y-o-Y growth of 15% plus in FY'24? That is my first question.

Rasik Mittal: Hi, Suryanarayan. Suryanarayan, in our industry, the revenue for Q1 and Q3 is generally muted as compared to Q2 and Q4. So that's why Q3 revenue is looking a little lower compared to Q2. This is an industry phenomenon. It is not comparable.

Suryanarayan Nayak: But you said in the presentation that some of the revenues have slipped to Q3 from Q2. If Q2 was heavy, then that would have been reflected in Q-o-Q jump in Q3, but it is otherwise in a decline in 9%.

Kamal Khushlani: Suryanarayan, in some sense, some revenue moves to Q3. When we say that, it does not mean that Q3 will be higher than Q2. It is historical and that is the way it is for our industry. There is a certain seasonality that matters, which is primarily we work on two big seasons in India, which is autumn-winter one, and spring-summer the other. Now, when you go into spring-summer, typically, that season ends in June-July, goes into discount period, etcetera. Your fresh season then starts. So Q2 becomes a higher season, and that is how it is reflected in the books.

Suryanarayan Nayak: But if you see, last year, compared with the Q2, Q4 was lower in revenue.

Rasik Mittal: So, Suryanarayan, last year, because the markets were not conducive, the GR percentage was a little higher in Q4. That is why it was impacted a little.

Kamal Khushlani: Yes. And also, last year, we took the call of trying to send out fresh goods a little bit earlier to test how it works in this market, where a lot of period is utilized by end-of-season sales.

Suryanarayan Nayak: But, sir, if you look at your guidance of 18%, long-term guidance of 18% CAGR in the revenue, even if I consider 14% growth Y-o-Y for FY'24, Q4 is looking flattish. The residual numbers are for Q4, what is coming out of, is only flattish or let's say 1% Y-o-Y or even sequentially it will be also dropped.

Kamal Khushlani: See, we have always maintained that we intend to double in the next five-odd years, four to five years, and that is what we intend to do. Now, given that, depending on year-to-year, season-on-season, this could vary a little bit here and there.

Suryanarayan Nayak: And second question, sir, because the momentum in this revenue was a little softer or lower, so in that context, was it prudent to go for so much ramp-up in the advertisement expenses? It is a kind of outlier quarter for, let's say, other expenses, because the other expenses have shot up significantly and it has totally impacted the EBITDA margin by around 5% 6%. So, what is the strategy and where do you want to settle the advertisement expenses to revenue?

Kamal Khushlani: Good question, Suryanarayan. See, there are a lot of changes that we have made in the brand, starting from pre-COVID to during the COVID period, and namely three, like I said, our brand identity, our retail identity, as well as our merchandise architecture, and it happened to be our 25th anniversary year. And after having made changes during COVID, we see great results and response from our customers, as well as all our trade partners.

And it was -- the first year post-COVID was a year that we took cautiously. After that, it was time to take the brand out to the consumers in its new avatar. And to do that, it will take a few years of investment for this to pay back in higher propensity.

So, this is an investment that is made in the brand, and that's a conscious call that was taken. And when some calls are taken in the middle of that, there's a clutter that happens when everyone is advertising. And it was a decluttered time.

We thought it was a very good time to advertise. And certainly, these things will pay back for the brand in future. And we intend to keep the expenditure roughly between 4% 5%, even going forward, as I mentioned earlier.

Typically, also in the range of 3.5%, 4-5%. But that's where we intend to keep it, Surya.

Suryanarayan Nayak: So, 3.5% to the revenue, you are saying?

Kamal Khushlani: Yes. I'm saying 4%5% is what we intend to keep our expenditure at, as far as advertising and promotion is concerned.

Suryanarayan Nayak: So, considering that, I mean, it will be recurring every year?

Kamal Khushlani: Sorry?

Suryanarayan Nayak: Will it be a regular phenomenon for each year or sometime the intensity will be reduced?

Kamal Khushlani: So, these are tactical decisions, Surya. It will be taken year on year, season on season. But the range that we will keep in advertising will be 4%-5%.

Suryanarayan Nayak: Okay. So, can you give the segmentation or let's say segregation of the advertisement expenses in terms of, let's say, celebrity or any models or whatever, let's say, personal expenses or digital expenses, whatever the expenses mode you are doing. So, can you give a break-off?

Kamal Khushlani: Overall expenditure has gone up. It is not for a celebrity or a model and things like that. There are other things that we did in terms of digital initiatives and on releasing the films in cinemas on a larger scale, like I said, to take the brand out in the new avatar to the consumers.

So, it's not like it's gone in one direction in particular, but details maybe later on you could get in touch with Deven at SGA our investor relations partner and we could reflect on that.

Suryanarayan Nayak: So, sir, EBITDA margin, where we want to see, what kind of EBITDA margin sustainably we can look at? Because if advertisements keep coming year-end, then obviously it impacts the EBITDA margin. So, 33% we did last year.

So, this year it could be ending with, let's say, around 3% lower due to these expenses. So, shall we mean that the EBITDA margins will be settling around 30% or lower?

Rasik Mittal: So, Surya, because this has been a subdued year, all the whole nine months, so that's why the EBITDA margin is in the range of around 30% and it will range between 30 to 32%, 33%. Normally, it should be higher than 30%, but if the market is subdued, it would range around 30%.

Suryanarayan Nayak: Okay, thanks.

Kamal Khushlani: Welcome.

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

Ankit Kedia: Sir, one clarification needed when you said Q2 and Q4 are seasonally better quarters for you. Do we book primary revenue when we sell to our COFO and COCO stores along with the MBOs, because these two channels account for more than 80% of your revenues?

Rasik Mittal: So, when we bill to our partners, channel partners, the revenue is booked at that time and the secondary sale is in the books of the partners.

Ankit Kedia: So, how does the accounting move? Only the commission is what we pay them later from EBITDA?

Rasik Mittal: Billing is done to them. The ownership of the goods passes on to them and we book revenue at the time of sale to them. Net of margin.

Net of margin, Yes. So, all the margins are built into the billing, when we bill it to them, all the margins are built into that.

Ankit Kedia: So, in that context, why was the inventory high for the quarter? Because this is the best quarter and probably have you billed inventory for the next season coming in?

Rasik Mittal: Yes. So, we generally, because the kind of cash flows we have, we generally get the goods in advance, so that we do not…

Kamal Khushlani: See, the way we work with our vendor partners is that we utilize periods that are lean with them, so that we can get the best opportunities in terms of prices from them and that is the kind of relationships we have with our vendor partners.

So, yes, there is inventory that has come in for the next season also and that is typically the model in which we work.

Ankit Kedia: Sure. So, second question regarding online revenues, we expected to grow 200% over last year in terms of online revenue, we are always shy from spending online. Now, suddenly, we have seen a focus coming back on online and especially in your opening remarks, you said, on your own website as well. Last year, you had done only INR2.5 crores from your own website, which is half a percent of the company revenues.

So, over the next three year period, where do you see online revenues being there and in that own website being what percentage? And what we understand is online is the least margin business. So, as the online business grows, will you also see shaving off of margins coming on this channel?

Kamal Khushlani: So, Ankit, right?

Ankit Kedia: Yes, sir.

Kamal Khushlani: So, Ankit, see, the way we utilize the online channel is to clear our old season merchandise. See, the most important thing in our business is to be able to liquidate everything we make profitably. That's what our business is all about. As long as we are able to liquidate whatever we make profitability, we are in a good business. So, what happens is, like Rasik said earlier, depending on a season, our margins could vary by a couple of percentage here and there as far as EBITDA is concerned. That depends on how good or bad a season is.

If we have targeted to sell 100 pieces in the next season, and we have produced 100 pieces, we have to ensure that we are able to liquidate those 100 pieces profitably. Now, the margin that we make depends on how good or bad the season is. Therefore, the EBITDA margin may be plus or minus one, two or three points here and there.

Now, coming to whatever we sell on the online, and whether we make money or not, whatever we sell even online, albeit the margins are lower, but we are able to liquidate whatever we make even on the online platform profitably.

And this year, the sales saw an increase over there, because what we do is we use that channel to clear our old season merchandise, as I told you. So, whenever we have higher stock in the system of old season merchandise, naturally at that time, the sale is higher, because the demand for our brand is very high. And we don't produce to feed for that demand in the online space. We don't make special units just to sell in the online space. We use it to clear our old season merchandise.

So, whenever there is inventory, we are able to liquidate that also very, very easily and profitably. So, whenever there is inventory in the system, our sales would go a little higher. Whenever it is lower, it may go -- the sales could be lower. So, that's how we manage the inventory. Everything boils down to whatever we have made should be able to be liquidated profitably, Ankit.

Ankit Kedia: No, sir, I understand that. So, it's very clear that your online channel is not your focus, it is a liquidation channel for you. And that could be margin dilutive if the inventory is high, and you would not, core focus would not be online for you. Is that the right assumption?

Kamal Khushlani: Right, yes.

Ankit Kedia: Sure, sir, another question regarding online is, what will be a full price sell through for a company level overall now? Because online is purely discounted and then again, with the year not being good, and you want to liquidate inventory across channels. So, how does your full price sell through come?

Kamal Khushlani: Roughly, whatever we produce, roughly 80%-odd of that we are able to clear off by the end of season sale. And out of 80%-odd, half and half is what we treat as fresh sale and half is end of season sale. If the season is good, it could be a little more than half in fresh. If it is bad, it could be a little less than half in fresh. That's the range where it is.

Ankit Kedia: And sir, the industry ballpark would be around 50%-55% full price sell through. So, you are at 40% full price sell through.

Rasik Mittal: So, Ankit, see net of returns, it would be, ours also is around 50% only.

Ankit Kedia: Okay, you said 80% or 50%...

Kamal Khushlani: It is the sell through, 80% out of what we produce, it depends on how you present it.

Ankit Kedia: Sure. Sir, my next question is on the manpower expenses, which you said for the warehouse. Lot of the companies are going for 3PL warehousing and for the company of your size, would it make sense to have your own warehouse and own staff or you would like to have a 3PL warehouse, which would give you flexibility and not have staff on the third party apparel?

Kamal Khushlani: We work on a mixed model. We also have small portion of ours with 3PL partners, but we are able to run our warehouse very efficiently and we have a very, very, what do you say, strong team in Bangalore for our operations of production there. And that place is able to manage our warehouse very efficiently and we are very happy to do that ourselves.

And whatever we have done in the warehouse is that we have increased our capacity. The warehouse that was earlier, we had about 50,000 square feet is currently across different levels, is almost 140,000 square feet. So, we have become future ready and created the space that is required and the manpower that's required for the growth that we anticipate in the future.

Investments that have been made, keeping the forthcoming period in mind.

Ankit Kedia: Sure. And sir, my last question is on the MBO business. Today, we had around 1,300/ 1,350 MBOs. Where do you see yourself in next three years or penetration perspective, you can reach 1,500, 1,800, 2,000 MBOs over the next three years?

Kamal Khushlani: Ankit, India is giving an opportunity across all kinds of cities and all kinds of channels. See, typically what happens is that how growth has happened over the last 15/ 20 years is that there are small towns which have MBOs that sell local brands. They do not sell national brands, so to say. Now, as India is growing richer and as that town grows richer, what starts happening is that some of the people of that town start gravitating to nearby bigger towns to buy brands that they aspire for.

Now, at that time, some of the brands and some of the retailers in these towns wake up to that and they begin migrating towards brands like, national brands like us, Levi's, US Polo, etcetera. So, then they start stocking us and slowly that town becomes conducive for single brand retail. And to give you an example, Indore, let us say about 10- 12 years ago, had one exclusive brand outlet for us. Today, there are six or seven brand outlets in Indore that we have today. So, that town keeps growing horizontally.

Then, similarly, there are smaller towns which keep coming up where there are MBOs that keep sprouting up. So, we intend to keep adding, but I do not have a number for you that, you know, exactly in the next so many years we will hit the 1500 mark or so. It is a mark there's a lot of dynamics that come into play. But we are seeing growth across all kinds of cities and all kinds of -- in all channels. I mean, I gave you an example of horizontal growth of EBOs and somehow new towns come up where MBOs open.

And then some towns where MBOs have opened and how EBOs start opening there when it becomes conducive for single brand retail. And having said that, I will just give you an example. In October last year, we opened a store in Phoenix Mall of Asia, Bangalore, which is a fringe market that developed there. Now, there are large format stores there also. There is our EBO also. Similarly in September last year, we opened a store in Mall of the Millennium in Wakad, Pune.

So, there is Bangalore, there is Pune where we are opening EBOs. There are large format stores also coming up and there are smaller towns where MBOs come up. And all, I mean, to just tell you, if there is any MBO, worth its salt, which has mid-premium to premium casual wear, then Mufti has to be a part of it. We ensure that wherever there is a footfall and demand for mid-premium to premium casual wear.

Ankit Kedia: So, the reason why I was asking you, if you are guiding for the 17%-18% growth, your EBO edition is around 12% growth, 50-60 stores on a 420, 430 base. Online is a liquidation channel. If the inventory is high, you would wish it, else it could come down again to less than 10% of revenue and you can see a decline in online as well. So, the only lever remaining is the MBO. And there, if you are saying the number of MBO growth is uncertain, then what confidence do we have that we will grow 18% of your top line?

Kamal Khushlani: I didn't say I am uncertain. I just said that we are unable to give you an exact time as to when I would reach 1500 MBOs or 1800 MBOs, purely because that is not in my hand. What is in my control? Hence, we have a range of growth, Ankit. See, we intend to grow by opening of stores and we intend to grow by having some same store sales growth. Both of these put together and some MBOs also that keep opening along with this.

And same store growth happens at all points of sales, which include MBOs and EBOs. So, it is a combination of inorganic and organic both. And when we say inorganic, we mean expansion of new stores and MBOs and organic, we mean same store growth. So, both of that put together is what we expect to help deliver growth.

Ankit Kedia: Understood, sir. Thank you so much and all the best.

Kamal Khushlani: Thank you.

Moderator: Thank you. The next question is from the line of Shrinjana from Ratnatraya Capital. Please go ahead.

Shrinjana: Hi. Thank you for the opportunity. I had two questions. One is that if you can explain the store economics a little bit, what is the average store size, what is the revenue per store, what is the broadly the opex per store like and what would be the investment in a store? That would be helpful. That would be my first question.

Rasik Mittal: Yes. So, hi. Our average store size is around 750 to 800 square feet. The capex that we have to do for the renovation of the store is around 25 lakhs per store. And over and above that, the inventory that we need to put in the store is around 15 lakhs on COGS.

Shrinjana: Understood. And the revenue per store, the average revenue per store?

Rasik Mittal: On an average is around 90 lakhs per store.

Shrinjana: 90 lakhs. Okay. And this 90 lakhs is at the company level what we get or at the billing level?

Rasik Mittal: No, it is at the counter level. See, store economics will be at counter level.

Shrinjana: Got it. And what would be the broad opex type including rent?

Rasik Mittal: So, in a company owned store, the rental would be around 24%-25%. Yes. And for a COFO store, the rental would be around 19%-20%.

Moderator: Sorry to interrupt. Ms. Shrinjana, may we request you to return to the question queue for follow-up questions? Thank you. Our next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Good afternoon, sir.

Kamal Khushlani: Good afternoon.

Utkarsh Maheshwari: Yes. Sir, just to add on to Ankit's question, I mean, this time we have done SSSG of 0.5% in last nine months. And for the Q3, the SSSG was 1.4%, right?

Kamal Khushlani: Yes.

Utkarsh Maheshwari: Do you think that this is this number -- this is at the level where you really are happy or what could be our aspiration? Because I mean, just want to add up to understand, how many stores do we intend to add up in F25 and F26 in next two years? And how do the SSSG think what we are targeting as such?

Kamal Khushlani: So, Utkarsh, we certainly are not happy with the 0.5% same store growth. But unfortunately, the market, the demand, the consumer sentiment has been muted and that is across industry. However, we remain flattish till the H1. And then there is some minimal growth that we have seen in Q3. And what we would be happy with, but anywhere ranging between 3% to 5%, same store growth is something we would be happy with. And that is what we endeavour to do.

Utkarsh Maheshwari: And what kind of number of stores you intend to add up?

Kamal Khushlani: 50, 55, 60, depending on the number of stores that come by. Because we believe in growing the business profitably, Utkarsh. We have always, run the business through the profitability lens. So, everything that we do, we look at it, that what will it add to our bottom line. So, we ensure that all our stores run profitably and we are able to run stores profitably across all types of towns, whether it is a metro, Tier 1, Tier 2, Tier 3 town. We manage to run our stores profitably.

So, looking at that, as per the opportunities that come by, there's a lot of filtering that happens. We look at maybe more than 70-80100 stores before we finalize every store. So, there is a lot of filtration that happens before we finalize the store and confirm it.

Utkarsh Maheshwari: Okay. So, I mean, I believe at the start of the call, you mentioned about 18% growth. That is what you are targeting, 18% to 20% for the current year, right?

Kamal Khushlani: Yes.

Utkarsh Maheshwari: So, I just want to understand, I mean, you mentioned that the profitability may remain flat. So, basically, it is fair to say that the maximum of the possible expenditure in terms of your Ad Pro and everything is behind now?

Kamal Khushlani: Maximum, yes, it is behind.

Utkarsh Maheshwari: I mean, it may not move up because, I mean, you mentioned that it may rise, it may be going to 4 to 5%. So, what, where have we reached at this juncture, if you can quantify?

Kamal Khushlani: See, currently, we have spent about INR23.7 odd crores and…

Utkarsh Maheshwari: That is for the current quarter, right?

Rasik Mittal: So, Utkarsh, currently, I think the spend is around 5.5%.

Utkarsh Maheshwari: Okay.

Rasik Mittal: So, Yes, for 9 months, it is around 5.5%. So, it is slightly higher because of this additional investment in the current year. But going forward, it will be in the range of 4% to 5%.

Moderator: Thank you. Sorry to interrupt, Mr. Maheshwari. May we request you to return to the question queue for follow-up questions?

Utkarsh Maheshwari: Yes, no worries. Thanks.

Moderator: Thank you. Our next question is from the line of Kunal Bhatia from Dalal & Broacha Stock Broking. Please go ahead.

Kunal Bhatia: Yes, I just wanted to understand in terms of when you mentioned seasonality, what do you exactly mean in terms of seasonality? Because the kind of positioning you had during the IPO, it is very different. You do not have a wedding kind of festive kind of a seasonality. If you could elaborate on that?

And secondly, you mentioned about pre-COVID, post-COVID, but what about post-IPO? Why is the advertisement cost, if you were to rebrand or whatever do with the advertisement cost, it should have started from FY23, right? So, what is it that suddenly post-IPO, the first quarter, the advertisement cost suddenly goes up? So, if you could just elaborate on these two points in special.

Kamal Khushlani: Sure. See, it did start from the FY23 itself, our increase in spends on advertising. But however, that was the first year post-COVID. And this was the second year and happened to be our 25th year. So, this is where we got momentum. Now, like we said, we've always spent 3.5% to 4% 5% of our revenue.

And we continue to intend spending between 4% to 5-odd percent of revenue. That is what we intend to do. And we continue to do that. And this is going to help in increasing the brand salience and which is something we've seen, whatever changes that have been made in the brand have been appreciated by the consumers at large and also the trade fraternity on the whole.

So, hence, we made these investments for the brand, which will be helping us in future. And it wasn't done in, you know, it's just coincidental that it happens to be the year in which we did our IPO as well. It's pretty much in line with what we have planned to do.

Moderator: Mr. Bhatia, does that answer your question? So, we are unable to hear you. May I request you to unmute your line from your side, please?

Kunal Bhatia: Hello. Can you hear me now?

Moderator: Yes, sir.

Kunal Bhatia: Hello. Yes, sorry. Sorry for that. I was just asking about the seasonality element. So, what do you exactly mean on the seasonality element?

Kamal Khushlani: Seasonality does not just mean like the wedding season or like that. Like I earlier mentioned that we work on two big seasons, which is autumn-winter and spring-summer in India. And that's how it reflects in the books at that time, because that's when the goods for the new season are pumped into the stores, right?

At some point, the stores are emptied with the old inventory and they are refreshed with new inventory that goes in for each season. Hence, the Q4, which is the beginning of the Diwali season or autumn, winter, Q2, I'm sorry, appears, you know, it does in our books and Q4 is the beginning of the summer season. Hence, it appears the way it does in our books. So, that's how it reflects in the books.

Kunal Bhatia: Okay. And finally, if you could give us the number, what was your SSG on a CAGR basis between 2016-'17 to pre-IPO?

Kamal Khushlani: We have it from 2019-20, the year which was a normal year pre-COVID to FY 2023. And we had grown at a CAGR of 7.24% SSSG, out of which 3-odd percent was volume and 4-odd percent was value.

Kunal Bhatia: So, this number which you have given going forward, the 3% to 5% percent SSG…

Kamal Khushlani: You are sounding very, very muted.

Kunal Bhatia: So, I'm saying this growth which you have given for the coming years, that will be more of a volume or a price?

Kamal Khushlani: Be both.

Moderator: Thank you. So, maybe the question to return to the question queue for any follow-up questions. We move to the next question. The next question is from the line of Rajiv Bharati from DAM Capital. Please go ahead.

Rajiv Bharati: Yes. Good afternoon, sir. Thanks for the opportunity. So, with regard to your 18% to 20% growth guidance, what is the SSG assumption you are making for let's say FY 2025-2026?

Kamal Khushlani: In the growth, like I said, we intend to grow between 3 to 5% SSG. That's what we'd be happy to do. But depending on market conditions and how it goes, that's what we hope to do, Rajiv.

Rajiv Bharati: Sure. And at what point in time will you revisit this 5% ad expense number? I mean, if you, let's say, hit a lower number and then you will – I mean, we have seen some other companies also immediately after the IPO expanding the ad a bit and then scaling it down. So, is there an outlook on that as well?

Kamal Khushlani: This year, whatever we had planned to spend is done in line with that. And even for the next year, like I said, we intend to do what we have been doing at least for the next year or two. And we intend to keep it in the range of 4% to 5% of the revenue, Rajiv.

Rajiv Bharati: So, what I'm – I mean, let me ask you the other way. So, is this ad expense a function of the, let's say, EBITDA margin which you are shooting for? And let's say, if you're saying 28%-30%, and if that does not come through because…

Kamal Khushlani: Rajiv, in spite of the – see, last year, there was one season, which was summer 2022, was a very good season. And autumn '22 was a slightly muted one. This year, unfortunately, both seasons did not fire. And we have an additional spend that we have made in advertising.

And in spite of both of that, I have said that we should be able to maintain our EBITDA in the range of 28% to 30%. That shows the strength of the brand in going forward. And as, you know, the market dynamics change, we usually have been able to be one of the better performers in the industry. And we hope to continue to do that.

Rajiv Bharati: So, on that particular bit, can you help with the, let's say, pre-Ind AS margin for Q2, Q3?

Rasik Mittal: Rajiv, we'll get back to you on that.

Rajiv Bharati: Sure. And lastly, let's say, for Q2, when your mix was slightly more skewed towards online and your EBO bit was lesser, still your gross margin expanded sequentially. And then we have seen, this bit again expanding in Q3 while your EBOs again jumped. I mean, why the gross margin expanded in Q2 sequentially? And then again, the kind of expansion should have happened in Q3?

Kamal Khushlani: Sequentially, it was very high, Rajiv, in the last year. And this year, whatever benefits we got due to reduction in those prices reflect in the margins. And this is something we'll maintain in this range. And the gross margin will get normalized annually, Rajiv.

Moderator: Thank you. Mr. Rajiv, may we request you to return to the question queue for follow-up questions. Our next question is from the line of Darshil Javeri from Crown Capital. Please go ahead.

Darshil Javeri: Yes. So, sir, I just want to know if we are Q4, we consider as a good season, sir, that would entail that our revenue would be on similar lines as Q2. Would that be a fair assumption, sir? It would be higher than Q3, right?

Rasik Mittal: Yes. Generally, Q4 has been higher than Q3. So, it will, see, the season has been a little muted. So, it will depend on how much goods are returned by our distributors and all that.

Kamal Khushlani: But those are just a few percentage points, one or 2 percentage points here or there. It's not something alarmingly different. The way we plan our business is consistent. It could go up a little, it could go down a little, but it's never going to be majorly north or south.

Darshil Javeri: Okay, sir. So, I just wanted to also ask about, you know, our kind of, we want to reconcile our revenue guidance and of course, you know, economics. So, in case if we are adding around 50 to 60 stores every year, that would in general give us around an additional INR50 crores of revenue if we are getting INR90 lakhs. And with the same store growth also of 3% to 5%, we should be growing maybe higher than what we are targeting. Is that a fair assumption? Are we being a bit conservative?

Kamal Khushlani: See, you could choose to say that or look at it the way you'd like, but typically in the first year and the initial year, the stores have a higher rate of growth. So, some of them deliver and this depends, there are all types of stores that come in starting from, you know, metros to Tier 1, Tier 2, Tier 3 towns.

So, Tier 3 towns may have lower, the Tier 1 town may have higher sale, etcetera and sometimes even otherwise. So, this, the number we are giving is an average number. And yes, I mean, typically we, you know, believe in delivering whatever we aim to do.

Darshil Javeri: Okay, sir. This is one, like, just overall, sir, do you see any more new set of growth or, you know, some kind of risk because, you know, Q4 also half of the quarter is now gone by. So, is there anything that you see, just sluggishness in the demand, continual pursuing or something like that?

Rasik Mittal: Sorry? Markets as of now still are subdued only, the demand is still subdued. So, we are waiting for the demand to pick up.

Moderator: Thank you. Mr. Javeri, may we request you to return to the question queue for follow-up questions. The next question is from the line of Sagar Sethi from Sethi Investment. Please go ahead.

Sagar Sethi: Some companies have reported 20% Q-on-Q growth for this quarter, but you said that demand is subdued?

Kamal Khushlani: Demand is subdued, but we cannot understand what you are saying.

Moderator: Due to time constraint, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Kamal Khushlani: All right. Thank you. Thank you, everyone, for joining us. I hope we have been able to answer all your queries. We look forward to such interactions in the future. Once again, I would like to thank the entire investor community for the support shown to us during our IPO, and we will live up to the expectations of you all in future.

In case you require any further details, you may contact Mr. Deven Dhruva from SGA our Investor Relations Partner. Thank you very much and have a good day, gentlemen and ladies.

Moderator: Thank you. On behalf of Credo Brands Marketing Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Kamal Khushlani: Thank you.