



CREDO BRANDS MARKETING LIMITED
(fka Credo Brands Marketing Private Limited)
Plot No. B, 8, MIDC Central Road, Marol MIDC,
Andheri (E), Mumbai - 400093. INDIA
Tel. No.: +91 22 6141 7200 Email: helpdesk@mufti.in
Website: Corporate: www.credobrands.in
Ecommerce: www.muftijeans.in
CIN: L18101MH1999PLC119669

June 04, 2024

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

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

Scrip Code: 544058

Scrip Symbol: MUFTI

Dear Sirs,

Sub: Transcript of the Conference Call on audited financial results of the Company for the quarter and year ended March 31, 2024

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Conference Call held on May 31, 2024 on audited financial results of the Company for the quarter and year ended March 31, 2024, is enclosed herewith.

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

This is for your information and records.

Yours faithfully,
For Credo Brands Marketing Limited

Sanjay Kumar Mutha
Company Secretary and Compliance Officer

Encl. As above



“Credo Brands Marketing Limited
Q4 FY '24 Earnings Conference Call”
May 31, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st May, 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 Q4 FY '24 Earnings Conference Call. This conference may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and 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. Thank you and over to you, sir.

Kamal Khushlani: Thank you. Good afternoon, good evening everyone. 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 the company website. I will first give you a little brief of what we have done over the last five years.

This I am doing in the interest of those who were not on the earlier call so that you just get a little brief history or background on what we did over the last five years or some changes that we made. In 2019, we conducted an internal assessment and put our learnings to reinvent the brand philosophy. As part of this brand reinvention, we developed

A, new brand identity designed to elevate our language across all consumer touch points.

B, a new merchandise architecture for increasing our share of the consumer's wallets by providing them designs suited for specific occasions in our consumer's lives, multiple occasions, so to say, ranging from relaxed holiday casuals, authentic daily casuals to urban casuals, party wear, athleisure, etcetera. Our focus is on creating elegant and expressive clothing for the contemporary Indian man who wants something more stylish than what is commonly available.

C, a new and elevated retail identity, all tying in together to communicate the elevated new avatar of Brand Mufti.

Since we made the above changes, the brand has gained in value with the consumer and the same is reflected in the performance of the company. We have committed ourselves firmly to the path of becoming an accessible destination for the contemporary Indian man as enablers to help him express his sense of style and be noticed for his elegance and creativity. We remain committed to expanding our reach through responding to the trend of premiumization that we now see all around us.

Our design team is constantly focusing on expanding our product range to meet a varied range of consumer needs. Our diverse products range now comes under the mid-premium to premium price range of clothing in India. Our products are available through a pan-India multi-channel distribution network that we have built over the years comprising of our EBOs, exclusive brand

outlets, LFS which is Large Format Stores and Multi Brand Outlets which is MBOs as well as other online channels.

Our multi-channel presence is planned strategically in a manner that our products across categories are available at consumers' preferred shopping channels. As of 31st March 2024, we are present in 599 cities having over 1800 retail touch points. We have presence through 425 EBOs, 77 large format stores and 1,332 plus MBOs.

During the year, we have added 52 EBO stores and we plan to add another 30 to 40 new stores in FY '25. Our EBOs are located nationwide across 237 cities and high streets, malls, airports 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 e-commerce marketplaces.

EBOs are central to our growth strategy with them offering a holistic in-store brand experience and help enhancing brand visibility. Over the last four years, the average revenue per store has increased by a CAGR of approximately 19% which shows the pull for our brand and products.

Now coming to the quarter and the year gone by.

In FY '24, the apparel market in India moderated and after an expansion during FY '23. However, at Mufti, the revenues grew by 14% to INR567 crores with gross margins remaining stable at 57.5% for FY '24. Revenues for Q4 FY '24 have remained flat year-on-year to INR133 crores with gross margins at 55.9%. In a subdued market, gross profit margins remained stable despite the challenges faced in the current market scenario. This underscores the resilience and appeal of the brand amidst challenging market conditions.

The market for premium and mid-premium branded apparel continued to experience softened demand due to consumer behaviour influenced by an inflationary environment that curtailed discretionary expenditures while concurrently witnessing a surge in consumer spend towards travel and other essential purchases. Furthermore, the onset of peak winter was delayed across India leading to a shorter fresh period and that had a notable impact on winter season sales for premium and mid-premium brands during Q4 FY '24. This led to excess return stock from channel partners on account of sluggish demand during the quarter.

Under Ind AS, the company has to provide for expected goods return. In Q4 FY '23, this provision was at 14.4% of sales whereas in Q4 FY '24 it has been voluntarily taken at 25% instead of 14.4% considering the increased returns due to the current market scenario. This has led to an excess provision of approximately INR21 crores which has an approximate INR11.8 crores impact on gross profit, EBITDA and PBT and an impact of INR9 crores on PAT.

During the quarter and year gone by, there has been an increase in certain expenses. There has been an increase in advertisement expenses related to brand building and store openings and these upfront investments will strengthen the brand in the coming years. Also, there are increased manpower costs associated with the opening of a larger warehouse in Bangalore and sales staff at MBOs to meet growth objectives.

During the quarter gone by, there has been higher return freight costs on account of excess return stock. This stock was returned to make room for fresh season stock at all retail locations in the new season as we have always managed to liquidate leftover stock profitably. To enhance the brand awareness and strengthen brand recall, we intend to continue using targeted marketing campaigns through digital and social media billboards, multiplex cinemas and live events.

We have developed a strong brand identity through effective brand advertising and multiple marketing campaigns for our brand and shall continue doing so. We have already in the past few seasons released our ad films across cinemas in the country which has had a very favourable response on the brand and it has improved the brand value with our customers. Going forward, we are investing in digital marketing to communicate even more widely the brand in its new avatar.

Going ahead, we will spend on around 5% of revenues on branding and advertising. We plan to expand our store network in existing store cities and 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.

We are also looking to capitalise on the increasing e-commerce demand in the Indian retail and grow our share of sales from our own website and e-commerce partners. We want to leverage technology to improve supply chain management and enhance customer experience. We intend to further invest in IT infrastructure to improve productivity and increase operating efficiency and customise buying experiences of our customers both in store as well as online.

To summarise, going ahead for FY '25, the company aspires to achieve mid-teens revenue growth backed by new store openings in new and existing geographies and subject to recovery in the overall industry demand for premium and mid-premium brands. The company is also targeting to improve profitability through implementation of various cost efficiency measures.

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

Rasik Mittal:

Thank you Kamal. Good afternoon everyone. First I will give you a financial highlight for Q4 FY '24. Revenue for Q4 FY '24 remained flat year on year at INR133 crores. Our SSSG for the quarter stood at 3.9% year-on-year. Gross profit also remained flat at INR74.4 crores with a GP margin of 55.9% for the quarter. EBITDA for the quarter stood at INR30.9 crores as compared to INR40.6 crores in Q4 FY'23. Our EBITDA margin stood at 23.2%. This is mainly due to increased cost as mentioned earlier. Profit after tax for the quarter stood at INR7.1 crores.

Coming to the FY'24 performance, revenue for the full year FY'24 grew by 14% year-on-year to INR567 crores. Our SSSG for the year stood at 0.6% year-on-year. Gross profit stood at INR326 crores, a growth of 14% year-on-year with a GP margin of 57.5%. Our EBITDA stood at INR160.5 crores, a slight degrowth of 2% year-on-year. Our EBITDA margin stood at 28.3%. Profit after tax stood at INR59.2 crores.

Our working capital days have increased to 166 days as on 31st March 2024. This is on account of two reasons. One, increased inventory due to higher goods returned. Second is, this year's

sales for fresh season goods to our customers had a delayed start in Feb'24, for which payments are due in 60 to 70 days and therefore it is showing an increased debtor as on 31st March 2024. As of today, we have received majority of these payments.

Going ahead, we want to reduce our inventory days. We have always managed to sell our unsold inventory at a profit and never had material write-offs on account of inventory in the past. We will continue to manage this going ahead too.

We are confident in our capability to handle short-term fluctuations and achieve sustainable and consistent growth in the future. ROCE and ROE stood at 19.3% and 19%, respectively. The Board of Directors have recommended a final dividend of INR0.50 per share on face value of INR2 each of the company.

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

Moderator: We have the first question from the line of Kunal Shah from Anova Capital. Please go ahead.

Kunal Shah: Yes, why have we seen increase in provisions done during the quarter from 14% to 25%?

Rasik Mittal: So Kunal, last three seasons, the market has been subdued and due to that the return of goods from our customers has been higher. Looking at the present market condition, we have increased the expected return provision for the current year.

Kamal Khushlani: I will just add to this, Kunal. In the last year, the provision was taken at 14.4%. That was the first year we moved to Ind AS where these provisions have to be made. Looking at the history of the last five- seven years, the auditors came to advise us to take a provision of 14.4% and it was taken accordingly. However, in Q1 on which we went public, the provision was already at 22% for Q1. Now between Q1 and today, as we saw what is happening, to give a more realistic picture of the business, it is better to have factored it at 25%.

Otherwise, if we factor it at 22% and later on the goods return is 25%, then this quarter appears to be better. And the other quarter, which was actually whatever it is, may turn out to look better or worse. So to come to a more closer reality, that is where I mentioned earlier in my part that this has been voluntarily done by us. And we have spoken to the auditors and they agreed to this. And that's why we have taken the provision at 25%.

Kunal Shah: Okay. And also I would ask, can you provide some guidance on revenues and EBITDA for the next couple of years?

Kamal Khushlani: The way the scenario is looking right now, for the coming year, what we intend to do is we intend to do mid-teens growth. However, by doing that, we have consistently been opening around 50-odd stores every year. But however, for this current year, we are not going to put a gun on our head to open 50 stores.

What we are going to aim and strive for is same-store growth. We may open 30/ 40 stores or fewer stores than 50 this year, but same-store growth is what we'll strive for. And we'll work on

efficiency of our costs to bring us profitably up. Because in our company, we have always grown and calibrating our growth through the profitability lens. And we shall continue to do that.

- Kunal Shah:** Okay. Thanks.
- Moderator:** We have the next question from the lined of Naitik from NV Alpha. Please go ahead.
- Naitik:** Hi, sir. My first question is, what sort of degrowth have we seen in our MBO channel for the quarter?
- Rasik Mittal:** Which channel?
- Naitik:** MBO channel, multi-brand channel.
- Rasik Mittal:** MBO channel for the year has degrown by around 2%.
- Naitik:** And for the quarter?
- Rasik Mittal:** Quarter would be around, actually quarter I have not seen separately, but we can get back to you for the quarter number.
- Naitik:** Okay. And if you could just...
- Rasik Mittal:** This is due to higher provision mainly.
- Naitik:** Okay. It's not...
- Rasik Mittal:** It's not actually degrowth because we have voluntarily gone for a higher provision for GR, which is impacting the Q4 number. That is why it seems there is a degrowth. It appears to be a degrowth in this channel.
- Naitik:** Okay. Got it. And my second question, if you could just repeat what you mentioned about the receivables, because I missed that, that would be really helpful?
- Kamal Khushlani:** Receivables, basically what happens is, after the autumn-winter season gets over, we send out goods for spring-summer to our counters and our customers. So now, this year, the end of season for autumn-winter continued till Jan. And for the fresh season goods, we were sent out somewhere in Feb. So the payments from our distributors and all, the payment terms are 60 to 70 days. So till 31st March, the payments were not due. That's why it is showing higher, the receivable days. But however, post that, we have received all the money. As of now, all the monies do have come to us.
- And last year, what had happened is that we had, in that season, tried to push in the summer merchandise earlier and picked up the autumn-winter goods earlier to see what's the response to that. However, we saw that it's beneficial to continue with the sale and go along with the market. And we supplied the goods in Feb onwards this year. And last year, it was Jan onwards. And because payments are 60 to 70 days, whatever was supplied Jan onwards was already collected within March. And this time, that has been collected by now, as Rasik mentioned.

- Naitik:** Okay. Got it. That's it from my side. Thank you.
- Moderator:** Thank you. We have the next question from the line of Rahul Dhruv from Pegasus Growth. Please go ahead.
- Rahul Dhruv:** Yeah, hi. Good afternoon. I was not a part of the IPO and started looking at the stock recently. So for people like us, if you could give a little bit of colour on what really happened in the period FY'21 to '23. I saw the roadmap that you put on the presentation. But what I'm basically talking more about is that if you look at your EBO, revenue per EBO, it basically almost doubled between FY'21 and '23. And I wanted to understand, and that's the same even for LFS, the same for multi-brand outlets. So I'm just trying to understand what was the reason for this revenue per store going up so fast in the previous two years?
- Kamal Khushlani:** May I know your name, please?
- Rahul Dhruv:** Rahul Dhruv.
- Kamal Khushlani:** Hi. Rahul, this is Kamal here. So, Rahul, as I mentioned earlier that there are a lot of changes that we did in the brand. See, once we completed 20 years in the business, we did a kind of soul-searching exercise internally. And we did some kind of internal searching to reinvent our brand philosophy to figure what is it that we truly exist for. We've always been a profitable company.
- Now, do we just exist as an apparel business to make money? Or does this brand truly have the potential to become a legacy and live beyond generations? So, we did that kind of study and we realized that there are some things we need to change because in the relevance of the landscape of retail brands since we launched and what it is today has changed dramatically.
- So, we found our groove and our position as to where we should be in that brand. You'll find that in the presentation on, if you could tell me what page, I don't know. So, you can see in the grid of brands, where we stand as a brand and what we are. So, you could see, it's on page number 19. You can see that we found ourselves in a sweet spot right in between the denim-lead and casual-lead brands. These are the two, what do you say, directions or universes that brands broadly belong to in the casual wear segment.
- And this is on the X-axis. On the Y-axis, you see how brands come down from luxury to premium, plus premium, mid-premium and value brands, etc. So, in that, we straddle both universes of denim as well as casual successfully because the brand has always been a brand that has been created on its own uniqueness has grown on its own uniqueness and has never ever aped to be like any other brand.
- We are one of the brands that has a very very strong, balanced offering in terms of bottom-wear and top-wear. And that is visible in our sales, which is almost half and half. And that was also reflected in the industry report.
- So, that gives us that opportunity to cater to multiple occasions in a customer's life. And because we are strong in both top-wear and bottom-wear, also get a larger share of the consumer's wardrobe. Looking at these things and the price points that we have that where the brand stands,

we are the enabler brand that when, as consumers' aspirations grow as they are growing they want to consume brands that they couldn't when they couldn't afford them.

So, we are the enabler brand between the mid-premium to the international brands. That's where we found a spot for our brand. So, those are big changes that we made in our brand identity, our merchandise architecture as well as our retail identity.

And all of these changes very very favourably were accepted by consumers by trade and all of that. And that's what you can see has happened. And there onward, there was a price rise also that happened in the market, in fact, in 2023 which was also well accepted by the consumer.

But somehow after that, it's been very coincidental it's happened around the time when we have gotten listed that brands in the mid-premium to premium category in particular have faced headwinds.

Rahul Dhruv:

Right. And so, do you see these headwinds kind of receding? Do you see any major changes in the trends as to how can we really see a recovery from here? Because looking at the online sales also, it has kind of gone up very sharply this year as a percentage of sales from 5 to 11, which basically I would have thought would be a function of returns or excess production, which you've not been able to sell.

Kamal Khushlani:

So, it is on account of excess returns, you're bang on there. And of course, there is also a push towards e-commerce. And that is the channel that we used to liquidate our we call it OSM, the old season merchandise. And we managed to do that profitably. Unfortunately, the last couple of seasons have been muted. And currently, the scenario still continues to be volatile, Rahul. So, we are the kind of people who typically would like to deliver whatever we say. Hence, we have moderated our growth ambitions but we certainly want to improve our profitability and our working capital days, etc. by the end of this year.

So, we should, we are aiming to do that more than trying to grow. April was a very good month, so to say, as compared to last year but May somehow again has dwindled. So it's very difficult to say right now on, I immediately see recovery this and that. But there's a lot of work on in the back end to ensure that we meet the goals that we have set out for ourselves.

Rahul Dhruv:

Okay. If I may ask one more question and this is more regarding financials. So, if you look at your other expenditure for this year, it's around INR134 crores. Last year was around 95.6. It's a INR38 crores increase. And I'm trying to basically break it up into where does it come from. I can see advertising and sales promotion which was around 17 going to around 31. That's where a good chunk has come. But the rest of it, I'm trying to figure where would it fall? Because employee cost is not included in this. So, where would it really fall? Would it be selling and distribution? Would it be administrative? Would it be one off something?

Kamal Khushlani:

Again, on page eight, you can see in the presentation, what happened is that some of this, what you see is on account of a one time thing that we did because last year was our 25th anniversary. So, there was a bonus paid to all our employees for the silver jubilee at around INR1.7 odd crores. And plus the advertising spends, as you said, went up. And also the sales and promotion

spends went up. For manpower that was outsourced. It went up because on account of a larger warehouse.

We moved from a warehouse which was 55 odd thousand square feet to 140 odd thousand across multiple levels. And this has been done keeping the future growth in mind. So, these expenses have now been incurred already. And once these are done, going forward, these will not increase in the same ratio in which they increased in the last year. And some of it was done also keeping in mind growth ambitions at MBOs where we have put in staff at our shop and shops where some places we believe and we are testing how the sales staff can help enhance the sales further there. So, we've gone a little aggressive there. And we are testing these things out.

Rahul Dhruv:

Sure. What I was trying to basically get to is you had an operating margin of around 33% last year. And that has come down to 28%. So, there is a 5% impact or whatever, 4.5%, 4.8%, 4.7% impact. How much of that would get reversed in the current year?

Kamal Khushlani:

Some of the big things that I made you count which is there on page 8 already accounts, there's around INR14.9 crores on account of sales and promotion and branding and advertising. There is INR9 odd plus crores on account of manpower. And there is another INR1.7 crores which is a one-time payout. That's not going to happen again this year. And then also the other SOR that has been provided for. See, there are marketing investments that we have made in the brand because the brand is now in a new avatar.

And that new avatar has to be taken out to the customers so that whatever perceptions the newer perceptions that people must form for the brand, the way it is. Because people who know us, who have seen us, have witnessed us, gave us and propelled our growth that you can see in '21 to '23. And that as compared to what it was in 2020 and what happened post that.

So that's a conscious investment that's been made in the brand to take the new avatar forward to our consumers. So those investments and also the new provision that the higher provision that we have made for SOR as compared to 31st March 2023. If you compare 31st March 2024 that is a big number again, which is what on account of Goods Return (GR) is around INR21 crores. That's an additional INR21 crores.

Now, if you look at Q1, like I said, it's already factored. The GR provision was already made at 22%. But because last year is at 14.4%. So it does not construe to a true apple to apple comparison in that sense. So if you factor it in that way, we have managed to grow the brand, sell extra number of pieces, maintain our gross margins stable in spite of the headwinds that we have faced in the market. So we're all good. It's just on account of it's just the period that we're going through, wherein we're going through whatever we are.

And therefore, we moderated our plans also this year because like I said, we have always grown our business calibrating it through the profitability lens, Rahul. And we shall continue to do that.

Rahul Dhruv:

Absolutely. Thank you so much. So basically, we can assume that we will effectively go back about 30% operating margin next year.

Kamal Khushlani:

We should be in that range. Yes.

- Rahul Dhruv:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Anant Mundra from Mytemple Capital. Please go ahead.
- Anant Mundra:** Hello. Good afternoon, sir. Thank you for the opportunity. Sir just wanted to answer, when did we switch to IndAS accounting?
- Rasik Mittal:** So we switched to IndAS accounting from FY23 onwards that was the first year, last year.
- Anant Mundra:** And sir how do we do the deposit accounting I think we pay out the interest that we receive on deposits to whoever's given us the deposit basically the franchise owner. Is that correct?
- Rasik Mittal:** Yes. So franchises give us deposits as advances towards the goods that we supply to them, but we don't reduce that from receivables. We park it separately in the balance sheet as a liability and pay interest on that to the franchises.
- Anant Mundra:** So we book interest on that and we also book an interest expense on that?
- Rasik Mittal:** Interest expense on that.
- Anant Mundra:** And sir we have one subsidiary what business does the subsidiary do?
- Kamal Khushlani:** There is no business being transacted in that subsidiary.
- Rasik Mittal:** So earlier it was a sampling unit for us. See because we are a brand, we create samples. So we did not want to send them out for the purpose of secrecy, but now we have taken over the sampling unit from that subsidiary and that subsidiary will get closed ultimately shortly. There are no surprises over there, very clean company.
- Anant Mundra:** And sir how does exactly the COFO model work who takes the inventory risk in that case I just wanted to understand how this model works if you can elaborate on this model, please?
- Kamal Khushlani:** So, Rasik, we'll come to the model in a bit, but what we do is we take the risk on our entire inventory. See as far as I am concerned the inventory has got my label on it and that's why my brand has to be managed in a manner in which I do not end up eroding its value. Typically, that happens when with the kind of production that we do versus the demand that we project.
- Now why we prefer to do this is because whatever is left over at the end of season I want to clean everything up and I want to pick everything back and bring it to myself because I want to put fresh season merchandise on my counters for my customers every season. And B- whatever I take back I am able to calibrate my production in a manner in which I am able to sell whatever I have produced so far and whatever is left over also from the season profitably.
- And that's a tight rope we have always walked. Like Rasik said earlier in his speech that there has never been any material write-offs on account of inventory and we have always managed to do that and we shall continue to do that even this year. Whatever is there due to the last couple

of seasons where there is excessive inventory, we calibrate it in the next what do you say season and we will bring down the inventory levels.

Anant Mundra: And sir exactly how does the COFO model work if you can just elaborate on that?

Rasik Mittal: For the COFO basically the lease of the store is taken by us and the capex in the store, the furnishing is done by us. So we invest in that basically. And we send goods to our franchisee against a deposit which is typically to cover for the inventory that we send out to them and the ownership of the goods passes on to them till the time they sell it.

And they make weekly payments to us for the goods sold on the counter and after the season gets over, we call back the goods and we put fresh goods on the counter of the next season.

Kamal Khushlani: So we take the entire risk on inventory and we control it. That way I am able to manage the entire inventory in my pipeline right from where it is consumer facing to my warehouse and I have total control over it.

Anant Mundra: Got it. That's very good. Thank you for the elaborate answer, sir. And my final question was on that we've done a major revamp exercise in 2019 which has really helped us. So just wanted to understand how frequent does a brand need to conduct this exercise because the trends keep changing fast. I mean the world is fast moving now and how expensive is this exercise because you need to revamp all your stores and everything. So just want to understand how often will this exercise be done?

Kamal Khushlani: So this doesn't happen every 4 years, 5 years. This is something that happens maybe every 20 years. Depends on which life cycle of the brand journey the brand is on and also how evolving a market is.

Anant Mundra: Okay, so this is like a really long term exercise.

Kamal Khushlani: Yeah long term exercise of course brand doesn't change direction every few years. We did it after we were 20.

Anant Mundra: And we have to change all our stores because of this?

Kamal Khushlani: Of course, we chose to change them because that propelled our sales northward.

Anant Mundra: Okay, thank you, sir. That's it from my end

Moderator: Thank you. We have the next question on the line of Rajiv Bharati from DAM Capital. Please go ahead.

Rajiv Bharati: Good afternoon Sir, thanks for the opportunity, if we can provide the sales mix in Q4 of FY23 by channel.

Kamal Khushlani: Good afternoon Rajiv, Just hold on a minute while Rasik pulls out the answer. Can you come again on the sales mix for Q4?

- Rajiv Bharati:** Q4 of FY23 last year for the quarter. I think you have given for the full year, but for the quarter?
- Rasik Mittal:** So sales mix channel-wise?
- Rajiv Bharati:** Yes, sir.
- Rasik Mittal:** So, channel-wise for Q4 EBO was 57%, MBO was 33%.
- Rajiv Bharati:** Last year.
- Rasik Mittal:** FY23 you'll have to just pull that out, Rajiv.
- Rajiv Bharati:** Why I'm asking is because you have reported some 3.5% SSSG and your store count itself has gone up by 14%?
- Kamal Khushlani:** Rajiv, I'll explain. That SSSG also that you witnessed is because of If you remember, I answered that to I think Rahul earlier that last year we had picked up the winter merchandise faster and we had pushed in our summer merchandise earlier in January itself. So some of that growth can be attributed to that also because this year the sale went on till later. Last year the sale ended much earlier and fresh merchandise went in earlier.
- So, competition may have been at a discount and we were at fresh. That was something we tried out last year which I said we've changed to our thing of continuing our sale into February till approximately, depending on store to store, till approximately Valentine's Day.
- Rajiv Bharati:** When you're saying these primaries you're doing, that is for the MBO channel not for the EBO, isn't it?
- Kamal Khushlani:** Primary?
- Rajiv Bharati:** I mean when you're sending the fresh merchandise for spring-summer.
- Kamal Khushlani:** No, no it's for MBO and EBO both. That's what we did last year. So what I'm saying is that last year we were on fresh when the market was on discount and this year along with the market and competition we continued our discount till about Valentine's Day. Hence, that growth also of 3.9% is relative to that.
- Rajiv Bharati:** So on this EBO bit if you can specify from when to when did it last this year versus last year?
- Kamal Khushlani:** Roughly last year discounts ended at around what would you say 26th odd Jan and this year they ended around 18th/ 19th/ 20th of Feb.
- Rajiv Bharati:** And it was there in the Q3 also last year was it?
- Kamal Khushlani:** What was there in Q3 Rajiv?
- Rajiv Bharati:** Did you start end-of-season in Q3?

- Kamal Khushlani:** That's what I'm saying last Q3 of FY23, the autumn-winter 22 season at that time went off-sale around end-Jan. And this year in FY24, the autumn-winter 23 went off-sale around 19th, 20th of Feb.
- Rajiv Bharati:** Sir, also on this working capital bit this 166 odd days you said that last year it was an experiment which you did. So is it safe to assume that henceforth you will be doing it, mid of February itself always so this 166 days number.
- Kamal Khushlani:** Yes it's safe to assume that. It will be done around this time.
- Rajiv Bharati:** So the end-of-year working capital number this 166 is basically.
- Kamal Khushlani:** No, that will get calibrated. That's not only because of this. That's also because of excessive inventory, Rajiv. I mean, even last year, when we sent goods faster and got payments faster, but we also got goods back, no? Because they came in sooner.
- So, don't get confused on that.
- Rasik Mittal:** So, Rajiv, even the payable days are much lower compared to last year. So, it's a combination of all the three. Means receivables, inventory and payables, basically.
- Rajiv Bharati:** Just that the biggest lever in this case was the receivable number, right? I think 14 days or something like that was from receivable itself.
- Rasik Mittal:** Right. So, receivables will be similar, maybe, around this. But inventory, we will try to control it and bring it a little lower.
- Rajiv Bharati:** Will?
- Rasik Mittal:** Yes. And payable days, we generally make fast payments to our vendors, so they are lower only.
- Rajiv Bharati:** Yes, just wanted to... Sorry, for modelling purpose, what is the working capital number we should book? Because FY '23, you said, is an experiment.
- So, are you going to settle at 155, 160?
- Rasik Mittal:** 155, 160 should be.
- Rajiv Bharati:** Okay. And lastly, these 52 stores which you opened, what is the mix in terms of franchise?
- Rasik Mittal:** Very similar. So, around two-third are franchises-owned and one-third is company-owned.
- Rajiv Bharati:** That's all from us. Thank you.
- Moderator:** Thank you. We have the next question on the line of Sagar Sethi from Sethi Investment. Please go ahead.
- Sagar Sethi:** During IPO, you said that we will double our revenue in 4-5 years. Will you achieve it or not?

Kamal Khushlani: Of course, we still intend to double the business in the next 4, 5 years. And that's what we endeavour for even going forward. It's not like we're going to slow down our growth or progress in any way.

It's just looking at the market conditions. Like I said, we always calibrate the growth of our company profitably. So, since this year, if we intend to just quickly chase growth, it may impact profitability.

We want to improve our profitability and remain profitable. It doesn't matter. Instead of 4-5 years, we may end up doing it in 5.5 years. What we would much rather do is do it profitably. That's how we've always grown the business. So, nothing changes from what we said.

We intend to do exactly what we have said. It's just that when you're going through a time like this, that's not a period where you just unnecessarily put a gun to your head to grow, even though it's at the cost of profitability. Because that ends up eroding the value of the brand.

The reason why even in such market conditions, we are able to maintain gross margins and sustain that is because we've managed the brand. The brand is something which will have to be really, really taken very, very good care of as though with kids' gloves so that you can continue running it profitably and growing it profitably.

Sagar Sethi: Okay.

Moderator: Alright, thank you. We have the next question on the line of Pritesh Vora from Mission Street India. Please go ahead.

Pritesh Vora: Hello, sir. Thank you for the opportunity. I want to understand, what is your pre-Ind AS EBITDA?

Rasik Mittal: So, the pre-Ind AS EBITDA is around 19% compared to 28% in Ind AS.

Pritesh Vora: Sorry, 19%?

Rasik Mittal: 19%. Yes,

Pritesh Vora: So, why can't you, I mean, for investor purpose, because we are a little bit old-fashioned, why can't you provide us with your presentation pre-India's EBITDA? Many companies do that. Retail has a lot of rental components.

Rasik Mittal: So, we'll consider doing it in future. Sorry? We'll consider doing it in future. We'll keep this in mind.

Pritesh Vora: Yes, sir, as compared to IPO years, our EBITDA and operating margin has come sharply off after the IPO. So, what is the reason, sir, for sharply drop-off of EBITDA margin and other things?

Kamal Khushlani: Sir, the increase in marketing costs, increase in manpower costs, one-time payout as a bonus to employees on account of the 25th anniversary, and higher provision on account of goods return

from 14.4%-25%. If you do the math after adjusting for these, you'll see that, like I said even earlier, we have managed to grow the business and sell more number of pieces. However, because of the headwinds in the market, there are certain extra discounts that we had to dole out to clear the goods, which is very important.

Pritesh Vora: Understood. So, sir, what is the outlook going forward? Will you be able to climb back your margin level or do you think now that this is a new normal?

Kamal Khushlani: Certainly, that's what I said, that we intend to grow our profitability and our margins back and therefore we'll put a gun to our head to do that and not be...

Pritesh Vora: One is the intent and one is the lever in the business to implement that intent. So, what are the levers in the business to implement now this new normal?

Kamal Khushlani: Same store growth and working on efficiency of certain costs.

Pritesh Vora: Okay. And how do you count your inventory, sir? What is the inventory phenomenon? I mean, what is the inventory? How many days of inventory you carry and when you decide to, you know, non-moving item to check off? I mean, what is the policy?

Kamal Khushlani: You know, scientific policy, we follow to this and have been following since the beginning and therefore, like I said, we have never had any material write-offs on account of inventory. See, there is a certain facing stock that we need to give to our stores. So, we have a system whereby we project what we are going to sell next season and we produce according to that.

And then after a couple of seasons, depending on how the market has gone and how the inventory levels are, given the rate of sale of the inventory at stores as well as at the, you know, old season merchandise counters is where we decide when and how much we should control production for the forthcoming season because if that goes beyond a certain point and there is too much pressure to discount deeper than what we normally do, then that ends up eroding the value of your brand, which is something we have successfully done and will continue doing so.

Pritesh Vora: Understood, sir. I am asking a simple thing. Suppose you come out with a new line of clothes. And it doesn't sell. So, what is the time period beyond which you will say, okay, this line of product or this design, I am getting rid of it. What is that period?

Kamal Khushlani: So, we produce for a season and we have five drops in every season. And whatever we produce, there is very little such thing that, you know, that is absolutely that doesn't sell, etc. However, there are various reasons. Sometimes there is a cut size, cut ratio. There are various things that happen and certain inventory that comes back. We clear it through our system over the next... We may even take two to three seasons to clear it. But we ensure that we clear it profitably.

Pritesh Vora: Seasons means you are saying one year, right? One season is one year, right?

Kamal Khushlani: One season is 6-8 months. 6-8 and I am saying 2-3 seasons also we take.

Pritesh Vora: Three seasons means after 1.5 year you will get rid of that.

Kamal Khushlani: Yes, but till the end.

Pritesh Vora: And how do you get rid of it?

Kamal Khushlani: I beg your pardon?

Pritesh Vora: What are the channels? How do you get rid of it?

Kamal Khushlani: Through factory outlets and e-commerce partners.

Pritesh Vora: Okay. And on the franchising model also, this inventory remains on the company's book, right?

Rasik Mittal: So, COFO and FOFO model, the inventory passes on to the books of the franchising. Till the time we call it back for putting a fresh stock on the stores. Once it comes back to us, it comes in the company's book.

Kamal Khushlani: But however, in COCO stores, which are approximately one-third in number, it remains on our books.

Pritesh Vora: But in COFO, where franchisee operated, there basically you are saying that it will be transferred on their book and if they are not able to sell back, it comes back to our book, is it?

Kamal Khushlani: Absolutely, yes.

Pritesh Vora: So, that's little bit complicated, sir. How do you keep track of it? Like once you transfer and then transfer back again?

Rasik Mittal: We have an ERP system with us. So, we have full control, full track of what's happening at each and every EBO. How much inventory is lying where?

Pritesh Vora: Okay. So, you're saying, sir, after one and a half months, we will get rid of all the stocks?

Kamal Khushlani: After 1.5 months, you mean?

Pritesh Vora: 1.5 years, I'm saying.

Kamal Khushlani: 1.5 years, whatever. Everything doesn't take 1.5 years to clear. See, we clear it at a rate, we are not in a hurry to deep discount, is what I'm saying. I'm not saying it takes one and a half years to clear the inventory that we make. You're talking if we have made 100% inventory, there might be 3%, 4%, 5% of that inventory that may go to the 1.5 years. We are not talking about 50% of it going to the end of it.

Pritesh Vora: And, sir, how do we improve our working capital cycle, which looks to be very, long, sir. It's, 160 days above. How do we improve the working capital cycle?

Kamal Khushlani: That's what I, what we do is, that whenever we see that the inventory level has gone above a certain level, which is where we control our inventory in the fourth, coming season.

Pritesh Vora: Sir, I'm saying working capital, you're talking about inventory, sir.

- Kamal Khushlani:** Inventory is what leads to my working capital, sir.
- Rasik Mittal:** So, see, in this, basically, receivables will be almost around 105 days. And inventory, what Kamal, sir, is saying, we can control that. If there is excess inventory, we can control it by, producing a little less in the subsequent season, basically.
- Pritesh Vora:** So, 105 days of receivables, how do you count that, sir? That looks, if you are selling through retail, you mean to say the pieces remain in the store for 105 days?
- Rasik Mittal:** No, so it is not only retail. See, basically, we have four channels. EBOs, distribution channel, MBOs, then large format stores, and e-com channels also, partners also, basically. So, to all these partners, only in EBO, one third store, we run in our COCO, all the other partners are our customers. So, the inventory is sold to them, it passes on to their books, basically.
- Pritesh Vora:** Sir, I'm talking about receivables, sir. Why should there be receivables if you are selling on the retail?
- Kamal Khushlani:** We take the payment, that's the kind of terms of payment that we have with them. The type of margins that we provide to them is based on that. We take some advances from them, which lie with us as security deposits, on which we pay them some interest. Besides that, from my stores, etc. I receive payments on every Monday or whatever has been sold till every Sunday.
- And with my other large format stores also, similarly, whatever they sell, they pay to me by the 45th day, or whatever is liquidated by them. They remove whatever is their margin and pay the money is to me.
- Pritesh Vora:** Just now you said receivables are 120 days, right? So, now you are saying 45 days of receivables.
- Rasik Mittal:** No, so, see it is from only large format stores. See, we produce for a season. So, we have to sell goods to our customers for a season. So, the goods will keep selling on their counters for a longer period. Now, there are payment terms with each and every partner. Like, for my distributors, the payment terms are 60 days to 70 days.
- Pritesh Vora:** I will take you offline, sir. This question, I will take you offline, sir.
- Rasik Mittal:** That is better. It will be easier for us to explain to you. Thank you so much.
- Pritesh Vora:** Thank you.
- Moderator:** Thank you. We have the next question on the line of Yash from Exponential Research.
- Yash:** Sir, my question is around capex. So, basically, this year, we added about 36 of COCO plus COFO stores. And the average capex per EBO is around INR28 lakhs. So, the figure comes to INR10 crores. And last year also, we added about 42 such stores. And, the INR10 crores to INR12 crores of capex, if we consider the average capex per EBO.

But capex for both of these years is around INR35 crores each. So, if we can just, reconcile the figure. Like if it's a store, in-store capex that we incur or, we have revamped the EBOs, because of which we have incurred additional capex. So, sir, any light on that would be helpful.

Rasik Mittal: So, it is both the capex for new stores as well as renovation of the old stores. That keeps on happening every year. Some stores keep on getting renovating. Every year.

Yash: So, that will be like recurring capex that will be there. So, if I were to assume a maintenance capex, it would be around that, INR20 crores to INR25 crores.

Rasik Mittal: And that we are able to do from internal accruals. So, that's not any problem for us.

Yash: Sure, sir. Got it. Thank you.

Kamal Khushlani: More or less, the renovation of stores is more or less done. Because now almost, I would say 75%-80% of our stores are either of the new identity or of an identity which was just prior to this generation. But they have been moderately modified to match this generation. So, as and when they come up and they become due for renovation and according to, the time, etc. We go on renovating them.

Yash: Understood, sir. Thank you.

Kamal Khushlani: Welcome.

Moderator: Thank you. We have the next question from the line of Rajiv Bharati from DAM Capital. Please go ahead.

Rajiv Bharati: Thanks for the follow-up, sir. Just one thing. You mentioned that April was okay. May demand dwindled a little? Say the trend continues, something like that. Are we able to, let's say, control your invents for the upcoming season or that order is already placed and that course correction cannot be done?

Kamal Khushlani: Good question. We've already controlled those levers. And hence, we said that by the end of the year, we should be able to bring down our inventory levels.

Rajiv Bharati: And on the warehousing, what is the capex this time around, purely on the warehousing?

Rasik Mittal: This year, we have not done capex in warehousing. It was last year, basically.

Rajiv Bharati: So, the entire capex is towards the maintenance and the new store addition?

Rasik Mittal: So, capex for my warehouse would be around INR13 crores to INR14 crores?

Rajiv Bharati: This year?

Rasik Mittal: No, last year.

Rajiv Bharati: The previous participant's question, INR35 crores, that can be entirely attributed to the stores. There's nothing on the warehousing.

Rasik Mittal: So, Rajiv, I'll have to look at the numbers, but it would be mostly a function of the ROU, right of use, basically, you know?

Rajiv Bharati: No, the capex number is the cash flow number, right? That would be a clean number.

Rasik Mittal: I'll get back to you, Rajiv, on that. Is that okay?

Rajiv Bharati: Yes, that's fine. Thanks a lot.

Moderator: Thank you. Due to time constraints, that was the last question. I would now like to hand it over to the management for closing comments.

Kamal Khushlani: 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 also. In case you require any further details, you may contact Mr. Deven Dhruva from SGA, our Investor Relations Partner. Thank you, and have a nice evening, everyone.

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.

