

7th June, 2022

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BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring, Rotunda Building, P. J. Towers, Dalal Street, Mumbai – 400 001 SCRIP CODE: 543523	National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 SYMBOL: CAMPUS
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Subject: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Transcript of the Earnings Call held with Investors/Analysts- Revised

Dear Sir,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Revised Transcript of Conference Call held with the Investors/Analysts on 31st May, 2022 and the same is also available on the Company's website i.e. www.campusactivewear.com

This is for your information and records.

Thanking you

For CAMPUS ACTIVEWEAR LIMITED

Archana Maini
Company Secretary & Compliance Officer
Membership No. A16092

Encl: As above

Campus Activewear Limited
Campus Activewear Limited Q4 and FY22 Earnings Conference Call
May 31, 2022

Moderator: Ladies and gentlemen, Good day and welcome to the Campus Activewear Limited, Q4 and FY22 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 * then 0 on your touch tone phone. Before we proceed on this call, let me remind you that the discussion may contain forward looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with other businesses that could cause future results performance or achievements to differ significantly from what is expressed or implied by such forward looking statements. The Campus Activewear management team is represented by Mr. Nikhil Aggarwal, Wholetime Director and CEO, Mr. Raman Chawla, CFO and Mr. Piyush Singh, Chief Strategy Officer. I now hand the conference over to Mr. Nikhil Aggarwal, whole time Director and CEO for his opening remarks. Thank you and over to you sir.

Nikhil Aggarwal: Welcome and thanks everyone for joining our Q4 and FY22 Earnings Call today. In our maiden earnings call post listing, I would like to express my gratitude to our esteemed stakeholders for making Campus Activewear Limited one of the most oversubscribed IPO of the calendar year 2022, during a challenging macro environment. We appreciate and deeply acknowledge your trust in our vision to create India's leading sports and athleisure footwear brand. We would like to take a few minutes to give you a brief overview and business dynamics of the Company. Campus Activewear is India's largest sports and athleisure footwear brand in terms of value and volume, enjoying approximately 17% market share in the Indian branded sports and athleisure footwear industry. Our flagship brand Campus was introduced in 2005 as a lifestyle-oriented sports and athleisure brand that offers a diverse product portfolio for the entire family. The brand offers multiple choices across styles, color palettes, price points and an attractive product value proposition. We are a pan India brand covering over 85% of the total addressable market for sports and athleisure footwear in India. At Campus, we continuously innovate to satiate our end consumers aspiration while being cognizant of the affordability metrics and solving for the accessibility or distribution linked challenges. Our USP lies in the fact that we could bring global designs, trends in color palettes adapted as per local tastes to Indian market in the fastest lead time possible. This has been made possible by virtue of our highly trained research and design setup, our vertically integrated manufacturing ecosystem, and our integrated and highly indigenized supply chain and an omni channel seamless distribution network focused on agility and digitalization. So, now I will move to highlighting us

manufacturing and distribution reach. Campus Activewear owns and operates 5 manufacturing facilities across India installed annual capacity for assembly pegged at 28.8 million pairs as on FY22. The company as of March 2022 has more than 425 distributors directly servicing and fulfilling orders of over 20,000 geographically mapped retailer in more than 650 cities at a Pan Indian level. In addition, our extensive product portfolio has been made available through third party pure play marketplaces, third party managed marketplaces and online to offline B2B platforms such as Flipkart, Amazon, Ajio, Myntra, Fynd, Udaan and among others as well as our own e-commerce websites. During FY22, we have sold more than 5.5 million pairs through online channels. The E-commerce platform sales registered an impressive year-on-year growth of over 160% during FY22. While disseminating information pertaining our Q4 & FY22 business results, I am delighted to share that Campus Activewear has delivered a consolidated revenue of more than INR 352 crores for the quarter, a year-on-year increase of 28% for the quarter, and an INR 1,194 crores for the year, an increase of 68% year-on-year over FY21. Just to highlight, we sold highest ever volume in the history of Campus at 19.3 million pairs while registering the highest ever average selling price for the company at INR 620 rupees per pair in FY22. Balance sheet demonstrates the position of strength with robust return ratios such as ROCE and ROE of 29.7% and 32.9%, respectively. We are sincerely thankful to end consumers, our channel partners and our passionate team, which has helped us in delivering this performance, which earmarked the underlying strength and resilience of the brand. As always, we thank you for your invaluable support and investment. I will now hand over to our Chief Strategy Officer Piyush Singh for his remarks. Thank you.

Piyush Singh:

Thank you Nikhil and greetings to everyone. Adding on to what Nikhil just said FY22 has been an exciting year for all our stakeholders, both from an operational and financial performance standpoint. All our distribution channels, product categories, and graphical cohorts have demonstrated robust growth, both in terms of volume and value, amidst the challenging operating environment marred by frequent supply chain disruptions and inflationary trends. Our sales trends over the years have exhibited favorable traits such as sustained premiumization, reduced discounting, industry leading ASP growth profile and growing volume off take. As a result, we registered the highest quarter and full year performance in the history of Campus Activewear both from revenue and profitability viewpoint. Despite facing COVID-19 related sales and supply chain disruptions, we registered our highest full year revenue, highest EBITDA and highest PAT both in amount and in percentage in FY22. While our trade distribution channels has demonstrated resilience with a year-on-year FY22 growth of 39%. Our D2C is on a robust growth trajectory exhibiting more than 150% year-on-year growth in FY22. In terms of trend lines, our revenue has grown at a CAGR of 26% over last three years. With volume growth at 16% and ASP growth at 9% over the same period. On the supply chain front, we anticipate a challenging inflationary environment in the near medium term, acting proactively on the same since beginning of the calendar year, we started locking in long term forward contracts for critical raw material categories and undertook inventory buildup based on empirical data analysis with an objective to maximize our sales and gross margins in the coming

quarters. Our Q4 FY22 performance is an early reflection of our efforts undertaken by the entire team towards cost optimization, which allows us some latitude in terms of cost control and price escalations. We continue to monitor our input costs with the Hawkeye of our in-house manufacturing setup and for the benefit of our expansive ancillary vendor ecosystem as well. Now as an outcome of such interventions both on the supply side and on the demand side, we are pleased with the consumer sentiment and the demand profile witnessed so far in the current quarter. We are confident of maintaining our trendline growth trajectory and margin profile in the near to medium term. I will now hand over to our CFO Mr. Raman Chawla to take you through more details on the Q4 & FY22 performance.

Raman Chawla:

Thank you so much. Good afternoon, everyone and welcome to Q4 & FY22 earnings call of Campus Activewear Limited. During the quarter under review, the brand Campus demonstrated a lot of resilience. clocked impressive revenue run rate across all our distribution channels, despite an adverse impact of COVID-19 which was witnessed in the month of January and February, early across our trade distribution and ready D2C offline channels. Campus delivered its best fourth quarter both in terms of top line and bottom-line growth. Here is a quick snapshot of financial performance of Campus Activewear Limited. First, I will take you through the consolidated Q4 FY22 results. The revenue from operations increased by 28.1% year-on-year to INR 352 crores during the quarter, while encountering tailwind such as COVID-19 third wave impact witnessed during January and mid February 2022. EBTDA was INR of 78 crores as compared to 65 crores in Q4 FY21. EBITDA margin stood at 22.3% in Q4 FY22. Net profit for the quarter stood at INR 39.6 crores with a PAT margin of 11.2%. In terms of our full year consolidated results, revenue from operations increased by 67.9% year-on-year to INR 1194 crores in FY22 despite the COVID 19 related adverse impact witness from April to May 2021 and then again in January in February 2022. Our full year EBITDA stood at Rs. 244 crores as compared to INR 119 crores in FY21 demonstrating 103.6% year-on-year growth. EBITDA margins stood at 20.4% in FY22 versus 16.8% in FY21. Net profit for FY22 stood at INR 124 crores with a PAT margin of 10.4% as against the PAT of INR 27 crores in FY21, which had a PAT margin of 3.8%. FY22 sales volume registered at 19.3 million pairs as against 13 million pairs in fiscal 21, thereby generating a 48% year-on-year volume growth. Our FY22 aggregate average selling prices (ASPs) stood at INR 620 per pair versus INR 547 per pair in FY21, thereby resulting in at 13.3%. year-on-year ASP growth. Finally, the net debt to EBITDA ratio has improved from 1.1x in FY21 to 0.7x in FY22 and while our return on capital employed has also gone up from 18.5% in FY21 to 29.7% in FY22 and our return on equity has also gone up from 9% in FY21 to 32.9% in FY22. With this, I'll conclude and hand over to the operator for question and answers. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Priyam Khimawat from Ask Investment Managers. Please go ahead.

Priyam Khimawat:

You reported a direct-to-consumer sales of around INR 444 crores for FY22. Can you help me with the breakup of this between online and our EBO channel?

Piyush Singh: So, as we typically look at it as our D2C channels direct to consumer channel in terms of breakup, our D2C online is close to INR 390 crores and our D2C offline is the remaining INR 54 crores for the FY22.

Priyam Khimawat: With regards to margin, we have done an exceptionally great margins in both Q 4 and FY22. How should we look this going forward? Because in FY23, I think there will be some pressure on cost inflation as well. So, going forward in the medium term, what will be your margin guidance?

Piyush Singh: So, great question. While we cannot give you a firm guidance, unfortunately, but what we would like to say is that we have performed remarkably well historically. If you look at our trend, over the last 3, 4, and 5 years or even 10 years, we have grown at a CAGR of 26% and our margin has sustainably grown both the EBITDA and PAT margins have grown one to one and a half percent year-on-year for the last three years continuously since FY19. So, we just like to say that we will be continuing with the momentum that the company has demonstrated.

Raman Chawla: And you must have noticed that we have taken some proactive steps as you have mentioned inflation and all on the other transient aspect. So, as a company, we have taken some proactive steps of locking in key raw material prices longer term forward contracts and some other cost optimization related levers along with sustained price pass through to our end consumers in a regulated manner. With all these interventions both on the supply side and the demand side, we are confident that we will maintain our empirical growth trajectory while maintaining our baseline margins both at vertical growth trajectory while both at EBITDA and PAT levels.

Priyam Khimawat: Okay, Sir during our IPO meet that we'll be focusing on expanding our sneaker range as well as getting into newer geographies for this can you let us know what is our current contribution from this sneakers part of the portfolio and how do we see growth going forward in this?

Nikhil Aggarwal: See on a directional basis, whatever we have communicated during our roadshow meeting, we are on the right track. We have seen great promise coming in from emerging and frontier markets in terms of geographical space, on a ballpark level our core markets are contributing 65% of our revenue, while the remaining is coming from emerging and frontier markets at 35% and we envisage just kind of mix to sustain in the near medium term.

Priyam Khimawat: Okay, Sir my question was more pertaining to our sneaker portfolio which I think was around 7 to 8% of total sales. How do we see this going forward?

Piyush Singh: So, we are currently still we are working on that portfolio, it is a major focus area for the company, like we told you last time. So, while I cannot share concrete numbers, but I can tell you that we have a good lineup of this portfolio for this year plan. So, we are expecting some good numbers from it.

Nikhil Aggarwal: And there is a very thin line of demarcation between sports and athleisure footwear and casual footwear, which we interchangeably call as sneakers. So, overall, this is the only portfolio that we are focused from a larger perspective standpoint, and from a market outlook standpoint. So, we are again very confident of the product profile and the portfolio that we have launched in the market so far and we have seen good customer sentiment and response to our products, which is kind of translated into our quarterly numbers and folio numbers and we expect the same kind of response coming in from our end consumers in the in the forthcoming quarters as well.

Moderator: Thank you. We take the next question from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Sir, my first question was on your net debt. We still have along INR 175 crores of debt and YoY our debt has actually increased despite significant top line and bottom-line growth, while our working capital has significantly been impacted. So, just wanted to understand what is the roadmap to be debt free and what is the sustainable working capital we should model?

Piyush Singh: So, great question Ankit. So, Ankit as you must have noticed, during our opening remarks, we have shared part of our strategy that we are proactively investing into our inventory buildup, because we foresee some inflationary challenges coming our way. More than inflationary, we anticipate supply chain disruptions to continue and that is why we have taken a proactive step of building up the inventory in order to gain some incremental revenue growth. In order to sustain our margin profile, so, whatever increment in working capital, you see almost 20-25% of that is what into working inventory buildup. In addition to that, you will also notice that FY21 was kind of a stressed year from a payable standpoint, in terms of the sales outstanding, because the company was trying to conserve cash in an arduous operating environment. Now, since we have gone back to our regular payable days, which is in line with our FY20 numbers, we have release payments to our vendors in order to ensure that they are in great health so that they can support us during the coming quarters when FY23 key performance is to be adjudged now. Just based on these two factors almost 25% of our incremental working capital has gone into inventory and remaining 70% has gone into the normalization of our payables. Owing to that part of our operating cash flow has gone into and you can do the numbers and we can connect offline on what concrete numbers have gone into our working capital enhancements and part of this has been funded by debt line. While this number is transient in nature in the near medium term, in the in the coming years while we come back to a normalized working capital base, you will see our EBITDA to OCF conversion to come back to a normalized levels of 55 to 65% levels to start with.

Ankit Kedia: Sure, my second question is on the ASP increase, and for the full year we had around putting 13%-14% ASP increase on a run rate basis could we talk of Q 4 FY22 how it has been the ASP growth incrementally are we covered for the raw material or do we need to take more price increases in the first half of the financial year.

Nikhil Aggarwal: So, in terms of ASP increase, for Q 4 FY22 also we have done almost 10% of ASP increase from INR 568 to INR 627 for Q 4 FY22 and similarly going forward, we do not see much of price increase right now because we have already taken two major price increases in the last two years. So, we are in a comfortable spot that way to maintain our margin.

Raman Chawla: Just to add on, we continue to monitor our cost inflation, right on a month-on-month basis and then directionally take a view saying that we need to go and take a price increase or anything like that.

Piyush Singh: Ankit to add on an empirical basis, if you will notice, while FY22 is a great year for us, we have demonstrated more than 13% ASP increase which is a mix of both the change in sales mix and the cost escalations or the price escalations that we have taken. On a slightly longer-term basis, our ASP growth has been in the range of almost 8 to 8.5%. We expect this ballpark ASP increase to continue in the in the near medium term, largely on account of changing product mix and premiumization that we have witnessed in our product portfolio.

Ankit Kedia: Last question, if I may ask, in the D2C sales, what is the percentage of B2B from Udaan and Ajio and incrementally whatever contracts with these guys if they are doing price war and our distributors are getting impacted because of that.

Piyush Singh: Ankit, while we are not sharing the exact numbers, but let me just assure you, the percentage coming in from our B2B sales overall as a vertical is very small compared to our overall online sales, it is in low double digits right now. So far as price war kind of a situation is concerned in terms of predatory pricing, let me assure you that over the last one and a half, two years, we have maintained a Hawkeye view on how the business operations are being conducted, we have the requisite technology infrastructure in place to understand and to figure out who has done price undercutting and territory infringement and basis that we have taken proactive measures across all our partners, be it our distributors, state distributors, or be it our B2B partners. So, far, they have maintained harmonious operations across territories that they have been assigned and this is something that we have witnessed over the last 6 to 12 months, and we do not foresee any kind of disruptions coming up because of this channel. Overall, the trend that we have seen lately is they have taken a backseat in terms of cash burn so far as our segment is concerned, which again should assuage your concern to a large extent.

Nikhil Aggarwal: So, just want to add that, while for us, all the channels are extremely important, especially the legacy channel of distribution where we have worked very hard to create this kind of distribution network, the India's largest distribution network over the last three decades. So, there is no reason why we would let anyone sabotage this in any way. So, we are very clear with the strategy that we will not be growing other channels at the expense of distribution business, right. So, I just want to assure you that.

Piyush Singh: And anyway it is only 10% of our overall D2C online portfolio, so it is very small comparatively.

Moderator: Thank you. We take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: My first question kind of repetitive, which is around margins. So, we have actually very healthy set of margins in FY22 that was also considering the difficult year we had across on raw material part. So, just wanted to understand what is our margin philosophy? Is margin a goal seek number around which we build the business model or business plan for the year or is it an output dependent on growth that we chase for the year.

Piyush Singh: So, Tejas primarily the financials are just an outcome of how we strategize and how we operate our business and execute our strategies. So, the idea here is to continuously offer the best-in-class product portfolio to our consumers. Simultaneously, the endeavor is to continuously optimize the portfolio while not leaving gaps in the pricing spectrum that we operate in. So, that is the overall philosophy that we operate with. Now, with that philosophy, as we premiumize over the years, we see both kinds of margin expansion, we have seen both kind of margin expansion both at the material margin and the gross margin level, on account of changing product mix, and because of premiumization, and between gross margin to EBITDA because of the operating leverage that we have generated, given the kind of franchise we have created over the years. Not just limited to the asset sweating, but also because of rationalization of our fixed costs. So, whatever margin expansion we have witnessed over the last 3-4 years, it is broadly equally divided between the product mix and the premiumization bit and the operating leverage and we believe that this is how we will be continuing in the near medium term from here on.

Nikhil Aggarwal: I would also like to add Tejas, we are also extremely dedicated and committed towards growing the brand equity much stronger. So, we are continuously investing behind the brand in terms of marketing spend, which has gone north of about INR 100 crores over the last two years is what we spent in ATL spends. So, with this kind of marketing spends, and by virtue of building the brand, we are also looking to grow our margins. So, we always endeavor to do that and at the same time operating leverage is now sort of kicking in, as well as we are growing the revenues beyond the fixed expenses base.

Piyush Singh: And just to close the loop on your question, it is neither a goal seek nor our top line chase that we incur, it is actually a balanced approach that we follow with the philosophy that we have just underlined. See the idea is simple. If we execute what we conceptualize in a very dedicated and disciplined manner, both gross margin expansion and operating leverage are bound to kick in and this is something that we have witnessed over the last 3, 4, 5 years.

Tejas Shah: Sir I just partly the question has been answered for me, I will just rephrase the part which still is unanswered from your end. Is that see there are companies which specifically have larger lifestyle retail space, who specifically mentioned that they do not want to operate beyond 22% and not below 20% and any alteration in that been made intervention to protect that range.

So, I just wanted to understand margin philosophies from the perspective that beyond what level you are not comfortable, you believe that you will attract unwanted competition and below which level you will actually make aggressive pricing intervention if need be to protect that kind of profitability that was the main crux of the question.

Piyush Singh:

So, Tejas while we are not giving out explicit guardrails out there, but yes, we also do follow guardrails in terms of margin protection and there are guardrails in place within the system, which ensures that at every single extreme, or every single extreme of the ambit, we take corrective actions more on the proactive side, rather than on the reactive side. So, this is something that our finance department and our CFO monitors in a dedicated fashion leading indicators, such as demand forecasting or volume off-take, in terms of sales velocity, and it is a very detailed and extraneous exercise that we undertake, but we rely more on leading indicators and go by the guardrail principles, while we are not at liberty to share those guardrails over this call, but prima facie that is the mechanism that we follow in order to ensure that we have an optimal mix of both revenue growth and at the same time, a healthy margin profile. So, it is a balanced approach end of the day that we take in order to ensure that we kind of meet both the objectives.

Tejas Shah:

Sure thanks. Second question pertains to on growth side, how should we so I believe we must be over indexing some of the regions and we are under index in some of the regions so in terms of priority of regional growth, how should we think about coming 2-3 years and where you will be putting more focus and where it will be relatively on autopilot for you?

Nikhil Aggarwal:

You mean in terms of regions, right? Yes see, we basically have a very clear strategy. We are very so, in core markets like north and east, and even central to that extent, which contributes about 55% of the overall top line. So, we are almost monopolizing these markets and we will continue to do so. We are very strong in these markets, then when it comes to our frontier and emerging markets, which is basically west and south India, we have a two-pronged approach, we are expanding in both channels quite rapidly be it offline distribution or D2C online. The D2C online has actually helped us enter the territory of, let's say, South India, for example, where the distribution has historically been not that strong. So, it has become a major focus area because of that, and D2C online is complementing our distribution channels now, to enter these new frontier territories. Similarly, West India where we have been very strong and now we have entered in with our own EB outlets as well with our coco stores and franchisee, owned franchisee operative stores, both the models are doing extremely well, along with distribution and D2C online. So, all three channels are present there, so the approach is quite simple that we need to maintain our growth and market share and grow that in the core territories and at the same time, both in frontier and emerging markets. We are taking those markets head on to grow in line with the, let's say, the entire sports shoe market segment share that these markets demand. I hope that answers your question.

Tejas Shah:

Yes, it does. Thanks. That is all from my side and all the best for coming quarters.

Moderator: Thank you. We take the next question from the line of Akshay Thakkar from Fidelity Investments. Please go ahead.

Akshay Thakkar: Two questions from my side. Hi, guys, congratulations on a good set of numbers have a good debut. Two questions, one was going back to the earlier question on working capital. So, understand last year was not steady state again, this year, you might have had compulsions on inventory on how we are paying payables. If you could just help us understand going ahead, what is the kind of working capital levels or the inner cash flow conversion levels that you are going to work with that would be helpful. That is question one. Question two was if you help us in your business of June quarter, last two quarters, obviously, I am guessing you would have had an impact this year should be a normal quarter. So, like just trying to understand how much of delta growth that adds to full year to the extent possible to discuss that and the third was around gross margins not to mistake, but some volatility quarterly last quarter was gross margins are higher this quarter or lower? I mean, is gross margin also cyclical, or, you know, we should take Q4 numbers as a starting base, and then pricing and sourcing interventions kick in so those three questions from my side.

Piyush Singh: Thanks for all the three questions. So, I will take one by one starting with your first question around working capital. So, see, the thing to understand here is what was we have taken this two-pronged approach one around the inventory as a proactive approach, and the other is around payables. Now, I will start with payables first: FY21 for us was slightly stressed in terms of payables, because we were in a cash conservation mode due to COVID-19 uncertainty. So, typically, our payable days in terms of day sales outstanding are in the ballpark of 60 to 65 days outstanding in terms of sales. So, far as payables are concerned last year, they got stretched to almost 88 days. Now as you are aware that we have a very extensive base of ancillary network and we need to ensure that they are in good health in order to support us for future growth and from a margin conservation standpoint also, needless to say, from an agility standpoint also. So, we have kind of normalized that stressed payables from 88 days to almost back to a normal level of 60 days in terms of day sales outstanding on payable. So, now that has led to almost 80% of our operating cash flow consumption because we kind of funded almost INR 90 crores towards normalizing those payables in a way. Now the second thing which was more around inventory, we have done slight buildup on our RM and SFG because we see this inflationary trend coming in. We have not only started locking in long term forward contracts, but we have also started building the requisite inventory for fungible inventory elements such as meshes, raw materials for PU/PVC and some bits of SFG. Now, that has consumed another 20% of our operating cash flow, which was expected in FY22 and that translates to almost INR 30 to 35 crores of incremental inventory buildup at our site. Now, once we normalize all these elements and another, you can say INR 17-18 crores of our working capitals got stuck into our IPO expenses, which is transitional in nature. Now it has been refunded to the company by the selling shareholders.

Piyush Singh: To the selling shareholders, because it was an OFS. It was logged in from our working capital as on 31st March 2022. All that has come back. So, in a steady state scenario, our EBITDA to OCF conversion is expected to be in the ballpark of around 55 to 60% and this is something that we expect once this entire thing normalizes in the next three quarters. So, that is the outlook on the working capital side, now coming to your second question around, or rather, your third question around what is the normalized June quarter while we are not giving any concrete guidance around it, but if we take the empirical evidence into play over the last five years, our first quarter has typically contributed around 17 to 18% in terms of our overall annual top line, and this trend has kind of sustained over the last five years. This is not transient in nature. We expect to our June quarter to perform on similar lines going forward as well because of the seasonality element involved and the seasonality element also plays into your third question around gross margin because typically open footwear has lower gross margins compared to our closed footwear portfolio and first two quarters of financial year are heavy on some meaningful contribution. They are not heavy, but they have some meaningful contribution coming in, in our overall sales mix. So, the best way to look at it is on a year-on-year basis, we should look at the gross margin profile for a quarterly performance rather than doing a preceding quarter analysis, as a base rate.

Raman Chawla: Margin expansion is a key priority. I mean, if we look at from 2019 to now, we have increased steadily from 46%, to almost about touching 50s for this year.

Nikhil Aggarwal: The thing is just to add one last line on the seasonality. But first half empirically has contributed 30 to 40% of our top line and our second half typically contributes the balance of our top line. We have been kind of smoothing the curve over the years, we have changed it from 30:70 to almost 40:60 now, and we expect this to smoothen a little bit going forward as well, but this is what the trendline looks like as of now and hence the impact on the margin profile as well.

Akshay Thakkar: Okay, great. If I look at margin this year, and I adjust for the IPO expenses, clearly not. Should I take that as a base when you say you maintain or increase or should I....

Piyush Singh: Sorry, to interrupt the IPO expenses were not part of P&L it was just a balance to cash flow routing around recovering between shareholder. So, it has no impact on our P&L or our margin profile. Only a cash flow on that.

Akshay Thakkar: You have not recognized P&L you have done it directly through.

Piyush Singh: To the balance sheet directly.

Raman Chawla: Because this is not a company expense, actually, the IPO expenses are to the selling shareholders which was completely over.

Nikhil Aggarwal: It was just an advance given on behalf of selling shareholders and now it has been recovered. Correct.

Moderator: Thank you. We take the next question from the line of Jaspreet Arora from Equentis PMS. Please go ahead.

Jaspreet Arora: My first question was around the slide 30 Right where you have given the price segmentation and the three buckets, the entry, semi premium and premium. So, as for my quick calculation, wanted to check if so, by volume, would it be right that 70% is coming from the entry and the next 30% between the semi and the premium segment?

Raman Chawla: So, Jaspreet while I can give you some directional sense out there, it is not 70:30, but it's more like 35:65.

Jaspreet Arora: Please repeat.

Raman Chawla: 35% coming in from entry segment and remaining 65% comes in from semi premium and premium.

Jaspreet Arora: Okay. So, related to that was our premium segment where we are competing very pricing is about 1,500 to 3,000 and around that segment, when we are pricing in that. So, one is obviously the cost stroke margins that we are trying to get here, because obviously, it's premium product and the second is the price proposition or the value proposition that we are offering to the client and last obviously and the closer we are getting to that to that border, where we caught and the likes of Puma, Adidas, Nike become more attractive, so just wanted some color or thoughts in this bracket, what exactly goes into or whatever you can share into the pricing of this particular bracket.

Piyush Singh: So, Jaspreet what we typically do is we follow cost MRP kind of matrix starting with our economy to a semi premium to our premium portfolio. The differentiating factor around our premium segment so where the value of our volume lies, it lies between INR 1,500 to almost INR 2,200 to 2300. So, that is the belly in this segment. So, far as volume update is concerned now how we have differentiated from other brands is one based on our cost leadership advantage that we have by virtue of our vertically integrated manufacturing setup. We are one of the lowest cost producers for the same kind of product that our competitors have to offer in this market and second during the last three to five years, we have done a lot of ATL spending, a lot of advertisement spent towards creating that aspiration in that target audience. So, if you look at our last two years performance only, we have spent more than INR 100 crores towards brand building alone and this has gone a long way towards creating that aspiration in our target audiences so if you do a like to like product comparison, you'll get your answers as well. What is something that we are offering as a product vis-a-vis what the competition is offering thus the push.

Nikhil Aggarwal: At the same time, you see whatever value proposition that we are giving, like Piyush mentioned, it is significantly higher than any other competition be it domestic or MNC brand. So, generally any of our portfolio prices are at least 4 to 5x cheaper than the similar, let's say comparable MNC brand product. So, that's how we operate and that's the biggest USP for us as a brand and as a product company. Right. So, I hope that answers your question. So, basically from INR 2,000 to 3,000 segment, this is a key focus area for the company going forward as well and the kinds of products that we are giving in that range are being sold by the MNC brands that not less than INR 8,000 to 10,000 bucks.

Jaspreet Arora: Okay and this is the last couple of years history of ex COVID phase, what percentage of sales would be sale versus full price, that you have been able to track.

Piyush Singh: See 60% of our sales even now is coming from trade distribution channel and 40% of our sales comes from the direct-to-consumer channels. So, just to give you some color on the online channel, which contributes roughly 35% of our sales, an aggregate discount on this channel has always stayed below 20% since inception.

Nikhil Aggarwal: Okay. Which is the best in the class, by the way like, you will not find any other footwear brand who is operating in lesser aggregate discounting than this and rest is trade distribution which is a B2B format because the matrix is more relevant on the retail side.

Jaspreet Arora: Got it and just lastly, one of the vectors you mentioned on Slide 25 was product diversification via extensions into live categories just will you talk a bit more here what exactly we are referring.

Nikhil Aggarwal: So, by allied categories, we mean, the range of sneakers for example, like similar to just to give you an illustration, like how Adidas has a Stan Smith range. So, those kinds of shoes is what we call casual shoes, range as well, right. So, that is something that also we are focusing on, but apart from that, in terms of allied categories, we are not looking to diversify anytime soon into let us say apparels or any of such accessories. Given that there is a massive opportunity in the segment that we are currently operating. We are the market leaders here, and we do not want to divert our focus, or take our focus away from the core segment. So, we are very clear with that and until we have a very sizable market share and are comfortable in this position, we would not be looking to expand into any of allied categories.

Moderator: Thank you. We take the next question from the line of Akhil from Centrum. Please go ahead.

Akhil: My first question on the D2C online part I think in the previous question you mentioned that we are using that channel to penetrate into our emerging and frontier markets. Would you be able to bifurcate like how does the B2C sales online sales coming from emerging and frontier markets while how much is coming from the established market?

Piyush Singh:

Yes, I can give a directional transaction around that. As an anecdote, South India, especially 3 South Indian states are frontier markets for us. So, we as a management decided that as a strategy, let's D2C online be the spearheading channel for these markets, because rolling our physical freight distribution network is one time consuming and second you need to identify your demand micro market, your cohort and customer persona before entering any market, so it is time consuming as well. So, it is resource intensive as well. So, as a result, we have successfully penetrated South India market. So, for example, if South India is contributing roughly 10 to 12% of our overall top line 80% plus of that is coming from our D2C online channels. Similarly, west is an emerging market for us. We have followed a similar strategy and then we did a very optimized entry into this market using trade distribution as a network. So, now, while trade distribution contributes the line share almost 30-35% of our emerging market sales is coming from our D2C online network, so directionally see on a company level 60% of our sales come from state distribution, 35% come from D2C online and remaining 5% comes from D2C offline, which is our own stores.

Akhil:

As from brand equity perspective, right, given that in a trade channels, we are more established in North markets. How does that differ when we send those online channels? I am assuming like not just effort required to put trade channel in south and west on a higher side but also the brand equity might be slightly weaker north market so anything if you can highlight, how does it before basically if you send some online channel versus trade channel

Nikhil Aggarwal:

Yes, as mentioned earlier, we have one of the highest, marketing spends amongst all of the peers and sports shoe segment I can tell you that there is nobody even close to this kind of ATL spend that we are doing. Now we are again, the only company who are investing disproportionately higher actually in our digital channels online channels as a marketing spends. I cannot give you a number but it is significantly higher than any other competition. So, that has also significantly helped the company gain market share and create brand equity through the online medium into our frontier markets where traditionally the brand has not been present so using that as an advantage to our strategy, we have been able to now successfully on the back of online channel in these frontier markets, we have been able to start and expand our distribution channel as well distribution deals by appointing, very well managed distributors and retailers. So, that is how we have paid on the strategy. So, we are basically our marketing spend on the online channel is quite high and that is how we are managing the operations.

Piyush Singh:

And just to add to it, see in terms of market size and our revenue contribution, on a on a geographical perspective, we are fairly in the index at par so far as North, Central, East and West India markets are concerned. So, if for example 20% of the overall sports and athleisure market is based out of west, we are at par with that market sizing so far as our own revenue contribution is concerned. The only the markets which are left at frontier markets for us, where we have taken a very differentiated approach, where in D2C online has been used as a

spearheading channel to establish the beachhead unlike trade distribution would follow suit once customer persona and demand micro markets are identified.

Akhil: And the last question is on increased spends you mentioned that we spent around INR 100 crores on brand building for last two years would it be possible to share like as a percentage of sales say average FY18 over 20 how much we spent as a percentage of sales versus FY22.

Piyush Singh: Sure Akhil, so we are spending close to 6 to 6.5% of our overall revenues in our ATL spends for both the channels, basically all the channels put together.

Akhil: And how much that was historically let's say FY18 to 20 if I have to compare exclude FY21 because of pandemic.

Nikhil Aggarwal: Sure, so, pre COVID times, this was generally in the range of 4 to 4.5%. We have increased it by 200 basis points. Basically, because we have closed back a lot of the operating leverage that has come into the company in the last 2 years, we have brought that back into the marketing spend without impacting the margins, right because we have had other levers to sort of grow the margins alongside the operating leverage. So, that is how we have come to this number of 6 to 6.5% while I do not want to give you guidance, but I can tell you that it is as the top line is growing, the revenue base is growing. the absolute quantum of this ATL spend is now material enough for us to sustain any kind of campaign, how intensive it might be.

Piyush Singh: See Akhil our philosophy is very simple. We are trying to accentuate the experience of our end consumers around a Trifecta, aspiration, affordability and accessibility. Over the last decade, we have to a larger extent solve the problem of affordability by offering the best product value proposition and accessibility by rolling out the most expensive distribution network, be it online or offline. Now, we are spending more money towards enhancing or elevating your experience towards aspirational part of the Trifecta and that is why we have up the ante so far as our ATL spend is concerned and taken up by two percentage points from 4.5 to 6.5 percentage points. We believe in the near medium term as Nikhil has rightly mentioned, we will be maintaining this kind of a trajectory in order to elevate the brand experience and the and the overall aspiration and halo around it.

Moderator: Thank you. We take the next question from the line of Zubair. Please go ahead.

Zubair: One of them was on the gross margin case. So, appreciate that it has been somewhat lower than the previous quarter, but the EBITDA was still up. So, if you could just discuss the potential levers that you have got in place to make sure or you know, kind of how you ensure the bottom line profitability, for instance, the other expenses have come down, or the employee benefit expenses has been also moving around a bit. So, could you just discuss the levers that you have in place to make sure that the EBITDA kind of stays where you would want to stay despite the bit of weakness on gross margin.

Nikhil Aggarwal: Sure Zubair, good questions while on year-on-year basis, we have done well compared to FY21 by increasing both the gross margins EBITDA in fact. On a Q 4FY22 basis if we compared to Q 4 FY21. Yes, we have taken a slight dip in the margin in terms of less than 1% in terms of PAT, mainly to the account of two reasons. One is the annualization has kicked in for our employee cost where significant hiring had been done in FY21 and FY22. So, the annualization of that happened in Q4 FY22. The other impact that we have seen, which was largely transient in nature, again, was due to the increase in freight and power and fuel costs, which has led to somewhat temporary blip in the margin. But we did not really have time, in Q4 FY22, to pass on this increased freight cost immediately to the distribution channel and to the channel partners in online. So, going forward, we see it coming back to normalized state as the crude rates have gone back down they're not as high as they were in the beginning of Q 4 FY22. So, given those scenarios, we are quite hopeful and optimistic that we'll continue to maintain our margins going forward and the way historically we have.

Raman Chawla: Just to add to it if you if you really dissect it our material margins for Q 4 FY22, and Q4 FY21 more or less in the same ballpark at 48.4% versus 48.8% last year. The transient blip that Nikhil just talked about shift of another 60 basis point because we had just taken a price increase in December 2021, which was Q3 FY22, and there was a certain in addition to this power and fuel and freight spike, because of the crude price happening in January, there was a reset of GST rate from 5% to 12%, which was announced by the government overnight in January 2022. That has also contributed to a large extent towards this gross margin dip of almost 1% on year-on-year basis for the fourth quarter, but rest assured we have taken enough steps and enough operating leverage has kicks in for us to preserve our EBITDA margins, not from a quarter and quarter perspective, but from a near medium term perspective as well.

Zubair: Yes, so that makes sense and they're very supportive and understanding this, how often can you pass on that cost? So, for instance what is the propensity that the business would possess the ability to pass on? So, could you go from here, having an extra 10% increase before hurting demand?

Nikhil Aggarwal: So, Zubair so we have demonstrated this exact scenario, very successfully over the last two years post COVID, where we have had significant inflationary experiences once in 2021 and then again in 2022 and both times, we have as you can see the trend of the company, we have inspite of passing all of that costs to the end consumer, we have actually grown our margins, or not only have we passed it on, right, so we have shown and we have demonstrated that experience, and yes, so going forward as well, we are very hopeful of maintaining it.

Raman Chawla: See the illustration is very simple, even if there is a once in a lifetime kind of raw material inflation of 15%. Our cost per MRP matrices are such that it is only 1/4 or 1/5 of the overall MRP. Right, that's the kind of sector we operate in and even in that 60% is raw material costs and 40% is our value addition cost. So, if you really look at it any of the 15% inflationary impact would only translate into a sub 5% MRP impact. So, on a medium base of say INR 1,500 that

5% roughly translates to less than INR 100 that is INR 75. So, we have demonstrated time and again enough price elasticity at our medium price point, we have been just 5% escalation that we can successfully pass on to an end consumer and this is something that we have successfully done over the last 2-3 years without causing any demand erosion, or volume of make impact. We are confident that so long as it stays in the same ballpark we should be able to handle this well.

Zubair:

And just one final question from my side would be on the EBO side if you would just share some statistics on what's happening there because I remember I think it was 100 stores and I see that balance sheet and obviously as some increase in the leases and that rental assets so do we want to understand that do we see more of that coming onto your balance sheet or are these a flagship locations that the business has now kind of sorted out and then the rest of them would be taken by the more franchisee side and don't really see more floods uptick on these right leases.

Nikhil Aggarwal:

So, see, as of March 2022, we have basically close it at about 107 odd stores, of which roughly 40 stores are franchisee owned and the balance are basically company operated. Now, going forward so this was largely this mix was largely because first two, three years we have taken our time to demonstrate a very robust COCO model for our franchisee partners, and only lately since last year, which is the very first year of FY 22, we have started opening franchisee stores. So, going forward as well the strategy is very clear that we are not firstly a retail brand, right? We are a consumer brand. So, we do not want to get into that retail play. For us, us EBO act as a very, very good complementary channel for firstly showcasing the entire breadth of range that we have the most expansive range in the country that we operate with. So, we are able to demonstrate that expansive range very successfully through our EBO channels to not only to the end consumers, but also to our retail partners in various cities where we operate. Also through our EBOs, we have been able to very successfully premiumize our range, where it's fairly it's much more easier for us to sell a shoe north of INR 2,500 or 3,000. So, we because of these complementary benefits we have done that the strategy with which we have taken this approach to open EBO outlets and going forward as well, we would be looking to open at least 100 odd stores on a year on this is just a tentative guidance. But majority of them would basically be franchisee owned franchisee operated and very few of them would be company owned. So, we don't see your major capital expense going forward on account of EBO outlet.

Piyush Singh:

So, Zubair the strategy is very simple. We have perfected the model, we have kind of demonstrated the earnings profile that you can get out of Campus owned exclusive brand outlet to our franchisee partners, we have been primarily leading franchisee partners all across the country. And now the idea is so whatever number of stores we open from here on 80% of that would be franchisee owned, and we would only be entering or using a company on company operated stores in the flagship locations. So, going forward, we are going to follow a hybrid strategy more lean towards asset light compared to asset me.

Zubair: Perfect. That was my question. So, incremental store opening at 80% would be franchises. That's very helpful. Thanks very much. I really appreciate your time.

Moderator: Thank you. We take the next question from the line of Sushant Agarwal. Please go ahead.

Sushant Agarwal: Yes, my question would be, like, do you plan to become a D2C player by offering products directly to consumers in the marketplace model and my next question would be, what is the advertising percentage directly towards the marketplace model.

Nikhil Aggarwal: So, Sushant like I said earlier, all channels are extremely important for the growth of the company and we are looking at it from an omni channel perspective, that's the strategy for the Company. The strategy is not to focus purely on D2C online, for example, like you said, and as an omni channel approach, we have given sales in the ratio of 60-40; 60% from distribution 40% from D2C channels. Again, I cannot give you guidance going forward, but I can just see that this, this mix would not drastically change probably, right. So, just to activate some concerns that we will not become an online only brand. If that is your question.

Piyush Singh: See our philosophy is very simple. All three channels that we operate be it trade distribution be it online or be it our own D2C offline channels are complementary to each other. They have complemented each other's growth in a certain way like EBOs have complemented the premiumization of our distribution network. Online has led to the entry of trade distribution into frontier and emerging markets. Similarly, by virtue of a trade distribution our online channel became so successful because people were already aware of the brand and they were kind of aware of the size and fit because they said, touch and feel category. So, all three channels are equally important to us and that's why we are focusing on an omni channel, where the idea is to offer a seamless purchase experience to our customer irrespective of the customer journey, they follow whether they become aware of the brand online or offline, whether they kind of you can say touch up in the brand online or offline or they end up purchasing the brand online or offline. We have presented every single milestone in order to ensure that there are minimum drop offs and we end up owning the bottom end of every single customer. That's the philosophy. It is channel agnostic. We are an omni channel play for the longest time.

Moderator: Thank you. We take the next question from the line of Arpit Shah. Please go ahead.

Arpit Shah: Yeah, few questions to the management. So, I just wanted to understand almost 15-20 years to reach INR 1,000 crore revenue number for Campus, so do you believe next INR 1,000 crore will be lot faster in the next three or four years given that we have a very big push for D2C be it online offline. So, the next INR 1,000 crores comes in the next three years or so.

Nikhil Aggarwal: So, nobody has seen the future. But what I can tell you is that we have grown 27% CAGR over the last 10 years. So, we were sub INR 100 crore company in 2010 and we are close this year,

it's about INR 1,200 crores FY22. So, I think that way we have done very good run rates. We have demonstrated one of the best run rates, in this entire segment globally, I would say one of the best performances. So, certainly I cannot comment on the three year journey. But our endeavor would be to keep on growing, the way we have.

Arpit Shah: Got it. Just wanted to understand, let's say when we move to D2C channel, as our percentage of revenues keep increasing from there, what would be a differential that we will be seeing on the gross margin as well as on the working capital, because if I see from last 2 years that our working capital is reduced significantly, your margin has improved significantly, to 22%. So, for every 1% increase in D2C what will be the differential, that you will see in your gross margin and new working capital.

Piyush Singh: We are not, I mean, we are not at liberty to share the exact segment, margin profile across channels, but directionally so far a D2C channel has led to a better margin profile compared to our conventional channels and that is why as mix have changed, since over the last three, four years, you have seen an incremental improvement in our in our EBITDA margin and in our in our PAT margin profiles. We are also leveraging opportunities in our conventional channels and of late played over the last two to three years, despite COVID. We have managed to kind of sustain and maintain our better margins in those individual channels as well. So, as a composite portfolio, we have shown improvement on a sustained basis over the last three to five years in all kinds of paths and profiles. We expect that going forward, as Nikhil has mentioned, we will kind of not only maintain our growth trendline, but we will also maintain our margin baseline while the endeavor is to better all three aspects from here on.

Arpit Shah: Is there a possibility where you can actually drive much faster growth by increasing our Ad spends. Ad spends currently are 6% and 6.5% and let us say if you take 8 or 9% because our operating margins are already at 22% and by increase the ad spends can you believe that you can be able to improve your competitive edge in the market?

Nikhil Aggarwal: I mean, that that's the reason why we have accentuated our ad spend by 2 percentage points because we believe that creating aspiration is equally important as offering the best product value proposition and the best distribution network. So, everything goes hand in hand and that's why we are now focusing more our ad spend increase.

Piyush Singh: Along with ad spend, as we are increasing the demand uptake, we are also working very aggressively on our supply chain to be able to fulfill all of that demand. So, that's a key priority focus going forward.

Arpit Shah: So, what makes Campus a lot different from other players, and what really keeps the management awake in the night, like, in terms of competitive scenario.

Nikhil Aggarwal: So, in terms of competition, see, there would be at least 100 or 200, I will say, private labels, in a way, I would not even call them brands, that is the nature of the industry and they are basically segmented. These are very small regional covert players. They operate in a very small zone, and Campus is the largest and the only company that is a Pan India brand in sports and athleisure category. So, there is no competition for Campus. There is no single other brand that sort of competes with us. So, honestly, like, there is nothing really that keeps us awake at night from a competition perspective in that sense. We see a very good demand and also the brand equity has only grown much stronger in the last couple of years. So, we really, in terms of competition, we have fairly covered and we compete with ourselves and so.

Piyush Singh: I will just add to what Nikhil just said, while we are fully cognizant of the fact that competition always exists and if there are opportunities, if there are small concretes of higher margins realization opportunities, people will also come in and close that space. But at the same time, our endeavor is to strike a fine balance between our trend forecasting, demand forecasting, our planning function and sweating out or optimizing as vertically integrated manufacturing ecosystem at the same time supplying the right merchandise at the right place at the right time and at the right price to our channel partners and consumers. Keeping that fine balance in place is something that is our endeavors. And so far, as I mean we have been successful in maintaining that and the endeavor is to always strike the fine balance going forward.

Arpit Shah: And Campus as a Company, you will be generating close to INR 125 to 150 crores cashflows. So, what were your typical reinvestments look like? Would it be going into CAPEX, debt repayment will be coming out as cash to shareholders in terms of dividend payouts. What would be the reinvestment plan?

Nikhil Aggarwal: Yes, I mean, hopefully as we can generate, like we told you earlier, 55 to 60% OCF going forward. Large part, I mean, certainly there would be some dividend payouts, we do not need all of that cash to be reinvested into the company. So, that that is quite likely, but we cannot say it for certain right now and to be generated.

Raman Chawla: So, as we have growth opportunities available, we will try to flow it back into growth opportunities and try and optimize the stakeholder returns to that extent. I mean, giving you any guidance around dividend payouts will be premature at this stage, because we have so much to do from here on and everything. Everything sounds very exciting from here on from a strategy standpoint. We are not at liberty to share everything at this point in time, but in the coming quarters, we will be unfolding.

Arpit Shah: Sure. To the Campus, what kind of consumer advantage you would have? Would it like to be let's say a value player or would like to be a design player, where it keeps where is aspiration, but at the same time the value is also lower in terms of the value aspiration by for a customer. So, where it will continue to keep your margin low and the competition stays away what could be the proposition that you would have a customer.

Nikhil Aggarwal: So, you actually nailed it in the question itself, while only one difference is there we are not going to work on low margins. That's very clear, but besides that, certainly we want to provide the extremely high value proposition in all of our products, alongside being in this segment of let's say INR 700 to 3,000 rupees or INR 3,500 where this is let's say 85% of the addressable market that is what we cater to. Right so we certainly want to be. We are the largest and we will continue to be the largest player in this segment, and gain more market share.

Moderator: Thank you. As this was the last question, I now hand the conference over to the management from Campus Activewear Limited for closing comments.

Nikhil Aggarwal: Thank you, Diksha. So, it was an immense pleasure interacting with all of you, thank you so much for taking our time to be on the call and this was our first or first full year results post listing. We are very excited for this journey and extremely grateful for the response we got during the IPO. I just want to say is that we will make sure that we would uphold your confidence in the management and the team and the company down right. So, we are very fortunate to be part of this entire setup. So, thank you so much for being here and looking forward to interacting with you all again. Thank you.

Moderator: Thank you all for joining us. You may now disconnect your lines.