



“Sai Silks Kalamandir Limited
Q1 FY '25 Post Results Earnings Conference Call”

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MANAGEMENT: **MR. BHARADWAJ RACHAMADUGU – VICE PRESIDENT**
– SAI SILKS KALAMANDIR LIMITED
MR. K.V.L.N. SARMA – CHIEF FINANCIAL OFFICER –
SAI SILKS KALAMANDIR LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Sai Silks Kalamandir Limited Q1 FY '25 Post Results Earnings Conference Call 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, sir.

Jay Gandhi: Thank you. This is Jay Gandhi from HDFC Securities. Welcome to the SSKL Q1 FY '25 Earnings Call. From the management at 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 evening, ladies and gentlemen thank you for joining us today to discuss Sai Silks Kalamandir Limited Results for the Quarter 1 FY '24-'25. SSKL is India's leading women's wedding and celebration web company. I hope you all have got a chance to go through our investor presentation and for those who are not able to, you can also find it on our investor relations sections of our web company's website.

I have with me Mr. K.V.L.N Sarma, our CFO of our company. So, to begin with, let me first start giving you an update on the overall economic retail market scenario for the Quarter 1. In this quarter, the sluggishness in the market continued due to the lack of wedding dates. Unlike Quarter 1 of last year, this year the wedding dates in Q1 of this were reduced by almost 70%, which caused weak consumer walk-ins to our stores. And this has been a major reason why the store experience reduced footfalls. In addition to this, several factors such as extreme heatwave and national elections have also caused some level of impact on the overall consumption trends.

As of 30th June, the total retail square foot stood at 6.53 lakh square feet with 61 retail stores across four states in the company. In this quarter, we have opened one new store and we have made major efforts in staffing and marketing campaigns as we continue to grow the Tamil Nadu market. We have made progress to identify, plan and open additional locations in Tamil Nadu as well as in the Karnataka regions that would start shaping up in the quarters to come.

On the new store rollout front, we have faced some headwinds as two of our new stores that were supposed to open in this quarter did not happen on account of some pending clearances from the local authorities despite completion and ready to open. We had experienced more than a two-month delay on account of this. We are making efforts to clear these bottlenecks and are hoping to get them cleared within a week's time to 10 days' time.

And then therefore, it shall be open very soon. So, we shall now be vigilant on these compliance issues that we have encountered in these local markets so that there will not be any future delays in terms of the project completion. Simultaneously, in this quarter, we have also made plans to restructure few stores' capacity to prepare ourselves better for the upcoming wedding season, one of which includes changing one of the brands from Kalamandir to Varamahalakshmi Silks in Telangana.

And this will be ready to open within a week's time. Despite the weak demand in the ethnic retail space, our company achieved a revenue of INR274 crores with a gross margin of 41.26 percentage, which shows improvement over the last quarter, one of last year. On the marketing front, we leveraged Salesforce and their tools to help map the customer journey better, tracking their entire purchase history and visit journeys better, thereby creating custom automations to ensure we reach to the customers in a right way.

We started focusing on this as the digital marketing spends are rapidly increasing over the offline marketing spends. Overall, we believe that the wedding date impact in the Q1 combined with the heat wave and elections is a very rare combination that we believe is a one-off case. However, the industry is showing signs of recovery on account of Muhurtham dates in the current quarter being better than the last quarter.

Our ethnic brands still continue to have one of the industry's leading repeat customer purchase rate. Our brand penetration in the newer markets has been effective. Our localized approach is enabling us to adapt to our offerings based on the consumer's culture and the local preferences while still maintaining a national brand identity.

The ability to source from across the country by leveraging our weaver network and our relationships that we have formed over the last two decades and provide all of these under one single roof is one of our distinctive strengths that we still hold and is helping us gain the brand value and also market share in the company, market share in the industry.

So, I would now like to hand over to the operator and be happy to take any questions from the participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bala Murali Krishna from Oman Investments Advisors. Please go ahead.

Bala Murali Krishna: Hi, good evening. So I think Q1 was impacted due to this low weddings and I think Q2 also most of the days so far I think impacted due to this. Our sales are in line with your target.

Bharadwaj Rachamadugu: Could you repeat the question?

Bala Murali Krishna: Yes, we know that Q1 was impacted due to low wedding days, but I think Q2 also has a similar trend as of now. Could you please throw some light on this one? How would be the trend in the Q2? Okay.

Bharadwaj Rachamadugu: So yes, sure. Thanks for the question. So overall, what we have seen is the wedding dates in Q2 has been much better than Q1 and we have already seen footfalls track in the month of July.

We have considerably seen much higher footfall trends in July and in the month of August. So far as of now, we do have wedding dates in this fiscal year. We are sure this quarter is going to be a good quarter, which is going to be a rebound compared to the last quarter that we have.

And in terms of the overall wedding dates, when you compare to last year of Q2 and this year of Q2, I think last year we pretty much had negligent wedding dates, but in this quarter we have about 10 dates. So that is very, very promising. And again, as we speak, so far we have got good footfalls in our stores and we are still yet to wait for the month of August to complete in September, but we are seeing signs of recovery in our stores. So that's still going to be a positive trend and Q2 should be a very good recovery coming from Q1.

Bala Murali Krishna: Yes, that's good to hear. And going forward as we are adding new stores, so any further room for the improvement in the margins?

Bharadwaj Rachamadugu: On the margins front, I think we did make good progress. Despite the fact of these negative trends in the market, our margins still continue to operate in a better fashion. So compared to last quarter to this quarter, our margin increased around 30 bps. And when you compare this quarter one over last year's quarter, I think the margin improved by over almost 98 to 99 bps.

So, we are consistently reworking on the overall product mix as well as trying to make our supplier and weaver arrangement in a much better fashion in terms of the payment. All of that has actually started kicking in and that's the reason we still are able to maintain this amount of gross margin despite the weak trends. So as to your question, I think in the future of our quarters down to come, we should be able to see additional improvement on the gross margin front.

Bala Murali Krishna: That's great. But when you see the historical operating margin, EBITDA margins, so we were in single digit in the year 2018-'19-'20. So now we are at mid-teens. So, what could be the difference in the business from there to now? And is there any foreseeable risk so that we can go back to those single digit margins?

Bharadwaj Rachamadugu: In this particular quarter, we have seen a single digit EBITDA margin on account of SSG growth. And apart from that, there is no other specific reason why we should be able to see an EBITDA margin decline. But however, I think quarter two, we should be able to recover whatever we have lost in quarter one. And you should be able to see a double digit EBITDA growth for sure.

Bala Murali Krishna: And just to follow up on that, so in 2018-'19-'20, we have single digit margins. So as of now, we are having double digit. What is the difference between the business from those years to here now?

Bharadwaj Rachamadugu: I think in 2018-'19, that was a time, I think pre-COVID levels was an early inception of our KLM brand. There could be reasons as such why our EBITDA margins were comparatively low. However, from late 2017 onwards, we have incorporated our new store format, which is KLM Fashion Mall. From that, we started improvising the overall operations. All of these stores in a cluster format enabled us to control our expenses in a much better fashion and improvise our revenues.

And that has been a major reason why we kept on increasing organically. And I think we have to remove one year, I think, during the year of COVID. And the year later was an impactful year considering COVID was there. Apart from that, I think our margins continue to be in a double-digit number. And especially in this quarter, we have seen a single number on account of SSSG growth and that should be able to come up in the second quarter, as in the current quarter.

Bala Murali Krishna: Yes, that's helpful. Lastly, on this store expansion plan, which you have that square feet plan, so I think you were on the track of that plan. And what would be the time period to mature for a new store if you open in this current quarter, suppose? So when we can see that maturity will come as compared to old stores?

Bharadwaj Rachamadugu: So to your first question, I think we have plans to open two to three new stores in this quarter. And remaining other stores, the majority of them will come in the quarter three. That's how we plan to open in this quarter. And talking about our store's maturity, generally, what we tell is, whenever we plan to open a new store, we try to spend a little bit more in terms of the advertisement and marketing, thereby creating visibility. So that is how we kept opening our store for the last 18 years. And we will continue to open it in a similar fashion.

So because we do go ahead and spend an aggressive amount of money in the advertisement and marketing, we start experiencing footfalls right from the first month and first day itself. And this is helping us to start getting footfalls from the first day. So, this actually, overall, for a Varamahalakshmi Silks format, enables us to break even from the capex front in less than about 10 to 11 months. And in terms of with the working capital, we break even less than around 20 months' time. So, this has been the way we have been operate.

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

Ankit Babel: Good evening, Mr. Bharadwaj and Mr. Sarma. Sir, a couple of questions. Now, sir, given the Q1 performance, do you still feel you can achieve a guidance of INR150 crores of net profit for the full year? As you mentioned that the number of wedding seasons are more in the remaining nine months of this year and will offset some of the losses which you recorded in Q1. So will you achieve a INR150 crore net profit guidance?

K.V.L.N. Sarma: We had two aspects here. One is the low performance on account of minus SSGS plus other factors in the first quarter Plus, we also had a headwind in our store opening. In fact, our Madurai and Chennai Purasawalkam stores were ready about 1.5 months, 2 months ago itself. And for whatever reason, the local permissions were delayed. So some bit of turnover etcetera was lost on account of that also.

Now we are continuing implementing openings, - working on another four stores to be opened during the second half as well. So, we are taking care, enough precautions are being taken care so that we comply with these local municipal requirements. And that's why we think that by the end of Q2, we should be able to confirm in a much better fashion on the profitability of the current year.

- Ankit Babel:** Okay. And as you mentioned that the footfalls are very good in the second quarter and things are improving. Did I hear it correctly that you mentioned that you aim to achieve at double-digit EBITDA growth in the second quarter?
- K.V.L.N. Sarma:** While the recovery is perceptibly visible, the projection that was earlier given on which you are seeking a reconfirmation was also taking into account the new stores that should be added on a staggered basis. See, first quarter we should have added about 25,000 square feet, which was ready, but we could not open 17,000 square feet out of that because of the local clearances not being there, we could not get them. And even second quarter also, the three, four stores are underway and we are expecting that there will not be any major issue on that.
- So, we consider that once we open these stores and we see the productivity in these stores, which will be available for the full half year next, then we should be able to make a realistic projections, because for Madurai and Purasawalkam stores, we have already lost about two months time and two months turnover there. So, by the end of quarter two, we should be able to confirm as to what could be the projected levels of operations.
- Ankit Babel:** I am asking about quarter two only. I understand you mentioned that for the full year you will guide for after the Q2 result, but for Q2, so far whatever is the visibility...
- K.V.L.N. Sarma:** Not looking at , I mean, not making a definitive , forward looking statement, we should see that it should be a better quarter compared to last year and compared to the first quarter as well.
- Ankit Babel:** Okay. So, I mean, that's what I'm trying to understand with that. You go back to that.
- K.V.L.N. Sarma:** In this particular thing, once I am able to retrieve to the normal SSGs, even at a flat level SSGs also, the profitability will increase. Only when I have a negative SSGs, obviously, since the full store costs are met, almost all the costs related to the store operations are fixed, there will be a negative EBITDA margins and profitability. So once I am retrieving on my SSGs and I am able to get contribution from new stores, the profitability will revert and be better as we are expecting that.
- Ankit Babel:** So, was the SSG positive in the first half of this quarter, sir?
- K.V.L.N. Sarma:** SSGs were in negative.
- Ankit Babel:** No, no. This current quarter, sir, Q2. Are they positive?
- K.V.L.N. Sarma:** Current quarter, they are recouping, yes. It looks that the negative that has come is only restricted to the first quarter. Second quarter onwards, we seem to be experiencing normal operations or EBITDA margins for that matter.
- Ankit Babel:** So SSG is positive, right?
- K.V.L.N. Sarma:** If I can make that statement, yes. We are not even into half of the quarter, no? But things look much better and we should be doing at least neutralize.

Ankit Babel: Okay. And the second question is, you did mention that there are delays in opening of stores due to some clearances and all those. But for the year as a whole, whatever has been the plan, you feel that you will open that much number of stores and that much...

K.V.L.N. Sarma: Yes, project implementation, we are still hopeful that we should be able to do it. But sequential delay in opening of stores may reduce the additional turnover that we were envisaging from the new stores. Say, for an example, Madurai store.

Madurai store, in our initial expectation was that it will generate from around June 15th to June 16th. There was a delay of two months. So two months turnover was lost out of this store. Similarly, Purasawalkam. So, of course, we are trying to restrict it to these three, four stores and going ahead, we will take care of those local compliances that are required so that the stores opening is not delayed. Thereby, the impact out of this particular reason will be substantially reduced.

Ankit Babel: Okay. And lastly, sir, you did mention that you expect gross margins to improve from here on. So, what are the estimates there? What kind of gross margins improvement do you expect?

K.V.L.N. Sarma: See, already from the last year, in the first quarter, though turnovers are lesser, the margin improvement is there and we are planning to sustain this improvement and obviously when we are opening the stores and premiumization is taking place, there should be further increase. Would it be right if I give a specific number to this at this point of time? Maybe by the second quarter end we will give a better visibility on that.

Ankit Babel: Okay. I'm sorry, just one small question on your debt part. I mean, I saw the interest cost, though it has declined on a Y-o-Y basis, but since you have raised money through IPOs, I mean, the decline has not yet been sharp. So, how is the debt position?

K.V.L.N. Sarma: That includes the IndAS adjustment also. So to tell you the exact figures in that particular aspect, last year the actual interest outflow was around INR38 crores on an annual basis.. Out of the finance cost of Rs.10 crores, the actual outflow on account of interest is only INR5 crores. The other INR5 crores is the IndAS adjustment that we have to take to books..

For the year overall, we are expecting that we should be doing anything where the interest cost should not be more than around INR18 crores, INR18 crores to INR19 crores which would be 50% of the last year. And to tell you the debt levels also, substantial reduction has taken place in working capital debt. It has come down to approximately INR150 crores as of June end. And the term loans are also in the range of about 30 crores, so the total debt is about INR180 crores only now. So, you will see a perceptible reduction in interest cost this year and going ahead.

Ankit Babel: Okay. That's it, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ PMS. Please go ahead.

- Aashish Urganlawar:** Yeah. So, now I think with Q1 we had almost 5 quarters which have been bad for us generally. So, I just wanted a couple of figures as in how much of retail area we would have added in these 5 quarters. Can that figure on an approximate basis be available?
- K.V.L.N. Sarma:** Approximately 50,000 plus another 6,000, so about 57,000.
- Bharadwaj Rachamadugu:** It's a question about last 2 quarters or are you talking about the last 5 quarters?
- Aashish Urganlawar:** So since June of 2023 our performance has on the top line hasn't been great because of several reasons. And so, I just wanted to understand what was the SSG then in these 5 quarters combined maybe and how much of retail store area we would have added just to get a sense of if SSG comes back, how we would basically be performing going ahead. So, that's what my perspective is. So your comments on that would be helpful actually?
- K.V.L.N. Sarma:** Subsequent to, I mean, on the matured stores, subsequent to the 2022, I think we have added last year 50,000 plus this year another 7,000, 57,000. So, the SSGs that are to come back would be on approximately 6,00,000 square feet.
- Aashish Urganlawar:** So, you're saying, sir, what is the current total area you said 6,00,000 square feet now, is it?
- K.V.L.N. Sarma:** Currently, it is 6,54,000 square feet and we take a complete financial year to identify it as a matured store. So, matured stores, as of now as we are speaking for the first quarter are about 5,90,000 square feet on which there was a negative SSGs. Even if they are neutralized, then this 56,000 plus the current whatever expansion that takes place will come as an additional.
- Aashish Urganlawar:** Okay. Secondly, since Q2 is turning out to be better if I look at maybe the first half in totality, Q1 plus Q2, would you say that it would still be better than first half of last year if we put in total because second quarter would be maybe double digit growth? So, roughly we would be posting growth. Is it going that way or is it still combined together, it will be kind of a flattish number on H1, on the EBITDA side?
- K.V.L.N. Sarma:** At this point in time we can commit that it will be almost closer or slightly less or more than last half year. We should get a better traction because the upward movement has started only for the past 30 days, 40 days and there is about another 45 days to go. So, for the present we can commit that it will at least be flat and hope to be better than H1 last year.
- Aashish Urganlawar:** And comparing the H2 calendar of weddings and festivals in this year, is there any mismatch with last year's calendar as in maybe between first half and second half? Because I think weddings were really less in the first half of this year. So, second half is it going to be better than last year in terms of the number of weddings that take place? Is there any sense on this?
- Bharadwaj Rachamadugu:** See, talking about weddings in H2 this year, you have about 46 days of wedding more some days in H2 of this year compared to 42 days. So, it is like four, five days higher. But what is happening is like this time in quarter 3, you can actually anticipate Dussehra coming in like 2 weeks earlier compared to last year Dussehra.

So, things are looking like quarter 2 onwards are better. So, that is what we have seen footfall traction coming in. Just to give you a measurement of how Q1 was, we had seen a 20% decline in footfalls compared to last year of Q1. And we especially being majorly operating in the women's ethnic wear, especially in the wedding segment, one of the major factors why this has happened is because of that.

Even in this quarter, we had about in the month of April, we had about 7 to 8 days of muhurtham days, but what happens is that all these 10 days were in the first 15 days of April. So, technically as per the customer purchase patterns, what happens is that the customers come and shop with us at least 15 days in prior. So, technically, these 10 days business has actually moved up to Q4 of last year, Q4 of 23-24 itself. So, again, this year the reason why, I mean, in this quarter, we are actually having about 8 days or so.

So, definitely, that's going to be much better than last year of Q2. Last year of Q2 was negligible. And in terms of Q3 and Q4, we had 42 days last year and this time, we had about 46 days. More or less, it could be the same, but we anticipate that this year H2 will be much better than last year, H2.

Aashish Urganlawar:

So, any other reasons that, I mean, qualitative reasons apart from the number of days and stuff that why your confidence would be there in H2 being better? Would it be mostly linked to the retail space increase that you've done over the last 12 months? Is it that or something changes in the overall footfalls and stuff that you would be expecting?

Bharadwaj Rachamadugu:

Sure. So, the format we are expecting, the brand that we are expanding right now is Varamahalakshmi Silks brand. And it's like almost 90% of what we sell there is wedding wear only. So, the impact of wedding date will have a direct correlation on our Varamahalakshmi Silks performance. And we are actually opening up deep down south itself and not focusing too much on the non-wedding category.

And that is the reason why we are very positive on Q2, Q3, Q4 being a much positive news. On top of it, the number of wedding dates itself is changing. So, even that is also as tailwinds. So, as I did tell you, the 20% loss in the footfalls as of now, as of today, I think in the last 40 days, we have seen a positive footfalls a very good recovery coming from that side.

So, hoping that this trend continues, we should be able to end up in a good Q2. And Q3, Q4 generally for the company are very good news. So, between H1 and H2 generally H2 contributes to 55% of the overall revenue. So that trend is something that more or less will continue. And this year, because majority of the move terms are falling under H2, we should be able to see slightly better than 55% this year.

Aashish Urganlawar:

Great. And one more, if I can ask. See, the EBITDA margins have been around 15 odd percent for the company, even in Q3, Q4 of last year. So, since there would be accumulated costs of revenue stores and stuff. So, is it possible that since you are saying that maybe H2 would be better in terms of off-takes, the margins would trend maybe towards 18 odd percent kind of a number in H2? Is that a possibility?

- K.V.L.N. Sarma:** Yeah, let us not give a number at this point of time, but definitely it is going to improve because of the better operations, additional stores that are coming in on a premium section during this intervening period. The margin improvement will be definitely better than the existing one.
- Aashish Urganlawar:** Sure. Fine. Thank you so much.
- Moderator:** Thank you. Thank you. The next question is from the line of Himanshu Dugar from SafeGainz Advisors. Please go ahead.
- Himanshu Dugar:** Yeah, hi. Thank you for the opportunity. I just wanted to first go on the other expenses line item. I understand some of this increase that is happening on a quarter of Y-o-Y basis could be related to store expansion as well. But if we look at the current year, because this quarter, there was not much of store expansion. So, if you have to think about FY25 overall, what should be the other expense estimate that we should go with?
- K.V.L.N. Sarma:** So, other expenses would normally be proportional. See, they are almost in the same lines that are there in the current year also. Most of them other than the advertisement and business promotion expenses slightly can be variable. Otherwise, you can take it on a proportionate basis for rent on an annual basis.
- Himanshu Dugar:** Okay. But is there no variable expense in this where which could, you know, like, for example, this quarter was a very, very lean quarter with almost negligible wedding days could have been, you know, you have cut down on some expenses or something because there's a very sharp hit that's coming on your operating income, right?
- K.V.L.N. Sarma:** In a bad time, we need to do more promotions. So, on the business promotion front, etc., we may have to do better. But when things are going, improving, that will even out. And on an annual basis, you can expect only on a proportionate basis. Current year business promotion, current quarter business promotion could be slightly higher. But when we see the weddings coming back and then the footfalls increase, these promotion activities, etc., will come down. So, overall, you can take on a proportionate level only. Almost all of them are fixed, fixed expenses only.
- Himanshu Dugar:** Understood. Coming to your revenue numbers, I think you mentioned about the decline in footfalls percentage. In terms of average order value or say, I think it should be 10% or something minus. But what kind of number that you can see, you know, coming back in this quarter in terms of, say, footfalls or how does it typically go? Because this 20% decline within a very lean season, is that a normal or this was something exceptional which happened this time?
- K.V.L.N. Sarma:** It is an exceptional, I mean, highly exceptional quarter that we went through. So, otherwise, if I say that the minus 20% can even out in the next quarter, a change of 20% in one quarter might look ambitious, but that is a fact. So, it is not as though Q2 was substantial, Q2 was coming back to normalcy.
- And what was the difference was the exception was in the Q1, which we did not, we must not have faced in the near past any time. So, that is an exception and then things are coming back to normal. And once we are on a normal operation, so this will see, if we are able to flat out to a

minus 20 to even zero, that's a big achievement, big achievement in the sense, it's not an effort, it's actually the industry coming back or the regular operations are coming back, that's all.

So, you can take Q1 as an exception on the negative side and things are coming back to normalcy where we we'll be able to achieve better results.

Himanshu Dugar:

Got it. Any number on the AOV, the value of decline or in the SSG decline, something that you could share?

Management:

See, in terms of the ASPs, I think the overall ASP decline was about 9% for the all stores and for the like-to-like stores, it was around 12 and a half percent. That's for the ASP side and bill values, I think, remained pretty much the same thing. So, the negative football is the reason why the overall quantities are safe. In terms of the quantity as well, the overall quantity was down by 4% in the overall from quarter to quarter, this quarter one to last year quarter one.

Himanshu Dugar:

Got it. One last understanding that I would like to get from you on the store expansion part, specifically in Chennai. Like you mentioned the expansion in Pushwakam. So, I stay in Pushwakam in Chennai and the entire area is impacted by the metro construction.

So, I mean, and this was kind of a known aspect, right? I mean, this has been there for a few months and supposedly the road could be, you know, stretched like this for a couple of years as well. So, how are you kind of evaluating, if you could throw some lights on it, how are you evaluating store expansion strategy and specifically in Chennai when there's so much of metro, this is a very big metro line that's going on.

So, how are you, are you trying, you know, tactically shifting some of your, what do you call it, store openings?

Management:

So, technically, we are not planning to change much with respect to, based on the current trend. Now, when you come to talk about specifically about Pushwakam, the last entire week, because of the rain issue, then we could not do much, but this is all temporary.

When we try to look at overall markets, currently, we are scouting around like 38 to 40 different places in the overall South Indian four states. And we have decided upon Chennai as a cluster. We are now currently looking at Pushwakam as one potential area.

We are talking about Velachery. We are talking about life of three other, four other locations in Chennai to help us narrow down. The reason why Pushwakam seems to be a better bet for us is, again, definitely, it will not be like a store in a Pondy Bazaar store, wherein the higher ASP products actually sell.

Pushwakam generally commands a lower to middle, middle price point kind of a value product offering that we have. When we did a survey, we've understood that, you know, Pushwakam is a very good potential. Though metro work is on one side of it, we believe that, you know, the customers who come down and the heavy footfall traffic is generally something that will not have much of an impact.

And in general, Varamahalakshmi sells generally have a goodwill that consumers find our stores and come. Generally, we don't, ideally, not many of our stores actually end up in the high street. We actually go one street behind.

And therefore, the consumers actually know our brand so well, the recall value is so high that people come down and actually shop. But when it comes to wedding shopping, people generally make an effort to find the store and come down to our store, rather than trying to go to any store that they find in the near vicinity.

K.V.L.N. Sarma: When we have chosen the choice of Pushwakam, in fact, the metro works have already begun. And we have chosen a place which is convenient and the parking, traffic, etc., was much better, whereby we may slightly have an advantage over the others who are getting blocked in that. I mean, I can speak about the specific streets, but that may not be appropriate.

But after Pushwakam, now, currently, we are planning to go into Trichy, Pondicherry, and other places. And wherever we are planning in Chennai, we are planning the places where the metro and other works are complete, so that there will not be any impediments on account of traffic or blockage of roads, etc.. Our project team continuously monitors and takes these factors into account while locating the store's premises.

Himanshu Dugar: I think that was clear?

Himanshu Dugar: Just this I wanted to give because I think last year also, some of the months you were impacted in the Lust Church store, which was a flagship earlier. And I felt that at this point of time, looking at Pushwakam, where again, maybe your location might not be having the parking issue, but typically there's a lot of clogging that's happening. I was just curious whether you would explore to delay the opening or, you know, probably time it may be later in the year, in line with the wedding season.

K.V.L.N. Sarma: You , mean, naming may not be appropriate, but if you visit the place, you will see that other major stores are getting this kind of an hindrance. And this might slightly result in an advantage for us also.

Himanshu Dugar: Great, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Prince from PINC Wealth. Please go ahead.

Prince: Yes, sir. My question is, since you said that like this last year's Q1 versus this one, sorry, last year's H1 versus this one, H1 will be at par. So you are saying in terms of sales or in terms of EBITDA level will be at par?

K.V.L.N. Sarma: See, once the SSGs are normal and we are able to get the additional revenue for the new stores, it should always be better because there is an improvement in margin in the first quarter itself. So it should enable a better margin also going ahead. But at this point of time, we shall conclude that at least it will be the same.

Prince: Okay, sir. So if you say that it should be in the same level, so that for that our sales, if I assume that we'll be making an EBITDA margin of somewhere around 16%, which you have been making it around. So we have to do INR500 crores sales in this quarter. So do you think it is achievable based on the current trend and demand you are seeing it?

K.V.L.N. Sarma: Let's not go into that particular figure at this point of time but we shall definitely be doing much better improvement than Q2 of last year and Q1 of this year as well. I don't think I'm permitted to make a specific figure or statement on this.

Prince: Okay. And, sir, my question is that since when we have come with an IPO, so we have been aggressively adding the stores. So, but what is happening is we are seeing that our SSG degrowth is happening.

So I think on the revenue per square feet, we are not, we have been stagnant only. So can we say that that our mature store is actually not contributing? In fact, in terms of SSG, they are in negative and whatever the sales have been coming is from new stores.

So, but if you see on revenue per square basis, we have been the same. So do you think that that's a concern that on the mature stores, basically we are that how we see the improvement in SSG? So that, because otherwise we'll be just opening the stores and the current mature stores it will be contributing in negative in terms of SSG. So how do we counter that strategy?

K.V.L.N. Sarma: See, the stores that are coming in are in a new territory, new area and the stores that were mature stores are also in different areas. So it's not as though in one area a new store is coming and old store is being cannibalized. But we have gone through the reasons for the reduction in SSG, barring external reasons that were there last year and this year.

We have identified certain places. So there is a potential for improvement by converting the format. That is why in the current quarter, one of our big stores in Hyderabad, where the potential is for Varma Lakshmi store, we are converting from Kalamandir to Varma Lakshmi store and other places also.

We are improving the store experience. So definitely from this quarter onwards, we should see the improvement in the existing mature stores also. And perhaps going ahead the negative SSG may not be a concern for the company.

Prince: And just one thing that for revenue per square foot on the mature stores, how much maximum, what will be the peak revenue per square foot on the mature stores or the area, I can say. Let's say we have 6,50,000 square foot and after let's say we have 5,50,000, we have matured. So how much revenue per, what can be the peak revenue per square foot on that? Just a ballpark number, I want to understand it.

K.V.L.N. Sarma: So it varies between formats. In Varma Lakshmi format, as you said even it ranges to be anywhere.

Prince: One of the blended basis also is fine.

K.V.L.N. Sarma: Blended basis, since Varma Lakshmi is on the expansion mode it continuously improves. Earlier it used to be in the range of about 21,000 or so, which this year it will improve to approximately 24,000. And going ahead, by the time we complete the expansion and be operational on all the stores, we should be achieving approximately 28,000 to 28,500 on a blended basis per square foot.

That should be in the year 2026. When we complete this expansion, when the Varma Lakshmi stores will be in the range of 60% to 65% of the total revenue coming from Varma Lakshmi format, we targeted that we should be able to reach to approximately 28,000 to 28,500. This will be by the year 2026.

Prince: Okay. So I can assume that on a blended basis, our revenue per square foot will be 28,000 to 29,000 will be the peak on the matured stores, I can say. Right.

K.V.L.N. Sarma: Yes.

Prince: Okay, sir. And sir, since there's Q3 and Q4, how do we see since we have a lot of wedding dates? And also one more thing is that since now the Andhra Pradesh has been given being funded by the central government as a lot of support. So do we see that we can see a significant store addition in that area, since it will be the whole state will be in the development mode.

Bharadwaj Rachamadugu: So talking about the overall situation of AP, definitely the purchase power is definitely there in the southern belt. So at this point of time, we are not planning to add major stores in the current belts of AP in Telangana. However, we are exploring one or two locations only.

We're looking at areas where we haven't expanded and not even one store is there. Only one store in AP and one location in Telangana is what we're exploring. Otherwise the focus still continues to remain in the Tamil Nadu and one or two locations. We've also almost finalized in northern part of Karnataka as well.

Prince: Okay. And sir, are we looking in Kerala also? Like, is there any plan to go to Kerala also?

Bharadwaj Rachamadugu: We do have definitely do have plans to go down to Kerala. I think Kerala is a very big market. Again, the strategy when we wanted to enter into Kerala should be where we have a cluster number of stores.

Once this expansion is done, slowly, we should be able to start putting up stores in Kerala and a few bits of Maharashtra as well. But at this point of time, I don't want to talk about other areas. Right now, the focus still continues to remain in the south of Tamil Nadu and Karnataka. And only one or two locations we are exploring in the current areas of AP and Telangana.

Prince: And sir, just one last question. How is the demand coming out? Are we going to see that consumer will be buying still down-trading products or do we see that they will be buying premium products also, like which we are into Kala Mandir, Varamahalakshmi? So, do we see that customer going down-trading or since you are expecting that customer will buy this value-added premium products, still there is a pocket to buy?

Bharadwaj Rachamadugu: Definitely, when it comes down to weddings generally people go overboard and spend as much as possible. So, till last quarter the overall ASPs when you look at actually went down because there are no wedding Muhurthams. The moment where the wedding season and wedding calendar and festivity calendar kicks in definitely we see people spending much higher than what's anticipated.

And as you rightly pointed out, Varamahalakshmi's format is rightly meant for wedding customers itself. So, to answer your question, when we see in the current quarter, which is in Q2, we actually see high value items also being sold out. So, the same thing has been replicated even in terms of what our stores have.

The higher value items are also pretty much getting sold, which happens to be a declining category in the last two quarters. So, last two quarters, we have seen a major decline in the 30,000 to 50,000 bracket. So, but in this quarter, we are seeing a positive growth in that particular price point.

That price point generally happens to be pure silk saree segment. And that segment also is thriving at this point of time, which means the wedding as a category is what derives the overall consumer spending power.

Prince: Okay, sir. Thank you, sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Priyam Khimawat from ASK Investment. Please go ahead.

Priyam Khimawat: Sorry, I missed the guidance in terms of network expansion in this year. So, I understand that some of our stores have moved from Q1 to Q2 but on annual basis, do you believe that we'll be able to open 1 lakh square feet as we had guided earlier?

aBharadwaj: Priyam, so yes. See, the guidance of having a 90,000 square feet is what we have promised from the beginning and that's still the case, yes. But what has happened in unforeseen circumstances things have moved down from Q1 to Q2. So, we should be able to see majority of the stores coming in end of Q2, Q3 and a few stores will also overlap to Q4.

So, overall, by this fiscal year end, we still should be able to have a similar guidance of reaching to 90,000 square feet, but it's just delayed by a couple of months. So, we still are targeting to open about 90,000 square feet.

Priyam Khimawat: No, that's fair enough. Okay. And there's a lot of confusion in terms of comments made by you for Q2. So, firstly, I just wanted to understand that H1 FY '25, you are telling that it will be similar to H1 FY '24. So, that basically implies a 12% kind of revenue growth in Q2. Now, coming to EBITDA, if I look at your base quarter, which is Q2 FY '24, you had done around 16.8% kind of margin. So, do you think, considering that we'll be doing double-digit revenue growth in Q2 and flattish SLG, that kind of EBITDA margin should come back in Q2 this year?

K.V.L.N. Sarma: Yes, it should. I have negative SSG. Obviously, with full cost met, the margin will come down. But since we are expecting that at least neutralizing SSG and improving on the out-of-new-stores additional turnover, we should expect that the margin should come back to the last year.

Priyam Khimawat: Okay. So, 12% kind of revenue growth and 17% margin is possible in Q2, provided the next 45 days goes as per our expectations. Correct? We've opened around 7 stores since our IPO, like 6 last year and 1 this year, all in Varamahalakshmi format. Just wanted to get some clarity on how these stores are performing in first 45 days of this quarter.

Because on an annual basis, we always believe that these stores on per-square-foot basis can generate 50,000 kind of revenue. So, are they trending towards that or are they trending lower than our expectations? I'm talking about Q2 because in Q1, I understand that there were lower wedding dates, etc.

K.V.L.N. Sarma: So, overall, when you talk of the average, few stores give below the mark and a few substantially above -, but on average, we are definitely in the range of about 55,000 to 60,000 square feet range.

Bharadwaj Rachamadugu: See, it depends on which store we are opening. When we open the Pondibazar store, it gives much higher throughput, per-square-foot throughput also. Similarly, in other places, I go to Chennai.

Priyam Khimawat: Okay. Just one last question from my end...

Priyam Khimawat: May I?

Bharadwaj Rachamadugu: Yeah, go ahead.

Bharadwaj Rachamadugu: So, in Poonamallee store, which is a small store catering to a local area, the average would be in the range of about 35,000 or so. Overall, getting it to 50,000 to 55,000. That is why, in fact, we were expecting that our Madurai store would also be a premium store, like the Pandipuzha store or Jubilee store, which will definitely improve the average per-square-foot of productivity of this format.

Priyam Khimawat: Got it. So, just one last question from my end. Last year, FY '24, if I'm not wrong, KLM Fashion Mall revenues were around INR500-odd crores. So, this year, how is that format trending in terms of overall revenue? Are we expecting a degrowth on that INR500 crores revenue number, or do you think that possibly we can achieve a flattish revenue? And also, if you could help us understand, what kind of EBITDA margin does that format make?

K.V.L.N. Sarma: KLM, we are expecting that this year, it will be at least a neutral SSE or a little slightly better. Overall, there will not be any degrowth in KLM format for this year. But the improvements, the additional turnovers vis-a-vis better productivities, we are expecting from Varamaha Lakshmi format only.

Priyam Khimawat: Okay, sir. And on the EBITDA margin, EBITDA margin for this format?

Bharadwaj Rachamadugu: EBITDA margins individually for KLM format?

- Priyam Khimawat:** Yes. Just a ballpark number.
- K.V.L.N. Sarma:** It remains the same. It should be. Currently, it will be maintained at historical level, but a team is working on it to improve KLM format's profitability also. Next year, we should be able to see an improvement in the operations, both on the productivities and margins of KLM format, because there is a specific effort that is being made on the KLM format.
- Bharadwaj Rachamadugu:** Priyam, on the KLM front specifically, apart from the normal categories, I think I already did mention last time that they are planning to add a few more white lable and accessories as a category. We have just started launching all of these in our stores right now. Lingerie as a category is doing pretty well.
- We plan to improvise the focus on that segment, along with that, add a few more sections. All of these categories generally have a higher margin compared to the regular apparel section that we currently have. So all of this is currently being executed at the store level. So again, however, this quarter or maybe next quarter, we should not be able to expect a lot.
- But in the next financial year, you should definitely be able to these value-added categories also contributing to the overall gross margin. That will, in fact, drive a little bit higher in terms of the gross margin values and editor levels.
- Priyam Khimawat:** Got it. This is very helpful. Thanks. All the best.
- Moderator:** Thank you. The next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.
- Rohan Patel:** I just wanted a mid-term overview about your growth plan for next 3 to 4 years. What kind of growth do you want to take from 6.5 lakh square feet that we have currently to how much we can do, like 12 lakhs to 13 lakhs in next 3 to 4 years? And from 61 stores, how many stores do you want to add in next 3 to 4 years? Like your target, if you can share.
- :Bharadwaj** Sir, as we speak, currently, the guidance for this year, we planned for 90,000 square feet. And from next year onwards, the idea is to open around 10% to 15% of square feet addition year-on-year. So that's where we currently stand for the guidance for the next 3 years at least. So 15% addition, 10% to 15% addition is what you should be able to expect in terms of the new store. Next, next retail square feet addition is what you should be able to expect.
- Rohan Patel:** Okay. And that is on your square feet. So like, can I get like a range of what kind of stores we would be having in FY '27 from currently with standard 61 stores?
- Bharadwaj Rachamadugu:** We should be able to achieve approximately 100 stores by the year '26.
- Rohan Patel:** By year '26, you may be reaching 100 stores.
- Bharadwaj Rachamadugu:** End of '26, yeah.

- Rohan Patel:** Okay. And just like all the old stores getting matured and also after one year, the 90,000 square feet which we are adding will get mature. So what kind of average revenue per store or per square feet we can achieve at the end of, say, FY '26 or FY '27, as per your understanding?
- K.V.L.N. Sarma:** That is on a blended basis, you can take INR28,000 to INR28,500 per square feet after expansion, say, at the stage of about 100 stores existence.
- Rohan Patel:** And we will be maintaining EBITDA margin of, say, between 17%, 18%?
- K.V.L.N. Sarma:** We should be improving on that because the entire expansion will be going on premium format. So the premiumization will add to the margin profile as well.
- Rohan Patel:** So the margin can be expected going forward to be better than FY '24 level?
- K.V.L.N. Sarma:** Definitely. On a progressive manner, we are planning for the margin improvement year-on-year.
- Bharadwaj Rachamadugu:** Both on the gross margin side as well as on the EBITDA.
- Rohan Patel:** That's all my questions I will be answering. So thanks for the opportunity. This was very good.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Bharadwaj Rachamadugu:** Thank you, everybody, for being patient and following us. We are definitely on the right track moving forward and we'll connect back after Q2. We're anticipating the Q2 should be in a very positive trend and hoping to hear from you all at the next quarter earnings call. Thanks for joining. Happy weekend. Thank you.
- Moderator:** Thank you. On behalf of HDFC Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.