

July 31, 2024

<b>BSE Limited</b> Scrip Code: <b>543401</b>	<b>National Stock Exchange of India Ltd.</b> Trading Symbol: <b>GOCOLORS</b>
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Dear Sir / Madam,

**Subject: Transcript of Earnings call – Q1 FY 25**

We hereby enclose the transcript of earnings call for the financial results for the quarter ended 30<sup>th</sup> June, 2024.

This is for your information and records.

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

**Gayathri Venkatesan**  
**Company Secretary & Compliance Officer**

Encl: As above



“Go Fashion (India) Limited  
Q1 FY'25 Results Conference Call”

July 24, 2024

**E&OE** - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 24th July 2024 will prevail.



**MANAGEMENT:**

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q1 FY'25 Earnings Conference Call of Go Fashion (India) Limited. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Gautam Saraogi, Promoter and CEO from Go Fashion (India) Limited. Thank you, and over to you, sir.

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

During Q1 FY'25, the retail industry continued to remain sluggish. This was further compounded due to the election and heat wave which caused lower footfalls across retail spaces. Despite industry- challenges, we began the year on a strong footing, achieving a 16% Y-o-Y growth in revenue, reaching INR220 crores of sales.

Our EBITDA increased by 12% on a Y-o-Y basis, standing at INR72 crores. PAT for Q1 FY'25 was INR29 crores, which grew by 9% on a Y-o-Y basis. We achieved a good growth in the LFS segment in this quarter. Even with these short-term challenges, we maintained a full price sales ratio of 97%, demonstrating the resilience of our product in tough market conditions.

Our ability to serve a diverse customer base and act as a one-stop solution for all of women's bottom-wear gives us a competitive edge. This strength enables us to navigate challenges effectively while continuing to meet our customers' needs and drive business growth.

Our unique product offering combined with quality and competitive pricing positions us favourably in the industry. As demand begins to normalize, we expect the mass premium segment to lead in terms of growth. Moving on to the operational metrics for Q1 FY'25. In Q1 FY'25, our ASP stood at 777 rupees. It continued to witness growth due to improvement in our sales mix. Our advertising spend as a percentage of revenue stood at 2%, which was in line with what we had guided.

Coming to store additions. In Q1 FY'25, we have added 20 net stores in our portfolio, increasing our total store count to 734. We are optimistic about our continued store expansion efforts and aim to open between 120 and 150 stores for full year FY'25. SSSG during Q1 FY'25 stood at 0.2%.

We at Go Fashion strongly believe in a sustainable growth backed by cash flow. We achieved a strong pre-Ind AS operating cash flow of INR32 crores in June '24. This success is due to our strong focus on inventory and supply chain efficiency.

On the inventory front, we have continued to emphasize effective inventory management leading to a reduction in our warehouse inventory levels. As a result, our inventory days have decreased from 104 days in March '24 to 87 days in June '24, a reduction of 17 days. For the full year, we expect this to be in the range of 90 to 95 days.

Lastly, our tie up with Apparel Group in the Middle East is on track, and we should open our first door in this financial year. The strategic expansion will see Apparel Group leverage its extensive retail expertise to introduce Go Colors' diverse range of products to a new audience, looking to fulfill the growing demand for versatile and fashionable bottom wear across the GCC.

On the way forward, our first step is to achieve low single digits SSSG in the quarters to come. Second, we want to grow our footprint by increasing the number of stores in our portfolio by adding about 120 to 150 stores this financial year.

Despite the sluggish demand environment in the retail industry, long-term industry fundamentals remain promising, suggesting potential improvement ahead as economic conditions stabilize and consumer spending rebounds, we anticipate a gradual recovery in demand. Factors such as evolving fashion trends, resilient consumer spending habits and increasing disposable incomes are expected to boost the industry outlook moving forward.

With this, I would like to hand over the call to our CFO, Mr. R. Mohan, to update on the Q1 FY'25 results and financials. Thank you.

**R. Mohan:**

Thank you, Gautam, and good evening, everyone. Despite the challenging business environment, the company continues to witness strong operating performance.

Now to give you the financial highlights for Q1 FY'25. Our revenues for the quarter stood at INR220 crores as against INR190 crores in Q1 FY'24, a growth of 16% Y-o-Y. Gross profit stood at INR136 crores, a growth of 17% Y-o-Y, with a GP margin of 61.8% for the quarter.

Our EBITDA for the quarter stood at INR72 crores as compared to INR64 crores in Q1 FY'24, a growth of 12% Y-o-Y. Our EBITDA margins stood at 32.8%. Profit after tax for the quarter stood that INR29 crores and witnessed growth of 9% Y-o-Y. PAT margins stood at 13%. RoCE and RoE pre-Ind AS stood at 24.3% and 19%, respectively.

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

**Moderator:**

The first question is from the line of Mike Sell from Alquity.

**Mike Sell:**

Congratulations on a good set of results. You mentioned that you're expecting to see a gradual increase in demand as we go through the year. What gives you the confidence to say that? And do you think the budget would be neutral or positive or negative for you as of yesterday?

**Gautam Saraogi:** Yes, thank you for the question. I think one of the reasons we are very optimistic that demand should improve is because we've seen healthy single-digit positive SSSG in the month of June and because we have seen this in June and some of it is also carried forward in July, July also has been a decent month. So I think, overall, I think the overall apparel space in the retail is looking very optimistic.

So I think in the coming quarters, the SSSG improvement should be visible. As far as the budget is concerned, we are yet to study it fully. But from what we have seen, we don't see any big impact in our business as far as the budget is concerned.

**Mike Sell:** And just one follow-up question. Could you just talk about your thoughts about margins for the full year? If I understand correctly, your margins were down a little bit, the EBITDA margin in Q1. Do you expect that to stabilize as volumes pick up? And where would you think we should be over the next 18 months in terms of margins?

**Gautam Saraogi:** Yes. See, as far as gross margins are concerned, we have seen a 50 bps increase in gross margin. So we would probably see a little more improvement in the coming quarters as far as GM is concerned. As far as EBITDA is concerned, once our SSSGs are back to normal and some sort of good single-digit improvement in SSSG, I think our EBITDA margins also should come back to normalcy of 20% and more once we are able to achieve 4% to 5% of SSSG. So moving forward for the full year, we would ideally want to be in the range of 19% to 20% pre Ind AS EBITDA margin.

**Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.

**Devanshu Bansal:** Gautam, congratulations on our strong optimization of working capital. The inventory days have actually gone down below the targeted 90 days in Q1. So congratulations on that. I wanted to check on the capital allocation policy.

So we typically require about INR50 crores of annual investment in our business for adding 120 to 130 stores, which should very well be taken care by our internal accruals itself. So how do you plan to use this healthy INR220 crores of cash that is there on our balance sheet?

**Gautam Saraogi:** Devanshu, , right now, -- the funds are available to strengthen our bottom wear business, but very rightly you said our internal accruals are very strong. So we haven't made any plans yet to deploy. As of now, as per our treasury policy, we have this invested in fixed deposits and liquid funds. As far as dividends are concerned, we will be probably deciding it this year. You would like to see another year of strong free cash flow and then we will be taking our call on dividend distribution.

**Devanshu Bansal:** Got it, Gautam. Second question. We are gradually diversifying our business from a leggings, churidar into new categories such as active, denim, lounge, etcetera. Likewise, in my opinion, these new categories should also reduce our median consumer age profile and bring in new consumers as well. So with this context, I would request you to, if you can, provide some color around our repeat purchase percentage or new buyer growth will be really helpful. So your thoughts on this please?

**Gautam Saraogi:** See, our repeat purchase has actually not really changed much. It's at around 40% to 45%. But very rightly you pointed out, even this this quarter, we had actually launched our activewear collection in our bottom wear category. And we have seen very good traction in this. And whatever new products which are coming out are also focusing on the younger audience.

See, at the same time, we don't want to completely be a very young audience brand. Majority of our customers is the matured lady as well. But we want to have a good blend of both. So many of our new release which is coming out is actually targeting the Gen Z audience.

**Devanshu Bansal:** Sure, Gautam. One feedback, if you could include some metric around these new younger consumer additions that are coming to our portfolio will be really helpful.

**Gautam Saraogi:** We are yet to track the data. Once we have the data, I will definitely share.

**Devanshu Bansal:** Sure, Gautam. You mentioned that budget. You do not expect much change to your business. I wanted to sort of focus on one point that was mentioned in the budget. There is an employee-related incentive announced by the government, where the government will be contributing about INR3,000 per month for two years to EPFO. So what is the benefit that should accrue to us based on this? If you could throw some light on that.

**Gautam Saraogi:** So, Devanshu, we are just studying this. In fact, probably little more clarity, we are also speaking to a few consultants as well. So we'll have more clarity in the coming weeks as far as this is concerned. So very difficult for me to comment on it right now. We'll definitely have more clarity in the next week or two.

**Devanshu Bansal:** Last question, Gautam. From a gross margin perspective, this has inched up 50 basis points in this quarter. And this is despite a 500 bps higher mix of LFS channel. Ideally, this mix should have adversely impacted our gross margin by 150 to 200 basis points. What is the reason for this 50 bps of gross margin improvement? Is this raw material, higher full price mix or there were some one-offs here?

**Gautam Saraogi:** See, well, I think, look, the one reason is that usually we liquidate a lot of our EOSS items through exhibitions. This quarter, our exhibition outflow was very less. So that is also one reason for our gross margins to go up. But from what we have little bit studied internally, it is looking because of lower cotton prices. Largely it's because of that. So these are the two main reasons. The major reason is the lower cotton price.

**Devanshu Bansal:** Got it. And this LFS growth of 40-odd percent, this should normalize in coming quarters or the mix of LFS can remain at, say, 24%, 25%.

**Gautam Saraogi:** No, no. This will normalize, Devanshu. So you would see the contribution coming down. This was a very unique quarter because one of our LFS partners had actually had an offer running in their store and which considerably increased the footfalls in month of May and April. And that's why our sales in LFS channel has been considerably large. So this will normalize in Q2.

**Moderator:** The next question is from the line of Sameer Gupta from India Infoline.

- Sameer Gupta:** Firstly, on the net store addition target. So this quarter you've done 20, and you're still saying 120 to 150 store additions. Also, there have been some three closures. Last year also we saw 23 closures on a full year basis. So just a little bit of clarity, at this point, you're still maintaining your guidance on store additions or, I mean, if there is little revival in demand, should we expect a downward revision to this number? And any clarity on closures? Do we foresee more over this and this 120 to 150 addition? I believe this is a net number. Please correct me if I'm wrong.
- Gautam Saraogi:** Yes., Sameer, this 20 is a net number and we are sticking to our guidance of 120 to 150 stores. Some of the stores which are supposed to open in Q1, many of those projects were delayed from a timeline perspective. So as management, we are very confident that we will open 120 to 150 net additions. As far as store closures are concerned, we have closed about 3 stores this quarter. I think for the full year, it will be in low single digits. It will be in single digits. It might be around 6 to 7 closed for the full year.
- Sameer Gupta:** And any revision to this target if demand doesn't revive or that still stays?
- Gautam Saraogi:** See, as of now, difficult to comment on it. But as of now, we are maintaining the same target of 120 to 150. So I don't see a reason why we should change this target.
- Sameer Gupta:** Fair enough. Also on the EBITDA margin pre Ind AS, I believe based on my calculation, it is around 19.2% this quarter. And this is also a seasonally strong quarter for us. Ad spends are reasonable at 2%. LFS also saw higher growth. So unless there is a meaningful uptick in SSSG going forward, would it be fair to say that overall EBITDA margin for the full year should settle at par or below this level or any other levers for margin improvement other than SSS that you foresee?
- Gautam Saraogi:** So, I think, see, SSSG definitely will improve in the coming quarters. And see at the same time, we are also, as a company, doing a lot of cost cutting at every front. So we are very confident and our internal target is to achieve an EBITDA of about 19% to 20%. So I'm quite confident that we should be able to get it.
- Sameer Gupta:** Got it. And you did mention that gross margin benefit should continue for a few more quarters, right?
- Gautam Saraogi:** Which will also fuel this EBITDA margin, right? Yes.
- Moderator:** The next question is from Prakash Kapadia from Spark PMS.
- Prakash Kapadia:** Yes. A couple of questions from my end. In the PPT, you mentioned same-store sales growth were 0.2% during the quarter and same cluster sales growth is 8%. So what is the difference between these 2? And last quarter, you had you were looking at around a 5% kind of SSG by the end of '25.
- So are we positive of seeing that quarter-on-quarter improvement in SSG growth? What factors will contribute to that? Is the base now low enough? Or are we seeing some consumer sentiment being changing towards more demand? That was on the demand side. And what is the

contribution of leggings currently? And over the next few years, how will this shape up? Those were my questions.

**Gautam Saraogi:** Yes. Sure, So on the SSSG front, Prakash, I think, look, our idea is obviously to get to at least about 5% of SSSG so that from a cost perspective, our margins stay intact. So our idea is to at least by the end of the year reach to that number. Our target is that. We are working very hard to get to that number.

What gives me confidence that the SSSG improvement will happen is based on what I've seen in June and little bit of July. I have seen low single digit SSG happening, and I'm confident that once we are entering festive, this momentum should pick up. So the current trend of June-July gives me a little promise that Q2 and Q3 should be good.

So if you're able to get to that kind of a number of about 4%, 5% by the end of the year, if things go well, then we should be back on track as far as SSSG growth is concerned from a cost perspective. What was your second question?

**R. Mohan** **Product mix**

**Prakash Kapadia:** Product mix for leggings.

...

**Gautam Saraogi:** Yes, for the product mix -- yes, leggings is right now about 40% to 45% of our overall sales. Leggings and churidars together should be about 45% -- 40% to 45% of sales.

**Prakash Kapadia:** Okay, 40% to 45%. And the cluster sales growth, if you can help me understand...

**Gautam Saraogi:** Yes. Yes. I'll explain to you. See, these are two different data points. So same-store sales growth is any store which has completed one year of sales. Post its completion of one year of sales, it comes into the SSSG bracket. So we compare a like-to-like period for that one store and see how much it's grown. So that is the SSSG definition we do.

As far as a same cluster sales growth is concerned, we take one particular micro area and compare the sales of that micro area for a like-to-like period irrespective of the number of stores that micro area has. Like, just to give an example in Bombay, let's take Bandra area, right? So Bandra is one micro cluster.

Last year, say, Bandra would have had 3 stores. Now Bandra has five stores. So we don't consider the number of stores, the total sales of that micro area, irrespective of the number of stores, we compare and then arrive at the same cluster sales growth number.

**Prakash Kapadia:** Okay. So this could differ from quarter to quarter. This is just a representation to give some perspective on some specific area.

**Gautam Saraogi:** Basically for us, the kind of business we are in, if you want to track the hygiene of the business, whether the business is doing well in a particular city or a micro area, the same cluster sales growth is a very, very important data to track because it basically tells me that in that micro area



or in that particular city or territory, whether I'm losing market share to any competitor. So that's what same cluster sales growth tells you.

Our same-store sales growth perspective is purely from a cost perspective. So we, as management, track both data points, SCSG more from a sales hygiene perspective and same-store sales growth more from a perspective of cost control.

**Prakash Kapadia:** Right, right. And the last question from my side is, historically, we've always maintained that we are metro-centric brand, not really rural, but we've been increasing presence across the country. So if you could give any sense of what is contribution of top 10, 15, 20 cities in our sales as of now? And given the expansion and the kind of store additions we are looking at, how will this shape up as we scale?

**Gautam Saraogi:** So, Prakash, actually, we are not a metro-centric brand, though, our sales are very heavy on the top 8 cities because of our cluster-based expansion model. The way we have positioned ourselves, we sell very well even in a metro city, even a Tier 2 city, and in Tier 3 and Tier 4 cities because our price points are very sharp. So from a positioning perspective, we reach out pan-India from Tier 1 to Tier 4. It's just like metro cities and the top 10 cities have been more dominated for us because of our sheer presence.

So as we keep moving forward, our growth in Tier 2, Tier 3, Tier 4 will happen. But see, even after 5 years, once we have penetrated a lot more, we still see our top 10 cities contributing to 50% to 55% of our business. We don't see that mix changing because even the top 10 cities is growing at a very fast pace for us.

**Prakash Kapadia:** Okay. And that would be what, around 75% as of now in sales?

**Gautam Saraogi:** No, see, today, my top 8 cities, so out of my 734 stores, about 55% of my stores are in the top 8 to top 10 cities, which should contribute to about 60% to 65% of the business.

**Moderator:** The next question is from the line of Mehul Desai from JM Financial.

**Mehul Desai:** Sir, Firstly on this SSSG that you are alluding to of low single digit maybe in June and July, and obviously 4% to 5% that you are, I mean, targeting in the second half. How do you see it between volume? Will it be an ASP led? Or do you think volumes are also picking up?

**Gautam Saraogi:** See, I think because our ASPs have been growing at a slow pace, I think, currently, if we do reach that 5% number, I think volume will be 2% to 3% and the total will be 5%. So volume will be half is based on the current trend, what we see.

**Mehul Desai:** And the store additions in LFS have been pretty strong. You expect that trajectory to continue?

**Gautam Saraogi:** No, no. See, the reason one of why we've had good number of store additions in Q1 is because, look, we've added more than 50 stores of lifestyle. We have entered almost all of Shoppers Stop stores. In Reliance also our penetration has got deeper. Pantaloons also we have added more. So I think this is a very unique quarter in terms of number of stores, what we've added. I think this

will normalize in Q2, Q3, and Q4. So in a normalized situation, in a year-through basis, we look to add about 100 to 150 LFS stores.

**Mehul Desai:** Understood. Got it. And any guidance on how one should look at A&P spends for full year, you look at that 2%, 2.5%...

**Gautam Saraogi:** It's going to be at 2%. It's not going to cross 2%.

**Mehul Desai:** I think, on the gross margin, is that 40 to 50 bps expansion possible that I think that you had highlighted last quarter also? That stays, right? Or is there any...

**Gautam Saraogi:** Yes. It should. We, as management, are confident that it should maintain or maybe even get better.

**Moderator:** The next question is from the line of Rahul Jain from Phillip Capital.

**Rahul Jain:** Just wanted to get a quick sense on the pledge releases. What is the current -- what is the timeline on this? And is there any update on the same?

**Gautam Saraogi:** Yes. So we are looking to clear the pledge between the window of August and December. So most of the pledge should get released between this window.

**Moderator:** The next question is from the line of Binoy from Sunidhi Securities and Finance Limited.

**Binoy:** This tie up that we have with Apparel Group. So, will we be investing in store openings or will they only open? I mean, will there be any investment from our end?

**Gautam Saraogi:** So, Binoy, there's no investment from our end. It's going to be a completely FOFO model, franchise owned franchise operated. So the entire investment, operations, running of the store, management, everything is going to be done by them.

**Binoy:** Who will control the inventory management and pricing?

**Gautam Saraogi:** Inventory management will be controlled by us based on what is selling. Pricing is going to be something decided by both parties. So because they know the local market very well and we know our product very well, it's going to be decided by both parties. Even if there are going to be any discounts also, it's going to be mutually discussed between both parties. The supply chain perspective, we are going to be deciding based on how the sales are happening.

From a consumer perspective, Binoy, suppose there is a consumer who is shopping in India in company owned company operated outlets, and they happen to go in the Middle East and see a Go Colors outlet, the experience, the look and feel will be completely different. The consumer will not see any difference between an Indian store and a UAE store from a look and feel perspective.

**Binoy:** Understood. So essentially what you're saying is that it will be over the small store format between 300 and 500 square feet.

- Gautam Saraogi:** Correct. Absolutely. Absolutely. It's going to look identical to what we have here in India.
- Binoy:** Okay. Gautam, you've always averse with franchising. You always wanted to maintain control over your front-end retail operations, right? So what is the thought process behind having a FOFO model from the Middle East? I mean, there are other franchisee structures as well, just curious to understand why didn't you evaluate the -- or let's say, why didn't you go using the other franchisee structures and instead of completely FOFO?
- Gautam Saraogi:** No. so, first thing is why we wanted to franchise and not do company-owned, company-operated because we've run stores in Dubai in the past, okay. If you know our history, we've opened up few stores about 7, 8 years back in Dubai.
- We were operationally not able to manage sitting here in India. And when we consulted with other brands and what feedback we got is that when you're going international waters, you should be looking to franchise because it's not possible for us to sit here and manage that. You need a local player to help you with everything.
- Now, when we wanted to look at franchising, the most effective model, what we explored was FOFO, because any other model would not be suitable for the kind of format we want to do. For example, we could have done a JV where we had to invest. We as a company didn't want to invest. And Apparel Group, as a company, was very confident on our brand. So they were very comfortable taking FOFO. So we went with this kind of a model, which suited both parties.
- Binoy:** Understood. Fair enough. Second is that, Gautam, that over the past - 2 years or so, our net store addition has been around the 120, 130, 140 mark, right?
- Gautam Saraogi:** Correct.
- Binoy:** So I was just understanding that while in the interim period, I think in one of the con calls you did mention that you'd be looking to accelerate it to about 150, 170 stores a year in one of the con calls. But again, it's back to 120, 130, 140 mark. So I was just wondering that, is there a constraint in terms of evaluating the number of store properties that we can evaluate internally?
- Gautam Saraogi:** No, it's not like that. I think the store options are available in plenty, so it's about what is relevant and right for us. And look, once you have a such a big network of stores, every signing, what we have to do, we have to be very careful. So I think, look, we have just adopted a very qualitative approach rather than a quantitative approach.
- See, for us, if we do 10, 20 stores less, also, it does not matter. The quality of stores, what kind of revenue throughput it gives, EBO economics, whether they are steady or not, those things matter more than just looking at sheer number of store additions in a year. So I think as management also, we are more quality conscious in the quality of stores we are signing rather than quantity. That's why that 10, 20 stores less also does not really matter.
- Binoy:** And how large would , our business development team would be?

**Gautam Saraogi:** No, we have a pretty decent sized business development team. We would be having a 15-member team.

**Binoy:** Okay. And my last question, Gautam, is that SSSG, you're targeting about 5%, 6% by the year-end earlier. And right now, it's flattish. So I'm just wondering, what are the levers that we would have in order to manage our pre-Ind AS EBITDA margins? Because right now they've been drifting down.

**Gautam Saraogi:** Correct. No, see, I mean, look, there are three things here, Binoy. One is obviously improving the SSSG so that margin is maintained. Second thing, see, as a company, we have been doing this for a very long time and we are continuing to do cost rationalization. So we sit every week on this subject and we've been reducing costs over a period of time.

And when we are doing this, we have seen a lot of benefits in our P&L through this exercise. That is the second way of doing it. The third way is that because our gross margins are slightly increased because of low cotton prices and we feel that this will further improve a little more. That will also keep an overall EBITDA margin steady.

So first is, pushing SSSG closer to the 5% mark. We're hopeful that by the end of the year, we should be close to it. Second, continuous efforts on cost reduction. And the third is the GM benefit, which we might get in the coming quarter.

**Binoy Jariwala:** Okay. Just a last question if I may. What was the volume growth this quarter on a Y-o-Y basis?

**Gautam Saraogi:** On a Y-o-Y basis for the full company, it was very similar, because we have not had a very large ASP growth. 16% was our overall company revenue. Our volumes also were in the similar range of 14% around that.

**Binoy Jariwala:** And likewise the same-store sales growth in volume terms would also be flattish, right?

**Gautam Saraogi:** Yes. 0.22% was our SSSG in value and in volume, it was minus 0.4%.

**Moderator:** The next question is from Priyank Chheda from Vallum Capital.

**Priyank Chheda:** Sorry to harp again on the margins, right? Right now, given the muted demand that we are witnessing and our guidance is that we would like to end near 19%, 20% for the full year. And on the contrary, if I have to revise back my notes for the last quarter where you did mention that you need to incentivize your store managers. In fact, the capex per store has gone up. There have been no more renovations of the stores happening.

So all this would lead to a furthermore cost pressure in case, if the SSSG were supposed to remain at this level. So just wanted to understand what are the levers within the cost cutting measures that we are looking forward for?

**Gautam Saraogi:** No, I mean, look, from an incentivization perspective, it had got rolled out in Q1 itself. And when we are giving slightly higher variable incentives as a percentage, the cost does not increase, but because that pushes the revenue also. So your incentive percentage to sales does not really

change because the higher incentives you give, the sales also increase that much. So there's no cost pressure as far as incentive is concerned, as far as the P&L is concerned.

Yes, it definitely boosts sales. For us to keep our margins intact, look, the gross margin definitely would help, which I mentioned, but just overall, we've always been looking at cost control from an overall bottom line expenses perspective, and that cost rationalization will continue. So I think that will help us to keep our margins steady even when the same-store sales growth is slightly.

One example of cost cutting we have done is many of our stores, what we have in high streets and in mall, we have been able to renegotiate rentals and bring down certain rentals in many stores, wherever the SSSGs are flat or negative. So I think those kind of effective measures have helped us to maintain the margins in the P&L to a certain extent.

**Priyank Chheda:** Okay. So the rental negotiations is one of the levers...

**Gautam Saraogi:** It is one example I gave. It's just an example.

**Priyank Chheda:** Right. And if I have to look back into the gross margin expansion at, say -- we are at healthy gross margins, right? So do you think any nudge is required on the product pricing for us to get back the volume SSSG growth?

**Gautam Saraogi:** No, I don't see any need for us to change the pricing. I mean, look, at the end of the day, if you change our pricing, it will change the perception of our product, and that is very dangerous to do. So we are not going to be changing the pricing. We are neither going to decrease it, neither going to increase it. So whatever GM, what we are having, I think that will benefit the P&L to that extent. We are not looking to change the pricing to drive volume.

**Priyank Chheda:** Perfect. And on the value-added non-legging's part, which is 55% of our portfolio any particular categories you would like to add, which are the larger ones within that basket?

**Gautam Saraogi:** No, I think the trousers and pants categories have relatively done very well for us. So I think if you have to see from a contribution perspective, the pants category and trousers are a material contribution to us. I think in the value-added products that category does well, and even the jeggings category. Even the jeggings side, it has done really well for us.

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

**Nishit Rathi:** Gautam, just a couple of questions from my side. Just wanted to understand, Gautam, how are you thinking about a new cluster addition? And what has that been in this particular quarter, what would that number be like and how are we thinking about that? Because our same cluster growth is around 8% and our overall EBO growth is around 9%, which kind of makes me believe that we are not really adding new clusters, right? Is that a fair assumption?

**Gautam Saraogi:** No, not really, because see, that's not an apples-to-apples comparison. Because see, the clusters are having only X number of stores, whereas the overall EBO growth is on an overall base of 734 stores. So it's not an apples-to-apples comparison. See, we as a company, we don't set a

target for ourselves that we should add so many clusters. For us, our target is our number of stores.

And with that number of stores, organically, the clusters also will grow because that's our expansion strategy. So from a cluster perspective, we don't set ourselves X target that we want to add so many clusters. For us, just keeping the store count as a target does the job. I'm not having the current number of clusters handy. I'll share it after the call. But I'm sure there is an increase compared to last year.

**Nishit Rathi:** I'm just trying to understand, Gautam, how should I think about it, right? Because if we have added around 100 stores last year, which basically means that you increased your network by about 15-odd percent, right? And the year before that, you increased your network by about 20%, right? And so, we -- and we have seen flattish SSG, right? So when do we start getting the full benefit of the network expansion.

**Gautam Saraogi:** Yes. See, I'll tell you the problem. You see, in the network expansion what happens, in a bad market, even the newer stores tend to underperform below the new stores average. So I'll give you an example, right? A new store usually grows at about 15% to 20% plus on a Y-o-Y basis. And right now, because of the sluggish demand environment, the newer stores are growing at less than 10%.

It's actually in low single digit. So even when the demand is sluggish, when the environment is sluggish, the maximum impact actually happens on the newer stores, because the newer stores are not settled yet. In a settled store, you still drive footfalls in a bad market. But in a new store, it's even more difficult to drive footfalls than the overall consumer sentiment. So as the consumer sentiment improves, also the network expansion will start reflecting in the SSSG.

**Nishit Rathi:** This is very helpful. Which basically you're saying is whenever the demand turns, not only will you get SSSG in your current stores, but the stores which you have added in the last couple of years, which possibly could be below potential could see normalization and which also gives you in a good environment, the ability to expand will also increase dramatically, which means the aspiration of 150 and 170 also becomes a lot more viable at that point of time. Is that the right way...

**Gautam Saraogi:** So. For us, expansion is very clear. It's not that we are cutting down expansion because of the overall outside market. That is one of the smaller reasons. But for us as a company, we want to target qualitative signings so that the EBO metrics and the overall economics of the business don't change.

So if I was able to do quality signings today, where I was able to deliver 150, 170 stores, I would have done it. So we are very on track to do qualitative signings. So as far as new stores are concerned, when the market improves, the SSSGs of those stores will improve and that will be part of the blended 4% to 5% what we are targeting.

**Nishit Rathi:** Correct. But isn't it fair to assume that in an improved environment, the ability to find qualitative signings will go up also materially, right?

- Gautam Saraogi:** I'm definitely sure it will.
- Nishit Rathi:** Correct. Okay. That is one. Secondly, just wanted to understand. So when you say that you started seeing green shoots in June and July, so is it fair to assume that going forward at least, how should we think about your EBO growth? How are you thinking about your EBO growth on a let's say, on an FY'25, FY'26 kind of basis? Just broadly, how should we think about that number?
- Gautam Saraogi:** See, my target internally is to go the EBO network more than 15%. The EBO sales on a Y-o-Y basis with an SSSG push of about 4% to 5%. That's what we target internally. See, right now, it's very difficult to predict what will happen in Q2. So if you're asking me what is going to be the SSSG number in Q2, I don't know because it's very difficult to predict. But internally we have set ourselves a target of saying that, okay, we need to get to that 4% to 5% number of SSSG and an overall growth of more than 15% as far as EBO sales is concerned.
- Nishit Rathi:** Correct. And, Gautam, this 14% to 15-odd percent target which you have is only because the current environment is what it is, right? But eventually your longer-term aspiration over a longer term...
- Gautam Saraogi:** Is to do at 20%. Absolutely.
- Nishit Rathi:** That has not -- I'm just...
- Gautam Saraogi:** That has not changed.
- Nishit Rathi:** Yes, that is very helpful. Okay. And the last thing is, I just wanted to understand how should I think about this Apparel Group opportunity, right? Not right now, but over a 3 to 5 year period, how large is this opportunity? How are you thinking about it? Could it -- how material could it be for from a perspective? Some kind of sense or understanding...
- Gautam Saraogi:** See, it's early days. Our idea is to open the first store. If it does well, then probably another 2, 3 stores. So I mean, look, if it clicks, not only does our presence become very vast in the Middle East, but it gives us a proof of concept that our kind of product can do very well overseas.
- And in the long run perspective, it will open doors to other geographies as well. I'm talking about very long term. From an immediate plan perspective, our idea is to open the first few stores, see how it does well. If it does well, then the overall the entire GCC and Middle East is up for expansion.
- And see a company like Apparel Group also, which is very large. They also want to take a brand on board which can be multiplied in terms of number of outlets across a particular region. So they also see that there is a very good potential of Go Colors expanding very well within the countries of the GCC.
- Nishit Rathi:** Correct. I'm just trying to understand, let's say, over a 5 to 7 year perspective, is it fair to assume at least 150-odd stores with much...

- Gautam Saraogi:** No. Very difficult for us to estimate that, because we are right now taking our first target and sale. Our first target is to open those few stores and drive it to success. So I'm not even thinking about any expansion in the GCC till we open those first few stores and see what happens there.
- Moderator:** The next question is from the line of Varun Singh from ICICI Securities.
- Varun Singh:** Sir, my first question is, like, the current 734 EBO stores that we have, what is the ratio of franchisee owned franchisee operated and company owned company operated stores as on today?
- Gautam Saraogi:** Not, it's not changed a lot. I guess 14 to 15 stores out of the 734 would be franchise.
- Varun Singh:** Okay. And incrementally, 120 to 150 stores that we wish to open. It will largely be a franchisee owned franchisee operated...
- Gautam Saraogi:** No, no. Whatever stores now we are going to be opening is going to be largely company owned company operated. That's our primary strategy as far as EBO is concerned.
- Varun Singh:** Okay. Understood. And then...
- Gautam Saraogi:** The franchising part is more for the UAE -- for the Middle East, the UAE, not for India.
- Varun Singh:** Oh, I see. Understood. Sorry. Yes, understood. Right. Understood. And sir, secondly, I think you mentioned that internally, the target for the EBO revenue or retail area is to grow more than 15%. Yes, but when I look at the store addition guidance, it is 120 to 150 and the base of maybe FY'24 base, if I see 714 stores. So like the most conservative assumption, which is if we end up adding 120 stores, is roughly 17% retail expansion. So does this not imply that we will -- we have toned down our store addition guidance and maybe the incremental store addition will be less than 120 stores?
- Gautam Saraogi:** No, no, not like that. I mean, see, look, the 120, 150 stores, what we have targeted, we should be able to achieve it. In Q1 it was a little less because many of the projects, what we had planned, got delayed to Q2. So I don't see a reason why we should not be able to achieve that target of 120 to 150. So I think that is pretty much in place.
- Varun Singh:** Okay. Okay. Fair point, sir. Understood. Yes, that's it. And sir, one last question, that, like, in the medium term, what is an ideal mix of revenue from EBO and large-format store we kind of envisage in the medium term, if you can help us understand...
- Gautam Saraogi:** No EBO will continue -- in the short term and medium term, EBO will continue to be at around 75% and the other channels will be the balance 25%.
- Moderator:** The next question is from Rajiv Bharati from Nuvama.
- Rajiv Bharati:** Regarding this Apparel Group opportunity, so have you given exclusivity to them? And let's say, 4 years, 5 years down the line, if you were to figure out, because anyway, we are doing inventory management and managing the supply chain. Can you open your own stores there?



**Gautam Saraogi:** No, currently we are not looking to do that, Rajiv, because like I mentioned on the call, we had done it in the past 7, 8 years back. And we realized that when it comes to international, it's better to do it with a franchisee.

If you see, most international brands that have come to India also, right? Most of them have actually gone through the larger franchisees in India. So it's not any different for Indian brands going overseas as well. So when you're going to another country, the strategy of COCO does not work as well FOFO works better.

As far as Apparel Group is concerned, look, obviously, when you signed an agreement with them, we have given them the exclusivity. It's a 5-year agreement, what we have signed with them. And they are a very, very strong, solid retail house in the Middle East. So I think, look, giving them exclusivity is a very good chance for us to enter the business. I don't see any issues there.

**Rajiv Bharati:** And is there a milestone which you have set in terms of store target and which you can share?

**Gautam Saraogi:** No, right now, honestly, I'm not setting any target for us in the beginning, because we are going to be opening our first store maybe in the financial year. When the first store opens, we see how the economics of the store are. Apparel Group also should be comfortable with the unit economics, what is happening. So once those few stores open and there is proof of concept in that particular region, only then we can actually sit and draw entire plan for the next three-four years.

**Rajiv Bharati:** Sure. Secondly, on this, the working capital bit. So, let's say, the growth, revives from the momentum you have carried from June continues in the remaining part of the fiscal, then the working capital will also start growing instead of the number you're sharing that close to 90, 95 days...

**Gautam Saraogi:** Honestly, see, this quarter, we are at about 87 days, but on a steady state basis, we see ourselves maintaining a 90 to 95 days of inventory. So even when sales pick up, obviously, inventory also will slightly increase in proportion to sales. So this 87 days will stabilize between 90 to 95. So we see our working capital, which is at about 113 days right now, it will be between 115 to 120 days between that in the short term.

**Rajiv Bharati:** Sure. Lastly, on the depreciation line item, which is, I think, regarding the lease liabilities and you mentioned that you have reduced some rentals. Are there more levers to that? because there is a Q-o-Q reduction there.

**Gautam Saraogi:** Sorry, please come again. I lost you in between. Please come again.

**Rajiv Bharati:** On the depreciation line item for the quarter, in a sequential basis, it has come down. So you mentioned that you renegotiated some contracts, right? This is largely leases.

**Gautam Saraogi:** No, that would not have made a very big impact on the depreciation, honestly. So anyway, the depreciation, what is reported is rental and also the fixed asset depreciation together. That line item is together. Because of Ind AS 116, the rental will be part of depreciation and finance cost.

The depreciation will be a combination of rental and as well as the actual depreciation of the fixed assets of the company.

**Rajiv Bharati:**

No, fair point. We have not seen...

**Gautam Saraogi:**

The renegotiated rental wouldn't have made a very big impact on that.

**Moderator:**

The next question is from Prerna Jhunjhunwala from Elara Capital.

**Prerna Jhunjhunwala:**

I have a question. Sir, just wanted to understand this inventory reduction to 87 days. What will be the major component of reduction over here?

**Gautam Saraogi:**

It was at the warehouse, Prerna. Actually, my system is off. Otherwise, I would have told the exact line item number of what is there at the warehouse. But it is -- the maximum reduction has actually happened at the warehouse level across FG and fabric.

**Prerna Jhunjhunwala:**

Okay. Across FG and fabric. Okay, understood.

**Gautam Saraogi:**

And fabric. I'll share the specific number post the call. My computer is off. It's not switching on. I'll share the exact inventory number through SGA.

**Prerna Jhunjhunwala:**

Okay. So which means that right now are we at the lowest level of inventory that we would envisage as...

**Gautam Saraogi:**

Yes. I mean, from a number of days perspective, yes. But I see ourselves at around 90 to 95 on a steady state.

**Prerna Jhunjhunwala:**

Yes, that I heard. Okay. So now going forward...

**Gautam Saraogi:**

Yes. But, I mean, it is the lowest where we would have aimed, we are probably at the lowest right now.

**Prerna Jhunjhunwala:**

Okay. So going forward, will this also be because the demand is low and we've not been increasing our inventory to just rationalize everything...

**Gautam Saraogi:**

No, it's not -- it's nothing to do with demand as such. It's just the obligations of sales. See, our entire inventory sourcing and the calculation happens based on sales. If the demand scenario was good today, our inventory also would have been higher. So it's not that my inventory days would have been lower if the demand was higher. My absolute inventory would have been higher if the demand was higher, because it's completely linked to sales.

**Prerna Jhunjhunwala:**

Okay. Understood. So which means you will you start procuring given that you are expecting...

**Gautam Saraogi:**

Exactly. As the demand and the sales improve and we keep growing as a company in terms of size, the absolute inventory also will keep increasing.

**Prerna Jhunjhunwala:**

Okay. And sir, you mentioned your SSSG in June and July were better. Could you share some numbers or perspective on that? I mean, how better they were and...

- Gautam Saraogi:** See, July is yet to close. So for me, it's very difficult to comment on July. June, we were at about 5% to 6% of SSSG.
- Prerna Jhunjunwala:** 5% to 6%. And sir...
- Gautam Saraogi:** No, no, but there is a catch. See, what happens is if you compare one month versus one month, it becomes little misleading, Prerna, because this June had 5 weekends versus last year June had 4 weekends. So the number of weekends play a very important role in the in the overall sales also, when you compare. So we reported a 5%, 6% of SSSG. We'll have to see steady state, how it goes into July, August and September.
- Prerna Jhunjunwala:** Okay, understood. So which means weekend versus weekday performance, if there could be...
- Gautam Saraogi:** 100%. Weekend sales obviously tend to be a lot more because there's more footfall in high streets and malls. So the number of weekends play a very important role. See, that's why when you compare for a quarter versus quarter, the weekends average out when you're doing a comparison. When you're doing one month versus one month, it becomes a little misleading.
- Prerna Jhunjunwala:** So, sir, will it be fair to say that June was better as for -- when you mentioned that you saw some green shoots? Just trying to understand that way.
- Gautam Saraogi:** No, no, June, of course, was better. It's just that we have to see the consistency over the next 2 months. But if I take access June, it was definitely better. That's why we've been able to see a positive trend.
- Prerna Jhunjunwala:** Okay. And how has been the end of season traction which would have begun in July this year?
- Gautam Saraogi:** Too early to say, Prerna. We are just halfway through. As of now, things are looking good. Footfalls in the malls also have been pretty decent, but difficult to comment right now. We'll probably be in a better situation to know in August first week.
- Prerna Jhunjunwala:** Okay. And sir, your other income has been higher this quarter. Any particular reason for other income to be higher?
- Gautam Saraogi:** See, on a pre-Ind AS level, our other income, I think, would have been about -- I don't have that number, but it's gone up because of our cash balance. Because of our higher cash balance compared to Q1 last year...
- R. Mohan:** Because of FD income.
- Prerna Jhunjunwala:** Okay. FD income.
- Gautam Saraogi:** Because of FD income and because of the cash balance being higher, we've got higher than FD income.
- Prerna Jhunjunwala:** There's no role of rental renegotiations or some...

- Gautam Saraogi:** No, no. Like I mentioned, Perna, the rental renegotiations wouldn't have made a very big impact on our -- on the depreciation or the other income line item.
- Perna Jhunjhunwala:** Okay. Understood. And sir, when you are saying that for the year you are targeting 4% to 5% growth on SSG terms, in Q2, if the sales remain flat, still you would be in a position to maintain that target?
- Gautam Saraogi:** Probably, we will have to relocate that post Q2. Very difficult to comment right now, because right now, the way how the overall retail scene has been very difficult to predict what will happen next month, the month after. But we are quite optimistic with what we see in the market.
- Perna Jhunjhunwala:** Okay. Understood. So we were seeing demand scenario improving even from Q2.
- Gautam Saraogi:** Yes. It has definitely improved to what it was in April and May.
- Perna Jhunjhunwala:** Okay, understood. And on a steady-state basis -- I mean, last year was a weaker year. So on a steady-state basis, do you think the demand is improving further? Or is it just normalizing right now?
- Gautam Saraogi:** We will know by August, Perna. I think, look, June has been good. July also is looking decent. I think once we enter August, and probably by August end or August middle, we will know how it's shaping up. So we'll have more clarity and color by then, for sure.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Gautam Saraogi:** I'd like to thank everyone for being on this call. We hope we've answered your questions. If you need more information, please feel free to contact Mr. Deven Dhruva from SGA, our Investor Relations Advisors. Thank you.
- Moderator:** On behalf of Go Fashion (India) Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.