



“Sai Silks (Kalamandir) Limited
Q1 FY '26 Earnings Conference Call”
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(KALAMANDIR) LIMITED
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Moderator:

Ladies and gentlemen, good day, and welcome to Sai Silks Kalamandir Limited Q1 FY '26 Earnings Conference Call. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

On the call we have with us today the management of Sai Silks Kalamandir Limited on the call with us. I now hand the conference over to Mr. Bharadwaj, Senior Vice President of Sai Silks Kalamandir Limited. Thank you, and over to you, sir.

R. Bharadwaj:

On behalf of Sai Silks Kalamandir, I welcome you all to Q1 FY '25, '26 earnings conference call. I have with me Mr. K.V. L.N. Sarma, our Chief Financial Officer. I hope you all have gotten a chance to go through our financials as well as our presentation that have been uploaded both on the stock exchanges as well as on our website.

I'm happy to say that we had a good start to the financial year, which was driven by a strong consumer demand wedding calendar as well as effective festive season that we have positioned and our continued evolution of our off-line store presence.

The overall market overview-wise, the ethnic retail market in Q1, which covered April to June. In this quarter, we have seen a steady pickup in terms of the consumer demand. This was basically driven by the early onset of the wedding season that has contributed to this increased footfall. This was particularly in the bridal and the festive wear categories.

And the overall market sentiment also remained positive with a noticeable uptick in both the premium and the mid-range ethnic apparel. This reflects continued cultural affinity and evolving lifestyle aspirations, especially in the South Indian market. And sarees continue to still be the preferred choice of apparel when it comes to the weddings and occasion wear.

With respect to our financial performance, I think we are happy to achieve a total revenue of about INR379 crores compared to INR267 crores last year, marking a growth of about 42% Y-o-Y. Gross margin stood at 42.07% compared to 41.26% was achieved, which was about last year. Margin expansion also has been possible continuously for the last couple of years on account of better product assortment.

The EBITDA level stood at INR57.13 crores compared to INR19 crores last year with a growth of about 200%. This growth was majorly possible due to the revived customer sentiment and the favourable wedding calendar compared to last year, of not having wedding dates, and operational leverage has also played a major role in this.

Our PAT stood at INR30 crores this year compared to INR2 crores of last year, reflecting a growth of more than 1,300%. With respect to our SSGs, SSGs almost stood about 29%, showing a robust footfall recovery and consumer demand across all our formats.

With respect to our new store additions, we have opened 1 new store with Varamahalakshmi Silks format. With this, our total retail square feet presence stood at 7.27 lakh square feet with 69 stores spread across more than 20 cities.

On the business side, the saree segment continues to be our flagship product and our core strength. All our formats saw increased footfall and traction. As mentioned in the last earnings call, the wedding calendar has been favourable this quarter compared to last year where there were not many wedding dates available.

And therefore, on account of this, all our brands experienced increased footfall and that footfall conversions translated to the revenue numbers that we were able to achieve. And we also continue to maintain a track record of not having to close down any stores since inception, and we are on track to open the remaining stores planned for the year.

From the business update side, we are also excited to launch a new format in the name of Valli Silks. We plan to launch this brand in the lines of Kalamandir platform. This brand will have the product offering majorly in the low-price silks and fancy sarees and targeting majorly towards the women's sarees.

A small and compact format will be our Valli Silks brand. We already tried to put Valli Silks in our stores before. And on account of getting a continued good response from that, we are planning to expand this further into our existing markets.

And with regards to the outlook-wise, I think in the next couple of quarters, the wedding dates are strategically placed, and we don't see any external factors that affect the business that is going to come forward. And Q2 and Q3 are generally the quarters that have major festivals aligned.

And therefore, we are also aligning our marketing campaigns, our stock selection and product positioning properly and getting prepared for the upcoming wedding season. I mean we continue to remain optimistic about the Indian ethnic wear market, which is poised to steady growth given that the cultural continuity, rising disposable incomes and increased occasion-based buying is there. I will be now happy to take any questions.

Moderator: Thank you very much. The first question is from the line of Bala Murali Krishnan from Oman Investment Advisors. Please go ahead.

Bala Murali Krishnan: Congratulations on the good set of numbers. So the first question is regarding the store execution. So this quarter, I think we have opened only one store against the plan of around 10 to 12 stores over the year. So we can be able to match that phase in the coming quarters or there could be any lag there? What is the exact cause of this delay in opening the stores?

R. Bharadwaj: So sir, thank you. I think we are still on track to open the target of about 65,000 retail square feet addition for the whole year. I think in the last call also, I started to make a commentary saying that rather than the count of the stores, we are going towards a square foot of stores. We are still on track.

I think there has been a small delay because of the rains that are here in Andhra and Telangana. But we have about 2 stores that we have in pipeline in the next 15 days. As per our RHP also, we were poised to open about 1.4 lakh square feet of retail square feet for the whole 2 years period, which we have till March '26.

But the way we are looking at, we should be able to complete this entire expansion, which I think currently, we are left out with around close to 30,000 square feet or 28,000 square feet, which we intend to complete by Q3 of this year itself. So we are still on track to open all the stores as we actually planned. So the next coming quarters also, you will be able to hear a few more store updates that will be coming from our end.

Bala Murali Krishnan: Yes. Good. So on the long run, if you see on the long run, these 65,000 square feet this year as we have IPO proceeds, so we are utilizing them for store opening. But going forward, maybe 2 years or 5 years down the line. So are we able to maintain this 60,000 to 65,000 square feet pace even in the long term, like 5 years through our internal accruals or the pace will be slowed down after completion of this IPO proceeds?

R. Bharadwaj: No, sir, I think the plan is to open at least 8% to 10% of retail square feet addition every year. we are targeting not just for this year, but the next years also, we still have plan to open a similar amount of square feet addition. This is going to majorly be possible through our internal accruals.

Our financial stability has been increased in a much positive manner. And I think in a way the working capital utilization has also completely come down, so we are very much geared up to open 65,000 or about 8% to 10% of the retail square feet addition year-on-year is quite possible.

Bala Murali Krishnan: So the KLM brand, so I think we are revering that brand. So how is the performance in this quarter and as compared to previous quarter? So if the SSG don't improve, we'll see negative SSG going forward. So do you have any plans to discontinue that brand? That's all.

R. Bharadwaj: With respect to KLM, I think we have seen footfall increase in KLM compared to last Q, and we have seen SSG growth also. However, our plan of action was on multifaceted plan strategy is what we have for KLM. One is we wanted to change in terms of stock, and we wanted to change in terms of sale of SOR inventory, we reduce the inventory and see if we can work with vendors to have a sale or return kind of inventory model.

We are also working on product assortment in a much better fashion. So all these things are currently on track. As mentioned in my last earnings call also, I think we gave ourselves time till Q2 of this year. So far, Q1 has been favourable. Q1 has been positive. We don't have any negative SSG. SSG has been positive. If the same trend continues, we should be able to complete the year with a positive SSG for KLM as well.

And at this point of time, we are focused more on the revival of KLM in terms of positive SSGs. And KLM as a brand, I just want to reiterate that this brand, when you compared to Varamahalakshmi Silks is on the lower end. But if you take a stand-alone KLM, there's not much problem or we are not making any loss with respect to this brand.

So we don't anticipate to close down our stores of KLM, rather enhance these stores with better assortment, better product offering and get better metrics. And that will be able to fuel our growth probably once all these things set, we should be able to expand our KLM format as well, at this point of time it is a little bit farfetched, probably 1 year or 2 years down the line, once after all the metrics are probably sorted, once we are able to regain our SSG level growth, then we should be able to look at KLM also as a format to expand further.

- Moderator:** The next question is from the line of Raj, an individual investor.
- Raj:** Sir, this year, Q2 is having, I think, no wedding dates as compared to we have some wedding dates in last Q2. So is this affecting our revenue preposition this year? And what has been the SSSG growth for Q1?
- R. Bharadwaj:** SSSG growth for Q1, I think I've already mentioned, it's about 29%. And Q2, as you rightly said, we have wedding dates. And in this year, Q2, along with the wedding dates, you also have the early onset of Dasara that will come in. So all these will be in our Favor for the quarter 2 also.
- So quarter 2, the way we're looking at is we have a healthy pipeline of wedding dates as well as the Dasara early festive season also that will come up. I mean, if rains or such external factors are not a problem, then I think we are on track to have a good performance in Q2 also. So far, at as of July, the traction has been good and all our stores are seeing some better footfall compared to last year of Q2.
- Raj:** And sir, any ballpark figure you can give for this year or for FY '27?
- R. Bharadwaj:** we are not looking at giving any number per se. I think a better way is for us to wait till Q3 to give you a realistic number. We're not planning to give any sales forecast number that we want to give at this point of time any.
- R. Bharadwaj:** The overall growth, you might take around 15% compared to last year should be the top line growth that we are internally targeting.
- Raj:** Okay. And sir, just the tax overhang is ended and can we see a normalized taxation this year and going forward or any tax hangover is there still left?
- KVLN Sarma:** No. Tax hangover part is completely closed in respect of the company. So there will not be any additions or any further requirements of tax provisions of the previous years henceforth.
- Moderator:** The next question is from the line of CA Garvit from Nvest Analytics.
- Garvit:** Congrats for a good set of numbers. My question is you mentioned about the business drivers that help you to achieve this kind of significant growth in Q1. As we entered in Q2, how do you see these drivers shaping up? And where do you think we will be ending based on these drivers at the end of FY '26, sir? That's my first question.
- R. Bharadwaj:** Yes. So, with respect to SSSG, I think one of the major factors that I need to attribute is with the wedding rates. Last year, if you compare, we have negligible to none wedding dates. We had like probably 3 or 4 wedding days, but that also was in the early first 2 weeks of April. But in this year, I mean, what we had is a distributed wedding day calendar, and that was a major reason why we were able to achieve this.
- And fortunately, we have a major contributor, which is sarees in our entire portfolio. And most of our product portfolio is in the occasion and the wedding wear space only. So this is what we are continuously continuing to do.

In terms of the overall pie, our saree contribution is only growing stronger because of Varamahalakshmi Silks format in play. I mean, Q2, Q3, Q4, we see a normal year and not have a different year like last year. In this normal year, I think we are very much well positioned to ensure that this year also is going to be a good year moving forward.

And with respect to other smaller factors in terms of marketing advertisement, I think last year also, we have done a huge amount of marketing in the Tamil Nadu because most of our stores that we have added was in Tamil Nadu.

With respect to marketing also, we are taking a cautious approach this year, so that we should be able to leverage on the extensive marketing that we have done last year, that all that efforts will pave in for this particular quarter as well as the next quarters to come.

At this point of time, there's not much difference in terms of how Q1 is going to pan out to Q2, Q3 and Q4. However, the only thing will be the shift in terms of the festivities. Now, festive calendar, which is Dasara has now moved to Q2. So Q3 will be heavily driven by weddings. I mean, at the end of Q3, probably in December, again, the Sankranti season will kick in.

Garvit:

And from a little long-term perspective, like this year, you mentioned internally, we are targeting a growth of 15%. Let's say, 3 years ahead, what kind of CAGR we are looking for Sai Silk as a company? Because at the time of IPO, I remember we were pretty aggressive in the terms of growth. But now we are speaking about this 15% kind of number.

So despite this expansion we are doing in the terms of offline stores and the different, different brands. So how do you see this overall top line growth shaping up from a little long-term perspective, let's say, next 3 to 5 years?

R. Bharadwaj:

from the time the IPO has happened, unfortunately, the market has not been favourable, and that's where the growth on top line has not been to an effect where we believe, which is like a onetime thing because last year was an exceptional year. Given that this is a normalized year, 15% growth year-on-year should be possible, not just for this year, but the next 3 to 5 years also, this is the kind of growth we should be able to expect.

Garvit:

And the margins that we are doing currently, are these margins sustainable? Because you mentioned we are entering into some low value products. So is it going to affect our margins in any way?

R. Bharadwaj:

When we enter into any new market, be it Tier 1, Tier 2, Tier 3 basis that the contribution, the ASPs will be a little bit different. But in terms of margin, even though we had a tough time last year, we continue to maintain our gross margin levels. So 42% will be a sustainable gross margin.

And with respect to EBITDA levels also, we think that these EBITDA levels are sustainable. There, in fact, there is scope to improve our EBITDA levels that by the end of this year, we should be able to target an additional EBITDA that we have achieved on top of the existing Q1 number. Probably a better time to comment on that will be later half of this year.

But definitely, there is an improvement in terms of EBITDA levels that we are looking at as well as the gross margin level. Both of them are there. The nature is like Varamahalakshmi Silks stores getting added generally will be pulling up the entire gross margin and EBITDA levels at the company level. One of the EBITDA level dragger was KLM, but the newer stores that we're trying to add is non-KLM stores. So things are looking in favour to us.

Garvit:

Got it, sir. And just last question on the product diversification side. So are we open to entering into the jewelry segment going ahead? What are our plans if we are having anything into mind?

R. Bharadwaj:

So with respect to jewelry, probably we will not be doubling down on jewelry segment. We have a brand called Rasamayi, which sells silver jewelry, but that's also like a shop-in-shop format in our existing stores itself. We have demarked some space of service area, and we have given it to the silver jewelry.

But I think at this point of time, it's still a wait and watch. We have completed 1 year of operations, but the silver jewelry segment continues to have a slow paced growth. We don't anticipate at a company level to expand into jewelry segment at this point of time. We are comfortable in what we are doing. We believe that our focused approach in terms of ethnic wear, especially in women's wear is our USP, and we will continue to operate that.

And with respect to expansion also, see, even till today, after reaching probably around 69 stores or like 7.27 lakh square feet, and able to achieve a turnover of last year about INR1,462 crores. Our presence is relatively even more like very small. Just Andhra Pradesh, Telangana, Tamil Nadu, Karnataka is what our presence is. There's still a lot of opportunity for us to expand in these markets and go beyond these markets also. So our immediate focus is to expand in the apparel category or not diversify into any other ancillary categories.

Moderator:

The next question is from the line of Piyush Bangar from Vijit Global Securities Private Limited.

Piyush Bangar:

Congratulations on the good set of numbers. My first question is related to the same-store sales growth. The thing is how long does it take for a typical store of ours to mature?

R. Bharadwaj:

So in terms of store maturity, generally, the way we calculate is the day where we open a store let's say, in the month of August, we leave out this year, which is a store year of opening. And then we calculate next year as a base year. And the further year onwards is when we start calculating the SSG.

So on average, it will take about close to about 13 months to 20 months to have maturity. So this is how we calculate. So generally, all these stores come into mature stores on April 1. So this April 125, whatever stores we have opened in FY '23 got matured and these stores we will track as SSG stores.

Piyush Bangar:

Okay. So my question is what is the same-store sales growth of the stores, which have age of more than 12 to 20 months? And what's the same-store sales growth of the stores, which have age of less than 12 months to 20 months in Q1 FY '26?

KVLN Sarma: The principle of considering for SSG, was explained by Mr. Bharadwaj now. As on date, –out of our total 69 stores, 53 stores have come in to this mature category, in which we achieved approximately 29-plus percent of the SSGs. All other stores are under various stages of maturity levels. And that's, in fact, most of them are in Tamil Nadu only.

In respect of stores existing in Q1 of FY 24, when compared to the Q1 of FY 25, have all shown a positive growth in turnovers.

The other stores have come on various dates, so there will not be a comparable figure for them. Overall, if I have to say Tamil Nadu stores, the new stores that have come in, on an average reached approximately INR29,000 per square feet on an annualized basis, whereas the company's average is around INR45,000 and Tamil Nadu is expected to do more than INR45,000, that is approximately INR50,000.

So during this period, there will be an increased productivity in all these stores on a staggered manner. And then, when the same stores produce better productivities, obviously, the turnover is one part, the profitability also will be slightly better than what it was right now. for an example, even if I were to take a 15% increase in turnover this year for which, in fact, we have already recorded 7.5% increase by the first quarter itself.

So for a 15% turnover, even if we repeat the same turnover, same financials for the balance 3 quarters also, obviously, the PAT would be in the range of about INR130 crores and the increase would be 30% over the last year. So thus, as and when the productivities are increasing in the stores, the profitability percentage also improves beyond the turnover percentage.

Piyush Bangar: Okay. So could you please quantify the same-store sales growth of the stores, which were opened by the 31st March, 2024.

KVLN Sarma: 31st March, 2024, for the Q1 of last year to Q1 of this year, they achieved approximately 4% to 4.5%, yes.

Piyush Bangar: 4% to 4.5%, that's okay. Just a second question. It's a follow-up question to related to the wedding days. How many wedding days are there in Q2 FY '26 compared to the Q2 FY '25? Plus the festive day.

R. Bharadwaj: I think I've already made commentary that Dussehra will be early this year. Apart from that, there is no new addition of any festivity there. Dussehra is one of the bigger festivals that we have for Q2.

And with respect to wedding dates, I think last year, we have close to 18 days. And this year, we have probably around 21, 22 days. So it's just an addition of 3 days extra is what we have in Q3.

Piyush Bangar: Okay. That's great.

Moderator: The next question comes from the line of Shubham Sehgal from SiMPL.

Shubham Sehgal: My first question was on, so like on the income tax provision that we mentioned about last quarter and also the promoter tax issue we had of INR58 crores. So I just wanted to ask like why

did this occur? And if you could just elaborate that are we taking any concrete steps to avoid making such mistake in the future?

KVLN Sarma: Are we speaking about why it has come?

Shubham Sehgal: Yes, why it has come. And also, are we taking any concrete steps to avoid making such errors in the future?

KVLN Sarma: In fact, when the raid has come, it is for a different reason. They have raided on the entire retail industry during that period on a staggered basis. So why is it, is something that we cannot explain.

But having come, there are no major deviations that they have seen in the regular operations and compliances. Certain as I explained in the last call also, certain employee welfare measures where we have expensed out of the staff advances to their salaries, etcetera, have identified and taxed.,

So on the company side, there were no major deviations on the bookkeeping or any specific issues because of which this raid was there. And we are taking enough precautions, so that whatever small things they came out with are not repeated, and we are taking enough care on that.

On the promoter side, promoters have appealed on the issue and then they will take care of those issues and that the company is not at all affected by that. Promoters have enough resources to meet that.

Having said that, I have also inquired the promoter group and they have confirmed that they are not going to raise any money by either selling or pledging of the shares, for meeting that requirement. So overall promoters issue will be within their purview and the company has no major issue earlier, and there will not be any further issues on account of this.

Shubham Sehgal: Okay. So we are taking measures that it does not repeat again, right?

R.Bharadwaj: Yes, you're right.

Shubham Sehgal: Okay. And my second question was that our edge has always been into sarees, and we have been trying to get into multiple products. So I want to ask what is the kind of differentiation that we are offering in the products other than sarees. And what would be the primary reason that we are being into these multiple products? And how do we think that this is a good step and we will be successful in here?

R. Bharadwaj: Overall, I think with respect to the product offering-wise, SSKL's major offering is around wedding and occasion wear spaces, especially for women. And in the areas where we are currently present, which is Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, when it comes to any celebration or any wedding, sarees is the most preferred choice of apparel. And we have seen that speak to us very loudly based on our Q1 performance. Because the wedding date calendar and the occasions was the only difference between last year's Q1 and this year's Q1.

So in terms of product-wise, I think one of our major USP is all our brands cater to different segments of the society. We have better sourcing and supply chain model where we are able to keep our design exclusivity to us and our customers love us for what we try to offer for best of the best value for the most price-conscious and value-based purchasing.

As we might have already iterated before, I think we have our full price sale, which is more than 95%, and we don't believe in end of season sale or any discounting or any bargaining at the counter. So what's happening is what this tells us is the customers will allow us for what we're trying to do. We have a repeat customer purchase rate of more than about 48% to 50% of repeat customer purchase we have.

At this point of time, in terms of product offering and diversification, we will still continue to keep sarees as our major product offering across all our brands, all our formats. However, as the changing dynamics, we are also trying to see and add the kurta, kurti section wherever possible just to try and observe how the demand and trend is. But on the overall side, as we expand deeper with Varamahalakshmi Silks, the saree contribution to the overall product offering is only going to get stronger.

Once we complete our expansion in South India or maybe once we start moving to other geographies in the country, then probably the product diversification will take a major part. At this point of time, it will still be a saree dominant category. And since we are operating in the occasion and wedding wear space, this is one category that is not affected by, let's say, an online presence or may be somebody a new entrant that is coming into the business.

So even though the cost of entry could be easier, what happens is like the effective management of the entire product offering, continuously working on what sells and what doesn't sell, working with our strategic connections with respect to our weavers who are spread across more than 100 cities. we work with about 2,500 to 3,000 vendors at any given point of time. These are all the metrics that puts us away from rest of the competition. There are competition in our existing stores.

Shubham Sehgal: That is general strategy?

R. Bharadwaj: Right.

Shubham Sehgal: I meant products like as you mentioned that we are getting into other products. So is there like any kind of differentiation we are offering there? So I got it on the saree point that we are dominant there and that is going to be a major driver. But we have entered into these different products. So like is there any differentiation you're offering there?

R. Bharadwaj: With respect to other products, I think we are not getting into any new product category addition per se. But if you're talking about the existing non-saree categories, our differentiation is basically to identify what's selling and basically source the respective products and put it. For example, let's assume men's ethnic wear. So in KLM stores, we have men's ethnic wear contribution increase significantly.

And we also see the kids and the women's section also contribution increase significantly. Now regarding our USP, not having branded apparel is our USP in KLM. What we believe in is giving fashion for value. I think if you're looking for a product and you're not worried about brand, that's what our KLM and rest of our brands come into play. So with respect to our USP, we are those guys where you will be able to get what you need by not spending too much.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Congratulations on a good set of numbers. Sir, most of my questions have been answered. One thing which I wanted to understand is your pre-Ind AS numbers and how are they different from the report numbers? And secondly, I saw that...

KVLN Sarma: You may adjust, it is approximately 1.75% out of the EBITDA. So it's about 13.25% EBITDA there.

Sarvesh Gupta: Okay. And on the PAT basis, sir?

KVLN Sarma: It is same, same percentage.

Sarvesh Gupta: As an EBITDA of 13.25%?

KVLN Sarma: Yes.

Sarvesh Gupta: Okay. And secondly, when I saw the results, so Y-o-Y for the same quarter, we saw that other expenses actually declined, which shouldn't have happened because we have done a store expansion also. So what was the reason behind the same, sir?

KVLN Sarma: Other expenses normally include these advertisement business promotion expenses also, which are the major ones in that. Since we have spent substantial amounts on advertisement, et cetera, in the Q3 and Q4 of last year, these have come down, not on a substantial scale, but to the extent that there is an adjustment.

Sarvesh Gupta: Yes. So mainly because the reduction in ad expenses in this quarter?

KVLN Sarma: Yes, yes. That's what I'm saying. Last year, throughout in fact, we have been spending higher on advertisement and business promotion expenses, mainly to create a visibility in the catchment areas in Tamil Nadu. So since we have spent and we are waiting for the results to come over from that expenditure. Q1, these expenses were slightly on the lower side. And hence, it's almost, I think, INR49 to INR48 it's almost in the same level.

Maybe by the Q3 or so when the festivities, et cetera, will come on a larger scale, there might be a little more spend on that. But right now, it is the business promotion and advertisement expenses that are controlled this year.

Sarvesh Gupta: Okay. And finally, sir, on the inventory, so our overall inventory days is on the higher side, which sort of hampers our overall return on capital metrics. So are there any ways to reduce that? Are we seeing any low-hanging fruits around reduction on the inventory days? Or do we have some special projects that sort of...

- KVLN Sarma:** On the inventory side, the optimization is continuing. Just as a ballpark figure, if I have to explain, we have substantially increased our footprint in our square foot area in Varamahalakshmi format, which was earlier demanding inventory levels of approximately INR20,000 per square feet.
- And our effective store area expansion was in the range of about 110,000 square feet, which if you convert them with the base minimum quantities also, it should increase by INR220 crores. But as you can see by the year '25 and at the current levels also, the inventory levels have increased only to the extent of about INR100 crores to INR125 crores. So that is the optimization has already been done.
- And once we expand in total in Tamil Nadu and then the stores start giving their anticipated productivity levels, this should look much better. So going ahead, this is a continuous process for achieving the inventory optimization.
- Earlier, the company general perception in the company was more inventory more productivity which was in practice. Then subsequently, we have put inventory levels as one of the KPIs. And from then on, we are continuously monitoring and then optimizing it, not sacrificing the productivities. So you can expect that this is a continuous process, and we will be reducing it further.
- Sarvesh Gupta:** And where do we plan to reach sir, on this inventory metric from the 180 days that we had?
- KVLN Sarma:** the goal is approximately 130 to 135 days, which we think is the optimum level below which, again, there might be a business detriment. So to that extent, we will achieve once we complete the expansion and once these stores are matured, we should be coming to approximately by FY27
- Sarvesh Gupta:** So by FY '27, can we reach this figure sir...
- KVLN Sarma:** Yes, by FY '27, we should reach to those levels.
- Moderator:** The next question is from the line of Dhwanil Desai from Turtle Capital.
- Dhwanil Desai:** My first question is last year, our H1 was very tepid and Q1 was almost a washout quarter. So 29% SSSG in Q1 on a very low base. But on a more normalized basis, how should we think about SSSG? Can we do or think about 5% to 7% SSSG across formats on a collective basis?
- And as a corollary to that, when we talk about 15% growth, if I go back to your calls earlier, we have talked about 10% to 12% addition on a square foot basis. So that kind of means that we are looking at 5% kind of an SSSG over a longer-term period. So is this overall math, correct?
- R. Bharadwaj:** Yes, you're more or less on the right path. I think our goal is to add 10% of retail square feet addition and SSG-wise, 4% to 5% is what we should be able to get on a normalized year. Last year, since it has been an exception, we have seen this jump. But if you take this full year, that should be the SSG kind of a number that we should be able to achieve.

One thing is, as we keep expanding into our newer stores, the additional stores are basically Varamahalakshmi stores and not the lesser throughput stores. So that also will be the additional improvement when it comes to the revenue target. So though we add probably 8% of square feet addition because these stores are Varamahalakshmi stores, the revenue contribution will be a little bit higher.

Dhwanil Desai: Got it, sir. So typically, sir, what we have seen is, let's say, from a margin perspective, we have also guided last year that we will try to improve gross margin by 150 basis points over a period of time. So -- but with 4%, 5% SSSG, do we see any operating leverage kicking in because generally, our fixed cost below gross margin also would grow at inflation rate of 4%, 5%. So do we see any operating leverage kicking in at that kind of SSSG?

KVLN Sarma: Yes. SSSG of 4% to 5% would be adequate because the store level expenses, which are subject to inflationary trends and increases in our case on optimum productivity levels. The store level expenses are in the range of anywhere between 15% to 20% in respect of the stores giving optimum productivity.

So say 10% to 15% inflation on a percentage of 15% would result into approximately 2% to 2.25% overall. So the SSSG of 4% to 5% will cover the inflationary trend plus leave some additional margin available for the year also.

Dhwanil Desai: Got it, sir. So essentially, we can think in terms of margin, whatever we are doing today plus gross margin expansion that we can do and let's say, 1% or 2% additional leverage margin, right? So 2% to 3% delta is available with us over time. EBITDA margin available as and when we grow at 4% to 5% SSSG and gross margin expand.

KVLN Sarma: Correct, correct.

Dhwanil Desai: Okay. Got it.

Moderator: The next question is from the line of Niharika Karnani Capgrow Capital.

Niharika Karnani: So my question is on the lines of EBITDA margin improvement that we saw in this quarter, around 50 bps compared to last quarter. So apart from VM stores addition, are there any structural or operational changes which have brought about this increase in margin?

And secondly, if we see revenue growth, it was on a low base revenue of quarter 1 FY '25, which was around INR267 crores. So can we see that normalized revenue growth this quarter was in the range of 12% to 15% and not 42%?

KVLN Sarma: Yes. In fact, we should term the last year as an aberration. Last year is a gross aberration on the negative side. So obviously, this year, we should term it as a normal year, which we can expect on a continuous basis. You are right that last year, similar quarters compared to the current year's improvement is 41% or so.

But on a general indication from this quarter onwards, you can expect in the range of anywhere between 15% to 20% because there has been a store addition and also on a substantial part, say,

approximately 1 lakh square feet of the stores are getting matured on a staggered manner. So there will be an additional turnover from these new stores also. So safely, you can expect around or 15% to 20% improvement in turnovers going ahead.

Niharika Karnani: Understood. And my first question was on EBITDA margin. So are there any structural or operational changes, which has led to...

KVLN Sarma: No, no, it's a normal. That's what I said. Last year was an aberration. This year is a normal year. If you go back to the FY '24 also, you will see the EBITDA margins in the range of about 14.5%, 15%. So we just came back to normalcy.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Congratulations for a very good set of numbers. So given we are expanding largely on the Varamahalakshmi format, and you also spoke about SSSG of 4%, 5%, which can lead to improvement in our EBITDA margin, let's say, 2, 3 years down the line, can we expect our EBITDA margins to expand from 15%, 16% that we have currently to almost, let's say, around 18%, 19%. Is that an aspiration that we're looking for?

KVLN Sarma: It should. In fact, if you have seen the Q3 last year also, we seem to have achieved approximately 17.5% of EBITDA margin. And going ahead, that would be the target. We should, on a staggered basis, go on improving. And our target for FY '27 should be in the range of about 20%.

R. Bharadwaj: SSS levels play a key role here. I think on a normalized year, when there's a positive SSG, I think these are the numbers that should be possible for us. So yes, it's an achievable target in the next 2 to 3 years' time.

Ankit Gupta: So FY '27, you're looking at EBITDA margins of around 20%. Is that the right...

R. Bharadwaj: We don't want to put a number currently. but you should be able to see a year-on-year progress. I mean, quarter-on-quarter also, you should be able to see that progress coming in. But on an average, I think from compared to last year because quarter 1 was a negligible quarter, I think we'll have to ignore that. But in this particular quarter, you should be able to see anywhere around 16-plus kind of an EBITDA number.

Ankit Gupta: Sure, sure. And second question was on our strategy for KLM. you highlighted that in this quarter, even KLM has done well with positive SSSG. So although we are not looking to expand this format in the near term, let's say, 2, 3 years down the line, will we look to expand and add new stores in the KLM format, or our focus is not to expand there even in that...

R. Bharadwaj: So currently, in the near to medium term, probably we will not look at expanding to new KLM stores. The whole objective is to refine a little bit more in terms of the overall product availability as well as continue to see 3, 4 quarters of continued SSGC growth.

Once we're able to see that on a full year basis, that's probably when we should be able to look at. But given the fact where we are, short to medium term, we are not looking at expansion of our KLM formats. It is all going to be in the other formats.

Ankit Gupta:

Sure, sir. You also spoke about in your opening speech, you spoke about one more new format that we are planning to launch, which will be in the saree range itself. So can you elaborate on that? What kind of like price range will we be targeting? And what is the rationale behind opening or adding one more format into our existing of 4 formats that we have?

R. Bharadwaj:

Sure. So the format that we are trying to open is, it's called Valli Silks. Earlier, we have tried this format out in a couple of our stores in Andhra Pradesh. We have got phenomenal response. And this particular format is in lines of Kalamandir itself.

In terms of product offering, Kalamandir has more like a family store, but Valli Silks is exclusively going to be women's wear, especially in the low-priced silk as well as low-priced fancy items. This is where the USP for Valli Silks is.

In terms of capex requirements, it will be 20% to 25% cheaper than the rest of the other formats capex. Also, will have a digital-first engagement approach, we are trying to go on a different approach where we only completely spend on digital and not go doubling down on offline marketing.

And majorly, we will be taking an advantage of the compact store formats where we currently have, 3,000 to 4,000 square feet kind of a format is what Valli Silks will have. All of our remaining stores have a little bit bigger formats like 6,000 in case of KLM's probably around 12,000 to 18,000 square feet. These will be compact stores, compact formats only focused on womens wear sarees, lower capex.

And of course, I think in terms of shopping experience and in terms of other metrics, we'll try to do the best. And one more important thing about this particular format is we are trying to go ahead and run this as an offer-driven kind of a format, meaning to say like most of our Kalamandir or saree brands don't have an offer-based selling proposition, but this will be like either we will have every week, there might be some unique offers that we run in place.

So that's more or less going to be the model how Valli Silks format will run. I mean, this is how it was running earlier also. So we are trying to exclusively open a couple of stores and see how it works out. And if it works out, then that will probably open up a a bigger market even in the existing AP, Telangana, Tamil Nadu market, it still has a potential to open up doors for new stores in the current markets also. So that's, that's with Valli Silks.

Moderator:

Thank you. Ladies and gentlemen, in the interest of time, this would be our last question. I would now like to hand the conference over to Mr. Bharadwaj, Senior Vice President for closing comments.

R. Bharadwaj:

Thank you one and all for joining this call. I think SSKL continues to remain focused on the growth, profitability and delivering value to all the stakeholders. Thank you for your trust and support and looking forward to connecting with you all after the next quarter ending conference call. Thank you for joining on a Saturday.

Moderator:

Thank you. On behalf of Sai Silks Kalamandir Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.