February 01, 2025

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

Dear Sir / Madam,

Subject: Transcript of Earnings call – Q3 FY 25

We hereby enclose the transcript of earnings call for the financial results for the quarter ended 31st December, 2024.

This is for your information and records.

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

Gayathri Kethar
Company Secretary & Compliance Officer

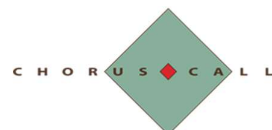
Encl: As above

"Go Fashion (India) Limited

Q3 FY '25 Earnings Conference Call"

January 27, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 27th January 2025 will prevail



MANAGEMENT:

- **MR. GAUTAM SARAOGI – PROMOTER AND CHIEF EXECUTIVE OFFICER – GO FASHION (INDIA) LIMITED**
- **MR. R. MOHAN – CHIEF FINANCIAL OFFICER – GO FASHION (INDIA) LIMITED**

Moderator: Ladies and gentlemen, good morning. And welcome to the Go Fashion (India) Limited Q3 FY '25 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gautam Saraogi, Chief Executive Officer. Thank you and over to you, sir.

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

The apparel retail demand remained weaker than expected, driven by underwhelming festive season and decreased consumer spending on discretionary items. Despite the same, we at Go Colors continue to meet expectations and have continued to maintain our growth trajectory.

Revenue from operations for the 9 months grew by 11% to INR643 crores, with an EBITDA which grew by 9% at INR206 crores. Same-store sales growth remained flat, reflecting the subdued market environment as heightened inflation prompted customers to postpone discretionary apparel purchases. Despite this, we upheld good P&L hygiene and achieved impressive EBITDA margin of 32%. This performance was through strategic cost control measures and disciplined discounting practices, demonstrating our ability to maintain profitability irrespective of the challenging demand landscape.

Our full price sales ratio accounted for 95.1% in a challenging demand environment. This underscored strong consumer loyalty and acceptance of our product and pricing. Our brand's ability to not rely on discounting sets us apart from our peers. Over the last few quarters, large-format stores segment had encountered some challenges reflecting shifting market dynamics and evolving consumer preferences. However, we remain confident in the resilience of this space and anticipate strong rebound in the coming quarters driven by strategic initiatives and improving market conditions.

As of December, our average selling price stood at INR769, driven by favorable shift in our product mix. Over the years, we have seen significant transformation in our mix from our earlier reliance on leggings and chudidaars. This shift underscores a strong market acceptance of our value-added products and reflects our evolution as a comprehensive bottom wear brands capable of catering to diverse customers across all categories.

Our strategy remains focused on being a one-stop solution for all of women's bottom wear needs, offering a broad selection of products at affordable prices to a diverse customer base. These factors will support our growth trajectory moving forward. I'm also pleased to share that we are on track of opening our first store in Dubai. And our stores should open by April 2025 through Apparel Group.

Moving on operational metrics of Q3 and 9 months FY '25. Our advertising spends as a percentage of revenue stood at 1.9% for the 9 months. We have strategically taken a call to keep it intact because of the sluggish demand environment. We continue to rationalize our smaller stores and plan to phase out another additional 10 to 15 stores in Q1 this year. This will be the last set of small stores closures.

Based on observation, we are confident that the sales from these smaller stores will eventually seamlessly transition into the larger stores. In line with this approach, we opened 61 net new stores, on a net basis for the 9 months FY '25. And for the full year, we plan to do a total between 80 to 90 net additions.

Our EBO channel revenue for 9 months FY '25 stood at INR463 crores, reflecting an 8.5% year-on-year increase. This growth can be attributed to the core nature of the product offering, which has been less impacted by the sluggish demand compared to other categories.

Given our diverse portfolio and large amount of SKUs, we continue to maintain decent inventory levels at 99 days as of December 2024. For the full year, we anticipate our inventory days to stabilize between 90 and 95 days, ensuring operational efficiency and healthy working capital management, generating decent, high operating cash flows.

Our strong focus on inventory and working capital efficiency will help us achieve our target of converting more than 50% of our EBITDA into operating cash flows. We are on track to achieve the same for FY '25. Way forward, our first step is to achieve low single-digit SSSG in FY '26. Second would be grow our footprint, increasing the number of stores in our portfolio. For FY '25, we aspire to open around 80 to 90 net addition store opening.

Going forward, next year, we aspire to open anywhere between 120 to 150 net additions for the next year. Lastly, our focus would be to maintain strong check on inventory levels, leading to healthy balance sheet and working capital and improved cash flows in the business.

To conclude, the women's organized bottom wear segment in India is poised for significant growth despite the current tough environment. As fashion trends evolve, there is a growing preference for versatile and comfortable products which are not only worn on occasions but are everyday in nature and core in nature, which cater to both casual and professional settings.

Furthermore, India's expanding urban middle class, increased disposable income and greater awareness of global trends are likely to drive consumer spending in the segment. As these dynamics continue to unfold, we are set to capitalize this growing opportunity and fuel our growth trajectory going forward.

With this, I would like to hand over our call to our CFO, Mr. R. Mohan, for the update on Q3 and 9-month financial -- FY '25 results and financials. Thank you.

R. Mohan: Thank you, Gautam. And good morning, everyone. Despite the challenging business environment, the company continues to witness a strong operating performance. First, I'll give you financial highlights for Q3 FY '25. Our revenues for the quarter stood at INR215 crores, as against INR202 crores in Q3 FY '24, a growth of 6% Y-o-Y.

Gross profit stood at INR138 crores, a growth of 11% year-on-year, with a GP margin of 64.1% for the quarter. Our EBITDA for the quarter stood at INR70 crores, as compared to INR68 crores in Q3 FY '24, a growth of 3% Y-o-Y. Our EBITDA margin stood at 32.5%. Profit after tax for the quarter stood at INR24 crores and witnessed growth of 4% Y-o-Y. PAT margin stood at 11.3%.

Coming to the 9-month FY '25 performance, revenue stood at INR643 crores in 9 months FY '25, as against INR581 crores in 9 months FY '24, a growth of 11% Y-o-Y. Gross profit stood at INR405 crores, a growth of 14% Y-o-Y, with a GP margin of 63%, for the 9 months ended.

EBITDA for 9 months FY '25 stood at INR206 crores, as compared to INR189 crores in 9 months FY '24, a growth of 9% year-on-year. Our EBITDA margin stood at 32%. PAT for 9 months FY '25 stood at INR74 crores, as compared to INR70 crores in 9 months FY '24, a growth of 6% year-on-year. Our PAT margin stood at 11.4%.

ROCE and ROE, excluding IndAS impact, as on 9 months FY '25 stood at 20.3% and 15.8%, respectively. Cash and cash equivalents stood at INR231 crores, as on 31st December 2024. With this, we now open the floor for the question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Thanks for taking my question. Firstly, wanted to understand the trends. Growth trends have remained muted. It is also slightly weaker than our own expectations during the course of the year. What are the reasons for this? And also if you could highlight if there is any significant growth divergence across regions for you.

Gautam Saraogi: Sure, sure, Devanshu. Thanks for the questions. So Devanshu, see. I think the difference why this Q3 has been a little bit of a weak performance is because of the festive. I think festive was far lesser than expectations. And we've done our channel checks as well, and it has been consistent across different retailers we have checked, that festive was quite disappointing this time.

But what was good about this quarter was that, December, onwards, the growth trajectory and momentum was good. Like, post December 15, demand has actually picked up well. And post December 15, we have seen decent demand, but the entire festive and post festive leading up to December 15 has been very subdued.

Now as far as region-wise understanding, if you look. I think there are some positives which have come out in Q3 for us, North has actually reported positive SSSG. West India also has reported positive SSSG. South has been a little bit of a drag for us. One of also the reasons for South having a little bit of an underperformance in Q3 is because of extended rains. See, regions like Tamil Nadu, Karnataka, especially in Tier 2, Tier 3, the monsoon actually continued into December.

So some part of December, sales actually kind of weakened the sales for South. And that's why South's Q3 SSSG has been a little on the weaker side, but the positive side of this quarter is that

West India has had actually low single-digit SSSG. And North India actually has had mid-single digit SSSG. So we are seeing some kind of improvement in demand when it comes to West and North of India.

Devanshu Bansal: Understood, Gautam. That is helpful. Just a follow-up on this: So I noticed that, particularly for Q3, the full price/mix is 95 versus last year it was closer to 98. So this demand environment which you're indicating after December 15, is this also due to a start of early EOSS this time around? Can we attribute this to that?

Gautam Saraogi: Because festive was a little weak, in our case, we actually didn't start EOSS very early. We started around the same time which we usually start, but overall market, EOSS this time started a little early because of subdued demand and a weak festive.

Devanshu Bansal: Okay. And Gautam, in other categories, at least like food services, we are noticing that there is a big consolidation happening from a competition perspective, right? So there is prolonged slowdown. And there are a lot of store closures that are happening around that space, so is your space also seeing store closures for competition as well because of this prolonged slowdown?

Gautam Saraogi: See. Well, there is, honestly, not only competition, if I see among all peers in retail. I think many brands are in consolidation mode because of slowdown in overall apparel and footwear space. So there's a lot of consolidation happening because the same store sales growth are weak, right? People usually tend to consolidate to maintain margins.

In our case, we have done some, little consolidation, as far as small stores are concerned. And we look to close another 10 to 15 stores in Q4, post which, I think we are largely done with our consolidation. So from Q1, onwards, for the next financial year, we will probably see store closures in low single digit or mid-single digits. It's not going to happen, what happened this year.

So next year, like this year, we are going to end up with an 80 to 90 net addition, which was actually lesser than what we had targeted, yet on a gross level we are actually closer to 120 this year. And because of our closures, we are going to end up between 80 and 90. Next year, because it's going to be mid-single-digit closures, which happens in the normal course of business, we are very confident that we'll be closer to that 120 now without any problems.

Devanshu Bansal: I have more questions. I'll join back in the queue.

Moderator: Thank you. The next question comes from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Two questions from my end. Gautam, you mentioned about SSG being muted. So still not able to understand the actual reason for a flat SSSG because we've been anticipating the demand to come back. So what is really hitting SSG? And historically, if I see, Q4 is not a very big quarter. So as we move forward, how do the next few quarters, in terms of demand or sales, look like?

Are there any initiatives internal which we are trying to boost demand? Or do you think the environment is now better? You alluded to some demand coming back, so some sense on revenue growth going forward will clearly be helpful.

Gautam Saraogi: Yes, sure. Definitely, Prakash. To start off your question, on SSSG rate. I mean look. In this demand scenario, honestly, the fact that we are at flattish SSSG is actually, in my eyes, a very decent achievement. If I look around whatever channel checks we have done there are some exceptional players in the market who have done double digit as well, but many retailers, many brands have actually had negative SSSG during the last couple of quarters. So I think, in the overall scenario, I think we maintaining flattish SSSG, maintaining demand in our existing stores, I think we've done a great job, but the idea is obviously to move towards positive SSSG.

So moving forward, from strategies perspective. A couple of strategies, what we are adopting right now because we know that the environment is tough, though we have always been a cluster-based expansion model, we are also now trying to control our cluster-based expansion model and trying to do more horizontal growth rather than vertical growth. I think, in the past, we went very deep in clusters and opened more number of stores. I think we will continue our cluster-based expansion model in a more controlled way.

So for example, in a market where we see potential opening 4 small stores or 4 medium-sized stores in a particular vicinity, we will open 3 medium stores instead of opening 4 small stores. So the idea is to control the cluster-based expansion model so that we don't end up cannibalizing. So that is one of the strategies. And moving forward, also from a growth perspective, I think, next year, we're looking at a double-digit company revenue growth with a mid-single-digit SSSG. And for Q4, we will target a low single SSSG. And company is working towards that goal, how we can make this positive.

Prakash Kapadia: Thank you.

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

Sameer Gupta: Thanks for taking my question. Firstly, I'd like to dwell a little bit on SSSGs, like other participants. So it's been flat now for 6 quarters. Now I understand that overall consumption hasn't been in the best of health, but for a brand which is relatively small and young, it still seems an underwhelming performance. You also give same-cluster growth, and I see that, that has also now started to moderate. It used to be around 8% to 10%, now it's around 5%.

So apart from the broad consumption, which may take some time to revive or we don't have a handle, what are the steps that you are taking as a company to revive this growth? Are there any pilots that you are doing? I understand that the bigger problem is footfalls right now. So any color on your own strategy, your own initiatives will be helpful.

Gautam Saraogi: See. I'll tell you two things we are doing, Sameer. And one is, like I just mentioned to Prakash as well, on the expansion part. We are not trying to go very deep now. We understand that the demand scenario is weak. If we try to go very deep in cluster-based expansion model, I also don't want to end up cannibalizing my own stores, so we are going more horizontal. So whatever

expansion we are going ahead with right now, we are also trying to go to newer cities, new towns so that it is new growth which is coming into the revenue channel.

And we are not opening the very small stores right now. What we've experienced when we open up mid-sized stores of 400, 500square feet, the consumer is actually having a very good experience because of our extended product range. In that 150, 200 square feet, that experience is not coming, so we are also trying to open good-experience stores of 400, 500 square feet; and move away from the 200 square feet model; and also like I mentioned, go more horizontal in expansion rather than going deeper into the same cluster.

Second thing. I think, look, we as a company have done fantastically very well in cost control. In an environment where demand is weak, SSSGs are weak, actually operating margins and PAT margins have not seen too much of a decline. In fact, our absolute PAT has actually grown. I think, as a company, our strengths have always been cost control. And future also, cost control is going to be a big positive for us during this weakened environment.

I think, keeping these two initiatives in mind, if you keep these two initiatives on, once demand revives, it will reflect in the top line revenue and even in the bottom-line margins.

Sameer Gupta: This is helpful and actually brings me to my second question. So I noticed that on the cost line that gross margin are up 264 bps, including subcontracting. Employee costs are up 26%. And other expenses are up 16% if you exclude ad spends. So just trying to understand reasons for the increase in gross margin as well as the employee and other expenses.

Gautam Saraogi: Yes, sure. So thanks for the question, Sameer. So on the GM part, SameerI I think it's a product mix perspective also. I mean, some of our products which had a slightly higher multiplier and higher GM, those products sold a little more than our other products. That had one impact on the GM, to go up. And on the cotton prices as well. I think we've had cotton prices coming down.

And I think finally we have seen the full benefit of cotton prices. So we have done a 64% GM in Q3 . I think, steady state, we see a 62.5% to 63% GM on a steady-state basis. 64% has been a little on the higher side also because of some product mix which have sold well during festive, which had a slightly higher GM, but on a steady-state basis, we see 62% to 63% of GM, on a steady-state basis.

As far as salaries is concerned, which you very rightly pointed out, see. One of the reasons salary costs has gone up is, see, we've added 3 LFS partners in this entire 9 months. We added Lifestyle, we added Shoppers Stop, we added Pantaloons. So Pantaloons was already there, but we added more number of stores in Pantaloons.

So Pantaloons, we added about 70 to 80 stores. Lifestyle, we added about 60 to 70 stores. Shoppers Stop, we added 120 stores. So all these stores, we have kept employees, which we usually do. It's just that, these stores, in terms of sales, are not stabilized because they are fairly new to the roster. So that's why employee costs on an overall basis have seen a sharp increase, but I see these employee costs stabilizing by Q1.

See Q4, anyway, is usually a weak quarter in retail, but in Q1, I see the costs stabilizing. And this will come down in proportion to our revenue, so I don't see that as a concern. As far as the other expenses are concerned, where my revenue has grown by 11% but my other expenses has grown by 16%. I think most of these expenses is rent. My rent has actually grown at 13%, versus my revenue growing at 11%, which is a good thing, so there's not a very big imbalance between my revenue and my rent.

And my other expenses are just variable expenses which are more linked to revenue, anyway. So that also, the 16% and 11%, is not a big concern. By Q1, it will stabilize. The salary part, which are seeing a much larger increase, is largely on the basis of me adding more LFS stores which are yet to get stabilized, which in Q1 we will see a good stabilization in those.

Sameer Gupta: Just a follow-up here. So by my calculation, ad spend, if you exclude, the other expense is up 16%. So if the rent is up 13%, the other portion of other expenses will be up even more than 16%. So I mean and if it's more variable linked to revenue...

Gautam Saraogi: See. I think what has also happened is, many malls, the electricity costs across states and the maintenance costs and HVAC costs across also malls have gone up over a period of time; and that has also impacted. In some sense, it has impacted the other expense.

Sameer Gupta: Got it. So again I will just dwell a little bit on this. So let's just assume SSSG stays where it is. Where do you see the pre-IndAS EBITDA margin bottoming out? Currently it's around 17%. And this is a quarter of a high revenue. So where do you see this stabilizing on an annual basis?

Gautam Saraogi: Yes. See. I'll tell you on this, Sameer. Now see. If I take for the 9 months, I have shut about 23-odd or 24 stores. And my write-off before my EBITDA is about close to INR4 crores. So this has also taken an impact on my EBITDA. So that's why my other expense is a little higher. See. If I take my closures last year, for the 9 months, my total amount hit on my P&L was INR2 crores 28 lakhs. And this time, it is INR4 crores. So that has also resulted in the other expenses as a percentage going up. So on a steady state basis, I think we will target a pre-IndAS EBITDA of between 18% and 20%, with at least being 18% going up to 20%.

Sameer Gupta: And this 18% to 20% is with a mid-single-digit SSSG, right?

Gautam Saraogi: We are targeting to do a mid-single SSSG, correct. Even if we do low single-digit SSSG, we are very confident that we will be able to achieve the 18% to 20% of EBITDA. Our target is to do mid-single, but even with a low-single SSSG, 18% to 20% pre-IndAS EBITDA is very much possible without any problem.

Sameer Gupta: Got it. And one last question, if I may squeeze, more bookkeeping. So over 30 to 35 store closures this year. I'm assuming 10, 15 will come in the fourth quarter. How many of these would be relocations?

Gautam Saraogi: No, Relocations happens in the course of business, Sameer. I don't have the exact number of relocations which have happened this year. I don't have it handy. I will give the data through SGA and send it across. I had 23 store closures in this year. These 23 for the 9 months are net of relocations.

Sameer Gupta: Okay. That answers my question, yes. Got it.

Gautam Saraogi: Yes. So 23 is net of relocations.

Sameer Gupta: Fair enough. I will come back in the queue for follow-ups. Thanks a lot Gautam, for answering.

Moderator: Thank you. The next question comes from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Thank you for taking my question. Gautam, question is again with regards to the pre-IndAS EBITDA margin. If we look at the average for the 9 months, it's around 17.5%. And typically I have seen that your margins in Q4 drag because of the lower sales and the operating deleverage that comes in. So taking that into consideration, I mean, it seems difficult to do even a 16% pre-IndAS EBITDA margin this year because your employee costs, again as you mentioned, have been elevating to some extent. So what gives you the confidence of taking it to 18% next year even with a low single digit SSSG?

Gautam Saraogi: No. I think we should aspire to get 18% from Q1, onwards, Gaurav. I think, look, Q1 is a good quarter. And we also expect demand to pick up a little bit and plus we are not also going to have too many store closures next year, so that cost in the P&L also will not be there, so I think we should be able to deliver 18%.

If I remove my store closures which I've had, right, for the 9 months, I have generated a close to INR117 crores of EBITDA, pre-IndAS EBITDA, with an 18.2% EBITDA Margin. So currently without those exceptional expenditure or store closures, it's about 18.2%. Considering, next year, I'm not going to have too many closures and demand also will pick up a little bit, I think we should aspire to do 18%-plus EBITDA margin next year.

Gaurav Jogani: Sure, sir. Gautam, I mean, one of the key reasons here is the gross margins as well. I mean the gross margins, I'm not taking the subcontracting expense right now into consideration, for the 9 months has been around a good 68%-odd and as you mentioned that right now the gross margins are a bit elevated and might see some correction. So with this benefit is kind of fading out on the gross margins level, saying that number is doable?

Gautam Saraogi: So I think we should always look at the GM post subcontracting charges. I think that's the right way of looking at it. So I think, look, 63%, it is for the 9 months. And I think we'll maintain between 62% and 63% moving forward. I don't see a drop in the GM. I don't think it will be to the extent of the 64%, what you saw in Q3, but I think between 62% and 63%, we'll maintain in moving quarters, which in fact, earlier times used to be at 61%. Now it will be between 62% and 63%.

Gaurav Jogani: Got it, sir. And Gautam, just one question on the demand side as well. We are seeing most of the apparel guys getting aggressive in especially the value fashion retailing in the apparel side, posting good double-digit kind of SSSG across the Board. Now these players, also typically, they tend to sell bottoms. And somebody like Zudio even have the bottom wear offerings with them. So do you think there is also some impact from these guys, on the overall demand, that they might be taking away some share from you?

Gautam Saraogi: See, I don't think so, honestly. See. our customer comes in for our quality and comfort and our range. And with all due respect, I think the other value-format retailers also have a good range in top and bottoms with good quality, so I don't want to say anything negative about that, but our customer come to our store because of our range quality. And I think our impact on revenue is largely to do with the overall demand rather than any competition in value retail, honestly.

Gaurav Jogani: Sure. And Gautam, my last question is with regards to the LFS addition. I mean this quarter around there were good LFS closures that we have seen. So anything on that? I mean, how do you...

Gautam Saraogi: Actually what happened, Gaurav, is that the stores were under renovation. So one of our large-format store partners, about 80 to 90 stores have actually gone under renovation and it is temporarily closed. So that is why that number is reflecting lower in our number of LFS stores which we reported. We have not really shut any LFS stores in fact, we've added through Lifestyle, Pantaloons, Shoppers and all. It is just that, one of our LFS partners had 80 to 90 stores going under renovation. And that is why it shows the reduction in that LFS number.

Gaurav Jogani: Okay, okay and that would have also some impact on the revenues as well given that we are not operating this?

Gautam Saraogi: Yes, to a certain extent, not much. Because it's only 80, 90 stores. And LFS being only 21% to 23% of the business, it wouldn't have had a very large impact on revenues, but yes, a small impact would be there.

Gaurav Jogani: Thanks for answering my questions.

Moderator: Thank you. The next question comes from the line of Akhil Gulecha from Hornbill Capital. Please go ahead.

Akhil Gulecha: So my question is around the industry landscape and how it is evolving. So if you look, the ASP has increased. And the SSSG is 0, so that basically means there is a volume degrowth. So you've been in this industry for over a decade. You understand it very well. So have you seen such a situation before, where we had a couple of years of flattish SSSG and volume degrowth? And typically, how long does it take for the cycle to turn around and people to start buying more and the volume to start increasing at low single digits or even double-digit volume growth?

Gautam Saraogi: So Akhil, very rightly, you asked. I think, look first part of the question, on the growth of ASP, right? So our ASP growth is actually on the basis of product mix and not price increase. So till, it is basis on product mix, our ASP has grown, the volume degrowth really does not concern me. The volume degrowth would have been a big concern for me, if the ASP growth would have come based on price hikes, which is not the case. It's purely based on product mix, so the volume degrowth really does not concern me. It will stabilize in the coming quarters.

So for a company like us, this is the first time we are facing this because -- I think this kind of a similar demand situation was there in 2018 and 2019, but at that point of time, we were a much younger company with a weaker base, so even though demand was weak, we still saw double-digit SSSG growth at that point of time because our base was small. After having a decently

matured base, and having a tough demand scenario out there, I think this is the first time we as a company are facing this over the last 1, 1.5 years.

But having said that, if I rewind my memory back, I think that '18, '19 slowdown in demand also eventually recovered. This one is taking a little longer, but 100% there will be recovery. I'm very positive.

Akhil Gulecha: Okay, okay, understood. And my second question is, just want to understand a mature-level store economics. So if you take an average mature store which has been in existence for 3 to 5 years, I'm talking about EBO stores. What kind of revenues does it do? What are the gross margins? What is the store-level EBITDA, store-level ROCE, that a store which is performing well does?

Gautam Saraogi: Sure. So see. I think, look, from a matured store perspective, see an average store does between INR90 lakhs to INR1 crore. A matured store would be higher; would be about maybe INR1.3 crores, INR1.4 crores. I'm not having the numbers close to me, but it will be I think in the range between INR1.3 crores and INR1.5 crores. Gross margin profile would be similar across matured and nonmatured, so gross margin would be 68%. So matured store will deliver a store-level EBITDA of about 31% to 32% after rent.

Akhil Gulecha: Understood. Thank you so much, Gautam and best of luck.

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

Ankit Kedia: Gautam, a couple of questions from my side. First is on the product side. While still 40% is coming from legging and chudidaars, what are we doing to capture the young audience? Say 18 to 30 age group. Do you see in that segment our growth is a little more muted compared to mid-aged women? So are we seeing some mix change coming in the product where you think that's where some slowdown is happening?

Gautam Saraogi: See. I think, look, at a mix level, we are doing a lot of work. And the mix is not one of the reasons for the slowdown. In last few quarters, our mix has evolved very well. In fact, what we are doing, Ankit, is we as a brand are an all-age brand. We attract the Gen Zs. We attract the millennials, matured women and the older audience as well. So we are more of an all-age brand.

So what we have done in recent times also is, we are also introducing some core. Our category itself is core, so some core Gen Z products, we are introducing, about 4 to 5 products, in our product portfolio. And I think that will also start attracting the Gen Z audience into the store. And keeping those 4 to 5 Gen Z products, they'll also start buying the other products as well.

So we understand the importance of Gen Z. We don't want to be a Gen Z brand, like I said, we want to maintain the positioning of a very-high-quality all-age brand. But we want those Gen Z to come into the stores and buy because that's also a very large population. So I think, once we introduce these products, we do the right visual merchandising around the stores, I think that will make a very big impact. And that actually ties back to the concept of doing a minimum of 400, 500 square feet.

See what was happening earlier, Ankit, is when we are having 150-, 200-square-feet stores, the display of products was a very big challenge. A lady, when she was walking in, she does not know the different type of trousers which is there because there's no visual merchandising. There's no browsers. Now by doing a minimum 500 square feet, we are creating a lot of browser space and visual merchandising for our value-added products, including the Gen Z products. So I think, once our store sizes settle in, I think that also will give a good, positive impact on our revenue growth.

Ankit Kedia: Sure. And just to follow up on that is repeat versus new consumers. Are we seeing repeat consumers being intact? Or is it the new consumers which are seeing a slowdown? If you can give some data on that.

Gautam Saraogi: See. I think the largest issue for us is new customer acquisition has slowed down. Repeat, our repeat customers who are coming in to buy a Go Colors is very much there. I think when I compared this year data versus last year and the year before that, I think the largest issue, is our drop in bill cuts because of the newer customer acquisition has dropped down during this tough environment. So I think that is what we are trying to fix right now, how are we able to get new customers coming in.

Ankit Kedia: Sure. My second question is again on the employee costs. Our check suggests, on the variability of the employee salary, you have tweaked some things. So in the medium term, say 1 year out, how is that helping you? And what could be the revenue growth? I am not looking at cost saving, more on the revenue growth giving that it's going to be more variable in nature. How should we read that into SSSG?

Gautam Saraogi: See. I'll tell you. So yes, this is something which we're actually doing, Ankit. I'll tell you. So we are creating a variable component, additional variable component over and above what we have, for our front-end employees with certain targets on SSSG and overall growth. If they are achieving the target, there will be an additional variable payout, right from the regional manager to the store person.

Now how does that impact my P&L? It is payable only when certain targets are achieved over quarter 1, quarter 2 or quarter 3. If they're achieving those targets, then there is a payout, but employee costs as a percentage will not go up. Because it has resulted in an increase in revenue. So this new variable component which we are bringing in, should go live from Q1 and which will also bring in a big positive impact in our overall revenue.

Ankit Kedia: Sure. So some bump up in SSSG could be seen and this is across all our stores?

Gautam Saraogi: I don't know about across, but on a blended average level, we will definitely see good, positive SSSG based on this variability coming in. The variability payout, Ankit, will be only after achievement of the SSSG. So even in a worst-case scenario where SSSG is not achieved, I don't see my variable employee cost going up because of that.

Ankit Kedia: My question was are you seeing these new structures in employee salary across all our 800-odd stores which we have right away?

Gautam Saraogi: Yes, of course. See. It's not a very big structure. There's just a variable component which we are adding, but it will be across all the stores of the country.

Ankit Kedia: Sure and my last question is on some of the new product launches which we had done, be it denims or be it shorts or be it loungewear printed pants. How has been that response?

Gautam Saraogi: Doing well but the base is small, so very difficult to judge right now but definitely good, positive response. Denims have actually done well.

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

Moderator: Thank you. The next question comes from the line of Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: Gautam, my first question pertains to your views on demand sentiment. Now despite initial expectations, and this is for retail at large, of a very strong quarter supported by consolidated festive season, packed wedding calendar and then very robust winter which it turned out to be. The actual performance for broader retail and for us also has fallen short.

So theoretically, all the tailwinds are there in place, so what's your opinion on, what's your read on the demand sentiment? Because you called out that Southern part was actually a drag. So are there any nuance-based observations there, A? And B, what would have changed after 15 December where you said that demand has revived? And has that sentiment expanded to January as well?

Gautam Saraogi: The current demand scenario in Q3 is very weak. It's a very tough environment. So there's no shying away from that. It is very tough , particularly on your question, what happened after December 15, right, nowadays we are seeing that shopping during smaller windows of period of time happens in a very, very large way.

When festive, there is a very, very big bump-up of sales. So if you take the festive week and the week before that, it will be a 50%, 60% increase compared to the preceding weeks. So it's not a gradual buildup to festive. That festive week and the week before that, the sales have a very sharp V-type spike and then there is a fall.

I think, the same thing, we also saw in December, where most of December was very weak. And when we were heading towards Christmas and New Year, there was another very sharp spike in sales, which recovered the sales of Q3. Honestly, if that spike wouldn't have been there, the numbers would have been very weak, but the way the shopping behaviour nowadays is happening: Whenever there is a festival, those particular 2 weeks or 3 weeks window, there is a very, very sharp spike and not a gradual increase. And that basically answers the question of what happened post December 15.

Now how is January? January has been fairly good. January has been actually doing well on a Y-o-Y basis. I don't want to jinx it, but hopefully, February, March is good. We'll end up with decent numbers for Q4.

Tejas Shah: Is there any organized or a very structured framework in how we measure our market share versus relevant peer group? Or is it more anecdotal? Let's say, if we would have lost market share, will you figure it out at the end of the quarter or weekly basis or monthly basis?

Gautam Saraogi: So Tejas, we are actually doing a study with Technopak right now as we speak. We did one during the IPO, and it was long due. So in fact, the study is going on right now. And hopefully when we are declaring the Q4 results, the new study on market share, the overall market size, everything will be in place.

Tejas Shah: Perfect. And last one, if I may. Gautam, your whole point on smaller stores earlier sounded very perfect. And it's not to judge it by the results, what has happened. The hub-and-spoke model, where you will recruit customer from your smaller stores and they like the merchandise, they can land up in the larger stores, was actually sounding very perfect on paper, so what went wrong? Did we get the consumer sentiment wrong? Or the aspiration from the market?

Gautam Saraogi: I'll explain, Tejas. So that anecdotal example what I had given was for LFS. The consumer gets acquired in an LFS and then comes to an EBO. So the thing, what I had mentioned about small store was actually not small store. It was for LFS, like how we enter newer markets through large-format stores. And then eventually the consumers move and buy also in an EBO. Now why we have taken a certain step for a very small EBOs is, if you look, our product lines have expanded very well.

Today, in markets where we are having a small store and a medium-sized store, just think of it as a consumer, right? You would want to go to the store which has a slightly larger experience. Trial rooms are bigger. The very small stores, it's very difficult to browse. Having said that, I'm not shutting all my small stores because the small stores, from a unit economics perspective, still does very well for me.

In markets where I don't have a mid-sized store or large-sized store and I'm having a small store, those small stores are doing well. They're growing and they continue to do well, so there's no reason for me to shut every small store. It's just that I have selectively shut those small stores which are coming up for renewal, which also have medium-sized stores in the nearby area, as a consolidation perspective.

Tejas Shah: Very clear. Thanks and all the best for coming quarters.

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

Prerna Jhunjhunwala: Thank you for the opportunity. Sir, just one question. I just wanted to understand, how many stores would be opened in the existing clusters? And how many new cities or geographies you are trying to get into in the next 1 year?

Gautam Saraogi: See. I think, Prerna, very rightly, you asked. We are using a wider approach now rather than just keep growing in clusters. We are going to grow in clusters, that's been our expansion model, but in a controlled way. So I think, earlier, it used to be a 50-50 approach. Maybe now it's a 40-60

approach, where 40% might come from existing clusters and 60%, 65% would come from newer markets.

Prerna Jhunjhunwala: Understood. Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Thanks for the follow-up opportunity. I noticed that there has been an increase of 6, 7 days in the creditor days. So there's been significance where receivables are only for 20%, 25% of our business, right? So any comments there and what led to this increase?

Gautam Saraogi: So Devanshu, what has happened is because it has been a weak quarter, one of our LFS partners has actually paid us late. That one payment of a total of about INR9 crores to INR10 crores which was supposed to come in December, actually came in, in January, first week. And because of that, our December 31 debtor days have gone up a little bit and also impacted our operating cash flow. So there is a working capital increase to the extent of INR8 crores to INR10 crores because of delay in payment from one of our LFS partners, which came in actually in January, first week, which was supposed to have actually come in, in December.

Devanshu Bansal: Understood. And last question from my end, Gautam. So you've indicated that certain value-added products have done well, right, in this quarter, but ASP increase is almost like 5%, right? So what would be the contribution of such products in this quarter versus the base? If you can just highlight.

Gautam Saraogi: So Devanshu, look, see. Even our value-added products, right, we are not trying to price it very high. We don't want to price at INR1,200 or INR1,300, like we've always maintained saying that we want to keep our pricing lower than INR1,000 because we are mass premium, right? We are value premium. So that's why you've not seen a very sharp increase, but the value-added products obviously have played a role.

From a split perspective between chudidaar leggings and value-added products, I'm not having it right now. I'm guesstimating it will be, chudidaar leggings should be between 35% and 40%. I don't have the number right now. I'll share it through SGA, but it will be around in that range. The chudidaar legging would be around 35% to 40% of the sales.

Devanshu Bansal: Okay, okay, Gautam. Maybe I just wanted to understand as in because the gross margin performance is really very good. So I just wanted to understand as in what is actually...

Gautam Saraogi: Certain products from the trousers category had a slightly higher GM and which has resulted it, but it has had a very small impact on the overall P&L. Also one of the reasons of GMs being a little higher is also for the fact that EBO contribution has been higher than LFS contribution. So I think, considering all that between 62.5% to 63% is the real GM I would be looking at moving forward.

Devanshu Bansal: So then I just wanted to sort of clarify. There is no one-off, right? So all of it is business performance in the gross margins...

Gautam Saraogi: Well, it's all business performance. There is no one-off at all.

Devanshu Bansal: Understood. Thanks for taking my question.

Moderator: Thank you. The next question comes from the line of Aradhana Jain from B&K Securities. Please go ahead.

Aradhana Jain: Thank you for taking my question. I have just two questions. One is a follow-up on the previous question on gross margin. How much of the gross margin increase would be because of product mix? And how much would be because of the cotton prices benefiting you?

Gautam Saraogi: It is very difficult to quantify in terms of numbers, but I think majorly it will be cotton prices led, majorly. The product led and the EBO led would be smaller contributions, but it will be majorly driven by cotton price.

Aradhana Jain: Okay. And my second question is on pledge. So again I wanted to understand that we've been telling that, we'll eventually be reducing the pledge, but to the contrary, in quarter 3, we've increased our pledge by, I think, 1%. So any thoughts on that? Any sense on by when we expect the pledge to come down?

Gautam Saraogi: Yes. Thank you for this question. I was going to clarify this. See: We had an urgent requirement within the family. And we had to do this, unfortunately. And this also continues to remain short term in nature. Now when will the old pledge and the new pledge get cleared, I will come back soon with timelines and I'll give them to the market. Right now, I'm not having timelines in my hand, unfortunately. I'm not having them, but the minute I have it, I will come back very soon with some timelines.

Aradhana Jain: Thank you.

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

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, feel free to contact Mr. Deven Dhruva from SGA, our Investor Relations advisors. Thank you so much.

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