



“Sai Silks Kalamandir Limited
Q2 FY '24 Post Results Conference Call”

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MODERATOR: MR. JAY GANDHI – HDFC SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Post Results Conference Call of Sai Silks Kalamandir Limited hosted by HDFC Securities. 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. Jay Gandhi from HDFC Securities. Thank you and over to you, Mr. Gandhi.

Jay Gandhi: Yes, thank you very much. Good evening, everyone. Season's greetings and thank you for joining the first call post-listing of Sai Silks and also the second quarter FY24 Earnings Call.

Today we have with us Mr. Bharadwaj, VP, Sai Silks Kalamandir and Mr. KVLN Sharma, Chief Financial Officer with us.

So, without further ado, I hand over the call to the management for the opening remarks. Over to you.

Bharadwaj R: A very good evening and a warm welcome to one and all. I am Bharadwaj Rachamadugu, Senior Vice President, Sai Silks Kalamandir. Thank you all for taking time to join us today to discuss Sai Silks Kalamandir's quarter two and first half financial results of FY24.

I have with me Mr. KVLN Sharma, the CFO of our company. This is our first earnings call that we are doing after our IPO and I would like to take a moment to thank you all for your support. To quickly summarize, Sai Silks Kalamandir Limited has four brands, namely Kalamandir, Varamahalakshmi Silks, Brand Mandir, KLM Fashion Mall.

Our retail store presence is in four states of AP, Telangana, Tamil Nadu and Karnataka and we have about 54 stores as of September 30th. With regards to our store count, we have 12 Kalamandirs, 19 KLM Fashion Malls, 19 Varamahalakshmi Silks and four Mandir stores. Kalamandir, which is focused towards the middle-income class segment, KLM Fashion Mall, a hybrid value fashion mall format, Varamahalakshmi Silks is focused towards the wedding and the celebration wear, Brand Mandir focused on premium high end unique and niche segment of the society.

Together, we cater to the entire spectrum of the women's ethnic industry. During this quarter and first half, we have not added any new stores and our retail square foot remains the same of around 6,00,000 square feet. As you all are aware, our business model predominantly operates in the wedding, celebration and the occasion wear industry.

During this quarter and H1, we saw an impact of Adhik Maas, which has impacted the wedding days and that's why the operations of H1 are exactly not representative of the annual figures what we see. This year, the calendar seems to have moved a little bit towards H2. On the implementation front, we have made significant progress on narrowing down and finalizing new locations to set up our stores.

Post quarter two, as you are aware and as per our intimation to the stock exchanges, we have opened three new stores of Varamahalakshmi Silks that puts us to 57 stores as of today. The business outlook seems to be brighter in the next quarters to come and we expect robust growth during the next two quarters on account of festivals and marriage season all in all falling in together. With regards to our quarter two and H1 numbers, our CFO KVLN Sharma will take it through. Thank you.

KVLN Sharma:

Good evening, gentlemen. With regard to the quarter two results, I'll speak on a Y-o-Y basis compared to last year's September figures. We did a turnover of INR327 crores revenue as against previous similar quarters, INR309 crores, an increase of about 5.86%. Gross profit stood at INR136 crores as against INR121 crores, an improvement to the extent of about 12.29%. EBITDA increased to INR55 crores as against INR41 crores last year. That would be approximately 34%. Profit before tax on a Y-o-Y basis was INR31.6 crores as against INR23 crores last year, an improvement to the extent of 35%. Profit after tax was INR23 crores as against INR17 crores last year.

That's about 33% improvement on a Y-o-Y basis for the second quarter. Coming to half year, the revenue from operations was INR631 crores as against INR648 crores last year. That's a small dip of about 2.69%. Gross profit improved by various factors to approximately INR259 crores as against INR249 crores last half year. EBITDA is INR99.6 crores as against INR97 crores last year. PBT was profit before tax was INR54 crores as against INR61 crores. And the profit after tax is INR40 crores for this half year as against INR46 crores last year.

Broadly one of the reasons why we would have equated the last year's figures but for a small issue with our flagship store in Chennai, Mylapore, where because of a metro construction the access was restricted. Otherwise, we would have perhaps equated on the revenue front during this half year. We are expecting that this impact will be there for a quarter or two more.

So broadly this is the financial parameters for the half year and quarter. Now I leave the floor for question-and-answer session.

Moderator:

Thank you very much, sir. The first question is from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead.

Garvit Goyal:

Hi, good evening to everyone. Congrats for a good set of numbers. My question is on the industry demand outlook. Like you mentioned, there will be a robust growth. So, I just want to ask, are you expecting any improvement in terms of market share against the peers in the upcoming two quarters? Like you people are also opening the new stores in Tamil Nadu.

So, what is the update on that also? And what is the outlook or what is the target revenue for FY24 in absolute numbers?

Bharadwaj R:

Thank you for the question. So, with regards to the market outlook, as you all are aware with the Adhik Maas, there's a shift in the calendar of approximately a month or so. And even if you talk about last year, Dussehra season came around October 5th.

What we generally see in our stores is our women customers, when they tend to buy at least two to three weeks in advance. So that's the reason why our queue has a little bit shifted towards the third quarter. And if you talk about third quarter predominantly, it is always being aligned together with wedding and festivals all in all put together.

And therefore, we've already seen this traction with our Dussehra season. All of our stores have better footfalls and walk-ins in our stores. And we believe that this is going to continue all in all across Q3 as well as to Q4 as well.

Talking about our Tamil Nadu store presence, I think as I did mention, we have opened three new stores. These stores also have phenomenal response. We have been getting amazing footfalls and walk-ins from D1 itself.

And we believe this is going to continue in the near future for the next quarters to come. With respect to the market share, I think it is safe to say that in the areas where we operate, there are all kinds of players who operate being unorganized players as well as the organized players. But Varamahalakshmi Silks has a heritage because it's having a heritage of more than 12 years.

And that is the reason why our customers are able to resonate to that brand language. And we can expect a good season in the next quarters to come. I hope that answers your question.

Garvit Goyal: Right, right, right. And what is the absolute turnover target if you can share?

KVLN Sharma: See, unlike a manufacturing process where there will be a capacity and the order book etc for an indication, in the retail, giving an indication would be slightly difficult. But, by the way the things are going and the calendar has shifted to the second half, we are working towards a target of improvement in the range of about 5% to 10% during this year.

Garvit Goyal: So, 5% to 10% in comparison to what?

KVLN Sharma: Last year.

Garvit Goyal: Last year, Y-o-Y and H2, right? Right?

KVLN Sharma: Right.

Moderator: Thank you. The next question is from the line of Vikas from Acortree. Please go ahead.

Vikas: Yes. Thank you for my question. You just opened this three stores right now in this quarter. This is a current going on in October and November. And whatever your existing stores is there, is there 54 stores is there? It's all this Monday, Varamahalakshmi and everything. What is your parameter for the mature stores revenue as well as new store revenue?

Because generally what is my understanding of the prospectors and the other documents? Your current revenue per store is there INR25 crores per year per store. As far as my understanding is the average number. What is our understanding for the new store, mature store as well as the new store?

KVLN Sharma: So, the INR24 crores or INR25 crores average revenue is across all the formats as a company's average for the last year. Currently going ahead, we will be expanding only on our premium format Varamahalakshmi format, which has a higher productivity at the store level. And also, during the launching, we do a big bang launches in all these stores whenever we are putting up these stores.

So initial throughputs will be a little higher than the averages. So, in the new stores, of course, these are being coming into existence for a part of the year, three months, four months or so. But during these periods, the footfall and the turnovers will be slightly better than the company averages.

Vikas: Whatever the new stores is there, it's slightly you confident?

KVLN Sharma: Slightly better than the company averages in the initial period. It will be a spike in the initial period when we put up this store being a new store since we create a lot of visibility among the local area of creation of the store, etcetera. So, there will be a spike initially and over a period next two, three seasons, it will slowly taper down and we'll settle at the company average for that format.

Bharadwaj R: To quickly add here, the idea here is to make sure the visibility and the nearby visibility, I mean, the vicinity knows that our stores are open. And therefore, rather than having a slow growth of revenues coming in our stores, we expect a good fraction from day one itself. So, the 24 crores number, as you were talking about, is an average standard for all four formats put together.

With that, Varamahalakshmi being on the higher end, I think we should be able to expect better than the company averages. And because these stores are new stores, we should be able to expect a better number than the company averages.

Vikas; So, you track on the month or somewhere it's a three months or six month period is required for the break-even kind of number for new stores or you confident enough for the day one itself?

KVLN Sharma: These stores, because of their higher productivity in the initial stages, in fact, on capex part, we will be able to cover within a short period only. Even along with inventory also, it would not take long anyway. But in the initial periods itself, we should be able to cover the capex expenditure..

Vikas: And one thing also I want to understand. You mentioned this is a two, I think, warehouse will be coming up in the south. So, any update regarding this one is there?

KVLN Sharma: any update?

Vikas: For the new warehouses, which you mentioned on the...

KVLN Sharma: Yes, places. One is in Hyderabad. Augmenting the warehousing capacity in Hyderabad. And the second will be to serve the cluster in Tamil Nadu. We have identified a small satellite warehouse in Salem as of now. And we will have a major warehouse somewhere around Chennai or other place depending on the store locations that we finalize ultimately.

- Bharadwaj R:** Quickly to add here, I think the Tamil Nadu entire state, the idea, the areas where we have narrowed down is strategically spread across Tier A and Tier 2 cities as well. For example, Coimbatore, Madurai, other cities as well. So, our warehouse that we trend upon will have a strategic location.
- So, because these are upcoming stores, all these 30 new stores will be coming in Tamil Nadu state. We expect to increment, we expect to put up a new warehouse in Tamil Nadu. Additionally, we also have identified a small distribution slash warehousing unit in and around Salem as well.
- Vikas:** So, this is a more or less, this is stores is a kind of the fulfilment centre as well as is a backup of your main stores.
- Bharadwaj R:** This is dedicatedly a warehousing capacity. It will not be a store. It will definitely be a warehousing unit where and the Salem unit specifically will be a warehousing slash distribution centre.
- Vikas:** I just asked to you, this one is some kind of the, because you are online presence also there. This is warehouse for the fulfilment centre for the online purpose or no?
- Bharadwaj R:** No, it is completely for the offline network itself. For the online part of the business, our omni-channel network is able to suffice our online business part. And the online operations as of today, the entire inventory and the stock is being catered from the Telangana stores.
- Vikas:** Okay, only Telangana stores. Thank you. Thank you.
- Moderator:** The next question is from the line of Jagveer Singh from Shade Capital. Please go ahead.
- Jagveer Singh:** Yes, thanks for the opportunity. So, in the IPO, we have raised INR125 crores for the 30 stores. So, in how much time the 30 stores will be open?
- KVLN Sharma:** It is approximately 18 months. That is, this year we will be opening about 7 to 10 stores. Next year will be 18 stores in FY25. And the balance 5 to 6 stores will be in the first quarter of the FY26.
- Jagveer Singh:** And mainly these stores will be the Varamahalakshmi format or in Kalamandir and which format?
- KVLN Sharma:** 25 of these will be Varamahalakshmi format. 5 of these will be Kalamandir format. But depending on the local requirements and the demand that is foreseen, we may change the format if necessary. But predominantly it will be Varamahalakshmi format only.
- Jagveer Singh:** So, we have 54 stores and 3 stores open and total we are going to open 30 stores in the 18 months. So, if we talk about the southern market, so how much is the potential? How many stores could be there in the next four years to five years?
- Bharadwaj R:** Talking about the industry per se, our revenues are currently, wherever we are coming from, is only coming from 12 cities. Though, we operate across four states, our revenues are only coming

from 12 cities. Now taking the likes of the other potential markets that we have not even explored. For instance, our market in entire Telangana is revolving around Hyderabad. For instance, in entire Karnataka we have stores only in Bangalore. Tamil Nadu, we just touched the tip of the iceberg and the rest of the entire market is open for us to explore. In Kerala we are not even present.

So, the idea here is for us to penetrate deep into Tamil Nadu market because Tamil Nadu market per se, also has an equivalent size of Andhra and Telangana put together. That's what the industry sizing is. And today as we speak, the total size of the saree industry when we work with Technopact is around INR46,500 crores. 50% of that is coming from the South Indian states which is close to INR23,500 crores coming from the South Indian states.

Last year, I'm only talking about the saree revenue. Last year we did a revenue of about INR1,350 crores. Out of that, the saree contribution was close to INR950 crores. So, taking that map and if you put a quick map, you'll understand that our market share in the current area where we operate is just under 4.5%. That kind of gives you a sense of how big the market is and how much of a potential we have in these existing markets even before looking out at other cities and other states as well.

At this point of time, we believe that the Varamahalakshmi format is the perfect fit into the Tamil Nadu market because Tamil Nadu market has a very good consumption in terms of sarees, especially silk sarees. And Varamahalakshmi Silk is exactly catered to that market. So that's why it's a perfect balance and synchronization with the market needs. And with that same vision, that's why we anticipated that we will be opening up about 25 of Varamahalakshmi stores and five Kalamandir stores using the IPO proceeds in the next two fiscal years to come.

KVLN Sharma: On the potential side, as Bharadwaj explained, we have a presence only in Bangalore and Bangalore has a larger potential further. And we have not even gone into the other areas of Karnataka. Kerala is fully unexplored. So, we have a large potential over and above these 85, 90 stores that we'll be completing in the next 1.5 years. On a broader sense, if you take our implementation, perhaps it will be another six years to seven years for us to complete the south itself. And on a broader perspective, you can know that we can have approximately 200 stores to 250 stores potential within South India itself.

Jagveer Singh: Okay, so and how is the Saree market is growing as an industry? How much percentage it is growing?

Bharadwaj R: The industry suggests that it's growing at an 8% CAGR year-on-year.

Jagveer Singh: Okay, and what is the like-to-like growth in the Q2?

Bharadwaj R: Sorry, I didn't hear the question.

Jagveer Singh: Same store growth, like-to-like growth compared to Q2 last year to this year. Because we have opened some new stores also?

KVLN Sharma: SSG per Q2, in fact, was approximately minus 5% because of the shift in the wedding dates, etcetera. Since we are expecting that the second half should be compensating for this and should be much better. We should even out during the second half and possibly may achieve a small single digit number by the time we close the financials.

Jagveer Singh: So actually, I was hearing an interview post-listings from your company, someone from your company. So, they were talking about the 15% to 20% growth in the next two years, three years. So, because retail is growing very good speed in India. So, but this year is okay. We can do you are saying single digit growth for next year or FY '25 or FY '26 at some point we can grow by 15% to 20% on?

KVLN Sharma: Yes, when we speak about SSG, SSG for these stores will normally be in the range of 3% to 4% and they will be fluctuating in small range. Because we are adding additional stores and those stores are premium format, the growth on a company level per se, what we are projected as 15% to 20% can easily be achieved. If we are restricting it to SSG, same store growth, see in our case a matured store is what we take it as one which has operated for the full year.

So, if we are taking about SSG, once the store sees the full cycle and stabilizes at one point from there, the SSG would be in the range of about 3% to 4% continuously, but the new stores will be contributing substantially higher in the initial period. Since we will be implementing large number of stores of a premium format in the next two years, the growth per se, for the company would be in the range of 15% to 20% easily.

Jagveer Singh: And in the organized markets, who are our main competitor in the South market as a branded play?

Bharadwaj R: With respect to competition, I think if you take the listed space, there is no particular like-to-like comparison that we would like to have. For instance, because we have all four formats targeting as low as INR200, we have products worth about INR5 lakhs. So, most of the players seem to just focus on one of the segments, but rather if I have to put the competition in different perspective, maybe Varamahalakshmi Silks, we'll compete with the likes of Nallis, Kalamandir, we'll compete with the likes of Pothys, and Taneira will compete with the likes of Varamahalakshmi.

So, there is each and every format and competes with different players. And again, there is a whole lot of players who are unlisted being RS Brothers, Kankatala and other players in the regional players who operate in these markets. More or less, areas where we currently are wherever in the entire country, the competition comes in unorganized as well as organized and few of them being in the listed space itself. These are some of the names that I have taken out, but there are many, many players as such who operate in these markets, who have good market resonance here.

Jagveer Singh: And last question, sir, is all these stores are owned by the company, no franchise stores?

Bharadwaj R: As of now, 54 plus these three stores, all of them are company owned, company operated stores only. It's on a long lease where we rent out the premises from the owner and we set up the stores. We don't even have any revenue sharing with our landlord as well. And that's the model that we

have always been following and we will be looking forward to follow as well. However, with the IPO funds, I think what we would like to see in the near future is to work on our KLM format to work on a franchisee. Broadly, it will be a franchisee owned company operated stores.

We are yet to make significant progress there. So, we have been more or less the skeletal structure of how the entire structure needs to work. Over the course of next quarters, we anticipate opening one or two of these franchisee stores, carefully assess how these stores are performing and then probably take a stand once we see these results coming through.

Jagveer Singh: Okay, thank you very much for answering all the questions.

Moderator: Thank you. The next question is from the line of Ankit Babel from Shubkam Ventures. Please go ahead.

Ankit Babel: Yes, good evening, sir. A few questions. You are targeting a 5%-10% growth this year and 15%-20% growth next year. So, at those levels of revenue growth, what kind of margins you are looking at operating level?

KVLN Sarma: So, we are, whatever stores that we are putting up right now are in the premium segment of ours, VaraMahalakshmi format. And also, we have various planned strategies for improving the operational efficiency, be it in the sourcing or managing the debt, reducing payables and all that.

In this multi-pronged attempt that is being made to improve the margins with internal efficiencies. It will be on a staggered basis, since we are putting up stores year after year, this will be improved. And the broad target that we have is by year '26, we should be able to improve the margins to the extent of about 4%-5%.

Ankit Babel: Okay. And this would be mainly led by improvement in gross margins?

KVLN Sarma: By efficiencies and improving on efficiencies. And also, since premium format will give a better yields, better margin, together we should be able to get approximately 4% - 5% improvement on the stores.

Ankit Babel: Okay. And sir, 5%-10% growth this year and a 15%- 20% growth next year will lend you somewhere around INR1,700 crores- INR1,800 crores of revenue. Whereas at the time of IPO, you had guided for some INR2,000 crores revenue with INR200 crores of profit. So, are we downgrading it or are we on track to achieve that? I mean, what's the status on that?

KVLN Sarma: Now that we have funds and we have the plans already in place, yes, we are trying to be on a conservative basis at this point of time. But surely, we should be able to do much better than what this 15%- 20% is. Because it is mostly volume driven. We are putting up additional stores, additional square feet area and in premium format. And also improving the internal efficiency. Surely we can expect much better than 15%- 20%, but being conservative is not a bad idea.

Ankit Babel: Sir, just to reconfirm, I mean the INR2,000 crores revenue target and a INR200 crores PAT target next year is quite possible, you are saying?

- KVLN Sarma:** No. It's possible depending on the implementation. But for the present, we will take it only as 20%- 25% growth perspective.
- Ankit Babel:** Okay. And this year you had guided for INR120 crores of profit. We have done somewhere around INR40 crores in the first half. Do you believe that H2 can be like INR70 crores- INR80 crores so that we can reach to that INR120 crores mark?
- KVLN Sarma:** We are targeting and working towards that. Maybe there is a 10% variation could be there. But surely, we will make an effort to reach to that target.
- Ankit Babel:** Yes, please continue.
- KVLN Sarma:** Yes, because we are expecting, seeing the retail, which is dependent on the calendar and then other festivities, etcetera, happening. So, by the current trend and the festival dates as well as wedding dates that are there in H2, we shall definitely make an effort to reach to those targets given a sensitivity to the extent of about 10%.
- Ankit Babel:** Okay. And, sir, what kind of retail area expansion you are looking at in this year and next year? I understand you had guided for 30 stores per se, addition. But in terms of square feet, what would be the year-end square feet area which you would be working with? And then on that base, what kind of growth you are looking at in area expansion?
- KVLN Sarma:** This year we will be doing approximately 50,000 square feet addition. And year 2025, we should be able to do anywhere between 80,000 to 1,00,000 square feet.
- Ankit Babel:** So, after adding 50,000 this year, you will be ending this year with what kind of retail area in totality?
- KVLN Sarma:** 6,55,000 square feet odd.
- Ankit Babel:** 6,00,000 square feet and on that base, you will be adding some one lakh square feet?
- KVLN Sarma:** Yes, next year the target will be one lakh square feet.
- Ankit Babel:** Okay. And, sir, what was the per square feet sales in your first half in your VaraMahalakshmi stores?
- KVLN Sarma:** This is one sensitive thing to be going on a public platform. Shall we restrict the company-level figures at this point of time? We have done, as we have done last year, it is ranging around 22,000 at this point of time. And once we see a better traction in H2, this might improve towards the end of the year.
- Ankit Babel:** Okay. And, sir, overall, are you witnessing any slowdown in the consumer sentiment or in the industry? Or are you facing any challenges which might force you to relook at your expansion plans going forward? Or in addition to that, any negative thing coming in the VaraMahalakshmi stores? I mean, the footfalls which are below expectations or the sales per square feet which is below expectations. Any negative things which you are looking at?

- Bharadwaj R:** So, currently what we see is the only impact that we have is the shift of the wedding date calendars from H1 to H2. Apart from that, soon after H2 has ended in October, as I did mention, that we have seen a great amount of footfalls coming to the stores. And these stores are also doing phenomenally well. So, we do not anticipate any major slowdowns or anything that impacts any of our stores, not only VaraMahalakshmi, Kalamandir, KLM, that small stores as well. The only thing that we have to understand here is that since we operate majorly in the occasion there and wedding there, the impact of these festivities and weddings have an impact on the company. And all of them falling under H2 is going to just give a good weight and track record moving forward. And we do not anticipate any slowdowns or any breakages.
- KVLN Sarma:** One small issue that we have is, as explained in the opening remarks, our Mylapore store may have some lesser productivity this year because of the metro construction around to them. Next two quarters also, that particular store might have a little bit problem. Nevertheless, other stores would be operating to the satisfactory levels.
- Ankit Babel:** But how big is that store in terms of revenue on a yearly basis? Just to understand the impact.
- KVLN Sarma:** The impact on overall on a yearly basis would be in the range of about INR15 crores to INR20 crores.
- Ankit Babel:** INR15 crores to INR20 crores. Okay. And sir, my last question is, what was the reason for a very soft performance in the first quarter of this year?
- Bharadwaj R:** I'll take the question. So overall, I think again, it all narrows down to the occasional wedding wear calendar. So that's the whole essence of where we operate. So, because we operate in the women's ethnic wear segment and we also, not only this, one other aspect here is that overall, we have been seeing a weak demand in the consumer discretionary space as well. And that has also been some of the tailwind which is why we have seen a weak Q1 as well. And Q2 was definitely majorly because of the shift in the wedding calendars.
- These are the only two reasons why we have seen such a little bit signs of weakness in this H1. Apart from that, everything remains solid and we only anticipate to grow the H2.
- Ankit Babel:** Okay. And sir, what kind of working capital you guys are working with for the company as a whole in terms of inventory days and creditors?
- KVLN Sarma:** Working capital side, see we will not have any debtors as you know. It's all counter-sales.
- Ankit Babel:** I understand.
- KVLN Sarma:** Inventory also, we are trying to optimize as of now. to give you a ballpark figure, last September we had an inventory of approximately INR780 crores and we have focused on optimizing that. And after adding those eight stores, this September we have only INR719 crores of inventory. So, there is a substantial improvement. Normally, September end, we will be filling the stores to the full capacity because of the festivals that will be coming in from October onwards. So, there is an improvement on that. And creditors also, we are slightly reducing over the last year. In fact, last year, the figure was approximately INR310 crores or so, which we have brought it

down to INR229 crores during the current year. So, there is a constant improvement on the working capital management at this point of time. The borrowings for working capital for this kind of inventories are currently about INR190 crores. INR190 crores for working capital borrowings.

- Ankit Babel:** Okay. Thank you so much, sir.
- KVLN Sarma:** Yes. Sure.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Canara HSBC. Please go ahead.
- Chinmay Gandre:** Yes, thank you for taking my question. With respect to the growth for this year, suppose we end up with a high single-digit sales growth over last year, which effectively means for the second half, we will need to grow by almost near 20%. So, are you pretty confident about that growth in the H2, considering even how the festive period has happened so far?
- KVLN Sharma:** No, the SSG is calculated on the matured stores or the existing stores earlier, which we are expecting by the year end, there will be evened out. So, there will not be any major SSG that could be achieved on the matured stores. But since we have already put up eight stores last year and th stores this year, already three stores are there and other stores will be coming into operation as additional capacity. The improvement to the extent of that 5%, 10% that we are targeting would be possible. It's not about having an SSG beyond the last year's turnovers.
- Chinmay Gandre:** No, actually I was not talking about SSG. I was talking about absolute sales growth of around high single-digit from a INR13, INR15 crores base, which we had. So based on what we have done in H1, so basically, effectively for H2, our implied growth is almost near 20%. 18% to 20% would be the number on H2 versus last year's H2 in terms of sales. So basically, considering the festive period which has paid so far, we are reasonably confident of achieving this kind of number?
- KVLN Sharma:** Normally, as a thumb rule also, between H1 and H2, it used to be 45-55 earlier. Then this year, because of the shifting with festivities and weddings and number of weddings being more, this might work out anywhere between 40 and 60 or even better. So that is the logic behind the H2 being much better than what it was last year.
- Bharadwaj R:** One other point I'd like to mention here is that last year, H2, we have added eight new stores which have happened in the early or in the mid Q3, Q4 time. So even those stores, revenue also will get added in this H. Plus, we have new stores also coming up. We are actively working on and many of the new stores will also come. So, with all of these, we will definitely be able to get to the projections of what we can do believe to achieve this year.
- Chinmay Gandre:** Sure. And in terms of the festive period so far, could you quality actively or again give us a number in terms of what could be a festive vs. festive growth, say, Navratri vs. previous Navratri or whatever is the festive period that you consider? So, on a festive vs. festive, yes.

- Bharadwaj R:** I got your question. So quantitatively, I think I won't be able to give you an answer. Probably I'll give you these numbers in the next quarter discussions. But overall, what we've seen is a good amount of walk-ins. Our bills have increased and our revenues also in these stores have also increased. So, we see a good demand. Definitely better than last year.
- Chinmay Gandre:** Okay, sure. Thirdly, my question was on your gross margins. So even if I look at your Q1 numbers and your Q2 numbers, I mean, there is like almost 100 to 200 basis volatility. I think 39% was in Q1 and now we are at around 41% kind of gross margins broadly. So, can you throw some light on this quarterly volatility in terms of the gross margins?
- KVLN Sharma:** Yes, the gross margin mainly depends on our product mix during the period. And normally when wedding and other relative purchase are not there, the major outflow will be on the fancy sarees and those kinds of products, which normally will have a reasonable gross margin levels attached to it. So that is how we saw a small improvement in the gross margins during this quarter.
- And of course, when wedding purchases, etcetera, will come, there is a possibility that we will be able to maintain these levels of margins. We are also attempting various methods to improve our purchase efficiency, whereby our cost of goods sold also will come down. So coupled with these two factors, we should be able to maintain the improved gross margins going there.
- Chinmay Gandre:** Okay, thank you. That's all for today.
- Moderator:** Thank you. The next question is from the line of Nirav Savai from Abakkus Asset Manager. Please go ahead.
- Nirav Savai:** Hi, my question is regarding the cash, which we are sitting on post IPO. So how do we see the interest income and other income part of it for H2 of 24? So, if we have seen the first half, it's almost...
- KVLN Sharma:** Nirav, can you repeat the question, please?
- Nirav Savai:** I'm saying post IPO with the kind of cash, which we are sitting on, do we see a big decline in interest income for the second half? And what is the kind of increase, which was in the other income?
- KVLN Sharma:** Other income, see, currently we are targeting approximately 7% to 8% return on the funds that we have not utilized. Thus far we have utilized more than INR150 crores. And then on the balance, we are targeting approximately 7% to 8% return till the time we use them. Yes, the interest cost also should come down slightly because out of our GCP, we have initiated the process of reducing our payable days, etcetera. We initiated in October itself. So going ahead, there might be an improvement in the other income by way of interest on fixed deposits or whatever we invest. And the actual working, actual finance cost that we spend would come down on a staggered basis.
- Nirav Savai:** So, if I were to look at the other income part, what would be the number, if you can guide something for H2?

- KVLN Sharma:** H2 on around an average of 300 crores or so , approximately INR12 crores to INR15 crores.
- Nirav Savai:** Okay, so INR12 crores to INR15 crores can come from other income. And what would be the savings on the interest side? If I look at the first half, it's about INR27 crores, which is interest expense. So how much can it come down in H2?
- KVLN Sharma:** Out of INR27 crores, INR9 crores is out of in these adjustments for IND AS. So actual interest outflow is about INR17 to INR18 crores. We may be able to achieve, because for us to run down the existing borrowing and facilities, it might go up to December. So broadly we may end up with saving about INR1.5 to INR2 crores.
- Nirav Savai:** Okay, so maybe about INR15 odd crores would be the interest income for H2?
- KVLN Sharma:** Interest expense.
- Nirav Savai:** Interest income for H2 on the cash which we have?
- KVLN Sharma:** Correct.
- Nirav Savai:** And in the festive season, do we see an improvement in margins because the sales velocity will be higher, the opex will be more or less similar. So, what kind of EBITDA margin would be there for the third quarter, assuming that the wedding season, festive season, everything has been clubbed together?
- KVLN Sharma:** Yes, obviously the margins with EBITDA. Even at this level, the stores are with full cost. The stores are running with full cost only. So whatever additional throughputs that we get out of the stores, barring the sales commissions, etcetera, there will not be any proportionate increase in the expenses. So, the margin should definitely be improved in the second quarter. With the higher throughputs from these stores, particularly the wedding and other sales.
- Nirav Savai:** Okay, so if you look at the second quarter EBITDA margin, we're about 16.8%. Is it right to assume that H2 margins would be higher than this?
- KVLN Sharma:** At this stage, it is yes.
- Nirav Savai:** Yes.
- KVLN Sharma:** Surely, yes. Let us say at this point of time – for the entire H1 we have about 15.8% as EBITDA margin. And because of the improved sales and [0:47:53 inaudible] in the H2 in premium segment which we have able to get a better margin
- Nirav Savai:** So, about 17%, 18% is something which seems to be achievable for H2?
- KVLN Sharma:** Let us say at this point of time, since it is only one month since we have already entered the better phase of the year, second half year, we may be able to give guidance on this after this end of the third quarter.
- Nirav Savai:** Right. That's it for now. Thank you.

- Moderator:** Thank you. The next question is from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.
- Gopal Nawandhar:** Just this 5% to 10% growth, when we are saying this is for company as a whole or it is second half or SSG, what exactly it is?
- KVLN Sharma:** It's a broader perspective on the company as a whole.
- Gopal Nawandhar:** For full year?
- KVLN Sharma:** Yes.
- Gopal Nawandhar:** Okay. And this gross margin expansion in H1 is largely because of the mixed change. There is no price increases or there has been any price increases?
- KVLN Sharma:** No, there has been no price increase. In fact, it's not as though there will be a specific price attached to it because the product mix varies from a small INR50 merchandise to INR2 lakh and there cannot be a common increase in between. So, it's not about the prices, but the product mix. Mainly the product mix particularly drives the driven improvement in the margin in goods.
- Gopal Nawandhar:** Okay. In general, if I may ask, within the four quarters, how the revenue distributions in general, it is there? See, maybe Q1 is 25%, 22%. How is the general distribution of revenue across quarters?
- KVLN Sharma:** It will be in the order of say Q3, Q4, Q2 and Q1. Q3 being the best, then Q4 and Q2, Q1.
- Gopal Nawandhar:** Q3, Q2 and Q1 and Q4?
- KVLN Sharma:** Q3 will be the highest. Q4 will be the next higher, next better. Between these two, it will be approximately 55%.
- Gopal Nawandhar:** Okay.
- KVLN Sharma:** And then Q2 and then Q1, between them would be approximately 45%.
- Gopal Nawandhar:** Okay. Sure, sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Phillip Capital. Please go ahead.
- Ankit Kedia:** Sir, this is Ankit here from Phillip Capital. I just wanted to know, are you seeing more pain in Varamahalakshmi or KLM fashion mall? Because some of the value fashion companies are seeing higher pain at the lower income group level. So, if you can just share some colour between these two?
- Bharadwaj R:** Ankit, sorry, I'm not able to hear your question properly. Could you repeat the question?
- Ankit Kedia:** Sure. The question is between Varamahalakshmi and between KLM fashion mall, because they account for nearly 75% to 80% of the business. Where are you seeing more pain in terms of

demand and SSG, given that KLM is pretty much a value fashion store? And your lower income people, lower middle class are seeing more discretionary spend pain in northern other geographies as well. So, could you just share between KLM and Varamahalakshmi, where is the significant pain coming in the first half?

Bharadwaj R:

Okay. You're talking about the pain in the first half. Okay. So overall, I think when you talk about KLM Fashion Mall, I would like to classify it not purely under value fashion mall. A part of a major contribution is coming from the sarees and ethnic side of the men's and kids as well. So, I would definitely not classify it a typical value fashion.

Again, as we always mentioned, the entire portfolio, be it Varamahalakshmi or be it KLM, we always are driven by festive and occasion wear markets only. And overall, in terms of the consumer discretionary, both these formats are a little bit of a weak demand in both these formats. And especially Varamahalakshmi is majorly, more than KLM is impacted by the wedding dates. And the wedding date calculation, as we all know, is based on the local calendars. So that's what happened in Q1.

And talking about Q2, it is not just a weak demand. Weak demand was slowly recovering. But the problem what happened in Q2 was majorly because of the shift in the wedding dates. Adhik Maas and all of that, in the end, had an impact on both these formats. Now, what's happening right now in our stores is, post-October 14th, we have been seeing great amount of footfalls coming into all of these formats of stores.

Ankit Kedia:

So, on a 10-day, like for Navratri, last year, women shoppers typically tend to buy early by two-three weeks. So, if you have to just adjust for that, how much sales, according to you, you would have lost in quarter 2 because of the shift in festive?

Bharadwaj R:

So generally, I think last year Dussehra this year Dussehra, if you compare, I think we have been able to see about 5% to 10% increase. But again, we will be able to discuss more about this in the next quarter. And H2, definitely because of that, Adhik Maas and Pitru Paksha coming in, I think that saw a little bit of an impact.

In terms of quantifying it, I don't have that quantification metric. Probably, we will be able to share that number in the next quarterly results.

Ankit Kedia:

My second question is on the creditor days. Do you think now with cash in the kitty, you can reduce your creditor days to have more bargaining on the gross margin side of the business? And from when can we see that show in our gross margins?

KVLN Sharma:

We have initiated that already. In fact, out of our GCP funds, we have started reducing the payable days and negotiating with the vendors on the cash discounts. And we will also be able to discuss about volume discounts once we establish further stores. This year itself, we can see a tangible improvement on account of this towards the fourth quarter of this year.

Ankit Kedia:

And so, if you can quantify, typically the CD would be around 1.5% to 2% or it will be marginally lower. So, we can build that in from FY '25 for the full year that benefits should appear to us?

- KVLN Sharma:** Broadly, we realize that the weavers are borrowing at rates ranging between 18% to 20%. Sper annum, let say. Within that we will be able to negotiate and perhaps be able to get at least about 1% to 1.25% cash discount.
- Ankit Kedia:** Understood. Sir my last question is on the rentals. Can you share the pre-Ind AS rental for the quarter and for half year? What you would have paid?
- KVLN Sharma:** INR25 crores actual cash outlay for the rentals.
- Ankit Kedia:** Understood. Thank you so much, sir. And happy Diwali to you and the team.
- KVLN Sharma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Yash Sohantalia from Buoyand Capital. Please go ahead.
- Yash Sohantalia:** Good evening. I have a few questions. So, my first question is on inventory. Like what is the ballpark number for Varamahalakshmi per square feet?
- Bharadwaj R:** Yash, thank you. But then, as we also always discussed, we would not like to share the format level revenues and numbers or any numbers. I think at this point of time, we believe that to be a little bit detrimental in terms of the company's business interest. Probably, we can discuss post this call.
- Yash Sohantalia:** Sure. And how we are able to hold our unsold inventory or out of range inventory in the business?
- Bharadwaj R:** So generally, the best part about what we operate is majorly because it's all coming from sarees. I think 67% of the revenue came from sarees last year. And this year, the dynamics seems to be a little bit more than that. Fundamentally, the saree is one size fits all. That's the first thing that we'd like to mention here. The second thing is these designs and everything do not go out of style or the lifecycle of a saree, the shelf life in a typical store at least lasts for about three years.
- Along with this, we have a very good incentive system that we have, which is enabled in our stores and which we proudly say that this incentive section enables us, the customers, the salesmen to sell these products much faster way. Typically, sarees is a category where it's not self-service, majorly driven by salespeople. A lot of push mechanism happens, meaning to say when a customer walks into a store, our salesman, if given the right incentive, he'll be able to convert that into a proper sale. This incentive structure, I think it's a very detailed and multi-level incentive structure that we have in our stores is enabling us to move the stock very, very swiftly.
- And the second important point I'd like to mention here also is most of our stores are in clusters. And we have systems guiding us through every step of the way to understand the probability of sell-throughs in store one versus store two. That's also a major factor that helps us to rotate the stock from one store to the other store.

With these two factors, more or less, we think we are able to quickly liquidate our stock and be able to sell that inventory to our customers. And we've never run into a situation where we had to throw inventory because we were not able to sell. And also, another interesting fact that I'd like to mention is because we have four formats in different segments, often what we also tend to do is we try to little bit cross-convert these sarees which happen to, if in case, have any damages, to convert into a kurta or any other value-added apparel. It tends to yield a better margin. So, we have never had a problem of slow-moving or dead inventory.

With this state-of-the-art incentive engine that we have in our company, I think our salesmen are able to effectively move the stock and liquidate as fast as possible.

Yash Sohantalia: Okay, so what has been the dead stock or the discounted inventory in past few years as a percentage of total inventory?

Bharadwaj R: With respect to our discounted inventory, I think I'd like to mention here is, more than 90% of the entire sale is full-price sale. Most of our formats, I mean, if I have to talk about especially Varamahalakshmi Silk in the history, we have never run any discount or any end-of-season sale or any clearance sale of that sort. Only in a few select stores of Kalamandir and Mandir because it has a heritage, we have been operating these stores for a very long time.

Only these select stores have some sort of an anniversary sale. The idea is not to liquidate any old stock or slow-moving stock. It's just basically to reconnect back to our customers. And with respect to our dead inventory levels, generally we do not have any dead inventory levels lined up in our balance sheet. All we tend to do is that we tend to adjust this towards our gross margin levels. The way it happens is we have ASM audit with our banks. What happens is like banks...

Moderator: Ladies and gentlemen, please hold the line. The management's line has been disconnected while I reconnect them. Give me a moment.

Yash Sohantalia: Sure.

Moderator: Ladies and gentlemen, the management's line has been connected. Over to you, sir.

Bharadwaj R: Yes, I hope I was able to answer your question. I'm sorry. I think there was a disconnection from our end.

Yash Sohantalia: Yes. And one more question. So currently we have EBITDA margin of around 15-16, while some of our peers in South have very high EBITDA margin. So, is the difference because of product mix or are we comfortable with this margin or we can improve our margin going forward?

Bharadwaj R: See, so with respect to Sai Silks Kalamandir, the idea here, the rationale behind of keeping it very, very sharp is because we believe our products are rightly priced in terms of the price, quality, customer support, and everything as well. As I already did mention, we do not believe in marking up the products too much and wait for the end of season sale or any discounted sale coming in through that will basically balance it out. We believe our products are rightly priced

and that's the reason why if you talk about most of our advertisement spends, our advertisement spends are as low as around 3%, which is much, much lower compared to the entire industry.

Most of the marketing, most of that happens through the word of mouth and that has always been our greatest strength and we continue to maintain these amount of gross margin levels. And talking about our EBITDA levels, I think currently, from the internal side, I think with respect to the management bandwidth and our fixed costs per se, we are having a bandwidth to expand about to around 50 to 60 more stores without having to worry too much about these costs making a big difference to the EBITDA levels.

So overall, over these course of next two fiscal years wherein we see an improvement in terms of gross margin levels as well as all of these stores are coming with the Varamahalakshmi stores and all of these stores coming in one single state of Tamil Nadu, that will improvise the overall backend logistical support, the sales support, and the market in itself doing phenomenally well.

All of these tailwinds will definitely enable us to improvise our EBITDA levels from where we are in the next two years to much higher stages.

Yash Sohantalia: Thanks, thanks a lot. That answers my question. Best of luck for the upcoming quarter.

Bharadwaj R: Thank you, Yash.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Bharadwaj for closing comments. Over to you, sir.

Bharadwaj R: Thank you all once again for joining this call. Wishing you a very happy and a prosperous Diwali. Looking forward to connect with you all during the next quarter results. Thank you. Have a good day.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of HDFC Securities, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.