



“Sai Silks (Kalamandir) Limited
Q2 FY 2025-'26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Sai Silks Kalamandir Limited Q2 FY 2025-'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 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. Bharadwaj, Senior Vice President from Sai Silks Kalamandir Limited. Thank you, and over to you, sir.

R. Bharadwaj: Thank you. Good morning, everyone. On behalf of Sai Silks Kalamandir Limited, I welcome you all to our Q2 FY '25-'26 and half yearly FY '25-'26 Earnings Conference Call. I'm joined today by Mr. K.V.L.N. Sarma, our Chief Financial Officer.

To start off, I would like to give you an overview of the market. The ethnic retail market witnessed a healthy traction of strong wedding dates pipeline in Q2 FY '26. This particular quarter has benefited from occasion and festive demand, which has contributed to a stronger consumer demand, converting a stronger footfall to our stores.

The consumer sentiment also remained upbeat with notable growth across these categories. Shoppers started making bulk purchases with gifting also becoming a major sales driver. There has been a rise in digital recovery, where consumers and customers...

Moderator: I'm sorry to interrupt you sir, but your line is breaking. So, I'll reconnect you quickly. Ladies and gentlemen, thank you for your patience. We have the line from the management reconnected. Please go ahead, sir.

R. Bharadwaj: Thank you, Boomika. So, I'll quickly start the opening remarks again. Apologies on that. So good morning, everyone. On behalf of SSKL, I welcome you all to Q2 FY '25-'26 and half yearly FY '25-'26 Earnings Conference Call. I'm joined today by Mr. K.V.L.N. Sarma, our Chief Financial Officer.

Let me start off by giving you an overview on the market. In this particular quarter, ethnic retail market witnessed healthy traction. The quarter benefited from a favourable wedding calendar and the early onset of festivities, both of which contributed to a stronger consumer demand. Consumer sentiment also remained upbeat with notable growth coming across wedding wear and occasion wear categories, where SSKL operates the most.

Shoppers also started making bulk purchases with gifting becoming a major sales driver. In this particular quarter, we've also seen increased footfalls across all our stores and formats. There has also been a rise in digital discovery, where consumers are increasingly starting their shopping journey online even if they make the final purchase in stores. Retailers are also doubling down on their unified online/offline presence.

With respect to SSKL's business update, over the last 2 years, we have added close to 1.5 lakh square feet of new retail space as part of our expansion strategy. These stores are currently at varying stages of maturity and steadily ramping up their performance quarter-on-quarter.

The wedding and festive collections especially witnessed strong traction across our four states of South Indian market and therefore, has given increased footfall, reflecting consistent consumer loyalty, sentiment and engagements.

We are also closely listening to our market trends and enhancing our digital presence across multiple social platforms to make our brand more accessible. These initiatives are enabling easier product discovery and fostering stronger and more meaningful engagement with our customers and to have a unified shopping experience of what they see on social media towards what they can actually find it in our stores.

During the first half of the year, we added approximately 33,000 square feet of retail space through six new store openings, and we have no store closures. We further strengthened our retail network by converting a few of our existing stores into our Valli format stores, bringing the total number of Valli format store count to seven stores.

Valli format, as discussed, is designed to cater to the evolving consumer preferences, while staying true and core to our product offering, which is quality sarees at affordable prices. Today, our retail presence spans to 7.5 lakh square feet of retail area with 74 stores spread across 22 cities in four states, which reflects a strong and continued commitment to our regional growth and accessibility.

With respect to our Q2 financial performance, our revenue stood at INR 444 crores compared to INR 347 crores last year, a growth of about 28%. Our EBITDA stood at 16.21% compared to 15.95%, an increase of about 26 basis points compared to last year quarter 2. We achieved a PAT of INR 40 crores this quarter compared to INR 23.75 crores last year of Q2. The same-store sales growth also for this quarter stood at 17.5%.

For the half year FY '25-'26, our revenue stood at INR 823 crores compared to INR 614 crores last year, marking a growth of about 34%. EBITDA for H1 stood at 15.68% compared to 12%, a significant increase of about 368 basis points. Our PAT for H1 stood at INR 70 crores compared to INR 26 crores last year, marking a significant increase of about 430 basis points. Our SSG for the half year stood at 21.5 percentage.

Looking ahead, we remain very optimistic about the second half of the year, supported by the major festive season and the wedding calendar. Quarter 3 and quarter 4 traditionally has a healthy contribution, and we are well prepared with curated festive collections, localized marketing campaigns and inventory planning.

Our focus remains on sustainable growth, balancing expansion with profitability and deepening our engagement through product innovation and digital integration and spanning our presence one city at a time, one state at a time.

We are now happy to take your questions.

Moderator:

The first question comes from the line of Nitin Jain from FairValue Investment Advisors.

Nitin Jain:

Congratulations on a very good quarter. I have a few questions, sir. So most of the stores that the company has added in the first half of this year are of Valli Silks, which is a comparatively lower-

margin format. So how do we see this impacting our margins going forward? And also, how do we plan to utilize the remaining IPO funds that we have? If you can answer it, I have a few more questions.

R. Bharadwaj:

Sure. Valli Silks has a unique product positioning, unique brand positioning, I would say. This format is envisioned to the changing consumer preferences, a lot of our consumers are now finding easier accessible forms to shop, where the digital presence is very stronger. So Valli Silks is envisioned to have a digital-first shopping experience, where they're able to identify the products and see the products online, much before they walk into our stores.

And we do have a Valli store back in 2022, '23. We had one such experimental store, which was actually mentioned in our DRHP as well. This store was in Rajahmundry. So, we have been collecting the data from this particular format ever since and has been yielding a good consumer response.

So, what we have done is like in quarter 1 last year, I think we have also made some commentary that we will be doubling down on our Valli Silks format. And this format, I think we have opened about like four stores this quarter, as you rightly said. And we also have converted three of our existing stores to Valli store format, taking the total store count to seven.

With our experience in this quarter with these seven stores, we have been getting a very good traction with respect to the overall product positioning as well as the consumer acceptance as well. These stores are relatively quicker to expand, 3000 square feet to 3,500 square feet is the average size of Valli store. It's quicker to expand.

We are able to reduce our capex costs by about 20%, 25%. The inventory requirement is also a little bit leaner than the other formats. So, this format has been customized to see a rapid expansion growth.

Now while temporarily, this particular format commands a lesser margin, on a longer perspective, we should be able to bring the margins up. But we are very early in the market and the primary objective for us too is to get the brands penetrated deep to our consumers.

So, until that time happens, maybe a couple of quarters, we should be aware of comparatively lower margin. But on a broader perspective, I think this format can command easy penetration to multiple markets and geographies. So, that's the overall plan for Valli right now.

KVLN Sarma:

I'm Sarma here. And in addition to that, . I wish to clarify that the Varamahalakshmi expansion has not been put on hold. Only during this festival season because this Valli format can be brought to operations within 20, 25 days, we are focused on it.

Already, there are two Varamahalakshmi stores are in capital work in progress and another three are there for implementation during H2. In fact, against the 25 stores that we stated in DRHP for Varamahalakshmi format, 19 are operational and two are on work in progress. And we are trying to complete the balance also.

Varamahalakshmi from the IPO funds will be completed as per the schedule only. In fact, in the RHP, we have also mentioned that we will put up another five Kalamandir stores which are small format stores. Since Valli is on Kalamandir format only, only five stores are being funded from IPO funds. And any additional Valli format stores that we are bringing in, depending on the business requirement at this point of time will be through internal resources.

So, we can say that beyond the five, the Valli formats will be in addition to the expansion envisaged in our IPO objectives. hope I am clear.

Nitin Jain:

Right. That's very helpful, sir. and just a couple more questions. What are your thoughts on asset-light expansion and by that, I mean, what are you thinking about franchising of stores and my last question is on payables. If I compare them to the March '25 numbers, they have increased quite significantly. So, if you could provide some color on this?

KVLN Sarma:

I will explain the payable part first. As you must have seen, because of the festival season, of course, any time even in earlier years also end September, we will be having a lot of stock because of festivals like Dasara, Dipavali and also the wedding season that would be coming in during that period viz., Q3.

It will normally be immediately after that Pitru Paksha i.e., during later part of, August and the early part of September. So, there will be huge purchases of merchandise to meet the requirements of Dasara, Diwali and the marriage season. So, September inventory vis-a-vis September purchases would always be high. And since bills for these purchases have not become due, you are seeing an enhanced level of payables.

So as on 30th September, we have purchased substantial quantities and the bills will be paid by the due dates and consequently the creditors levels would come down. When we come back to the annual closing, the creditors levels will substantially come down or suitably come down since these bills having become due, would be paid. Thus, at that one particular point of time i.e., by end September, there were huge purchases to meet the festival and wedding demand and –the respective bills were not become due at this point of time - hence you are seeing a higher figure of creditors on that point.

R. Bharadwaj:

With respect to the asset-light expansion mode, I think if you're referring to Valli as a format, I think this format is relatively much newer. It's just like in an infant stage. We are focused on at least seeing a couple of quarters before we build an actual business model out of it. At this point of time, we are not looking at any franchisee-based expansion.

Nitin Jain:

Thank you and all the best.

Moderator:

Thank you. The next question comes from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain:

So first of all, sir, at the outset congratulations on a good set of numbers including the P&L as well as the good cash flows. Sir, my questions are with regards to the gross margin. We have maintained our gross margins around 42%. And based on now the increased contribution coming from Varamahalakshmi where we opened stores in the last year in Tamil Nadu?

And those the productivity of those stores must be improving further from about 29,000, which you mentioned in quarter 1 concall. So, do we expect some improvement on the gross margin given the increased contribution from Varamahalakshmi store format going ahead?

KVLN Sarma:

Yes. See, now we are concentrating on the productivity aspect. Second quarter, we realized that the productivity has improved to approximately INR35,000 per square feet on the expanded capacity. So, the objective, as you know, is to achieve a productivity in the range of about INR45,000 to INR50,000. So perhaps in the third quarter or by the end of fourth quarter, we should be reaching the objective of achieving the optimal productivity.

And then when once the client profile is fully established and we are able to achieve the productivity aspects suitable to the format, then we shall slowly improve the margin profile on that. Currently, since the stores are on a maturity process, taking a higher margin at this point of time may affect productivity aspect. So, we are planning to continue with around 42 plus or minus kind of a margin profile for the current year and focus more on the productivity aspect.

Rahul Jain:

Sure. Sir, in the current quarter the other expenses have seen a sharp increase to almost INR61 crores. So, is this related to additional stores or is it related to higher amount of marketing investment given the festive season? How do we look at this number of other expenses of INR61 crores?

KVLN Sarma:

Business promotion expenses have increased by approximately INR6 crores to INR7 crores comprising basically the redeemable vouchers etc.

R. Bharadwaj:

Yes, customer vouchers.

KVLN Sarma:

Customer vouchers, etcetera. And infact, consequently, we have seen an increased output out of KLM. In fact, KLM has done around INR125 crores this quarter against INR100 crores last year. So, KLM is slowly coming back on to the rails. And only the additional thing that has come in other expenses is this encashment of vouchers during this quarter. That is to the extent of around INR7 crores.

Rahul Jain:

Okay. The benefit of which should come in the next two quarters or so.

KVLN Sarma:

Correct.

Rahul Jain:

Sure. Last question, sir, on the sales side. if you take the last four quarter numbers, so the first half itself gives us almost 15% growth for the full year. So, our initial target of 15% growth for the current year, given the first half sales is already done. So, given the good wedding season ahead, can we expect that overall sales target for the current year should be much higher than that 15% target?

KVLN Sarma:

Definitely, it should be more than 15%. But last year, third quarter was a big quarter, the highest quarter for us thus far. So, there may not be an increase to the extent of 20% or so during third quarter and fourth quarter. On a broader perspective, in the last year, in the second half, we did about INR850 crores. We should be doing in the range of about INR925 crores or so, on a total company level, it should come to approximately INR1,750 crores.

And that will end up anywhere between 18% to 20% on an overall growth. And last year second half, we did a net profit of INR80 crores of course, removing that onetime income tax part. Operationally, we did about INR80 crores of net profit last year. So even if we repeat the same thing, then you know the figure.

Rahul Jain: Sure. That's quite helpful. So that means on both profits and top line, you would be much higher than the earlier guided 15% and INR140 crores.

KVLN Sarma: Correct.

Rahul Jain: Sure. Thank you so much sir and all the best. Wish you good times ahead. Thanks.

Moderator: Thank you. The next question comes from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Yes, I have a couple of questions. I'll just list out all my questions first. I just wanted to understand the Varamahalakshmi, what is the steady-state unit economics looking like over there? It's clearly been the growth engine for us for the last couple of years. Just wanted to understand what is our capital efficiency over there. And Valli Silks, which we have started, which is a new format for us.

I just wanted to understand our strategy over there, why the pivot is happening now? What is the differentiation between Kalamandir and Mandir compared to Valli and what kind of unit numbers we are targeting in this format? And even on the debt and working capital side, we had a very tight control this quarter, working capital, you already explained some part of it.

I wanted to understand how we're looking at that given the FY '26 end, how we should be looking at that number? We're almost debt-free now, at least this quarter, which has gone by. And you also gave some color around the second half. I do understand that Q3 last year was a big year, where Dasara and Diwali was clubbed in one quarter.

But how should we look at this quarter, quarter 3, where Dasara has already happened and Diwali has happened just last month? What kind of trajectory we should be looking at in terms of revenues and margin this quarter because last quarter was a bit on high, should we start looking in building in about, let's say, INR550 crores of revenues this quarter.

And on FY '27, if I could just put a highlight over there. if I just plug in the numbers that you have guided in the couple of past quarters, are you confident of hitting that INR 200 crores mark in terms of profit for FY '27? And how reasonable that estimate looks like because the execution momentum is really, really good for the last couple of quarters? And how should we build on to that? Those are my questions.

R. Bharadwaj: Sure. Arpit, I'll try to answer a couple of your questions here. If I probably miss out, you can let me know.

Arpit Shah: Sure.

R. Bharadwaj: See, in terms of the overall Varamahalakshmi, generally for capex requirements for Varamahalakshmi it is around INR5,500 per square feet. Now when you compare that with the Valli

format, we are averaging anywhere around INR3,750 to INR4,000. So, almost 20%, 25% of reduced capital is what requires for a Valli format.

And in terms of the inventory also, Varamahalakshmi is a working capital heavy model, where a larger amount of inventory is required compared to Valli.

Now with this particular format, Valli, at this point of time, since we are probably looking at just one full quarter of operations. And even in this one full quarter, where it is heavily dependent on this festive and wedding calendar filled quarter that has come. So probably if there is one or two more quarters of full operations, probably I can be able to comment you more on the kind of working capital requirements.

But on the capital expenditure side, I think 20%, 25% of reduced capital expenditure and Valli in the inventory format-wise, at this point of time, to give you a guidance, we'll be in the same range as Kalamandir. So, that's the differentiation between a Varamahalakshmi and Valli.

Now to your question of how is it different from Kalamandir, Brand Mandir, Varamahalakshmi, I'll give you a full like four, five brand difference here. So, Valli is that particular format, which is going to be digital first.

Now in terms of product-wise, the kind of products that are there in Valli are heavily focused on power loom categories and entry-level price points of silk sarees. So, majority of our product offering, we don't heavily focus on handloom as a category.

Since this particular format also has ethnic wear contribution, I think 20% of our collections will range above that INR7,000 to INR30,000 price range. Otherwise, majority of our product offering is less than INR4,000. So, that's the kind of price point, product offering and the brand positioning that we have for Valli.

Now when you compare to a Kalamandir store, Kalamandir stores are positioned more like a family store, where there's menswear, kids wear, everything put together. And to a certain extent, it has that heritage of like last 20 years as a family store. So now Valli is that young new dynamic format, which is focused on the today's ways of doing business, which is digital first. That's the vision behind Valli format.

I hope I was clear on the overall Valli brand positioning. And as I mentioned in the earlier also, I think this format is not a very new format that we just started are going aggressively. We have already opened one store back in the past, and we have been collecting some data points. And now we believe that this is the right time for us to expand further into not just Tier 1 stores, but in Tier 2, Tier 3 as well.

Arpit Shah:

So, Varamahalakshmi, you are targeting about INR20,000 inventory per square feet? And the early numbers would be, like, INR12,000, INR15,000 inventory per square feet?

R. Bharadwaj:

So, currently, as I did mention, it's too early for me to give a model. But yes, you can take a comparison of a Kalamandir kind of a metrics with respect to Valli's inventory.

Arpit Shah: Got it.

R. Bharadwaj: But on Varamahalakshmi side, you're right. I think INR20,000 a squarefeet is the kind of inventory requirement for Varamahalakshmi. So, you're right on quarter 3, quarter 4, historically, second half contributes higher than the first half contribution. So, the same is what we should be able to anticipate this year, just that we have a little bit of season change that has happened.

Barring that, I don't anticipate any surprises in terms of wedding dates also, there is a healthy pipeline of wedding dates. So, there should not be any such external factors that stops us.

I mean, especially last couple of days has been a little bad with the rains, especially in the Karnataka and Andhra market. But it's still a manageable problem. It's not huge. I mean, there is a cyclone that's going to come up in the next couple of days heavily affecting Andhra area. So, apart from these factors, overall, from the business standpoint of view, it still stands to be healthy.

And to your last question of what will be our PAT guidance for FY '27. Later this year-end, we can probably giving you a guidance on the overall PAT number. But for the year later, we will still be focused to expand our retail square feet presence by about 8% to 10% of total retail square feet addition.

And obviously, since we will be adding more Valli stores and Varamahalakshmi stores both, the profitability generally should be a little bit higher because of the operational efficiencies kicking in.

And these stores, I would want to mention that the additional stores that are coming, there is a good pipeline number of stores coming in the existing four, five states also. So, the nature it works is that because it comes from the existing warehouse, the operational efficiency should be able to technically kick in.

I don't want to probably comment on the exact INR200 crores kind of a number, but you should be able to see a good number. I mean, a PAT percentage number of about 8.5% to 9% kind of a PAT number overall for the next year.

Arpit Shah: Got it. Thank you. Thank you so much for your answers. Thank you.

R. Bharadwaj: Thank you.

Moderator: Thank you. The next question comes from the line of Shailesh Shinde from Millennium Finance. Please go ahead. Mr. Shailesh, please go ahead. Mr. Shailesh, please unmute your line and go ahead.

Since there is no reply from the line of Mr. Shailesh, I will next promote Param Vora from Trinetra Asset Managers. Please go ahead.

Param Vora: Hello. Thank you for taking my question and congratulations for a great set of numbers. So, what I wanted to ask was regarding the aging inventory in your warehouse or stores. So, do you usually write down the slowing moving SKUs or you keep the price intact?

R. Bharadwaj: So, overall, with respect to aging, we do have an inventory health tracker. historically, we have been operating of about 10% to 12% of the overall inventory, where the age is above 1 year. But the nature

of the business model, as we keep talking about is it doesn't just lose out of opportunity for just one year, right?

Since, majority of our product offering is saree, one size fits all kind of a product. So even after 3 years, 4 years, there is still a very good probability for it being sold. Now the way we do it is through multiple methods like we give a better sales incentive, we rotate the stock between stores and a couple of these business level enhancements we do. And that in itself solves most of the problem, where and the products fly off our shelf when you incentivize the team rightly.

But on a yearly basis, I think what we actually do is like because we need to provide a positioning it for the end of the year, where the inventory crosses more than 3 years or 4 years, we have a formula that is guided by the banks. With that, we adjust it to the gross margin.

But technically, we do not throw away these products and these products are still in our stores and has a good probability to sell. So, the ideology behind this is to go behind every last single product, make any value additions if required and upsell the products across multiple stores and formats.

Param Vora: Okay. And my next question is, you know, regarding the expansion in product portfolio. So, you are already into women ethnic wear. So, do you plan to expand men ethnic wear and kids, ethnic wear?

R. Bharadwaj: So, yes, currently, we are still focused on the womenswear only. Womenswear industry is 5x more than the menswear segment. So at this point of time, we don't want to diversify into that. However, in terms of menswear and kids wear to your question, to a certain extent in KLM contribution of menswear, ethnic wear contribution is decent enough in the KLM story.

But on the overall aspect, if we have to diversify, probably we should be able to start pinning down and focusing more on the women's ready-made category, which is kurtas and kurtis. So that will be the category that where we should be focused more on doubling down. But for menswear and kids wear probably not yet.

Param Vora: Okay. Okay. Thank you.

Moderator: Thank you. The next question comes from the line of Akhil Parekh from B&K Securities. Please go ahead.

Akhil Parekh: Hi. Thanks for the opportunity. My first question is, Sarma sir has guided roughly INR925 crores, INR950 crores of top line for the second half, which implies growth of 8% to 10% for the second half. So, is it the number more on the conservative side or is this based on the footfall that we are seeing in the month of October? That's my first question.

KVLN Sarma: No. It's on a broader assumption of our annual growth in the range of 18% to 20%. We have targeted annual growth into 18% to 20%. It's on that assumption. October anyway is going well. There is no drawback on sales or any other aspect. The broader assumption is, earlier we were thinking of a 15%. 15% is already achieved by the H1. So, on an annual basis, we are targeting anywhere between 18% to 20% on a conservative basis. The figures mentioned are based on that.

- Akhil Parekh:** Okay. Sure. So there basically upward growth derivative guidance based on the firm's demand. Okay. The second question on the operating leverage side, right, as we have grown at 30% and probably for the full year, we'll grow at 20%, 25%, depending on how the 3Q and 4Q pans out. Is there enough scope at 42% of gross margin level to go beyond 16% at EBITDA level?
- KVLN Sarma:** Yes. Already this quarter, we did 16% plus EBITDA margin. And if you remember, last year, Q3, we did about 17.5% EBITDA margin. So as the Varamahalakshmi format composition in the total sales is increasing, this margin will go up anyway.
- On the gross margin level, we deliberately put it at 42% for this year, 42% plus or minus say 0.5 this side, 0.5 that side mainly because the stores are under maturity, particularly those expanded capacity of about 125,000. And these have almost reached about 70% to 75% of its productivity. That is to say, against anticipated optimum of INR 50,000 per sqft, we have reached around INR 36,000 at the second quarter.
- So, the first target we put is that we should reach the productivity levels comparable or expected of Tamil Nadu stores. And then slowly, we will improve our margin profile there from. By that time, the brands will be fully established in the market and then we will have the economies of scale, etcetera, kicking in fully. So next year onwards, we will focus more on improving the gross margin levels.
- Akhil Parekh:** Sure. Sir, in your SSG calculation of the 74 stores, how many stores are one-plus year old? And how many are, say, two-plus year old and three-plus year old?
- KVLN Sarma:** See, as for the purpose of SSG, we leave out the year in which the store was established, plus one year for the maturity. And then the next year would be the base year for comparison. Subsequent year will be the SSG format. So, when we gave you the SSG number this time, it is pertaining to 50 stores, which have qualified into this kind of parameter. So, at this point of time, the SSG mentioned was on 50 stores.
- Akhil Parekh:** Okay. And so, is it fair to assume the remaining 24 stores of the 74 stores would be operating at a lower productivity, as you said and would get say, around INR35,000 and then they will kind of next year probably reach INR50,000 level?
- KVLN Sarma:** not all of them are operating at lower level. In fact, some of the flagship stores like our Pondy Bazaar or other stores, they are doing much more than that. So, it's not as though the rest of the stores are giving productivity sub-optimally, it is on an average for all these stores. When I said INR36,000 -- INR35,000, it is with respect to Tamil Nadu stores, which have gone into expansion subsequent to IPO.
- Akhil Parekh:** Got it. And last question from my side on the KLM Fashion. Mr. Bharadwaj highlighted in his opening remarks or in one of the questions, I guess, he said that it is on an improving trend. If you can give more color on what's happening there. That's all from my side.
- R. Bharadwaj:** With respect to KLM, right, I think we are seeing a second good quarter of improved SSGs in overall KLM, which is supported by both change of product mix. We are trying to focus on bringing new collections and new particular segment. And the focus has shifted a little bit towards getting more

ethnic wear component on the certain categories such as menswear, kids wear and the womenswear side.

So that's still the progress. I think we are also doing certain initiatives, where we want to change the rack system and display system. So, we have been able to get a positive trend so far. However, we would want to wait and see for another couple of quarters before we start rolling this out to other stores as well.

Currently, this has been operational for about like four to five stores. And if this trend continues for another quarter or two, we should be able to start expanding and putting this on into the remaining 13 stores as well. So that's with respect to KLM side of it.

We are also actively working on reducing expenditures with respect to HR personnel costs and other expenditures as well. However, KLM is pointed towards that aspiring class value fashion. So, we still have to do a certain amount of marketing expenditure and business promotion expenditure, and that's what we have seen in quarter two.

Quarter two generally marks that point of time where Dasara, pre-Dasara time is where we try to attract our customers. And again, there will be a small window of opportunity during the Sankranti time for the business promotion expenditure.

But at this point of time, I think, it's growing good and we are happy that we are able to see a positive second quarter, a continued quarter of SSG growth, and we are hoping that this trend will continue for the remaining year as well.

Moderator: The next question comes from the line of Naitik from NV Alpha.

Naitik: Hi, sir. my first question is in our business update earlier this month, you had mentioned that you're going to add 10 more stores, six were Varamahalakshmi and four Valli. So just wanted to confirm these 10 stores we would be adding in the second half itself?

R. Bharadwaj: Yes. for second half, we are poised to open around close to around 30,000 to 35,000 square feet plus or minus, out of which I think there are about five to six Valli format stores and there are about three to four Varamahalakshmi stores.

Naitik: Got it. Got it. Sir, my second question is, you mentioned earlier that three of the stores were converted to the Valli format. So which store formats were actually converted to Valli format.

R. Bharadwaj: So, the reason behind converting this into Valli format, it depends on the market changing dynamics. So, one of them was from Mandir store, we've moved away where we've removed the Mandir store and changed it into Valli store. And we have converted two Kalamandir stores to Valli stores. So that's the count. But the thought process behind conversion is not format-wise, it's basically understanding the market dynamics and taking actions on that particular format.

Naitik: Got it. Got it, sir. Sir, my next question is what sort of revenue do you expect from Valli store once it sort of matures?

- R. Bharadwaj:** I mean, it's really difficult to comment on that because we are looking at a festive under Dussehra-based quarter. And so far, the numbers are looking very healthy right now. But probably we should look at a year full of operations and then I should be probably able to make a business model out of it. And that's the reason why the investor presentation and everything actually covers just a store count and not a business model. Probably we should be able to start making a business model once it at least completes a couple more quarters.
- Naitik:** Right. Right. Sir, my next question is if you could give format-wise number of stores that we have currently? And how will it look one year out, say, in FY '27. So that would give us an understanding of how to look at the numbers?
- R. Bharadwaj:** Sure. I think Valli stands at seven, Kalamandir stands at nine, KLM stands at 19 and the rest are Varamahalakshmi in that...
- KVLN Sarma:** Three Mandir and 36 Varamahalakshmi.
- R. Bharadwaj:** Yes. Three Mandir and 36 Varamahalakshmi. Yes. I mean, fast forward 1, 2 years, I think you should be able to see Varamahalakshmi stores and Valli stores contributing.
- Moderator:** The next question comes from the line of Madhav from SKP.
- Madhav:** So, I wanted to know your thoughts on 2 aspects, one is the rent and the other one is competition. So, like several other players, several other listed retailers, they have been pointing out on rising rents and increased competition. So, what are your thoughts on these 2 points?
- R. Bharadwaj:** In terms of rent, yes, there is an increased rental that is happening overall. But I think in the areas where we are operating, we are still able to maintain a decent amount of rental. But more than the actual rupee rent cost, the real sense is around making sure that the rent-to-revenue ratio is always healthy.
- So compared to other traditional players, which operates almost about 8% to 9% kind of a number, our rent-to-revenue ratio still stands at 4% despite the fact of our expansion into newer geographies. So that's an industry metric that we are able to out beat because of higher productivity levels that are happening at our store.
- Madhav:** And on the like overall competition part, like considering both like organized and unorganized players, like how is the competition? Like there is a surge or like how are you seeing it?
- R. Bharadwaj:** On the competition front, there is a surge in the overall, like in both both organized and unorganized players, there are a few digital-only players and digital-first players who are trying to make some changes. But these are hardly like 2, 3 players, and it's not a big number at this point of time. It's still relatively small.
- We have seen such trends even in the past. We have seen trends where these small-scale players have increasingly come on board. And in that same pace, they have also consolidated as well. So, there are multiple examples like that.

Though these guys – when new competition comes and tries to capture the market and disrupt the market only temporarily. But on a longer-term perspective, this thing balances out because of the brand power and the brand positioning that we have. It's that loyalty and trust, which is helping us sustain year-after-year, irrelevant to the competition that is coming in any location.

Madhav:

And sir, just like one more query on the rent part. So, what I can understand is basically how are the terms decided? Like the increased rent this concern is only on the new stores that are opened or the existing stores also? Because on the existing stores, I'm assuming that the rentals the rate at which the rent will increase, these things are like pre-decided, right, for the next several years or can you like give some light on this?

R. Bharadwaj:

Got it. So, Madhav, so what happens is like our negotiations generally happens between around 9 to 15 years that we sign up. And you are right on the part that the newer stores have a a little bit of an increase in rupee per sq ft. I wouldn't say it's very high increase yet.

It all depends on the kind of market that you're going to, but the old stores remain with our existing negotiated terms, where we increase 15% for every 3 years. And we have had new leases that we have signed. We have renewed our leases, and there has not been any surprises on that front. we are still able to retain the terms that we spoke about from the initial period only.

Madhav:

Got it. Okay. Congratulations on a great set of numbers.

Moderator:

The next question comes from the line of Manan Shah from Moneybee Investment Advisor.

Manan Shah:

Congratulations for good set of numbers. My question was regarding the new store openings that we are planning to do. Are these in newer cities or these will be in the existing cities, where we are already present?

R. Bharadwaj:

It will be a combination of both. So, with respect to the Valli formats, we have an opportunity in the existing store clusters as well. But Varamahalakshmi stores will majorly be in new cities.

Manan Shah:

And do we still -- I mean, are looking to focus in the Southern part of India or we are looking to then expand to the adjoining Western and Eastern and Central regions as well?

R. Bharadwaj:

So currently, as we speak, we do have plans to go beyond these 4 states. But again, it will be a small pilot and will not be a considerable change in our expansion strategy. Our majority of the expansion will still in the next at least 1 year, 1.5 years will still be from the existing 4 geographies only.

See, the way it works is I'll give you an example. See, the kind of stores that we were able to open for Valli in the existing geographies, are kind of stores where you would not have a fancy parking, you would not have like an 80 square feet kind of a street. However, these are smaller and inner roads where there is a very good spending power and very good market availability, but doesn't have the luxury of like amenities. So that's the kind of play that we're going with Valli Silks.

And also, since these are 3,000 square feet, 3,500 square feet, it's very quick to open. And that's the reason why the rental is a little bit marginally higher for Valli, but that's the logic behind our stores

that we are expanding. But Varamahalakshmi stores, you're right on it, they're going beyond the existing cities.

Manan Shah: And these are primarily Tier 2 cities?

R. Bharadwaj: For Varamahalakshmi?

Manan Shah: Yes. For Varamahalakshmi and for Valli, currently, it's centered towards...?

R. Bharadwaj: Valli, it's a mix of both, right? It's mix of both Tier 1, Tier 2 both.

Manan Shah: Okay. And the expansion that we are doing, are we like the first entrant in those markets among the organized competition? And in the existing places, where we are maybe first mover, are you seeing incremental competition coming in? And how is that impacting of those stores?

R. Bharadwaj: See, as I did mention, wherever we are going, probably we are the relatively new player and the kind of brand power we are able to command better products, better margins and that kind of digital-first approach. We are trying to go all in and communicate that we are a quality brand for affordable prices that you can come and shop with us. So far on that side, there has not been much that is impacting the overall story.

But on the other side, in the existing stores that we are having, wherever there is a new competition that is coming up, as I did mention, there could be a temporary impact in terms of footfalls because generally, the consumers want to try out multiple stores before they end up their final purchase decision they make.

But that, again, is a common customer behaviour across this industry. It keeps happening year-over-year. Some year, it's less, some year, it's more. And what we have seen is like when those stores complete like probably 1 year or 1.5 years and all that the new store euphoria will come down and obviously, the product and the positioning and the brand takes a front seat in this.

And on that front, we are not worried. We have seen these cycles happen. If you look back into our commentary, last before year, we have seen an increased amount of competition that came in and that has created some loss in footfalls. But on a larger picture on a branded scale, that's not something that we are worried about.

Manan Shah: Understood. And then on the KLM side, you had an intention of franchising this format maybe in the longer future. So where do you think you are where when you can start opening more KLM stores under the franchisee format?

And also, over here, what would be the mix of our own brands versus private labels? And how are we planning to move that more towards our own brands, thereby having more control over the designing and the product and so on?

R. Bharadwaj: So, with respect to KLM, I think we have to wait a couple more quarters before we build a model around franchising. So, at this point of time, I'm not able to give you a clear idea on how soon we will be able to expand, but it will not happen anytime in the next couple of quarters.

On the product and portfolio side, majority of our product offering is in private labels only. The reason being even in KLM, the bigger contributor of the KLM in the overall revenue still stands to be sarees only.

And though we are trying to focus on in the private labels, we are also figuring out the products, which can command a better margin. We wanted to slowly grow our in-house label called DESI SITARA. I think probably next couple of quarters, we should be able to take actions on that, and that should be a bigger contributor in the overall. And DESI SITARA is a brand that is focused on kurtas and kurtis.

Manan Shah: Okay. And then in terms of private labels, what is the return policy or is it entirely outright purchase? I mean, do you have the option of returning these products if they are slow moving or something or it is generally outright purchase? And how are we looking to move towards a sale or return model over there?

R. Bharadwaj: So, majority of it is outright purchase. We do not have much in the SOR category, sale or return. But however, we are trying to focus and start implementing a little bit under sale or return. quarter also, we have started small. The objective here is we don't want to have dump the stores with too much inventory as well. So, the goal for us at this point of time is to improvise the SOR category, but so far, it's still a negligible component in the overall inventory.

Manan Shah: And overall, on the inventory side, we were looking to gradually reach towards, say, 2.5x inventory turn versus roughly 2x. Do you see that happening over the next year or it will take longer to reach that sort of inventory turn?

KVLN Sarma: We should be able to achieve it by the next financial year because once we reach optimum productivity on these stores and once, we establish the warehouse in Tamil Nadu, then it will enable to fully implement the plan of action. But even now, on a consistent basis, the inventory is coming down. Of course, September is not an indicative figure for that. We are continuously bringing it down, and we should be able to achieve that 140 days kind of a thing by the end of next year.

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

R. Bharadwaj: Thank you. To conclude, Sai Silks Kalamandir continues to still deliver consistent growth, while remaining focused on our long-term strategic priorities. Thank you all to our customers, employees, stakeholders for their continued support and trust. Looking forward to connecting back with you guys in the next quarter earnings call. Thank you so much. Have a good day.

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