SAI SILKS (KALAMANDIR) LIMITED
CIN: U52190TG2008PLC059968
Registered Office: # 6-3-790/8, Flat No.1, Bathina Apartments, Ameerpet, Hyderabad - 500016
Telangana, India. 040-66566555. Email: secretarial@sskl.co.in
www.sskl.co.in

Date: 03.02.2025

To	To
Corporate Relations Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001, India Scrip Code: **543989**	Listing Manager, National Stock Exchange of India Limited Exchange Plaza, C-1 Block G Bandra Kurla Complex, Bandra (E) Mumbai – 400 051, India Symbol: **KALAMANDIR**

Dear Sir / Madam

Sub: Transcript of the Conference call held to discuss the results Q3 FY 2024-25

With reference to the above-mentioned subject, we wish to inform that,

1. The Copy of Transcript of the conference call held on Wednesday, January 29, 2025 to discuss the results of the Quarter ended December 2024 is enclosed herewith.
2. The Transcript also uploaded on the Company's website and the website link of the same is: https://sskl.co.in/wp-content/uploads/2025/02/Transcript-final.pdf
3. The list of management attendees is stated in the Transcript.
4. No unpublished price sensitive information was discussed in the call.

This is for your information and records.

For Sai Silks (Kalamandir) Limited

Matte Koti
Bhaskara Teja

Digitally signed by Matte Koti Bhaskara Teja
Date: 2025.02.03 12:02:18 +05'30'

M.K.Bhaskara Teja

Company Secretary & Compliance officer

M.No: A39542

“Sai Silks (Kalamandir) Limited

Q3 FY25 Post Earnings Conference Call”

January 29, 2025

MANAGEMENT: **MR. RACHAMADUGU BALAJI BHARADWAJ – SENIOR VICE PRESIDENT – SAI SILKS (KALAMANDIR) LIMITED**

MR. KVLN SARMA – CHIEF FINANCIAL OFFICER – SAI SILKS (KALAMANDIR) LIMITED

MODERATOR: MR. VEDANT MULIK – HDFC SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY '25 Post Earnings Call of Sai Silks (Kalamandir) Limited hosted by HDFC Securities Limited. 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vedant Mulik from HDFC Securities Limited. Thank you and over to you.

Vedant Mulik: Thank you. Hello, everyone. Welcome to Sai Silks (Kalamandir) Q3 FY '25 Conference Call. From the management today we have Mr. Rachamadugu Balaji Bharadwaj, Senior Vice President and Mr. KVLN Sarma, Chief Financial Officer. I now hand over the call to Mr. Bharadwaj for his opening remarks. Over to you, sir.

Bharadwaj: Thank you, Vedant. Good morning, ladies and gentlemen. Wish you all seasons' greetings. Thank you for joining us today to discuss Sai Silks (Kalamandir) Limited results for the third quarter and year-to-date FY '24-'25 results. I am Bharadwaj Rachamadugu, Senior Vice President, Sai Silks (Kalamandir) Limited. I presume that everybody has got a chance to review the financial results and investor presentation that we've uploaded on the company website as well as both stock exchanges yesterday. I also have with me Mr. KVLN. Sarma, CFO of the company.

To begin with, I'd first like to throw some light in terms of what happened in the Indian retail ethnic market scenario. The overall retail market in the quarter showed a good sigh of relief from the previous quarters. On account of that the Pitrupaksh actually ended in Q2 itself this time and kick started the festival season right from the beginning of quarter 3. With Dussehra Navratri festive season starting from 2nd of October itself, we've seen a good amount of traction coming to our stores, especially in the ethnic segment.

And the end of the October month also was followed up on Diwali. And so that's the entire October as a month, that had a good line up of festivities as well as events that helped us get good traction in the market. Further, in the month of November, on account of wedding Muhurthams and the wedding calendar demand picking up, the same thing continued in the month of December as well.

In the month of December, we have also seen some more traction with regards to big events and festivals such as Christmas, New Year and Pongal buying, purchasing that had already started. So for the whole quarter, if you see, the demand since the first two quarters did not have much of the auspicious Muhurtham dates and since majority has shifted to Q3 and Q4. The same thing actually took place and we have seen a good amount of footfalls, tractions coming into our stores and, therefore, we have seen a good recovery when compared to the previous quarters.

Addition to this, this was the overall market scenario. What we've also observed is in this particular quarter, we have seen good traction coming from Tier 2 cities compared to Tier 1 cities. This phenomenon generally occurs because the festivities are majorly prominent in the AP and Tamil Nadu regions and also combined with the new store additions also coming up in Tier 2 locations.

With respect to the numbers in this quarter, our company did a revenue of about INR448.6 crores compared to last year of INR382.5 crores which is a growth of about 17.5%. Our gross margins this quarter stood at 41.8% compared to 39.9% last year, an increase of about almost 190 basis points. Our EBITDA for the quarter stood at 17.59% compared to 15.22% last year's quarter 3, showing good signs of recovery and growth of about almost 235 basis points.

And needless to say, our PAT grew by 43%. So, for the whole 9-month period we've achieved the revenue of about INR1,063 crores compared to INR1,014 crores last year, a growth of about 5% this year compared to last year's. Majority of this recovery has come in quarter 3 because the entire first half of this year has been a weak half.

With regards to the store strategy and expansion moving forward, in this quarter, we have opened 3 Varamahalakshmi company-owned, company-operated stores, totalling of about 15,700 square feet, which takes the company's total company-owned, company-operated retail square feet close to 686,000 square feet.

And as of today, we have about 67 retail outlets. We are focused to open each and every store carefully assessing the demand and paving more emphasis on the location of the store. This is a part of our expansion strategy and we continue to do so. As we currently stand at the middle of the quarter 4 and as per the wedding calendar dates, we do have a good traction in terms of the wedding dates in the quarter 4 as well.

And since these wedding dates are distributed, and not very confined to a particular month or so. And therefore, this spread-out calendar generally historically has worked in our favor. And we believe that this same performance growth will continue in quarter 4 as well. And the same should be able to reflect in the entire Indian ethnic wear market as well.

I now hand over it to the operator, and I'll be happy to answer any questions. Thank you, all.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Rishabh Gang from Sacheti Family Office. Please go ahead.

Rishabh Gang: So a good set of numbers. Maybe if you can throw some light on the same-store sales growth as well. Also, I wanted to understand more on the strategy part? So women usually comes to shop sarees with their family members, such as husband and kids. But for our stores, except KLM, we are not targeting men and kids, to what I can understand from the PPT.

So the kind of sarees you sell, most probably they are being bought for a particular event, such as wedding where the other family members also have a very specific use case for buying clothes such as wedding. And most probably for the entire time the wife is in the store, other members of the family are in store as well. But we are not monetizing that part of wallet share, that would be spent by them, the other family members.

So by putting some space for men's and kids ethnic wear, like we can boost some SSG, right, and also the time they spend in the store. So what do you think about that? How do you think about this?

Bharadwaj : Okay. So in terms of strategy, I'll try to address the strategy part first and then I'll move to SSG. So first and foremost, I think as you rightly said, apart from KLM, the other 3 formats, the major emphasis is towards women's wear only. And even in KLM, there's a women's wear component, but let's just keep that aside for now. See, what happens is an average consumer behavior when they come to store, they come not just one or two people, they come in a group.

So let's say, a mother, daughter or maybe like three to four people group is what they come. And what generally happens is people who come to the store generally don't end up selecting just one saree. But what they end up is like selecting a whole collection of sarees.

Basically, a comparative analysis between one saree and other saree, the entire family goes on a discussion of which color, what blouse, etc. There's a lot of active discussions that goes on. So with respect to who end up buying, say, they end up selecting three, four, five sarees also. And not just for the person who's selecting the sarees, but for the other occasions, let's say, for example, the bride's mother or maybe the bride's friend, whoever is trying to come there, will also end up selecting sarees for themselves as well.

So in terms of the people who are sitting idle, that generally doesn't happen. the way we calculate our footfall is based on group footfalls, not just by individual footfalls. So when a group comes, since there will be an active discussion, there are a lot of discussion points with respect to what to be worn, what kind of matching needs to be there, what kind of jewellery needs to be there.

When such active discussion comes, then generally there is no such scenario where people are just walking out without having any selections. To be honest, if we actually take the conversion metrics in terms of how many groups are coming versus how many people are ending up buying, our conversion ratios are almost about 85%. If you take Varamahalakshmi, it's more than that. So we believe that this is going to be in a comfortable way moving forward.

Now majority of in these stores, men, who actually accompany women are considerably less. And our stores, if you look at our store vibes and store ambience, these are all small stores. And these are all curated stores wherein like we have the entire ambiences with divinity focus or very occasion focus with large number of SKU offerings. The moment we start adding menswear and kids wear, we will actually dilute the whole essence of what we are trying to do.

For now, we are comfortable with what we're currently are going ahead with an average of about 5,000, 6,000 kind of a square feet store, we are able to monetize it much better. And the moment we start expanding and adding more categories into the store, it will actually dilute it. We prefer all of the other non-KLM formats will be women-centric only. There'll be a very few men who's coming and accompanying women to buy.

But mostly what you see is women who come and end up taking active part in terms of the decision-making. So that's with that. And if that answers your question, then probably in terms of SSGs, I think we have seen an SSG growth of about 6.8%.

Rishabh Gang: Yes. But how do we get to a same-store sales growth of maybe a double digit? Because and because the 6.8% is a good one, I think. So like how do we boost it? I think adding some categories or something it needs to be done for double digit? What do you think about that?

Bharadwaj: See, historically also, our SSG's growth were in around 4% to 5% only, average SSG growth on a year basis. I'm just talking about the full year is the kind of number that we actually end up targeting. See, the reason why this SSG growth is still fine and it doesn't get crushed under the inflation is because the variable expenditure is very, very efficient.

So for example, in the overall company level, the employee cost for us is around 8.5%., the rent-to-revenue ratio is around 4% or less than 4%. These are pretty much the cost that we oversee. And the moment, even if we have to take an SSG growth of about 4%, 4.5% on a year, the amount of impact that this will have is comparatively less. So every store is still contributing to the bottom line. So achieving 10%, 11% kind of SSG generally don't happen in our kind of industry.

An average of about 4%, 4.5% is fair enough. And we will still be profitable year-on-year because these costs, what we anticipate is foreseeable. It's not a new random cost that comes up. our employee cost will range around 8.5%, 9% in and around because these are something that we always budget for.

And we ensure that this kind of a healthy balance is actually maintained in any store and every store. So the moment we start moving the staff from one store to the other store, thanks to the network of stores that we have, we're able to like ensure that the employee cost is met under certain targets.

And even with respect to rent, we know the kind of appreciation the rent has year-on-year. It's about a 5% appreciation year-on-year. Taking this into consideration also, even if we do a 4% growth in terms of SSGs, the store contribution to the bottom line will still be positive.

Rishabh Gang: Also, I can see you're focusing on online mode as well now. So how are we using tools like Instagram and YouTube. So are we doing any influencer marketing? And how much of our revenue is coming from online mode? And how does the margins compare to the offline sales?

B. Rachamadugu: If you talk about online e-commerce as a business, the entire online contribution is not going to be more than 1.5 to 1.7 percentage. So it's a very small component in the overall revenue sense. But in terms of using digital platforms such as Instagram or maybe Meta or Google, we are very actively pursuing this as a method of communication.

See, earlier, 2 years or 3 years back or maybe even before COVID or maybe even last year also, majority of our emphasis was into print and radio advertisement as well. So this year, the conscious decision that we have taken is to reduce the overall off-line spend, meaning print and radio advertising spends and focus more on digital marketing as well.

So with respect to influencer marketing, I think influencer marketing is helping us to a great extent. We are able to now focus and target a particular market, a particular geographical segment, which is targeting to a particular store and, therefore, run curated campaigns. And we have been doing a great amount of work with this.

And we've also been able to leverage sales force to help us narrow down and target the kind of segments that we need to focus on every and at any given point of time. So it's actually helping us a lot. As a matter of fact, I think I have also mentioned in my last earnings call as well, even in the last earnings call at the fag end of Q2, we started putting more emphasis on digital marketing and influencer marketing and using much more sophisticated tools to go online.

The same thing is continued in quarter 3 as well, and we will continue to see the same trends in Q4 as well. And one other point I want to mention is not just in the core markets, even with respect to our Varamahalakshmi format, even in Tamil Nadu market, digital marketing has helped us create a lot of brand awareness, both in terms of ATL and BTL.

Rishabh Gang: Got it. Sir, today, we are largely focused on South India, right, where there is a sizable market. But what do we think about targeting very specific micro markets, right, in other parts of the country where people have a shopping pattern similar to our existing customers, right, because that would also help in creating a lot of brand awareness across the country as well? So how do we think about that or have we consulted any third party to identify such specific micro markets?

Bharadwaj: See, when we speak about our limited presence of e-commerce, we are getting a great amount of insights in terms of what micro market is working for what kind of product. So these insights is something that we already have been capturing and we will continue to capture. But as a part of our strategy, we wanted to focus currently in a cluster model and adding a few stores once, in a specific South Indian market. So now in the last 1 year, if you see, our focus has become entirely been in Tamil Nadu.

The moment we start identifying these pockets, slowly, we'll start adding new pockets of areas. And with respect to our demand, so we have been getting the kind of ticks that we get on social media, the kind of analytics that we have. We already have identified 3, 4 markets that we believe will be next in terms of how we need to expand. So there is a good amount of data. We already have been identifying these markets.

As we speak, we are also looking at few new states where we need to look at. But again, we are in very early stages of discussions. We will start acting up on these things probably in the next one, two quarters. But yes, I think when we try to advertise it, right, we don't try to advertise just for the sake of advertisement in pan-India because our entire focus is off-line stores. And these off-line stores are located in the four, five states of South India.

It makes sense for us to market it due to entire advertisement spends in this particular market. However, in terms of awareness, in terms of reach, our online e-commerce is one channel that basically targets not just India, but other countries in the world as well. So using the e-commerce, we are capturing a lot of data points, and that has been one of our leading factors in terms of when do we expand, how do we expand into newer markets as well.

Rishabh Gang: Just one last question on the cluster-based model, how do we ensure.

Moderator: Mr. Rishabh, can you please fall back in the question queue for further questions.

Rishabh Gang: Absolutely, fine. Thank you so much for your insight.

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

Aradhana Jain: Congratulations on the good set of numbers. The first question is on, what has led to the improvement in gross margin?

Bharadwaj: Okay. Aradhana, thanks for the question. So see, I think we've been trying to address this point in the last quarter as well. So post the IPO, we started actively working in terms of efficiencies in terms of the procurement. So good thing is our payable cycle to our vendors has decreased. Therefore, we are able to get some advantage in terms of the overall discounting on the product itself, and that's directly giving us the efficiencies.

so this efficiency that we've brought in is entirely at the cost of the company, and it does not actually translate to the customers. So this is one point that is helping us enable the margins. Along with this point, the new stores that we are adding is Varamahalakshmi Silks Stores. Varamahalakshmi Silks as a format has a higher gross margin compared to KLM's format. This also is a major factor in terms of the overall growth of the gross margins.

Aradhana Jain: Understood, sir.

Bharadwaj: So these two factors on a whole is what is the reason why we are able to expand our gross margins.

Aradhana Jain: Understood. Could you throw some light on how has the working capital been in the last 9 months?

KVLN Sarma: Yes, there has been a consistent improvement in the working capital status mainly because of the better turn hours, better generations out of the premium format etc. And then the entire expansions are being done through the IPO process. So we have good internal generations with which we are able to reduce the borrowings as well.

In fact, to tell you the broader figure during this 9 months, our debt has come down by approximately INR98 crores. And of course, among the working capital cycle, the payable days are also decreasing because one is by way of our own strategy of making earlier payments a for-cash discounts and the other on optimizing stock levels.

And then secondly, compulsion on account of MSMEs being paid within the statutory period prescribed also is reducing the payable days. The borrowings have come down substantially by using the free cash flows. In fact, to give you a comparison, we have brought down the working capital borrowings from INR230 crores last year to INR125 crores as of 31st December. So company is moving towards a debt-free status at this point of time.

This is reflecting in the balance sheet showing definite improvement, by way of reduction in debt, reduction in trade creditors as also optimization of stock levels.

Aradhana Jain: Understood. That was helpful. Just on the previous participant's question on SSSG, the 6.8% growth is in 3Q. So what would be the SSSG for 9 months? And do we maintain the guidance of 1% to 2% guidance for FY '25?

KVLN Sarma: SSSG for the quarter was 6.8%. I mean the figure that was told was for the quarter. And still at this point of time, because of the substantial reduction in SSSG in the first quarter and some part of the second quarter, we are still lagging by minus 6% on the overall SSSG at the end of 9 months

We are hoping that, since January also has a good traction on account of Sankranti festival and during February and March, we are expecting that the wedding days are there in good numbers. So, by the year-end, we are expecting that we would close at a neutral level on SSSG and the growth will be delivered by the new stores that have come in.

Aradhana Jain: Understood. Just one last question from my end. How has the KLM store format performed during the quarter, especially the newer categories that we had entered into like innerwear? And which would be the categories which are aiding for better products?

KVLN Sarma: Currently, Q3, KLM on SSSGs have come close to neutrality. If I have to give a specific figure, the SSG was minus 1%. And things looks to be moving better on KLM part. It should also contribute to the neutralization by the year-end. If you take the overall picture, at least in the current year, the KLM should be neutral or slightly lesser, say, 2% to 3% minus on SSSG by the year-end.

Moderator: Aradhana ma’am, does that answer your question?

Aradhana Jain: Yes. That’s all from mine.

Moderator: Thank you. The next question is from the line of Aniket Nikumb from ABN Capital. Please go ahead.

Aniket Nikumb: Thank you for taking my question and congratulations on a great set of numbers. My first question was, we've seen a lot of commentary just generally in the news and so on, on just overall consumer slowdown and stuff like that. Obviously, you've sort of defied that a little bit. So can you tell us what have you experienced?

And what have you done differently where you've been able to achieve sort of quite a solid set of numbers in the context of overall weak consumer sentiment?

Bharadwaj: Yes. So Aniket thanks for the question. So yes, still, as you rightly pointed out, there's still reports that consumer slowdown is happening and that's what we are seeing. But generally, what happens is, especially in ethnic and wedding wear market, the kind of impact that this will have is not to that extent.

It does definitely have an amount of an implication on that. But generally, majority of our product offering is catering to weddings as a target segment. And of course, festivities also have a major part, but weddings are one single big component of what we try to do. So the impact of wedding date calendar, the auspicious date or Muhurtham as they call has a greater impact on our company's performance rather than overall demand per se. And that's one of the first points.

The second point is, this quarter, we have taken active decisions in terms of focusing on the advertisements targeting to a store. So historically, we had majority of our advertisement in the ATL activity itself. This particular quarter and at the end of Q2, and the entire Q3, we focused more on specific stores, creating more segments and targeting people to drive them to our stores.

So, if I've to give you probably in the 67stores, more than 25, 30 stores, we started doing focused campaigns by using influencers, by creating product awareness, and showcasing the product price. What we've understood that in our category, our products generally are actually stacked in a shelf. So, because there is no such mechanism to go ahead, openly explain about what happens, what kind of products we host, that has been one of the limitation factors from the past. So, this was the case till last year because most of our design, see, majority of the designs that we have are very, very private to us, our own designs.

The moment we wanted to showcase our designs to people, there's an amount of competition that there are chances of copying. But we've changed gears right now, and we focus on target marketing. And ethnic segment in terms of the wedding buying generally go a little bit overboard and spend extra and go overboard on their wallet sizes.

They go a little bit overboard in terms of spending for the wedding. So that is one of the major reasons why we have seen some improvements. Additionally, one other improvement that we have done is we started actively focusing in terms of the shuffling. So we bought a new algorithm and new logic in place to help us do more shuffling in terms of the product offering.

So these are a few factors that has overall helped us to make sure the freshness of the stock is there in every store and, therefore, the conversions are also much more increased compared to last year. Even if you have to talk about KLM as a format and other formats also, the conversions, the walk-ins versus the number of bills, conversions have increased.

Aniket Nikumb: Got it. Very helpful, sir. Very helpful. Just another follow-up question from maybe what a previous participant also asked. Sir, would you consider expansion into sort of specific high-income geographies around India, where there would be demand for such products. So, for example, I'm from Bombay and now there are three Nalli stores here.

There is a Sundari Silks here, there's a Tulsi Silks here. And obviously, there is a fairly large sort of South Indian community here. So have you thought about that? What do you think about such an expansion? Because obviously, there's a lot of purchasing power and people want to celebrate their occasions with a fair bit of traditionality?

B. Rachamadugu: Yes. See, absolutely, Aniket. See, the reason why I did not want to comment upon where exactly I am going to open stores is because the focus had been in the entirely Taminadu -- since the IPO the next 1, 1.5 years, the focus has considerably been in terms of the Tamil Nadu expansion. As we speak right now, we have identified potential pockets, a few pockets in Karnataka, in AP, Telangana as well.

But moving forward, as we speak, we are looking at Maharashtra and, Odisha as a state and want to probably a new state entry is what we will try to do. So the reason the way we want to go forward is to probably open very, very select stores and understand the consumer preferences, purchasing patterns and capture a lot of data points and probably expand further.

So the same strategy we have followed for Karnataka, we have followed for Tamil Nadu. the fifth state probably is not a state, but it's a union territory for Pondicherry, so extension of Tamil Nadu. But we will try to do the same thing for these newer markets as well.

Definitely, yes. And when we try to move there, we wanted to be a little bit more careful and cautious in terms of what we do because most of our Varamahalakshmi Silk Stores, like 95% of our product offering is in sarees only. The moment we start expanding to new geographies, the composition of sarees versus lehengas or that kurta-kurti composition will change. So, the plan is definitely in the next 1 year, you should be able to see us entering into these newer state markets as well.

Aniket Nikumb: Got it, sir. Makes sense. And just one last maybe bookkeeping question. Can you share what was the operating cash flow for this quarter?

KVLN Sarma: Approximately, I think it is minus INR7 crores at the beginning of the quarter and was plus INR38 crores at Q3 end. Thus, for the quarter it was INR45 crores plus.

Aniket Nikumb: So, we've generated INR45 crores this quarter?

KVLN Sarma: It was minus INR7 crores last quarter end. In this quarter, it is INR38.5 crores. So it is about INR45 crores for the current quarter.

Aniket Nikumb: Fantastic. That’s great. Thanks a lot for taking my questions and all the best to you.

Moderator: The next question is from line of Yash Dedhia from Maximal Capital. Please go ahead.

Yash Dedhia: So congratulations on a good set of numbers. So first question is that, let's say, for 9M in your Varamahalakshmi format, the EBITDA that you have got at a store level without the corporate overheads, how much more it is compared to the company average?

KVLN Sarma: Varamahalakshmi format as against the company's average is always higher. At store level, if you take, it is approximately 4% to 5%. It remains at this level for this year because much of the store expansion has come in during the current year, wherein we have also had expenses like store launching expenses, additional manpower, manpower under training etc.

So on a generalized basis, the margin profile for Varamahalakshmi over the company average is around 4% to 5%. And this year, it is going to be within that. By next year, because we will be covering the store launching expenses and other store level expenses, the premiumization should kick in by way of better margins.

And then we should see a better margin improvement from the Varamahalakshmi format consistently at the overall company level. And the revenue from Varamahalakshmi format, as it is now, has become approximately 50% of the total revenue from what it was 40% pre-IPO. So as the premiumization is kicking in continuously, this margin profile will improve even at the company level.

Yash Dedhia: So this 400 to 500 basis point is the actual achieved store-level EBITDA for Varamahalakshmi for 9M?

KVLN Sarma: Over the company number.

Yash Dedhia: Okay. So that's good. And secondly, can you comment on your store expansion plans as things stand now? Because I think we have had a few instances where we had to adjust our growth plans. So where do we stand now in terms of store expansion, let's say, for the fourth quarter and next year?

Bharadwa: Yes. So yes, I think as per the plan, we are anticipating in fourth quarter to open an addition of about 18,000 to 20,000 square feet. And probably the remaining expansion will spill over to quarter 1. As I rightly said, all these stores are Coco stores, and we had a little bit of a setback in second quarter with two of our top stores that we wanted to open in Tier 2 locations of Tamil Nadu.

There have been some limitations there. So, we do not want to go overboard and try to open into locations where we feel like just to open the store. So, what we are trying to do right now is carefully waiting for an opportunity to open it in the right market. So basically, we are having 3, 4 teams trying to work in terms of finalizing these stores. For fourth quarter, this is what we should be able to expect that is around 18,000 to 20,000 square feet, remaining everything will fall under Q1 of next year.

But in terms of locations, as I did tell you, we have identified one, two potential areas in Karnataka as well and in Tamil Nadu. We have one or two locations in AP, Telangana in Tier 2 kind of markets. The opportunities are there. We have not expanded into those stores, and we see a very good purchase power in these areas. Beyond this, we are also looking at expanding into new states very soon.

Yash Dedhia: So, by end of FY '26, how much more square feet we want to have in FY '26 apart from Q4?

B. Rachamadugu: So, from this point, from Q4 onwards, if you take, we should be able to add addition of about 70,000 to 80,000 square feet.

Yash Dedhia: 12%, 13% on your current base?

Bharadwaj Yes, correct.

Yash Dedhia: And in Varamahalakshmi format, your SSSG is how much approximately that is compared to the company average?

KVLN Sarma: SSG in Varamahalakshmi for the quarter is 6.5% there.

Yash Dedhia: Okay. And sir, generally, what we have seen in the value fashion side that some of the players who are now reporting numbers, they have reported far superior numbers for 9 months at least, although Q3, we have seen a bit of slowdown. So because in a bad economic environment, people also tend to downgrade. And that's where the value fashion players tend to do better.

But the same is not exhibited in the performance of KLM Fashion Mall, where we have got negative SSSG. So why are we not able to capitalize in a year when this was a year when because of lack of consumer sentiment positively? I mean, this was a year where we could have had a very good year in KLM.

B. Rachamadugu: So yash, technically, when you say KLM, I try to highlight this again and again, we consider KLM Mall to be an ethnic value fashion mall, not just a pure play value fashion mall. The kind of offering still is that KLM positioning is in a way where no other retail players have a kind of positioning like what we have. It still is dominated by ethnic wear in men's, sarees in women, all of that kind of a one-stop destination is a gap that we still feel, no other entrant in other geographies have played.

However, KLM as a format is still showing signs of recovery because end of the day, we feel the impact of the ethnic wear is still there in KLM. And when we talk about ethnic wear, what becomes important is the seasonality in terms of the wedding occasion calendar. So that has been one of the major reasons.

Most of the other players in this particular market not to compare, but they have a very different model altogether. If you talk about the number of styles that they have, number of SKUs that they have versus the number of SKUs that I have are far more compared to the other competitors that are there in the market. So it becomes extremely important for me to balance out and give this entire one-stop destination for families to come and shop with us. And so that has been the case majorly.

However, there has been one or two categories in KLM that needed attention. Like, for example, menswear and kids wear is one or two such categories that had of a degrowth, particularly per se. It could be of various reasons, it could be new competition or maybe change in the merchandising structure that we have.

So we are working on that, and we'll probably be able to show some results in the further quarters to come, but otherwise, KLM as a format as such is still doing better. See, the KLM average revenue per square feet still falls under INR16,000 a square foot, which is much higher compared to any of the other players that we currently have.

It's just that the efficiencies have to play in a little bit more and kick in, and we are trying to consistently keep it. And in the next quarter, we should be able to see some progress coming in there.

Yash Dedhia: Okay. And you said that 4% to 5% SSSG we can sort of expect over the long term. So I mean, how much in general for the ethnic which sells in Southern Indian market, can you expect the inflation itself to be in that range so that we can be sort of -- I mean, in your business, what sort of an inflation per piece, for example, can we expect over the long term? Is it similar to SSSG or how do you look at that figure?

KVLN Sarma: Yes, I'll explain that. As we explained earlier, the store level expenses at the company level, all format put together for us is approximately 15%. In fact, in Varamahalakshmi, they are slightly lesser. In KLM, they are slightly more. But on a company level, the store level expenses are only to the extent of 15%, which includes the manpower costs, rental, electricity, and other things which are subjected to inflation and will have an impact on growth.t.

So, among this 15%, even if there is an inflationary trend of, say, 10% also, the net effect would be approximately 1.5% on overall. So, if we are realizing 3% to 4% of SSSGs, obviously, the inflation part could be absorbed to the extent of 1.5% and the balance 2% or 2.5% would add to the profitability. That is how we expect that SSSGs of 4% to 5% also will contribute to the growth of the company.

Yash Dedhia: Sir, that is well understood. But inflation, what kind of inflation do we see in our selling prices, let's say, in the ethnic market in Southern India per piece? What sort of inflation history have we seen?

KVLN Sarma: Inflation.

Yash Dedhia: I mean the increase in the price per piece that you are selling, if you are selling a saree today for INR1,000, do we expect next year to be for the similar piece to be sold at INR1,040, INR1,050 or something like that? What's been the trend, long-term trend?

Bharadwaj: See, on a 3-year average, you should be able to see an inflation increase of about 10%. That is the average inflation that you should be able to see in a 3-year average. Again, 1 year up, 1 year down, but this is the averaged out. But I would like to highlight one point here is that we only try to deal with in the finished good stage.

So therefore, end price that we get is the cost price that we receive considering all of these inflationary trends, and we try to pass the same thing back to the customer in whatever way we can.

KVLN Sarma: No. In fact, SSG is a combination of both volume and the prices. It's not just that we are able to increase price and then get the SSG. It is a combination of both volumes and price increase, as well. And whenever there are new designs coming into the market, our designing group comes with latest ideas and fast moving merchandize, then obviously, we will have a cushion to be able to push a little better price there.

And also because of the new designs that our procurements teams are able to get, the sales are fast moving leading to improvement in the SSG. So, it's a combination of volume and price that we would push. We have a mechanism in the system where we get an equilibrium on price realisaction vis-à-vis volumes and accordingly, procure this merchandise.

So, this is the one particular pattern through which we will be able to achieve the SSGs of around 4% to 5%, which are satisfactory for us for the growth that we are envisaging.

Yash Dedhia: Thank you, sir and all the best.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Congrats for a good set of numbers, sir. My first question relates to KLM. Can you talk a bit how you are trying to improve the KLM performance? What steps you are taking?

Bharadwaj: Yes, sir. So with respect to KLM, I think the majority of the degrowth that we have seen is in 2 specific categories, as I mentioned, which is menswear and kids wear. There's a lot of competition in this particular space as well. So, what we're trying to do here is to adjust the entire procurement strategy as well. So, we're trying to bring in new talent to help us plan the merchandising in a much better fashion and distribute it across multiple stores.

also, what we have seen is to focus a little bit more in terms of the advertisement and campaigns that we've created. I think over the past, we are able to onboard sales force to help us do that. Last year, what also happened with respect to KLM and this year, which did not happen is last year, we did a few extra promotions in KLM during the Dussehra-Diwali time, wherein they have vouchers that they can continuously come and buy in the next months.

So this year, first time we have discontinued that, keeping in mind the long-term brand value of the KLM, we've stopped issuing these vouchers. This also had a little bit of an impact. So on the overall sense, there are three things on a broader perspective. One is to refocus on the entire merchandising and the product line. Second thing is to focus on the product advertisement and store advertisement at the store level.

And the third thing is to ensure that the employees are taken care in terms of the trainings. These are the three different things that we are doing. And additionally, I've also mentioned that we have added a category called Innerwear. So there are still scope for one or two other categories that we would ideally add that can improvise the overall margin profile of KLM per se.

Sunil Jain: Yes. And second thing about Varamahalakshmi, the next stores, which will be coming in the fourth quarter will be all of Varamahalakshmi? And how many wedding seasons are there in the fourth quarter as compared to third quarter?

Bharadwaj So yes, to your question, sir, all the new stores that are going to come in 4Q will be Varamahalakshmi only. And when you compare to third quarter to fourth quarter, I think third quarter, we, I think, on almost of about 8 wedding dates extra we have in fourth quarter.

Sunil Jain: Eight wedding days.

Bharadwaj: Eight wedding days extra we have in the fourth quarter compared to last year q4.

Sunil Jain: And what we see that you had a beginning of two of the stores towards the end of the quarter 3. So, benefit of that will also be there in the fourth quarter?

Bharadwaj: Correct. Yes, right.

Sunil Jain: Okay. So generally, what we see that fourth quarter is lower than third quarter. But this time, can it be different?

Bharadwaj: Yes. Generally, you're right, sir. I think third quarter is the best quarter for the entire calendar year followed by Q4, Q1 and Q2. This is how the sequence has been here historically. This year, because H1 has been weak, so the more emphasis will be there. But however, third quarter we have seen. I think we should be able to see a similar kind of trend in Q4 as well.

Sunil Jain: Great sir. Thank you very much.

Moderator: The next question is from the line of Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Congratulations, firstly, on a very healthy top line growth and seeing a revival there. So on gross margin part, right, so while you did comment on the 2 reasons for the improvement in gross margin, but would it be possible to attribute like, let's say, the 200 bps improvement in gross margins that you've seen of that?

How much is attributable to the early payments to vendors and hence getting discounts from them? And second, what could be the contribution from the premiumization?

KVLN Sarma: At this point of time, we can attribute almost everything to the premiumization. Because what happened in between is that - earlier - we were having a credit period of 60 days, 90 days and all that, where we thought we would be able to prepone payments, improve the payment dates and get cash discounts. But in between, there is a statutory compulsion has come for us to make payments to MSMEs within 45 days.

So, a slight part of that advantage that we thought we would have by improving the payment days, is lost because of this statute. And now we are in fact complying with that statute of clearing MSMEs and you would agree that in our case, most of our vendors will be MSMEs only.

That's how that advantage our of cash discounts is miniscule at this point of time. The growth that has come and that is going to come going forward also will be majorly on premiumization. Already, Varamahalakshmi format has come to approximately 50% of it. And as it grows, the component of Varamahalakshmi grows in our turnover levels, the margin level should improve.

Resha Mehta: Okay. So just two follow-ups here. So one, what would be the payable days that we are at for 9 months? And also earlier, we have spoken about the gross margin improving to, let's say, 43%, 44% levels. Also being driven by the discounts that we were expecting from the vendors. But since now that is not expected to play out, where would we see our gross margins going up from the current 42% kind of levels? Can we go up to 43%, 44% purely driven by premiumization?

KVLN Sarma: Yes. We were explaining that there will be 2 kinds of discounts on which we are banking upon. One is the cash discounts by improving the payables or reducing the payable days. And the other is that since we are going substantially on expansion in Varamahalakshmi format, we would be procuring almost 2x, 3x of the current level of procurement levels and that we would be able to get volume discounts. So the story on the volume discounts, it still is intact.

So we would be able to get those volume discounts in addition to the premiumization going ahead. Cash discounts have a small deterrent because of this statue that has come in. So since we have already almost positioned in ourselves in the entire Tamil Nadu, now the volumes have also gone up in this format. There is a combination of volume discounts and premiumization that will drive the margin profile. And whatever we have said, barring approximately 50 basis points or so on cash discounts aspects, we should be able to achieve by the year FY '26.

Resha Mehta: So you're saying by FY '26, we should be at least 43% kind of gross margins. Is that understanding right?

KVLN Sarma: It should. By the end of FY '26, we should be at that level.

Resha Mehta: Right. And on the inventory days, so for 9 months, would it be possible to call out what kind of inventory days are we -- have we seen? Because earlier, it used to hover around 180 days, and we were targeting to reach around 135, 140 days in 2 years. So where are we in that journey from 180 days to, let's say, reducing it to 140 days?

KVLN Sarma: It remained at those levels at this point of time because Q3 and Q4, particularly January also, is high intense on wedding dates and the festivities. So we need to maintain those higher levels of inventory by December. In fact, September end to December end and perhaps up to January end also, it will remain at the same levels. And subsequently, by the year-end, we are hoping that we would reduce it to approximately this time by around 160 days or so.

Resha Mehta: But what are the initiatives that we are taking, which will drive this kind of reduction from 180 to 160 days? Because as we see the core wedding season will be for about 6 months of the year, so where we need to have higher inventory? And then also, in general, with the store expansion that we'll keep seeing, we'll need to keep adding inventory. So what exactly will drive the reduction in inventories from 180 to 160 days?

KVLN Sarma: One is, as I told you, on the value side, when we get a volume discount, the cost or COGS will come down. Secondly, in Tamil Nadu, since we are expanding in a cluster format now, approximately to give you an idea, within Tamil Nadu itself, we have about 1 lakh square feet of Varamahalakshmi.Whilst other three states, Varamahalakshmi has 1 lakh. So the cluster for the Tamil Nadu itself has about 1 lakh square feet. And the movement of goods between the stores would be easier. Second is the volumes by the procurement also. The procurement of silk particularly is within South and just-in-time approach is one aspect whereby we are able to reduce.

On the inventory backup requirement at the warehouse, because earlier in all other three state. We were maintaining godowns and all three states will have separate backup inventories, whereas in Tamil Nadu, since we are having 1 lakh square feet and going ahead, it would be about 1.5 lakh square feet. And that will have a lesser backup inventory requirement.

So these things, improvement in cost of goods and then improvement in the volumes that we will have for backup under the ability to move the products between the stores. We have a module, as you are aware, where it throws suggestion as to which of the products are moving faster in which areas and throws AI backed suggestions and accordingly on a dynamic basis, we will be shuffling the products between the stores instead of buying the new products for each of these stores.

So these two, three parameters would enable us to reduce the inventory levels on a company level overall.

Bharadwaj: One additional point I'd like to mention here is one of the key metrics and the key KPIs that we look at is MBQs. So every quarter, we do a revision of these MBQs. MBQs, means minimum base quantities. So what has happened is the moment when a store starts, especially in the last year, we have opened additionally about 9 to 10 stores. We have done a revision of these MBQs because once we start putting up a store, these revisions generally don't happen.

So after seeing the store progress after 3 to 6 months, we start making these changes. So we are actively working on this particular KPI in a much better fashion. And for us to make sure the MBQ levels are adequately maintained, the importance of stock refillment and stock shuffling is a major piece here. So with the help of these 2 attributes is the reason how we are trying to bring it down.

One of the most interesting points that we were able to understand is though in the particular price range in a particular category, we still do have products, the importance of color availability and the importance of the product availability is at the top most level. So we're bringing in systems, we're bringing in teams to ensure the color chart is maintained at any store. So these are just on the operations front beyond whatever has been told.

Resha Mehta: Right. And on e-commerce website, right, so I went through your various different formats, e-commerce websites. There was one interesting observation that the sarees are not actually draped on the female models? So hence, to that extent, I would imagine the purchase decision would become extremely difficult, right, just by looking at the website online.

However, I do see at the same time that you have video appointment option as well. So just wanted to understand like in the saree space, typically, what would be -- how important is the e-commerce channel, especially for a wedding ethnic saree retailer like us? How big is it in the industry? Or do we expect this to remain in a marginal channel and probably just use it as a tool to create awareness and probably get them after the video call, get the customer actively into the store? So just your perspective on.

Bharadwaj: Sure, sure. So as of today, in the entire revenue, 90% of our revenue is coming from social media where we use live commerce, using our Facebook, YouTube and Instagram. Every day, we do two to three live shows, which run about 20 minutes each to 30 minutes each, wherein a person is explaining the saree, how it will look once you drape it.

This is one of the most easiest way to drive a purchase decision because it actually gives you a look and feel in terms of the exact colors because there's somebody trying to explain this. So in terms of pure play e-commerce where people find my website, go to the website and search for the products, the kind of revenue that we are seeing there is marginally less in the overall e-commerce space itself.

So if you had probably gotten an opportunity to go to one of our Facebook or Instagram, you should be able to see hours and hours of content that we try to do, and we are able to drive sales there. So today, by using that, our ASP, especially if I have to talk about one of our formats called Brand Mandir, the e-commerce ASP is also INR10,000, which is much, much higher to the average e-commerce ASP that are out there.

Majority of the saree players, when you talk about the ASPs, if you talk about any marketplace as such, is around INR750 to INR800. But in contrast to that, our ASPs are almost INR10,000 when it comes to these premium brands. So we will continuously focus on creating content. That will be the major purchase decision for people to understand how would you look once you drape it.

On the other end, we have also had a Kalamandir website, if you go through. We have used a software, which basically does draping. So all we need to do is take a picture and that picture will enable automatically drape it to a model. And that's what we showcased in the website.

One of the key essence here is our USP is offering a wide variety of products. So across the board in the company, since we don't have similar products in multiple quantities. We hardly have two, three quantities. So the challenge becomes for every product, you cannot take an image or a photo shoot done. So we are using this to navigate our way towards our e-commerce presence.

So now with this being said, the overall strategy, the overall consumer preferences, especially in saree as a category is still touch, feel. People come to the store. It's more like an occasion, it's more like a celebration for them, where they spend a good amount of time in the store, trying to purchase, trying to figure out different options, trying to mix match, have a good chatter with the family. A lot more active discussions happen.

Many of the cases I also see people come and do their wedding discussions over there. So it's an entirely different vibe altogether. And that will continue to do so, not just with me, the industry per se itself, the presence of e-commerce and the growth rate where the off-line expansion is versus the online expansion is, online is much lesser to compare to the offline. And we believe that this will stay.

Resha Mehta: Understood. Very helpful. And lastly, just on this employee bit, right? So typically, for the industry in the saree stores, right, how much would be the fixed component and the variable component of the salaries of, let's say, the store managers and the sales employees? And would that trend be similar for us also?

Bharadwaj: So we, as a company, are very much focused on performance-driven pay. So I think on an average, our 20% is the variable component of the overall component. Majority of the retailers do have a variable component. But the way we are different is the efficiencies in how you disburse. Every bill, we know which salesmen has sold how many products, what's the value. As much as I'd like to go in terms of which product is getting sold and which store at what time, the same drill down I can also do in terms of the employee-wise as well.

And everything is systematically calculated, and we disburse these incentives on a daily basis, weekly basis, monthly basis. we are able to recover or retrieve the top-performing employees and not stacking up on the lower end of the pyramid.

So that's how it is. And this should be pretty much same in terms of the value-wise, but the way we are different is in terms of getting down to the bottom of it by identifying who exactly is the person who actually sold it and, therefore, give their incentive. And not just the sales person, the entire value chain gets incentivized basis on the store, the sales and the supervisor, then the floor manager, the area manager, etc., everybody in this process gets incentivized.

Resha Mehta: Understood. And just a clarification on one data point that you all said. So Varamahalakshmi as a format for 9 months would be contributing to 50% of revenues. Is that what I heard that correctly?

Bharadwaj: Yes, correct.

Resha Mehta: Okay. And what was this, let's say, 3 years ago?

Bharadwaj: Back then it was 40%. Now it became 50%. 40% was KLM, 40% was Varamahalakshmi, 16% was Kalamandir, 4% was Mandir. This was back -- 2 years back. Now Varamahalakshmi is 50% and KLM component reduced. Kalamandir and Varamahalakshmi pretty much are in the same lines. There's no changes there.

Moderator: Ladies and gentlemen, due to time constraint, this was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Bharadwaj: Yes. Thank you all for taking time to reach out to us and being a part of this conference call. Looking forward to a healthy Q4 as well and looking forward to meeting you in the next quarter results. If you do have any questions, please free to reach out to us. Thank you so much.

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