



“Sai Silks Kalamandir Limited  
Q4 FY‘24 Earnings Conference Call”

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**MODERATOR:** **MR. JAY GANDHI – HDFC SECURITIES**

**Moderator:**

Ladies and gentlemen, good day and welcome to the Sai Silks Kalamandir Limited Q4 FY '24 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jay Gandhi from HDFC Securities. Thank you and over to you, sir.

**Jay Gandhi:**

Hi, good evening everyone. This is Jay Gandhi from HDFC Securities. Welcome to the Sai Silks Kalamandir Limited Q4 FY '24 Earnings Call. From the management at the SSKL, we have with us Mr. Bharadwaj Rachamadugu, Vice President Sai Silks Kalamandir and Mr. K.V. L. N. Sarma, Chief Financial Officer, SSKL. Before we start, we would like to point out that some of the statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been made. Kindly note that this call is meant for investors and analysts only. If there are any representatives from media, they are requested to drop off immediately.

With that, I hand over to Mr. Bharadwaj for his opening remarks.

**Bharadwaj Rachamadugu:** Thank you Jay. Good morning, ladies and gentlemen. Thank you all for joining us today to discuss Sai Silks Kalamandir Limited financial results for the fourth quarter and the full year FY '24. I am Bharadwaj Rachamadugu, Senior Vice President at Sai Silks Kalamandir Limited.

I am hoping that everybody got a chance to go through the financials that have been uploaded both on the stock exchanges as well as on the company website. I have with me Mr. K.V. L. N. Sarma, CFO of the company.

Let me first start by giving you an update on what happened in terms of the ethnic retail market scenario for the quarter four. The overall wedding dates in quarter four were marginally small than last year quarter four. The wedding and occasion where market is still in the recovery mode in this quarter.

During this quarter, we have also observed that in the month of March, we did see an increased trend in the footfall attributing to the wedding date calendars being slow majorly in the Q1 of FY '25. So therefore, the month of March actually saw a good recovery compared to last year MOM, both in terms of SSGs as well as new stores performance. So overall, in Q4, we did see an SSG growth topped with the new store revenues adding to the overall growth.

With respect to operations and executions, in this quarter, we have added three new stores measuring close to 22,750 square feet of retail area. And all of these three stores are with Varamahalakshmi Silks. Additionally, we have also upgraded one of our stores from Kalamandir format to a Varamahalakshmi format.

For the full year, we have added close to 43,900 square feet that puts us at a total at 6,47,300 square feet worth of retail area presence as of now. Each of these store additions also focuses on

providing a unique shopping experience in the same standards of our other Varamahalakshmi Silks stores. As we always believe, we truly sell experience rather than just a retail store.

As per the plan, we aim to open additional store capacity of close to 90,000 square feet in this financial year. Majority of it would be coming in the Tamil Nadu area and with our brand Varamahalakshmi Silks. We did a revenue of about INR359.6 crores this quarter compared to last year of INR323 crores. Our gross margin stood at 40.97 compared to last year of 39.77. Our PAT for the quarter stood at 28.73 compared to last year's of 20.24, which has grown by about 41.95 percentage. Our full year PAT stood at 100.87 compared to 97.59 last year and that has grown by about 3.36 percentage. On the strategy front, we are planning to open the next set of stores also in the strategic locations of Tamil Nadu majorly.

In terms of the customer base, we have an active customer base as of today around 6.5 million and are growing strong as we expand. Our contribution coming from the loyal customer base also continued this season. We still continue to hold our loyal customer base of about 53% of our repeat purchases.

In addition to this, we are able to complete the integration of Salesforce with our ERP. We have also started making multiple campaigns to reach out to our customers digitally through our Salesforce cloud. We believe that this will be a great addition to improve the overall loyal customer base as well as to reach out to our new target audience through automations in terms of marketing digitally.

We are optimistic about our growth of our company as we plan to expand our retail footprint into one of the biggest markets of ethnic retail in India, majorly in Tamil Nadu. We believe that our strategical focus combined with our technology adoption will help the company achieve greater milestones in the years to come.

Now I would hand it over to the operator and would be happy to answer any of your questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhairya Trivedi from DJT Investments. Please go ahead.

**Dhairya Trivedi:** Hi, sir. Thanks for taking my question. So my question is on the cash flows. If we see the trend over the last couple of years, the company has hardly been able to convert any of the profits to operating cash flows. Last year, we did an operating cash flow of INR40 crores against an EBITDA of roughly INR200 crores. And this year, the operating cash flows are in fact negative.

For a consumer company, even if we compare ourselves to any of the peers, our cash flow conversions are extremely poor. So what is the reason for this? And by when do you think the company can start having reasonable cash flow conversions?

**KVLN Sarma:** I'm Sarma here. We are studying our cash flow for the current year. The main objective, as we have explained during our IPO process also, is that we would want to reduce our payable days. We want to gain on the cash discounts by negotiating better in the markets and all that. So during the current year, the focus has been to improve the balance sheet by reducing liabilities, etc. And

you would have seen that in the cash flow statement, the reduction in creditors has been to the extent of about INR170 crores, of which a part of it was used from GCP and the entire year's generations were deployed for this.

And, of course, increase in inventory compared to the minimum basic quantities that we require to maintain in the new stores is relatively lesser. In fact, there is a slight improvement on inventory management to that extent. But to comply with another issue - that the SMEs payments to be cleared within the stipulated time the creditors levels had to be brought down. This has also forced us to clear off a majority of creditors. So current year, if you see, the major reason for the negative corporate in cash flows is reducing the creditors levels, whose benefits by way of better margins can be seen in the next two or three years.

We are already seeing that we are able to negotiate better with our vendors and thereby perhaps the margin improvement would be perceptibly seen in the coming quarters. So this is the exclusive reason for a negative operating cash flow. And in any case, you can say that the internal generations have been deployed on improvement of the balance sheet while for the investing activities for the current year and perhaps a part of the next year, we will be utilizing the IPO funds that are available with us even now.

**Dhairya Trivedi:**

And what will be the guidance for FY25 in terms of SSSG revenues and EBITDA?

**Management:**

As we have explained in the earlier quarters, we initially imposed that inventory as a KPI thing and we have suffered slightly on the productivity in Q2 and Q3. But in Q4, we realized that this is again coming back to normal. In fact, we are on positive SSSGs in Q4. And when we are on positive on SSSGs in Q4 and we are adding particularly VML format. I t the EBITDA margin has improved in the quarter 4 to approximately 17% or so.

So going ahead, our target is to retrieve the SSSGs at least to a positive of 2% to 3% along with the implementation plan that we already initiated. And in fact, the 40,000 square feet that we have put in in the last year towards the second and third and fourth quarters would run to the full capacity during this year. We would be putting up another 25,000 sft in June in VML format itself.

And by half year end, we should be completing the expansion of approximately plus or minus 50,000 square feet and the balance in the second half. So additional store area, in the normal course itself, should give at least another INR300 crores to INR350 crores of turnover. We can improve EBITDA also if the SSSGs are recovered and the premiumization working out, we would have a better EBITDA margin and approximately plus or minus INR350 crores of additional turnover.

**Dhairya Trivedi:**

Understood. And sir, we are looking to open about 13 stores of Varamahalakshmi in this year.

**Management:**

See, we will go by the square foot area. Last time, when we envisaged the expansion plan, we took an average size of 5,000 square feet. We see all Tamil Nadu centers are major cash rich centers. So very small stores are not viable there. So average size of store is working out to approximately 6,500 plus or minus now.

So if we go by the square footage area, our plan of action originally was about 150,000 square feet, of which we have already put in 43,000 square feet last year. And this year, we should be putting up about 90,000, of which 50,000 will come into operation by the end of half year. So that this 50,000 will be available for full scale operations in the quarter 3 and quarter 4, which are considered to be the best quarters for the company.

**Dhairya Trivedi:** So all these stores will be in the Varamahalakshmi format, right?

**Management:** Yes, all of them are Varamahalakshmi formats.

**Dhairya Trivedi:** Okay. And sir, another question I had was on how do you foresee the saree demand evolving over the next few years? I mean, while we are privy to certain details in the Technopak report, we just wanted some qualitative highlights on the category, especially in the light of the younger generation being more inclined towards Western outfits as opposed to sarees.

**Bharadwaj Rachamadugu:** So Mr. Trivedi, thanks for the question. I can answer that question. So if you see the Technopak report, Technopak report was basically observed in terms of how the market has been doing in the last couple of years till 25. If you take that as a metric, a few of the highlights that I would like to highlight at this point of time is in the overall saree consumption, the SSSG, I mean, the CAGR growth is around 8% CAGR growth that saree as an industry sees, just I'm talking only about pure sarees. So though SSKL has about 69.5% sarees and another 30% coming from other categories, if you just focus on sarees alone it's growing at an 8% CAGR.

So in this overall pie 50% of the entire concentration is only coming from South India, North, East, West put together is the rest of the 50%. Now, if you take that as a metric Tamil Nadu one state is equivalent to Andhra plus Telangana combined. So our Tamil Nadu presence today as we see is around 63,000 square feet. It's just a nine store presence.

So now the focus is the market is double the size. So for us in Andhra and Telangana put together we have around close to around more than 40 stores. So there is a huge potential for us to enter into Tamil Nadu and Tamil Nadu being at the top of the chart in terms of saree consumption across the entire country.

We believe the Varamahalakshmi format is the best format to go to because Varamahalakshmi since as you know that is majorly into silk sarees and Tamil Nadu has a greater absorption market for that. So we believe our strategical expansion into Tamil Nadu is the right strategy. In terms of your average age what's the trend like?

What we actually wanted to when I actually look at a consumer portfolio or profile around in the entire ecosystem of what a Varamahalakshmi customer actually comes I would say broadly around 60% of our customers is coming for wedding based purchase 60%, 65%. Another 35% 40% is your occasion wear buying.

So wedding purchases is one of the main reasons because your average age that a consumer comes for a wedding is around for a girl is around 20 years, 24 years to around 30 years old. So we still are able to attract this group of audience to our Varamahalakshmi purchases and the

remaining 35%, 40% is coming from the occasions buying. It could be any festivities or it could be any functions or evening parties or something like that. All of that is the remaining 35%.

So this metric if you see currently in the Indian census data as we have, this group of people in the younger woman generation are actually increasing and that's a quick map on how we actually take this approach. I hope that answers your question.

**Dhairya Trivedi:** Got it, understood. And just to clarify we close FY24 at 60 stores, right?

**Bharadwaj Rachamadugu:** Correct.

**Dhairya Trivedi:** Okay. So this is a request I made last time as well. If you can please upload the investor presentation on the exchanges it would really help because otherwise it's very difficult to get a sense of a trajectory of the business without the investor presentation.

**Bharadwaj Rachamadugu:** Understood, Trivedi. So I think it's currently underway. We will have a press release released today as well as the investor presentations both of them will be done before the end of the day.

**Dhairya Trivedi:** Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Maulik Chaudhari from Monarch Network Capital Limited. Please go ahead.

**Maulik Chaudhari:** So yes thank you for giving me the opportunity. So I just wanted to ask that how is the traction for those stores of Varamahalakshmi that you opened in H2 FY24?

**Bharadwaj Rachamadugu:** Hi. So you're talking about our stores that we have opened in Q4. If I may repeat is that what the question was or are you talking about our new store implementation?

**Maulik Chaudhari:** Q3 and Q4.

**Bharadwaj Rachamadugu:** Q3 and Q4. So overall as we did tell you Tamil Nadu is still at the top of our remaining other state presence. So Tamil Nadu still commands better throughputs compared to the other states. So the same has been there the case with the old stores as well and the new stores as well. If you talk about a few new stores we have taken strategic locations this time not just the typical markets.

For example, stores the second store in Coimbatore coming up or a store in Salem coming up. So these are the areas where we believe it's a higher potential and there are stores like Salem which has other advantages compared to not just sales which is because the majority of our production one of our top three or top four sarees actually comes from Salem.

So we believe that network in Salem will also help us to improvise our inventory management. As we speak we are also expanding a small distribution center in Salem, which is right on top of our existing store and using that network we will see and forecast to see if we can move the inventory in a better fashion.

Overall, Q3, Q4 the new store additions around six stores we have added. These six stores came in Tamil Nadu and everything seems to be good. Overall, what I would like to say is the overall consumption especially in the occasion where market has considerably been a little weak. One attributes the low wedding dates and two the overall consumption also seemed to be a little weak.

With these two reasons we had a slight impact in the other areas, but Tamil Nadu still seems to be strong for us.

**Maulik Chaudhari:** Okay, thank you. And my second question is what was the revenue per store of Varamahalakshmi, Kalamandir, Mandir KLM fashion mall in FY24 full year?

**KVLN Sarma:** Yes, if we take Varamalakshmi, Varamalakshmi is continuing to be approximately 45,000 to 46,000 at a company level. Tamil Nadu would be slightly higher and the is Mandir continues to be almost on the same range about 44,000 per square feet. KML has shown a slight improvement, 20,000 per square feet there. And KLM currently is at INR14,000 rupees per square feet.

**Maulik Chaudhari:** KLM is what?

**KVLN Sarma:** KLM is at INR14,000 per square feet.

**Maulik Chaudhari:** And my third question is also earlier you had mentioned that you wanted to add Kalamandir store as well in FY25. So, the guidance is intact or you are delaying the plan?

**Bharadwaj Rachamadugu:** So, yes I can answer that question. So, at this point of time the near horizon in the span of Q1 and Q2, there are no Kalamandir stores as we planned. The demand for Varamalakshmi is still there. So, currently we have around three stores that are currently almost close to opening in within the 60-day timeline from today. And the other stores are also Varamalakshmi. We have kept a provision for Kalamandir stores, one or two stores, not too many in the Tamil Nadu cluster once that cluster matures.

Typically, we are looking at Chennai as a market and Coimbatore as a market for Kalamandir. But at this point of time, we do not have any solidified plans for Kalamandir to execute immediately. Probably after first two quarters of Varamalakshmi implementation, if there is a possibility, we will try and see if we can expand into Kalamandir for next time.

**Maulik Chaudhari:** Okay, thank you.

**Bharadwaj Rachamadugu:** But the overall schematics, if you have to think about it, the majority of the expansion almost, most of the expansion will be Varamalakshmi-based expansion and mostly it will be in the Tamil Nadu area.

**Maulik Chaudhari:** You just mentioned in the RHP that you will be adding Kalamandir in Andhra and Telangana as well in FY '25?

**Bharadwaj Rachamadugu:** So, at this point of time, we wanted to focus on Tamil Nadu as an area alone because Tamil Nadu still has a greater potential. We are actively focused on closing down new locations in Tamil Nadu once we are able to get into a decent number of additions by the end of Q2. Probably

in Q3 or Q4, we can look at adding new stores into Telangana and Andhra. As we speak at this point in time, as of today, we do not have any forecasted number of stores in AP and Telangana.

**Maulik Chaudhari:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Pranav Shrimal from Finnair Wealth management. Please go ahead.

**Pranav Shrimal:** Sir, my question is that I just wanted to understand your qualitative view on the long-term relevance of saree wearing given the preference for western outfits among younger generations. Despite, we know that there have been reports which show that the saree market will grow at a CAGR of 8%. I just wanted your qualitative view and what gives you confidence in continuing to expand in this business?

Do you think that our business model can be a risk in the long run as people shift more towards western outfits? I just wanted your qualitative view and wanted to understand what gives you confidence to expand in this segment?

**Bharadwaj Rachamadugu:** Sure, Pranav. Thanks for the question. So, if you see currently in the entire clusters that we have around 15 city presence in four states. In this, when you talk about occasion wear and wedding wear, it is dominated by sarees, especially in South India. And if you have to talk about in-depth about Tamil Nadu, it is dominated by sarees when it comes to wedding. Because in a typical wedding, earlier it was just one day or two day wedding.

So, now we are talking about a four-day ceremony, five-day ceremony kicking in. The consumption of sarees became more, not just the bride, the entire family. That still continues. We do not see any slowage in these areas whatsoever. Now, if you talk about when you expand into other areas, for example, a North Indian market, East, South and other cities that we currently are not there, that becomes actually true because your lehenga component, your occasion wear, that also plays a major role.

The other spin that I would like to talk about right now today is, if you talk about our mandir format or a Kalamandir format and a certain extent KLM format, we do have that offering as well. So, the moment we talk about expansion beyond South India, beyond these core saree consumption markets, we have the capabilities, we have done and we have also sold many of the non-saree occasion and ethnic wear products. So, we will just change the product mix to a certain.

So, today, since we are going deep South into saree markets, the concentration of saree is moving from 67 to 69.5 and probably it will go all to 72% or 75%. Once we go beyond these clusters, then maybe we can get it back into from 75 back to 60 or 65 or even 50. So, what I would like to point out is, we are very strong in terms of the sourcing. So, as I did tell you in my earlier calls as well, we have a very strong team, more than 100-150 people purchase team we have in all segments put together. And these people are well equipped to get our sourcing and entire structure, even from sarees to non-sarees to menswear and kids wear as well.



The whole idea behind SSKL strategy is to operate in the ethnic wear as well as in the occasion wear space. So, it is just that in today's market scenario, in today's clusters where we are present, saree still continues to dominate and that's the reason why our saree contribution is high. Once we move beyond these clusters, then that composition of sarees towards non-saree wear will actually change.

Even if you look into our metrics from our last customer data that we have been tracking in that 6.5 million customer base we were able to secure, just in the last 12 months -- last trilling 12 months when you take an analysis, we are very happy to say that 53% to 54% of repeat purchases are coming in our stores. So, all of this is a very encouraging factor. We still continue to keep one of the industry's top metrics in terms of bringing back to the customer. And we have data going three-time visitors, two-time visitors or four-time visitors, but having a 53%-54% of a repeat customer rate in our sense is quite a good number to be at. So, maybe that can answer your question.

**Pranav Shrimal:**

Yes, sir. Thank you. And sir, one more question. Like in terms of marketing, we do spend on marketing when we open a new shop and we get most of our sales also through word of mouth. But just wanted to highlight that since influencer market is very big, are we into hiring influencers for the sarees or any change in the fashion of saree or something where people can get more knowledge about the saree and they can take it as a fashion? Can you actually believe that saree is also one of the fashions which you can wear? Influencer market is so big. So, just wanted your view on that?

**Bharadwaj Rachamadugu:** Yes, sure Pranav. So, if you look at our overall advertisement expenditure that we have been making for the last couple of years, after 2021, that entire e-commerce boom picked up. So, we also followed that trail and our e-commerce journey also started. But even within the advertisement spends as we see today, our digital advertisements actually doubled and our offline advertisements such as newspapers and television spends actually reduced. So we are going towards the same path. We do understand the importance of influencer marketing digital reels.

If you look at any of our social media handles, be it Instagram, we are doing a lot more in terms of collaborations, influencer collaborations and we are actively trying to focus on these clusters very, very strong. And when it comes to e-commerce, we are doing influencer collaborations not just with India but we are doing abroad as well. So the focus continues to remain to spend a lot more on digital platforms and reduce the spend on the offline channels.

So that's where we currently stand and this year also we have budgeted towards the same thing. Our digital spends are increasing compared to the offline spends in terms of newspaper and television. But talking about our store inauguration wise, in terms of store inauguration, it will generally be a blended of both offline and online.

We go all out in terms of our offline, we do dhol, we do newspapers, we do television, we do holdings, we do paintings, we bring in celebrities, we bring in influencers, we bring in those group of people who come and visit stores and keep stories on Instagram and make some reels and content like that.

So the idea behind this is to make sure everybody in the vicinity knows that our store is open and that is generally going to be an offline plus online heavy-driven model. But once after the store opens, then we convert majorly into a digital marketing campaign.

And with the sales force coming into play, we now are even more confident because we are now able to do automations. So with the help of geofencing and geotagging, we are now able to run use cases where we are able to convert your offline purchases to online and then doing these automation of use cases using emailers and WhatsApp and Instagram or sponsored posts, everything in that ecosystem.

**Pranav Shrial:** Thank you, sir. Thanks a lot for answering my question. Best of luck. Thank you.

**Moderator:** Thank you. The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

**Chinmay Nema:** Hi. Thanks for taking my question. If I look back at a somewhat longer period, back in '20, right now for the last two, three years, we've been operating at quite elevated levels of inventory compared to back in 2018, 2019. So just wanted to understand what are we doing differently from how things were back then?

**Bharadwaj Rachamadugu:** So, Chinmay, hi. So to answer your question, if you're talking about our inventory levels, more or less, our inventory levels seem to be same. So if you're talking about back in the year 2018, 2019, then I'd like to point out that there was another company called Sai Retail India Limited, which was actually helping us in terms of sourcing.

But the moment when we started this journey towards listing publicly, we thought, in the best interest of our investors, to make it very, very transparent. We closed down the operations with Sai Retail 100% completely, and everything is happening under the SSKL's umbrella. And that activity also has crossed more than two financial years and we have been operating without any pain points or everything is in the BTA model, business as usual mode.

So the inventory levels generally in saree as an industry, if you talk about wedding and purchasing, generally, we have to hold high amount of inventories to give you this amount of throughput. So if you're talking about the revenue per square feet, as our CFO just earlier mentioned, these are one of our industry leading throughputs that we actually do in our stores. For us to achieve this amount of throughput, the only requirement that we should have in our stores is having adequate inventory levels.

And that's the reason why, in general, this industry commands the inventory levels to be higher. Now that was what our analysis and perception was and how we have been operating so far. However, since our focus is to expand deep into Tamil Nadu and make the Tamil Nadu cluster much bigger and better, there are two important aspects towards inventory management that we are trying to do.

The first thing is, majority of our sarees right now that we are adding will be with silk sarees, because Varamahalakshmi silk formats get added. So with that, we are able to bring efficiencies

by procuring in larger quantities. That's the first point. And with that, we are able to reduce our COGS to a certain level.

The second interesting point that we do, as I did tell you, each –and every store has to have good amount and decent number of inventories. Now that the cluster matures, probably after three, four, five stores being added, once this cluster matures, the backup inventory requirement also for a Varamahalakshmi store will be lesser.

And therefore, we generally move the inventory from one store to the other store, all of those efficiencies will kick in. And therefore, the overall inventory requirement in a store would come down. At the store level, we also bought this concept of MBQ revision, so minimum base quantities is what we call product category.

These MBQ revisions happens once in a quarter. And we do have a plan in place that we review every month and basis that we are changing our MBQ revisions once every new store gets added to this cluster. So these are a few things. And on top of this, we're also paying our vendors and weavers in an earlier fashion to reduce our payable days. And therefore, that also is helping us get some discounts in the overall scheme.

So with all of these three, four factors in place, we believe the inventory turnaround will become better and better in the next quarters to come. By the year 2025 the idea is once we complete this 90,000 square feet expansion and one full year runs, which is the next financial year, by then we should be able to see a considerable amount of inventory improvement requirement in our store. So we should be able to see the trend coming from Q2 onwards.

And ideally, the way we should look at inventory, as I always do mention, is kindly look at the inventory levels at the end of the year. Because generally, the festivities and occasions come in the end of Q3 and Q4. And a quarter end inventory number is not an accurate way to look at. So probably I would request you all to look at an inventory level at the end of the year.

So once we complete this 90,000 square feet addition and the one full year runs, we should be able to see considerable amount of inventory improvement happening at the company.

**Rahul Gupta:**

Got it, sir. This is very nice. Secondly, could you quantify in the last five years, how much inventory write-off have you taken, if you've taken any? And how many store closures have you had, if you've had any?

**KVLN Sarma:**

Yes, Sarma here. See, the procedure that we have been following is that - the banking system, which are our working capital bankers, they have a specific audit mechanism called ASM, Agency for specialized monitoring, in which they initiate - earlier, it was on a monthly basis - now they are doing it on a quarterly basis, wherein a textile expert along with a chartered accountant will go through the inventory, more particularly slow-moving inventory, and arrive at the realizable value of the inventory that we are holding. And accordingly, recommend to the bank on the stock valuation that we are holding.

So, according to their recommendation, we adjust our inventory levels at the year-end. And any variations, if they have recommended any reduction in value, etc., gets absorbed in the gross

profit level, since we are adjusting the closing inventory valuation. Broadly, we have realized that this amount is in the range of about plus or minus 1% on an annual basis.

We are planning that from this year onwards, we would declare it as a separate line item, going by the same procedure of the survallence audit, etc., but we will provide for a separate line item this year, instead of adjusting in the gross profit levels.

- Rahul Gupta:** Thank you sir. Got it. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Naitik from NV Alpha Fund. Please go ahead.
- Naitik:** Hi, sir. My first question is, can you please give me the total square footage that we have today, as of end of FY'24, and what was it at the end of FY'22?
- Bharadwaj Rachamadugu:** Hi, Naitik. So, I think the current total square footage is 6,47,000 square feet, more or less. And this year, if you remove around 44,000 close to, we should be able to be at 6,03,000 net retail area last year.
- Naitik:** And the second question is, if you could just give me the figure of SSG for this quarter and the whole year.
- Bharadwaj Rachamadugu:** Naitik, I'm sorry, I lost you. Can you repeat what your question was?
- Naitik:** SSG growth for the quarter and the full year?
- KVLN Sarma:** SSG is in the last quarter because of the small rectification steps that we have taken subsequent to Q3 were recovered and SSGs in the last quarter were recorded at 3%. So, we hope to maintain this year the recovery process and the target is to maintain at least the 3% levels that we have already seen.
- Naitik:** And the same numbers of FY'24 was, the full year '24?
- KVLN Sarma:** Same number for FY'24 was minus 6.
- Naitik:** Sorry, I'm sorry, I didn't get that.
- KVLN Sarma:** Same SSGs for the full year of FY'24 was minus 6.
- Naitik:** Thank you.
- Moderator:** Thank you. The next question is from the line of Resha Mehta from Green Edge Wealth. Please go ahead.
- Resha Mehta:** Yes, thanks. So, firstly, how do you define repeat purchase? So, is that within a time period of one year or more than that?
- Bharadwaj Rachamadugu:** Yes. So, hi, ma'am. So, this is Bharadwaj this side. So, we take a trailing, last trailing 12-month period and then that's when we actually do repeat purchase. So, when we make a, when a customer comes and make a purchase, we identify them with a unique, with a phone number and

phone number becomes our primary method to track how many times he's visited our store, which store he's visited. One of the systems that we actually follow is that we try to do these customer profiling and see when she's bought, what she's bought, and therefore use our entire CRM around it.

So, in this particular use case, I've taken the financial year of FY'23-FY'24 and taken account of all of the customers who has made a purchase in more than two or more than two times in this full 12-month period. That is a calculation of the repeat

**Resha Mehta:**

Understood. And just to understand, so for our primary product, which is, you know, sarees, so I would imagine the wedding wear sarees are obviously heritage-linked and the hand-woven kind of sarees, right? But the balance, the occasion-wear sarees, so would they also be, you know, these heritage silk sarees or would they be something like an Indo-Western fusion or something of that sort? So, just can you elaborate a little bit on your saree product mix that we sell?

**Bharadwaj Rachamadugu:** Sure. So, overall, if you look at a wedding-based sarees, rather than saying silk and a non-silk, I would say it will be majorly pure silk saree. So, for pure silk sarees, it only starts north of INR25,000 and goes all the way up. We have ranging around INR3 lakhs, INR4 lakhs, INR5 lakhs as well. When you talk about a wedding-based purchase, generally, people who come into our store actually come in groups. If you see a typical consumer sitting in our stores, people come in three, four, five as a group. They come like mother, daughter, and they actually purchase for the entire event.

So, in a typical event, she's just not buying one saree. She's buying a group of like 10, 20, 30 sarees that she can use it, one for wedding, one for Muhurtham, one for Talambralu, and there are other events as well that comes in. Along with that, the mother of the group, the mother of the bride, the relative of the bride, all of that also comes into our overall purchase.

So, when we talk about wedding, in general, majority of it is silk sarees. But even if you talk about another event in a wedding, let's say, for example, you talk about a reception or let's say, if I want to talk about a Haldi, then women customers generally prefer a non-silk saree. This could be Banarasi.

Majorly, Banarasi are second biggest category in the overall saree consumption that we currently have. So, this is how our product mix changes. So, now, if you talk about our different brands, now, Mandir as a format, if you take for an example, majority of it is non-silk because Mandir is portrayed as a designer wear, the ultra-premium category.

So, what you will find in a typical Mandir is more of patolas or paithani sarees and banarasi sarees and less of the kanchipuram silk sarees. Now, if you come to Varamahalakshmi Stores, you'll have majority of our product profiling in the sarees being silk and coming from and typically it's a wedding saree. And we talk about Kalamandir, that's when you see the lower price point sarees like around INR1500-INR2000 rupees kind of a price point to what you can expect in the Kalamandir sarees.

However, what you can expect was in a Kalamandir versus a Varamahalakshmi just in the saree is the purity. So, the moment you talk about purity in terms of pure silk sarees, then you will get majorly in Varamahalakshmi silk sarees. Occasion wear or daily wear kind of a component of sarees is what you get in a Kalamandir store.

That's the reason why your KLM, the ASPs generally are around 1800 or around 1850 versus the Varamahalakshmi Silks, the ASPs around INR5500-INR6000 ASPs. Versus the Mandir, you would typically get it around INR13,500-INR14,000 for the ASPs. And KLM Fashion again, does also have saree component, but the ASPs around 600-650.

**Resha Mehta:** Sorry, I missed this number for Varamahalakshmi?

**Bharadwaj Rachamadugu:** Varamahalakshmi will be around INR5500-INR6000.

**Resha Mehta:** This is the one that sells Kanjivaram silk sarees, is it?

**Bharadwaj Rachamadugu:** Correct. Yes. So, if you talk about Varamahalakshmi a little bit in detail, see the component of gifting sarees is also huge in a Varamahalakshmi Silk Store. So, that's the reason why your ASP, there's a comparatively lesser compared to brand Mandir. The Varamahalakshmi Silks, what we also do here is based on the tier it is located, we start doing a store profiling.

For example, now Jubilee Hills Store, which is in tier-1 location in Hyderabad, does have sarees in a higher price range. But if you go down deep into tier-2 and tier-3, let's say for example, Bhimavaram, which is a tier-3 town in AP, do not hold the same amount of inventory, actually have a lesser ASPs in that store. Versus a Salem Store, which is a weaver market, that in Tamil Nadu, again have different price points.

So, we take consideration in terms of the location where our store is present and try to put our products according to those price ranges. If you take a blended average, this is where we currently stand.

**Resha Mehta:** Okay. So, from an overall standpoint, overall, just the saree standpoint, which is almost, I think 70% of our revenues. So, the pure silk sarees contribution would be how much?

**Bharadwaj Rachamadugu:** Just the pure silk saree contribution, I think should be around more than 25% plus.

**Resha Mehta:** Okay. And then would come?

**Bharadwaj Rachamadugu:** The mixed silk saree. So, pure silk sarees is there, then the zari mix is going to be there, which is not 100% pure silk sarees, but is in the silk saree component with a mix of non-silk elements as well. So, the purity of the silk will not be there, but you have other mixed sarees.

So, those sarees will also contribute to another 35%, 40%. So, then we come to Banarasi sarees and then comes your fancy sarees. So, that's the calculation that we go. For example, if we talk about Salem, Salem is silk sarees, but is not pure silk saree.

**Resha Mehta:** Got it. Fair enough. And so, apart from sarees, which is another 30% of our revenue. So, what are the other products that we sell?

**Bharadwaj Rachamadugu:** So, the other products that we sell is women's lehengas, kurta, kurtis, men's occasion wear, kids occasion wear, and a small component towards accessories as well. And all of these other formats are driven with KLM and Kalamandir formats.

**Resha Mehta:** Okay. And so, men and kids would contribute overall how much to our revenue?

**Bharadwaj Rachamadugu:** So, in terms of pure men's and kids, I think close to around 15%-18% will be men's and kids. And our remaining other piece is going to come from your women's non-saree component ethnic such as kurta, kurtis, lehengas, etc. accessories will all be the other portion. So, one interesting point I wanted to make sure is even in the men's wear and the kids wear, we are driven majorly with the occasion component of men's wear and kids wear like men's sherwanis or kurtas or kids occasion wear, baby occasion wear such as gowns or ethnic wear.

That's the major reason why even we call our KLM Fashion Mall format to be an ethnic value fashion format. So, the idea in the overall ecosystem is we are around 80%, 85% of our entire product offering will be the ethnic occasion wear and the remaining 15%-18% will be your western wear such as your basic tees and tops and jeans and things like that.

**Resha Mehta:** Okay. Got it. And the other thing. So, what would be the margin differential between our core saree business of 70% versus the balance 30%?

**Bharadwaj Rachamadugu:** See, the overall margin profile if you have to talk about format level, the KLM will generally be on the lower side of the spectrum and Varamahalakshmi Silks will be on the higher side of the spectrum. Majority of it being because it's hand-woven and hand-loom kind of originally demand a higher margin. But it will not be too much of a difference if you talk about the format level.

The reason we always wanted to keep these margin very sharp is one, we think that even the local competition is a good competition for us and therefore, we do not want to lose our business to anybody. Second thing is, if you talk about an example, across the formats, more than 95% of our entire sale is full price sale. We do not believe in end of season sale or discounting in a timely manner or a seasonality basis.

And therefore, we aim to price the products in a very, very sharply priced value for money kind of a purchase. So, most of our customers who walk into our stores know that there's not going to be any bargaining or any discount or end of season. So, the kind of buying and customer profile that come in, they come in different points in time and that's why they're able to buy.

So, even despite of the fact that we do not do end of season sale or maybe discounting, we are still able to get the customer attention of more than 50% is something that we believe is the top of the industry that we have.

**Resha Mehta:** Sorry, sir you said 95% is full price sales? This is across the company, right? If I look at the overall numbers.

**Bharadwaj Rachamadugu:** Yes, across the company for Varamahalakshmi silks as a format, it's 100%. In the history, we have never done any end of season, no discounting, nothing. 100% of our sale that comes from

Varamahalakshmi silks format is full priced. Just the other two stores, just we have one or two stores that have opened in the beginning. Those stores do have an end of season sale that comes up in only in specific stores. It's not at a format level, it's at the store level.

**Resha Mehta:** Got it. And lastly, just a data question. So, if across your brand format of VML, KLM, KMR and MDR, if you could just talk about for FY '24, what was the revenue percent from each of these formats, the margins at a store level and the ASP?

**KVLN Sarma:** Yes, revenue contribution because we have increased our Varamahalakshmi footprint during the year, also last year. Now, Varamahalakshmi contributes approximately 42% of our turnovers, while KLM would be in the range of 38% or so, at this level. 16% would be from Kalamandir and 4% would be from Mandir.

**Resha Mehta:** Okay. And the margins, store level margins?

**KVLN Sarma:** Margins at what level? If we take it store level, Kalamandir would be at the company's average. Store level margins for Varamahalakshmi should be in the range of about 33% to 34%. While KLM, it would be in the range of about 24% to 25%.

**Resha Mehta:** Okay. And MDR, margins for MDR format?

**KVLN Sarma:** Mandir almost goes along with Varamahalakshmi. It's also a premium format. So, it goes almost identical with Varamahalakshmi.

**Resha Mehta:** Okay.

**KVLN Sarma:** And we have only four of these stores, total square footage being about 13,300 or so. And this is considered to be the premium format, hence normally goes along with Varamahalakshmi format.

**Resha Mehta:** Got it. And lastly, the ASP of these four formats for FY '24?

**KVLN Sarma:** FY '24, they were almost in the same range. Varamahalakshmi was in the range of about 5,000 plus. . Mandir would be approximately 13,500. Varamahalakshmi would be in the range of about 4,800. Kalamandir would be in the range of about 1,800 and KLM would be in the range of about 700 plus.

**Resha Mehta:** Okay. Got it. Fine. Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead.

**Surya Narayan Nayak:** Yes. Thank you for giving me the opportunity. So, you said that now we entered FY '24 with roughly INR6,47,000 or 7% Y-o-Y change. So, if I'm right, Kalamandir ended with 11, Mandir 4, Varamahalakshmi 26 and KLM in 19, in total 60. So, is it possible to give separately SSG growth because some of the formats in the Varamahalakshmi have come in the third quarter and fourth quarter. So, is it possible to give SSG for different formats?



**Bharadwaj Rachamadugu:** So, Surya Narayan, we generally don't roll out like SSGs format level and store level. We believe that this is a format and this is very confidential information. So, probably maybe we can have a private conversation on this.

**Surya Narayan Nayak:** Okay. And secondly, another point is that we are actually trying and trying to penetrate more into the Varamahalakshmi and there is in Tamil Nadu region. So, my concern is that if the inflation situation will be high and generally people will avoid, let's say, costing the pricey sarees and there will be a tendency to go for economic series.

So, if that is the condition, then don't you think that we are actually risking more towards the Varamahalakshmi, Varamaha BML format and Kalamma of Kalamandir or Mandir?

**Bharadwaj Rachamadugu:** So, just a quick idea here and the overall is Varamahalakshmi itself, if you talk about is majorly weddings. So, weddings across the board in any part of the corner, there is a consumption required in the wedding saree element. Now, as I already mentioned earlier as well, we do not only price only high value items in every store.

There is no set definition that we only stack products above 10,000 or only above INR1 lakh range. So, the kind of analysis that we do when we do a store addition that anywhere as a part of our store expansion network, we understand the location of that particular region and understand the consumer purchase patterns. So, the way we do is we do a thorough analysis in terms of the competition.

We do understand the product profiling in all of these competition stores that are currently that we are entering into and therefore, stock our products as per the current store requirements are. And one thing I must tell you is what we do is that the moment we identify the stock and we put in our store and we launch our store, then that store will be marked under review for the next 90 days. In these 90-day period, we closely monitor the highest sell-throughs and the lowest sell-throughs in terms of the price range in terms of sarees and therefore, shuffle.

So, the moment it completes the 90th day period, that is when we complete the store profile. So, we call this as a store profiling area for the first 90 days and that is when the key changes happen to the store. So, before the store opens, though we do a continuous and rigorous activity on identifying what kind of products we need to put, what price range, what kind of source, which source product can we have to put.

Post opening as well, this activity continues for a period of about 90 days and we have a set of people who sits and analyzes price range-wise, product-wise, sell-throughs and therefore, make adjustments. And finally, after a 90-day period of time, we end up with those MBQs in a certain format and that is when we actually define these MBQs. And once these MBQs are defined, once in every quarter, based on the wedding calendars, based on the slow movement, we set the targets for every store as well as make the adjustments to MBQs so that their inventory stock-up is not too much.

**Surya Narayan Nayak:** So, if I can understand from your wording. So, let us say for Varamahalakshmi, you have a certain position prior to opening the stores and as the day progresses, suppose you did not find

the kind of crowd that was to come, then obviously that format could be behaving like a Kalamandir kind of thing, but not as Varamahalakshmi or Mandir as you perceive. Am I right?

**Bharadwaj Rachamadugu:** I didn't understand your question. Can you repeat your question, please?

**Surya Narayan Nayak:** So, what I am saying is that suppose because our penetration for FY '25 and FY '26 as well is towards the Varamahalakshmi. If I am correct, 13 for FY '25 and 5 for FY '26. So, around close to 18 stores were to be opened. So, if there is a sense, then you might have certain perception that the kind of crowds that will be attracting. So, it will be absolutely Varamahalakshmi. But as the day progresses, suppose some of the formats, some of the stores may not attract that crowd and obviously that could be falling in the category of Kalamandir.

So, if that is the case, then at the company level, you could be categorizing for the RSA, it will be Varamahalakshmi. But I mean, literally, it could be Kalamandir level?

**Bharadwaj Rachamadugu:** Okay. So, I got your question. So, I have to put it in a perspective. So, though we are adding the 13 plus 5 stores or total of 90,000 plus another 30,000 square feet this financial year and the next financial year. I think what we try to do is like at this point of time, Varamahalakshmi Silks format seem to be at the top of our game.

Compared to all four formats, Varamahalakshmi commands a better premium in terms of productivity as well as margins. So, in terms of our expansion, we are not just focusing on Tier 1, we are having a blended calculation of Tier 1, Tier 2, Tier 3. We do identify pockets of areas and potential cities and markets which has higher potential.

These are the markets that currently there are already existing competition, which is actually having a bigger market share. And we try to enter it into the market and actually grab our market share with our brand value that we already create. We are able to make our customers walk in from Day 1. On the other aspect, since we do a big bang launch and spend a lot of money in terms of marketing during the store launch time, we actually start expecting footfall from Day 1, Week 1 itself.

And therefore, during this 90-day period, it becomes the right method for us to actually make some changes in terms of the inventory. Now, when you talk about what happens if you have to implement a Kalamandir store or a Mandir store, as a matter of fact, KLM store as well, all of our stores in the history that we have executed these 60 stores over the course of 18 years, our mantra has always been to do a big bang launch and identify potential markets.

That is something that we take help of outside and external agencies to help narrow down the markets. And we do also have internal teams to help us qualify the right locations and therefore go ahead. If you have to talk specifically about Varamahalakshmi Silks, currently, Varamahalakshmi Silks generally is not on your typical high street. Varamahalakshmi Silks stores generally are one street behind high street.

And because the word of mouth is so strong, that becomes a market for us. There are several use cases in the history of the company with the Varamahalakshmi Silks format that we have not opened in those high street areas, high traffic areas, but still we are able to command a good

decent footfall coming in from day one itself. So that is something that we work rigorously with multiple teams to come down and identify which format to open and which area to open.

So currently, when we actually provisioned for Kalamandir, the idea was once when a Varamahalakshmi Silks cluster matures, in that cluster strategically a Kalamandir store would be added and therefore we would be able to use our inventory management, warehousing and administrative costs in a much better fashion.

**Surya Narayan Nayak:**

And to understand the dynamism of the question of ethnic wares, because you know 85% happens to be your revenue coming from the ethnic wares. So I mean, if compared to the western wares where the style and the formats they change quite often, I would say that in terms of obsolescence of the inventory. So what kind of, let's say obsolescence or let's say change in the lifestyle of Sarees, especially of wedding Sarees that happens, is it remaining constant for three years, four years, so where we will not see a degree of obsolescence is quite low?

**Bharadwaj Rachamadugu:** If, I think I got your question, if you're talking about Sarees, are you talking about non- Saree categories? So if you're talking about Sarees, the good part is one size fits all. The design cycle, as you rightly mentioned, do not change so quickly like autumn, winter, spring, summer is something that's not the language that we go by.

We have a distributed purchase cycle because not all of our products are coming from one manufacturing center or one weaver. So we, in the course of last three years, again, we updated because we work with more than 4,000 weavers and vendors across the country and because we work with such high number of people, our inventory also comes in specific periods of time and we do not have the problem of having one same Saree in multiple pieces.

So we only have, we start only in three or four quantity and therefore, the design cycle or the design obsolescence is not so high. Though we have cases where once a customer purchases a Saree, even their mother or it passes through generations, in our sense, the design life cycle can travel from tier 1 to tier 2, tier 3.

Two to three a time is not at all a point of problem for us and these designs just generally don't go out so fast. But in the overall ecosystem of the inventory levels currently we have, our ASP lies in the fact that our incentive module, we have state-of-the-art incentive module that we currently have and that actually helps us liquidate the stocks in a much better fashion.

We incentivize our sales staff basis also on in the terms of inventory aging versus the new storage. So we do a lot more things in this aspect to move the stock away. At this point of time currently, if you talk about the overall inventory aging, inventory above the age of one year stands around less than 15%.

I think 12% to 15% in the overall inventory which is above one year. So we are very confident that is not going to be a problem because with our incentive module, we will be able to sell the stock as quick as possible.

**Surya Narayan Nayak:** And regarding the cost, because the majority of the ethnic groups are very laboratory oriented and the wage inflation is very high. So what sort of ASP do we need to see a growth to accommodate the rise in the wages?

**Bharadwaj Rachamadugu:** So in terms of our ASP growth, it always changes because you're not talking, in Sarees, no two Sarees are same. So we have different Sarees, different products. The ASP increase or decrease is only dependent on the new store additions that we are actually going ahead with. So for a moment, if you add a tier 3 stores, your ASPs will fall down.

If you add a tier 1 stores because the consumption is higher, the ASPs will rise. So it's completely dependent on the store addition that we do. So that metric is not a metric that we sued able to look at a forward looking metric at this point of time. It completely depends on the kind of store addition that we are actually having and depends on the location of where we are adding.

**Surya Narayan Nayak:** Okay, thank you, sir.

**Moderator:** Thank you. Due to time constraint, that will be the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**Bharadwaj Rachamadugu:** Thank you. All each and everyone for taking your time to participate in our results. Hoping to meet you in the next quarterly results. Thank you so much for your time. Have a good day.

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