MUFTI
MUMBAI

CREDO BRANDS MARKETING LIMITED
(fka Credo Brands Marketing Private Limited)
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Tel. No.: +91 22 6141 7200 Email: helpdesk@mufti.in
Website: Corporate: www.credobrands.in
E-commerce: www.muftijeans.in
CIN: L18101MH1999PLC119669

August 14, 2024

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

Scrip Code: 544058

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

Scrip Symbol: MUFTI

Dear Sirs,

Sub: Transcript of the investor/analyst conference call

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the investor/analyst conference call held on August 07, 2024, on unaudited financial results of the Company for the quarter ended June 30, 2024, is enclosed herewith.

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

Kindly take the same on record.

Thanking you,

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

Sanjay Kumar Mutha
Digitally signed by Sanjay Kumar Mutha
Date: 2024.08.14 14:33:51 +05'30'

Sanjay Kumar Mutha
Company Secretary and Compliance Officer

Encl. As above

"Credo Brands Marketing Limited

Q1 FY '25, Earnings Conference Call"

August 07, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 7th August 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 Q1 FY '25, Earnings Conference Call of Credo Brands Marketing Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kamal Khushlani, Chairman and Managing Director. Thank you and over to you, sir.

Kamal Khushlani: Thank you, Del. Good afternoon, everyone. I have with me Mr. Rasik Mittal, Chief Financial Officer and SGA, our Investor Relations Advisors. I hope you all received the investor's deck. If not, you can view them on the Stock Exchange or our company website. Mufti's revenues in Q1 FY '25 grew by 5% with EBITDA and PAT growing by 9% and 14% respectively, mainly due to cost optimization measures.

The market for premium and mid-premium branded apparel continued to be subdued due to the consumer behaviour influenced by an inflationary environment and a nationwide heat wave we experienced this summer. Despite a difficult market, our same-store sales growth for the quarter stood at 3%. In Q1 FY '25, we added five new stores to our portfolio, increasing our total strength of stores to 430.

We are optimistic about our continued store expansion efforts and aim to open between 25 to 30 new stores this year during FY '25. EBOs are central to our growth strategy as they offer a holistic in-store brand experience and help enhancing brand visibility and salience. We plan to expand our store network in existing and new cities.

We have identified several markets as having potential for opening further EBOs, and this offers the potential for market share gains, increased brand recognition, and economies of scale. As on 30 June 2024, we are present in 596 cities having over 1,800 touchpoints. We intend to increase our salience a lot more on the digital platforms looking to improve market share in the D2C space.

We continue to develop a strong brand identity through effective brand advertising and multiple marketing campaigns for our brand. For the full year, we plan to spend approximately 5% of revenues on branding and advertising. Our design team is constantly focusing on expanding our product range to meet a varied range of consumer needs.

Our diverse products range comes under the mid-premium to premium price range of clothing in India. Looking 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 overall industry demand for mid-premium to premium brands. The company is also targeting to improve profitability through implementation of various cost efficiency measures.

We are also looking to reduce our working capital cycle by reducing our inventory levels in the coming months. We have always, as mentioned on earlier calls, managed to sell our unsold inventory at a profit and never had any material write-offs on account of inventory in the past. And we will continue to manage our inventory efficiently in the coming seasons of Autumn Winter '24 and Spring Summer '25.

We are confident of that. And we are confident in our capability to handle short-term fluctuations, if any, and achieve sustainable and consistent growth for the company in future. 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. I will give you the financial highlights of Q1 FY '25. Revenue for Q1 FY '25 grew at 5% year-on-year to INR124 crores. Our SSSG for the Quarter stood at 3% year-on-year. Gross profit grew by 9% year-on-year to INR72.6 crores with a GP margin of INR58.6 for the quarter. EBITDA for the quarter stood at INR33.4 crores as compared to INR30.3 crores in Q1 FY '24, that is a growth of 10%. Our EBITDA margin stood at 26.9%.

Profit after tax for the quarter stood at INR9.8 crores, a growth of 14% year-on-year. Our working capital days have decreased by 5 days to 161 days as of 30 June 2024. As mentioned earlier, we aspire to reduce our working capital days backed by inventory days. ROCE and ROE stood at 18% and 17.4% respectively. Our net debt to equity stood at negative 0.02x.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Jatin Jadhav from Saha Capital. Please go ahead.

Jatin Jadhav: Good afternoon, everyone, and congratulations on such a good set of numbers. So my question was on the lines of the competitive landscape, the way we market our products and sell our products is essentially shirts, trousers and I wanted to understand how do you see the competition growing in terms of the brands which are coming up on social media platforms, smaller brands and do you see them as a competition and how are we planning to compete with them?

Kamal Khushlani: So Jatin, I mean we've been in the business for over 25 years now and there has been enough competition that has gotten added year-on-year but along with that the market seems to have grown. Coming to your question of other smaller brands on social media, etcetera, yes there are a lot of brands that are sprouting up but we have a certain tribe that follows the brand and the position that we have created for the brand is very, very unique in itself right from the inception of the brand and the reason for our existence has been finding gaps in the market and giving products that are not available with mainstream brands.

That's the reason why we came into existence. And that is something that we have been successfully doing in the past and the type of products we make are expressive and are different from what most brands offer in the market. So, I'm sure that that is something we have been doing historically and we will continue to do so, and competition will come, and competition will go, but this is I mean something that we can easily handle that's not a problem.

Moderator: The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Sir, you did mention that you want to grow in mid-teens. So what kind of number we aspire for? And do we see that expenditure what we did for the branding and all, and now you're saying you're going to do it of 5%? So can we expect some kind of improvement in terms of margins and overall profitability going ahead? I mean considering that things should improve from henceforth.

Kamal Khushlani: Certainly, Utkarsh, we intend, and we believe that things should be better going forward but the way -- the last three or four seasons have been very, very subdued and it's a little volatile the market conditions. April also this summer was very, very good and then after April suddenly May was the kind of month that we haven't experienced in the past many, many years.

So given that it's very difficult to look into the crystal ball today and gaze there and give an exact idea of what will happen, but we are very positive and hopeful and hoping now that the elections also are behind us and prices have been stable now for all the last few seasons so we are hoping that the festival season and the marriage season should pick up well and we should have a good season.

Going forward we are, like I said in the earlier earnings call also we are not putting a gun to our head to grow at whatever pace, but we are putting a gun to our heads to improve our profitability and to improve same-store sales growth. That is something that we are going to be pushing and we are going to push to improve our working capital days, reduce inventory levels which I'm sure and very confident that we will be able to do by the end of the year. The rest, we are very, very hopeful of it being a better year this one going forward.

Utkarsh Maheshwari: I think when we say premium mid to or mid premium, this category is not something which really get impacted by the rising inflation because these are not the people who are not the aspiring lot. So I just want to understand how do we see things shaping up, because last time we had some problems. We had extra expenditure. We had some impact on gross margins and all, so probably are we -- is it fair to say that the gross margin what we have done earlier can be improved henceforth from here?

Kamal Khushlani: I think last year we did a little north of 56-odd crores as a gross margin -- 57-odd crores and this year we've done -- 58-odd percentage I'm sorry not crores. So gross margins will remain there and thereabouts. And our expenditure also I already mentioned, we will be spending -- we intend to spend roughly 5%-odd of our revenue and intend to continue doing that because we are looking to improve our salience on the digital platforms and that is something which will help us increase our D2C space and also give a spillover to the demand in the offline market. And we are working aggressively towards that. So these are things which will certainly pay off going forward, Utkarsh.

Utkarsh Maheshwari: So basically, is it fair to say that key margins can improve henceforth at the EBITDA level also?

Kamal Khushlani: All of this, Utkarsh, is a…

Utkarsh Maheshwari: Sequentially they have moved Y-o-Y. We can see that the improvement is there. But I'm not sure that this is the only improvement possible. There's still some decent room to improve, right?

Rasik Mittal: So Utkarsh, see basically I think we have one of the best gross margins in the industry.

Utkarsh Maheshwari: EBITDA margin.

Rasik Mittal: EBITDA margin also as we have said in the earlier calls we expect to maintain between 28% to 30%.

Utkarsh Maheshwari: Okay so I mean with Q1 at 27%percent there is still a we can expect with better margins going ahead.

Kamal Khushlani: Correct what happens Utkarsh that all of these are they fall in a certain range if the market is better than naturally those margins get better all of it is a function, our business Utkarsh is not so much about making 1% extra EBITDA or 1.5% extra EBITDA. Our business is about keeping the inventory in check ensuring that whatever we have made we are able to liquidate that profitably. The products which we have made we should have the capacity to sell that is what we always keep looking at.

It's that 1% here or there is all business as usual sometimes it is up, sometimes is down that's not that something that truly reflects the strength of the brand what truly reflects the way we gain market share and the way we maintain our gross margins and if we have to liquidate whatever we have made profitably that is what truly reflects that are we on the right path or not.

Utkarsh Maheshwari: Fair point one last question how you actually understand or how you actually evaluate the efficiency or optimization of advertising cost means what we are doing expense that much we are bearing or not how do you quantify that or how do you calculate that?

Kamal Khushlani: These are investments that you make in the brand Utkarsh and honestly there is no direct relationship on this except if you only look at performance marketing where you can look at a ROAS etc, but all these investments that you make in improving the salience of your brand and getting the new message of the brand communicated to the audience which is very important. We have made a lot of changes during COVID, and we started making these changes just before COVID.

So it's very important that all these changes get communicated to the brand I mean to the consumers. The brand has gone through a lot of shift and that is what we are seeing that the consumers are reacting very positively to so it's very important that all this communication goes out to the consumers Utkarsh.

Utkarsh Maheshwari: Okay fair point so we can expect your high teens that is what you are guiding right on the base of F24 right?

Kamal Khushlani: No I am not saying high teens or like that.

Utkarsh Maheshwari: You mentioned there is an opening remark of high teens and all?

Kamal Khushlani: Yes depending on depending on market conditions certainly it could be that.

Utkarsh Maheshwari: Fair point. Thanks.

Moderator: Thank you. The next question is from the line of Sagar Sethi from Sethi Investments. Please go ahead.

Sagar Sethi: I think you said that you will grow by 20% and 15% and you are going only at 5% why?

Kamal Khushlani: I beg your pardon?

Sagar Sethi: I think you said that you can grow about 20%, 15% last time but your sales grow only by 5% while other companies are growing that sales about 20%, 30%?

Kamal Khushlani: So a quarter-on-quarter Sagar does not reflect the growth that the business can have during the entire year. We have the main season coming up and that's the time we'll see the demand picking up.

Sagar Sethi: Okay. Your last year was also lean. Winter season was also lean last time?

Kamal Khushlani: I beg your pardon Sagar.

Sagar Sethi: The winter season was also lean last time.

Rasik Mittal: Your voice is not very clear Sagar.

Moderator: I request you to please come closer to the handset and ask a question.

Sagar Sethi: Okay.

Moderator: Sorry to interrupt sir. Mr. Sethi are you in the queue? I believe Mr. Sethi has been disconnected. Thank you. The next question is from the line of Rahul Jayant Dhruv from Pegasus Growth LLP. Please go ahead.

Rahul Jayant Dhruv: Hi. Good afternoon and congratulations on good numbers. I basically wanted to kind of go back to your previous conference call where you were very clear that you want to expand your store network by around 35 to 40 stores. And I can see that you've scaled that down to 20 to 25 in this recent press note. So I just wanted to know what is it what is behind that thought process?

Kamal Khushlani: So Rahul typically as a company we believe in under committing and over delivering rather than just putting numbers out there. So this year the way and last year the way Tier 2 and Tier 3 markets have behaved they have not behaved to the true potential and what we were seeing earlier. So we are going to be cautiously approaching opening of stores and we have mentioned 25 to 30.

We may even very well end up opening 40 stores depends on the type of stores that come up and we may very well end up opening two three stores less than what we say also. This is a function of what will happen by the end of the year. However there are enough markets that we have identified where we intend to open stores. So stores have to come in sometimes the store comes in. It may not be the right location. Sometimes it may be the right location, but it may not be the right rental.

So there are a lot of things that go into making a decision before we decide on opening stores. So roughly this is what we intend to do and like I said we intend to grow the brand and for growth of the brand we intend opening new stores in whichever markets we are not present and looking at the market conditions we will alter these plans as the year unfolds.

Rahul Jayant Dhruv: Okay thanks and on your online sales I think you again mentioned in your release that you are looking for a lot of growth over there or expansion over there. So I just want to know what exactly are margins like online. What I mean to say online is basically through third party not your own website and what how is it different from what you make basically MBO or EBO?

Kamal Khushlani: Typically what we make in MBO and EBO is very similar to each other. However, what we make in the e-com space is lower, but even there we make a profit and with the third party whatever we end up selling most of it even today is driven by discounts. So that is a channel that we use to liquidate our old season merchandise, and it serves us very well for that.

However, we are also looking to expand and grow our business on our own D2C website which we are working on very aggressively to acquire customers and go D2C as well and we believe that in the time to come the consumer in India also will get ready for full price purchases online and that is something that we are readying ourselves on and we are on the learning curve. As and when the timing is right, we will be ready to expand that business at the pace at which it will demand.

Rahul Jayant Dhruv: Okay. So any number in terms of how different the profitability is?

Kamal Khushlani: I beg your pardon?

Rahul Jayant Dhruv: How different would be the e-comm profitability the rest of the business?

Rasik Mittal: So, Rahul, the profitability on the online channel, third party channels is considerably lower compared to our main channels like EBO and MBO because e-comm at present remains a liquidation channel basically for us. But we make sure we earn profits for the sale made on the e-comm channel also.

Rahul Jayant Dhruv: Okay, I got it. Just one last thing on the working capital. You mentioned you've been over the last two calls consistently mentioning that you want to reduce the working capital. What kind of a reduction are you looking at in terms of number of days? I mean just a broad number.

Kamal Khushlani: Maybe another five-odd days.

Rahul Jayant Dhruv: From what was it?

Kamal Khushlani: Business we are in, in retail we need -- I mean that does not give an absolute true reflection of how the brand is doing. But give or take five, seven days here or there.

Rasik Mittal: So, Rahul, one more point basically. The way our numbers look in our balance sheet, it's not a true this thing. Basically because we have collected deposits from our franchises, if we give effect to that, around 25 days from working capital will get reduced. Those are actually advanced against the goods that we supply to them.

Rahul Jayant Dhruv: Yes. But as of March, it does not show that. So when I look at your Annual Report, I don't find the advance number as of the last -- it was a very small number. It was a very, very small number.

Rasik Mittal: No. It should be around INR37 crores, INR38 crores in March also. For 30th June, it was around INR40 crores.

Rahul Jayant Dhruv: All right, okay. I'm sorry I got the wrong number in that case. All right, great. And just one last thing. So if you do manage to reduce the working capital, then you would effectively not require any debt probably by the end of this year itself. What do you plan to do with the debt you have? I think you had around INR37.5 crores as of March.

Kamal Khushlani: We already have a debt free position as on date.

Rahul Jayant Dhruv: Right. And would you -- if you remain at that working capital over the next two years or three years then you would have a nice accumulation in cash. So what do you plan to do with that cash?

Kamal Khushlani: Besides using it for expansion, we have always been a dividend paying company in the past, Rahul, except for barring the COVID years. And yes, we'll continue to do that.

Rahul Jayant Dhruv: Okay, because the dividend payout ratio last year was around 5%. Do you think you would want to increase that?

Kamal Khushlani: Yes, depending on the kind of -- currently, in this quarter we've made a very healthy cash. But like I said that one quarter doesn't reflect our business in totality. These are things that we look at on an annual basis and basis that will decide the dividend payout for the forthcoming years.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: I think last quarter you mentioned some increase in provisions because the demand was subdued. So just want to understand what has happened on that front, whether our inventory has actually increased, returns have increased? Just give us some sense of that.

Kamal Khushlani: No, we are not expecting the returns to increase. But, however, last year in Q1 the provision for returns was 22% and this year the provision for returns has been consistent 25% as per the provision made in Q4 of last year.

Lakshminarayanan: Got it. So typically what kind of inventory you actually carry which is inventory which is more than a year old or something? If you can just give some insight on how the inventory aging has been in the last two years and how it is now?

Kamal Khushlani: So, like I said, the old inventory we keep clearing through our third-party e-commerce partners and through our factory outlets and we are never in a hurry to do that because you have to discount very deep if you want to be too much of a hurry to liquidate that. So we take our own sweet time because we don't want the brand value to get eroded in any certain way because hence you can see by the grace of God we are able to maintain our gross margins and that is something we intend to continue doing so even in future.

Whatever we make we go only up to a certain level and a certain rate at which we discount the goods. And we, however, have always managed to liquidate whatever we have made by managing our production and sales and our demand projection accordingly.

Lakshminarayanan: Okay. And typically how much of your sales is done in full price at an aggregate level? Like if you look at the volume of t-shirts or in terms of revenues, whichever way you look at it.

Kamal Khushlani: We realize roughly 70-odd percent of the MRP.

Lakshminarayanan: Okay. And in terms of your various formats, especially in the EBOs and MBOs, like how much is actually a consignment basis and how much is ordered, which is non-returnable?

Kamal Khushlani: Everything is totally on a consignment basis. They're a very, very limited portion of maybe hardly 2% maybe on non-returnable basis and we are very happy to do that because as a brand we intend to have total control of the entire inventory in my pipeline, starting from what is on my machines at my factories to what is on my shelves in my stores to what is in my warehouse. Because at the end of every season whatever is left over I like to pick that up and discount it and sell it at my own pace at the discount at which I desire rather than pushing it down the primary partner's throat and him pushing for higher discounts to liquidate it, etcetera.

This way I'm able to maintain the brand equity the way I would like to do it. So we intend to take back everything that is unsold after every end of season sale and we are able to manage liquidating everything that we make profitably like I said earlier, Lakshminarayanan. So we have no problem in doing that and we have a knack of managing that. We're very confident.

Lakshminarayanan: Okay. And also if I just look at your growth, if you desegregate your growth projection, let's say you start the year and you want to draw a budget for the next year, how much of price escalation you actually build in, in general like if you took at a growth projection of X how much would come from price escalation in general?

Kamal Khushlani: Maybe 2%-odd. It does not necessarily reflect price escalation it also reflects the product mix the ratio of what else and as we are going toward premiumization there might be some premium products that get added etcetera and that may take up prices, it's not really going to be escalation of prices.

Lakshminarayanan: Got it and if I just take a growth of say 15% or 20% how much would come from distribution led expansion and how much would come from existing stores or tenured stores additional growth? How do you desegregate it in general when you project it for a year or a three-year business plan?

Kamal Khushlani: I think India is showing enough opportunity Lakshminarayanan across all kind of towns so you know typically a smaller town as it grows and the consumers there become conducive to buying branded products the MBOs first start stocking national brands. And we are always in the list of brands for any new MBO any new MBO that comes up in any tier two tier three town as well, typically that's how it starts. And as the brand grows as the town grows richer slowly it becomes conducive for single brand retail and then multiple outlets of single brand retailers' etcetera.

So, we are seeing all kinds of opportunities we see MBOs opening up we see new EBOs opening up however we don't count too much of the MBOs because that's not opening them is not in my control but opening EBOs is in mine but however we intend to have organic and inorganic growth in both MBOs as well as EBOs.

Lakshminarayanan: Any mix in general from you saying that if you want to grow 20% how much would be by store-lead expansion which would be EBOs or MBOs and how much would be your existing channel the channel that was existing last year?

Kamal Khushlani: Currently it's very difficult to put a number on that Lakshminarayanan however we are intending to grow in mid-teens depending on market conditions.

Lakshminarayanan: Thank you sir I'll come back in a queue.

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

Rohan: Hello yes I was just going through your financials, and I think we do…

Moderator: Sorry to interrupt Mr. Rohan could you come a bit close to your handset and speak

Rohan: So, I was going through your financials and are you a decent ROC of say north of 20% and you don't even you don't have a dividend paid you are not paying dividend at this moment so can we expect that you can accelerate your mid-teens growth rate to somewhat on 20% growth rate for a long period of time, say four, five years?

Kamal Khushlani: Why not certainly we intend to you know double in four to five years is what we had mentioned earlier also however all of that will be done depending on the market conditions and we have always grown the through the profitability lens and that is something we will continue to do we will calibrate the growth of the through the profitability lens. We will never compromise on profitability for growth and vice versa.

Rohan: okay and if you can just explain us just like one of the participation -- of our participant also asked this question are you feeling this heat coming from the new age brands that are more focused on D2C and that has more customized at our customized element?

Kamal Khushlani: Not really Rohan the heat and all honestly we haven't, the market is there is enough room for growth for everyone and a lot of endeavours at our end also which we will end up achieving growth on that we don't see these brands giving us heat or anything of that sort.

Rohan: Okay so you say you still feel that there is a long runway for growth for all of the players it's not like you have to take competition from somebody?

Kamal Khushlani: Certainly there is enough of a runway Rohan and like I said it also depends on the type of brand you are if you end up being just another me too brand trying to sell or be another app also ran in the industry where you're trying to sell on the edge of price or something but we are not like that. We are a brand which is very unique in itself and you will only know that if you visit some of the competitor stores and visit our stores. And actually touch and feel our products where you will see how we are different from the others. And what's the reason for our existence and the reason for our belief that we will continue to grow profitably.

Rohan: Okay and another thing with the growth plans that you are having can we expect the percentage in percentage terms the branding and marketing expense to go up because you definitely want to market it aggressively?

Kamal Khushlani: Give a little, give or take here or there but roughly we intend to spend approximately 5-odd percent of our revenues.

Moderator: Thank you the next question is from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: First of all sir congratulations on achieving a positive efficiency in a top demand environment. Now my first question would be so what would be a pre-IND AS EBITDA margin sir?

Rasik Mittal: Pre-IND AS EBITDA margin would be around a 10% lower so it will be maybe around a 16-odd percent.

Ravi Shah: My next question would be a little bit on strategy, so what would be our growth aspiration for the next three -- I know you mentioned a little bit but then from this what kind of volume can you go straight between volume and value between efficiency and actual growth going forward anything like what are we targeting for the next three years?

Ravi Shah: So, basically what would be our growth aspiration for the next three years and where do we see our business heading?

Kamal Khushlani: We intend to double in the next four to five years Ravi exactly in three years is we intend to have at least maintain growth year-on-year. Yes we'll do faster also.

Ravi Shah: Understood sir and sir this will majorly be driven by volume or value so that was the question?

Kamal Khushlani: Both of course both.

Ravi Shah: Sir my next question would be what would be our short-term targets like in the coming few quarters what would be our major targets if we have any?

Kamal Khushlani: For this year our targets are to reduce our working capital days and reduce our inventory levels. And grow at mid-teen levels but ensure that we grow profitably. We improve our profitability, and we improve our working capital days and reduce inventory levels, keeping those are going to be the boxes we are going to be ticking before we think of growth. I'd be very confident to be able to do that by the end of this year.

Ravi Shah: Sir so my last question would be how have the MBOs was performed during the last quarter if you could give a brief highlight on that, or it could be very helpful sir.

Kamal Khushlani: The MBO performance in the last quarter has been decent, MBO and EBO typically move hand in hand Ravi. The general -- yes the sentiment is pretty similar across.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Capital. Please go ahead.

Lakshminarayanan: So, in terms of the uh your EBO sir what what's your annual rent you actually pay for your facilities, what is the percentage of revenues?

Rasik Mittal: So, it depends on different types of EBOs but it's in the range of around 20-odd percent of revenue.

Lakshminarayanan: And in terms of your stores um in COCO , FOFO or COFO what's the kind of typical format like what's the kind of square feet you have, what's the revenue per square feet you normally target it and when does these stores breakeven at least at an operating level?

Rasik Mittal: So, see typically our stores breakeven from six to -- within a year, six to nine months generally. Typically we are around 800 square feet at an average and revenue we do is around 11,900-odd 11,800-11,900.

Lakshminarayanan: They're all 800 square feet and what is that number 11,000 you talked about? You said 800 square feet is an average size of your store and what is the other number you gave, 11 something you told?

Kamal Khushlani: We do have average revenue of around 90 lakhs per annum.

Lakshminarayanan: And in terms of garmenting do you completely outsource or some part of garmenting you actually…

Kamal Khushlani: Completely outsourced we maintain total control over the entire outsourcing process.

Lakshminarayanan: Typically how many franchises you actually offer every year and how many actually apply like what kind of filtering you have for becoming a franchisee?

Kamal Khushlani: So, there is a process that goes through that one has to go through Lakshminarayanan I mean there's a committee that meets with a franchisee and looks at the potential of the market. And in some sense kind of screens the franchisee and understands and looks at their experience and there.

And then it's the chemistry getting matched along with the franchisee and us having confidence in them being able to run the store successfully so there is a stringent process that one has to go through before one becomes a franchisee. Typically, I think around how many stores are run by franchises about two-thirds of our stores are run by franchises and the growth also is coming in the same percentage.

Lakshminarayanan: Got it. And another question is that how are you taking advantage of information technology? How do you ensure that the, last three years how you have progressed in that front? In the sense that, how do you optimize the inventory at various stores or micro markets, how what has been the journey so far and how are we benefiting now?

Kamal Khushlani: Very difficult to answer that question like that on the call. But there is a -- we have a direct connect with our POS where we know the sale every 30 minutes and we have a ERP that gives us the SKU wise data of what is selling where. And there is a very strong team internally that monitors what is selling where to ensure that the right product is lying at the right place and lots of endeavours are taken up including interstore transfers and there are a lot of BI tools that give us you know insight on merchandising and what should be put in which stores and what is it that sells where so that's a constant exercise that is done…

Lakshminarayanan: Is it something which you embarked upon very recently in terms of the ERP that is actually?

Kamal Khushlani: No, no. It's been there for a long time.

Lakshminarayanan: Got it. Thank you. I'll come back in queue.

Kamal Khushlani: That is new endeavours that we keep embarking on and newer ways of slicing, dicing our data to get better and better at you know predicting sales.

Lakshminarayanan: So which means that all your EBOs you have you have a on a daily tracking you have the inventory which is filling fast which is, is that at an EBO level you must be having right both primary and secondary?

Kamal Khushlani: Absolutely, absolutely

Lakshminarayanan: God it. Thank you so much sir.

Kamal Khushlani: Most welcome.

Moderator: Thank you. The next question is from the line of Naitik from NV Alpha Fund. Please go ahead.

Naitik: Thanks for the opportunity. So my first question is your receivables seem to be a bit on the higher side. So any thoughts is there a room for improvement, or they would remain in the same range or any thoughts on that?

Rasik Mittal: I think we are working on reducing the receivable days basically. So but on this Naitik the receivable days that we have is there is a certain amount of you know facing stock that is required in the stores and like I said we have advances from our franchisee partners lying with us as deposits.

So if you factor for all that then you will see that it does not it's not actually as high as it appears to be. But its retail we have to fill up the store with stocks and that again is in the fashion business may not be the best way to evaluate the health of a business. As long as we are able to liquidate what we have and ensure that that is done profitably on whatever we have produced, we are on the right track.

Rasik Mittal: And recover the moneys from our customers.

Rasik Mittal: Yes and but like I said earlier there have been no write-offs on account of inventory in the history of the company. Similarly there have been no material write-offs on account of receivables also.

Naitik: Okay. So I got it. And my second question is you could just uh give the pre-IND AS margin for the last quarter and Q1 of FY '24 also so that we get an idea of how it's moving?

Rasik Mittal: can I get back to you on that?

Naitik: Sure.

Rasik Mittal: Okay. Yes

Naitik: Yes. Thank you, that's it from my side.

Rasik Mittal: Thank you.

Moderator: The next question is from the line of Rahul Jayant Dhruv from Pegasus Growth LLP. Please go ahead.

Rahul Jayant Dhruv: Thank you. Yes I just had a follow-up question on the returns. You mentioned that you know you provide for 25%.

Kamal Khushlani: Yes

Rahul Jayant Dhruv: One is what was this percent say in FY '21 or FY '20 and what is it now? And second is when you say provide basically means that it is actually a number which you decide but actual number would be different right? So if you can tell me a little bit?

Kamal Khushlani: Number is a derived number from the basis on which we have been getting returns historically. However what's happened is that the way we have completely gone to outright I mean sorry SOR basis from outright this number has gone up. And like I said I prefer to get everything back from in my pipeline. So I know that every new season I'm putting in new merchandise at the on the shelves for my consumers to see. And whatever is left over after end of season sale when it comes that comes back to me I have a complete view on you know what's the inventory that was unsold and what is the rate at which I need to discount it to be able to liquidate it at the rate at which I would be happy to do that.

And if I was not going to pick it up from my MBO partners and other partners, I may not have eye view. I may not have a complete view of what is the inventory that's left over, which is we believe it's much healthier to get everything back as long as we are able to liquidate it, which is what we do successfully. So that is something that has grown last year it was 22% and I think prior to that it was even maybe lower the provision yes around 20%.

Rahul Jayant Dhruv: Right. So if I'm not wrong and correct me if I'm wrong it's basically the gross margin of 57.5% is after a 22% returns right? And which basically means that if the return falls to say 20% or 15% and I'm not saying it well but I'm just assuming then the gross margin will be much higher?

Rasik Mittal: So we've changed the return percentage looking at the last three four seasons so if the returns percentage reduces we'll change the provision. Yes and will the GP go up. GP will remain same there will not be any impact on GP because even when I make a provision for the returns I give effect to the cogs also for that.

Rahul Jayant Dhruv: No. My point is sir when the returns come you actually liquidate it through the online channels right, which is at a lower price. So I'm just trying to understand if it is at a lower price then the gross margin over there would be lower right?

Rasik Mittal: But this is normal basically it keeps on happening means older stuff gets being sold on e-commerce it's…

Kamal Khushlani: But if less inventory is returned from the channel partners then yes the our margins will go up.

Rahul Jayant Dhruv: Okay. And this 25% is the highest that you have seen so far?

Kamal Khushlani: It's not like that depend on season to season that's the average what we have seen and that is what the auditor and Rasik have decided to write as a provision.

Rahul Jayant Dhruv: Okay. All right, okay. That's about it. That's my…

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Kamal Khushlani: Thank you, Del and thank you everyone for joining us. I hope we've been able to answer all your queries, and we look forward to such interactions in the future. In case you require any further details, you may contact Mr. Deven Dhruva from SGA our Investor Relations Partner. Thank you very much and have a good 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.