



13 February 2023

The Secretary
Corporate Relationship Dept.
The Bombay Stock Exchange
1st Floor, New Trading Ring
Rotunda Building
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

The Secretary
National Stock Exchange of India
Limited
Exchange Plaza
Bandra Kurla Complex
Mumbai – 400 051

Dear Sir,

Sub: Audio Recording and Transcript of Investor call

We herewith enclosed the transcript of investors call for the financial results for the Quarter ending 31 December 2022.

Audio recording of the investor call is available in the following link:
<https://youtu.be/dmsQ5M2zsVI>

This is for your information and records.

Thanking you,

Yours truly,
For Page Industries Limited

Murugesh C
Company Secretary



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“Page Industries Limited.
Q3 FY '23 Earnings Conference Call.”
February 09, 2023



MANAGEMENT: MR. V.S. GANESH – MANAGING DIRECTOR – PAGE INDUSTRIES LIMITED
MR. K. CHANDRASEKAR – CHIEF FINANCIAL OFFICER – PAGE INDUSTRIES LIMITED
MR. GAGAN SEHGAL – CHIEF OPERATING OFFICER - PAGE INDUSTRIES LIMITED
MR. RAHUL SHUKLA – PRESIDENT AND CHIEF RETAIL OFFICER – PAGE INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '23 Earnings Conference Call of Page Industries Limited. 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 like to hand the conference over to Mr. V.S. Ganesh, Managing Director of Page Industries Limited, for his opening remarks. Thank you and over to you, sir.

Mr. V.S. Ganesh: Thank you, Vikram, and good evening, everyone. It's always a pleasure to talk to all of you and thank you all for joining us on the call this evening. As you are aware, while we have reported a modest growth in revenue this quarter, we have continued our 9-month momentum. We typically have a long-term view of the growth scenario given the consumption, industry, and economic drivers.

Therefore, our focus remains on intensifying general trade distribution, modern trade expansion including rapid expansion of exclusive brand outlets, growing our online business, improving our customers' experience, strengthening the product portfolio, and ensuring a robust supply chain. Let me take you through some quick highlights before our CFO, Mr. Chandrasekar, details the financial performance for the quarter and for the 9 months.

Our Q3 revenue has grown by 3% year-on-year but has shown a degrowth of minus 3% quarter-on-quarter whereas volume has degrown 11% year-on-year and 7% quarter-on-quarter. Our margins have degrown this quarter mainly because of the higher material cost resulting from the utilization of raw material, which was purchased at a higher price in previous quarters.

As you know, we built strategic stock during those disruptive months and those stocks are what we were utilizing. There was also a lower absorption of labor and factory overheads. The lower than expected sale did not allow us to optimally utilize our production capacities.

We also reinstated normal advertising spend as we are very confident about the long-term view of the growth and therefore, we are not holding back on that spend. A good share of that, however, was invested during Q3.

As of December-end, we are present in 1,18,838 MBOs, 1,228 EBOs and 2,967 LFS. Our channel expansion continues to be in line with our plans. The market is not as buoyant as we expected and this is mainly what has impacted the overall performance. Moreover, with our inventory getting back to normal and having a good healthy inventory, we actually have reintroduced and rolled out ARS process across all product verticals to optimize inventory.

While this is having a short-term impact on primary sales, we are confident that this will enable us to have a more robust and efficient distribution system over the long term. It is very important to note, while primary sales declined in Q3, secondary sales volumes were not affected to the same extent.

During the pandemic due to volatility created by changes in product demand mix and shortages in supply chain, we were compelled to pause the ARS and distributors were free to order based on availability and based on the best judgment.

This resulted in an imbalance in channel partners' inventory. This quarter we decided that it is better if we reinstate and implement ARS in full. This will help us to correct these imbalances as explained earlier. This not only streamlines the supply chain, but will also help in improving the ROI of the channel partners while improving order fulfillment to retailers. We look forward to your questions after our CFO gives you further insights on our Q3 financial performance.

I would also like to inform you that today we have Mr. Gagan Sehgal, our COO; and Mr. Rahul Shukla, President, and Chief Retail Officer; who has joined us in this call and who will be more than happy to answer any questions that you may have in their domain.

Let me thank you once again for joining the call today. And I would like to pass this on to Mr. Chandrasekar, our CFO, to give you further highlights.

K. Chandrasekar:

Thank you, Mr. Ganesh. Good evening, friends. And I hope all of you are well and thanks for participating this evening on Page Industries earnings call. I will detail the financial performance starting with Q3. The revenues are, as now some of you would have read, that it is INR 12,233 million compared with year-on-year INR 11,898 million, a growth of 3% on revenues, and quarter-on-quarter it is degrowth of minus 3%.

EBITDA reported is INR 1,928 million compared with year-on-year INR 2,507 million. This is a degrowth of 23% and also quarter-on-quarter there is a degrowth of minus 19%. EBITDA margins are 15.8% compared with 21.1% year-on-year and 19% quarter-on-quarter. However, the 9 months opex are in line with the historical trend of 23% of revenues. Q3 PAT, profit after tax, INR 1,237 million compares with INR 1,746 million year-on-year and this is a degrowth of minus 29% and quarter-on-quarter there is a degrowth of minus 24%.

The PAT margin we delivered are 10.1% compared with 14.7% year-on-year and 12.9% quarter-on-quarter. The gross margins are about 2% less due to the absorption and part of the material cost as explained and these compares -- the 37.5% for the quarter compares with 39.4% year-on-year. The 9-month volumes have shown a 23% growth from 141 million to 172 million.

The 9 months revenues have shown 38% growth from 27,754 million to INR 38,195 million. The 9-month EBITDA similarly has grown by 41% from INR 5,184 million to INR 7,284 million. The EBITDA margins of 19.1% for this quarter compares favorably with 18.7% year-on-year. 9 months PAT has shown a growth of 42% from INR 3,459 million to INR 4,929 million.

The 9 months PAT is healthy at 12.9% compared with 12.5% year-on-year. The cash and cash equivalent has come down to INR 408 million, it was INR 833 million in the previous quarter due to higher inventory. Our inventory stands close to INR 14,900 million, it was about INR

13,600 million in the previous quarter. The net working capital is about INR 8,045 million and compares with INR 7,886 million in the previous quarter.

So I now request the Q&A session to commence.

Moderator: We have a first question from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, I just wanted to better understand this ARS hit that you have quantified. Would you be able to give us some sense on the quantum of the hit that we saw this quarter from this shift and whether the impact is more or less done or it will take another quarter or a few more months to kind of stabilize? Just if you could kind of share some details on that? Thank you.

V. S. Ganesh: On the ARS front, we reinstated category wise, we started off with men's innerwear and the last category where we migrated ARS was the outerwear category. And as we speak, we have actually cleaned up around 7 million pieces of excess inventory that was there in the system and this is what has basically affected the primaries.

But as I told you before, this is something which is very essential for the long-term growth of the business because it is very important. We have a very hygienic and healthy stock in the pipeline and we wire our systems in such a way that we go by the true demand as far as sales are concerned. Coming back to your question as to whether this is fully done, I will say it is more or less done, but there is a little bit more cleanup required, which is happening during the month of February.

Avi Mehta: So it will take probably -- fourth quarter also might see some impact. That is the understanding.

V. S. Ganesh: Yes, to that extent as far as primaries are concerned. But we are very happy to see that the secondaries are doing well generally. But if you see the general retail environment, Q4 to date is not very different from Q3. So we are hoping that things will improve from Q1 of next year and we are all geared up. Being a dominant market player, we will be the first to take advantage of this and we are well prepared for it. In the meantime, as you rightly said, all brands and if you see generally there is slackness and therefore, we are taking all measures of tightening our belts.

Avi Mehta: Got it, sir. So if I may paraphrase, you're saying that, there was a slowdown in the environment itself plus you had this required need that ARS had to be done. Both of which is the reason and out of that, that ARS might be at a lower level but the environment will probably take -- we're hopeful that it should kind of come back by 1Q?

V. S. Ganesh: That is what we are hoping. We hope it can't last more than Q3 so we are closely monitoring that -- sorry, Q4. So I think by Q1, things should normalize. That is what we expect. But we are closely monitoring and in the meantime, we are taking all necessary measures to be very conservative as far as our spends are concerned for next year and make sure that we have only the need to have spends, concentrate on the core and maybe watch how the situation turns out next year for making investments for future.

However, our long-term view is very optimistic so we will be continuing to have our share of marketing spends as we usually do because that is very essential for the brand and our long-term outlook is very, very positive.

Avi Mehta: And sir, I have two more questions, but I'll just ask the second one and probably come back, was on the high cost inventory. So essentially the impact of this high cost inventory is done, sir, and hence fourth quarter should move back to the 20%, 21% EBITDA margin. Is that a fair estimate to kind of assume or is there any change in that expectation as well?

V. S. Ganesh: So as I told you before as far as the impact on margin is concerned, it is not only the high cost inventory or the material cost. It is also the lower absorption of the factory overheads and compared to last year if you look, our advertising spends normalized. We can't be media dark forever. So we are facing those spends. But to answer your specific question on inventory, yes, now the inventory which we bought at overprice should start flowing in from Q4 and we should be able to see the benefits of that flowing into our system.

Avi Mehta: And the second part, sir, is we don't need price hikes. We've not taken any price hikes or have we in this quarter because of the factory overheads, because of the need for investment. Have you taken any product price hikes that we should be aware of?

V. S. Ganesh: No, we have not taken any calls as regards price hike is concerned.

Moderator: We have next question from the line of Varun Singh from ICICI Securities.

Varun Singh: Sir, I just wanted to understand how much would be our revenue contribution from the EBOs?

V. S. Ganesh: KC, you want to take that?

K. Chandrasekar: Varun, we don't share that product category information in detail on the call. Do you have another question, please?

Varun Singh: Yes. And sir, my second question is if I look at your total distribution so we see that there is a 13% year-on-year increase, but the revenue growth is only 3%. So just wanted to know that how should we read these 2 numbers?

K. Chandrasekar: Overall on the store growth, the revenue per store is around INR 1 lakh and that has been more or less maintained, maybe a little bit plus/minus across the quarters. So the store growth and the revenue growth is more or less in sync.

Varun Singh: I understand that, sir. But like our current number, there is a big difference like 13% versus 3%; even EBOs, there is 19% increase year-on-year but compared to 3% revenue growth. So just wanted to reconcile how should we kind of understand the difference between these 2 numbers?

K. Chandrasekar: There is always an age and gestation for every store to reach full scale or mature so one should use a lag. What we typically do is use same-store growth, those kinds of metrics. I will request Mr. Ganesh to explain this in more detail.

- V. S. Ganesh:** Just to clarify. You see that the growth you're talking about is only for this quarter, which is more of a one-off. If you see our year-to-date performance, our growth is in line with the retail expansion whether it's EBO or MBO expansion, it is in line. So this particular quarter the primaries were affected, this is mainly because of ARS also, the secondaries are in line. So it is not a big concern as this is a temporary blip that we are going through.
- Moderator:** We have next question from the line of Devanshu Bansal from Emkay Global Financial Services.
- Devanshu Bansal:** Sir, Q4 has several tailwinds like delayed winter, as well as the base, is low due to Omicron and GST hike that was there last year. So still our commentary is not so encouraging. So how should we see this? Have we seen a similar Q3 kind of decline in Jan. as well?
- V. S. Ganesh:** Devanshu, if you look at last Q3 and this Q3, the base itself there was a small challenge because the sales in December of last Q3 were so high because of the expected GST increase and that higher base. That also slightly impacted us when we compare quarter-to-quarter performance. Of course, the main reasons are the ones which I stated before.
- See, as I told before also if I look at month to-date, Q4 is looking similar to Q3 as far as the buoyancy in the market is concerned. It's not as expected and we are watching for signs of recovery and closely monitoring. And in the meantime, we are also taking necessary action in the long term to preserve cash, tighten our belts, and focus only on the core so that we can improve and maintain our margins in the long run.
- Devanshu Bansal:** Sir, still I just want to understand this more clearly. You said in Q3 secondary sales were good, but primary lagged due to ARS implementation. And now in Q4, there is a similar sort of a demand environment, but the primary billing should have helped us with Jockey sales growth, right? Why is that getting impacted in Q4?
- V. S. Ganesh:** No. See Q4, we are only midway through Q4 so we need to closely monitor. What I'm saying is generally in the market, we are not seeing any recovery. It is not as buoyant as we expected and that trend which was there in Q3, we are seeing it even in Q4, that is what I meant as far as primary sales are concerned. It all depends on how the secondaries take off from now and that is what we are basically watching.
- Devanshu Bansal:** Got it. And this demand slowdown is across categories or it is specific to some of the categories which we are facing?
- V. S. Ganesh:** Though I can say it is across categories, we have been seeing some of our core categories like men's innerwear have shown double-digit growth. Growth, of course, is softer than past, but it has recorded a lower growth and that's the core of our business so that is very heartening. Categories like bras are well accepted, it has shown a very good growth. So it is not across categories. We have categories which has grown materially.
- Devanshu Bansal:** Got it, sir. And last question from my side. Sir, other players in the market are operating at very thin margins and some are making losses as well in this category. So how are we trying to protect our shelf space from such competition in the general trade?

V. S. Ganesh: I think the main thing would be that ARS itself can make smoother. The inventory turns are pretty high as far as the distributor is concerned and the distributors' inventory health when it improves, it will definitely help him to serve the retailers. So I feel ARS is a very, very critical initiative which we have taken. And the second is we are the dominant player in the market so as far as retail is concerned, this is going to be a fast-moving product for them compared to others and that should really help. I think, Gagan, if you want, you can add more clarity to this.

Gagan Sehgal: One key thing, as Mr. Ganesh has said, that by implementing ARS, we are able to give the consumer exactly what he wants rather than the distributor placing the order as per his intelligence. So that is something we are far closer to the consumer in terms of placing right at the retail point what he wants.

Second, our distribution. If you look at our entire network while you're saying that there are players with lesser margins, but they do not have the kind of distribution footprint that we have and which is serviced directly by our employees and by the distributor employees, right? And being the dominant player, the retailer obviously keeps the share of Jockey what is required as per the market so it cannot go to somebody else just like that. So because of that, we are very confident.

And lastly, consumers do recognize our entire product quality. So it is not just on the margins which other players are playing on, but they truly believe in the quality of the product, both the retailer and the consumer. So as long as we are present near the consumer and we are delivering to the consumer what he wants and we are a value product though we are affordable premium, I don't think there is any cause of worry there.

Devanshu Bansal: Got it. Just a small follow-up. Is the competitive intensity higher post COVID? Just a small comment here would be helpful.

Gagan Sehgal: Yes, it has become more intense because during COVID lot of players were not able to really supply at that point in time. So now everybody has come back, and everybody has ample supplies. And also if you look at the athleisure category and all, there are more and more players who are entering into the space. So the competition has become intense, but then we are very, very confident of our product and we will continue to grow. So we are very optimistic of the future despite the competition and the competition keeps us on our feet, which is important.

Moderator: We have next question from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: Sorry to repeat this question, but my question again is more in terms of demand. While we are recognizing that there was an ARS mismatch leading to a primary/secondary disconnect. But if you can qualitatively comment more on the demand front what is leading to this demand slowdown? Is it that there was a high base of some COVID products, which is now getting normalized leading to this Y-o-Y decline? Any color on this would be helpful.

V. S. Ganesh: Gaurav, what we see is generally the spending have come down and the basket size has also reduced. If somebody used to buy 4 pieces or 3 pieces, it has come down to 2 pieces. Maybe I

think this is because of the general economic environment and it is a bit sluggish and people are conservative, I think very, very tight on expense.

I think the share of the wallet is a temporary thing. With back to the office, back to work, there is also a huge spending when it comes to outerwear. It's the formal wear that people are buying now because they have to refresh their wardrobes and when you have a limited wallet, your athleisure will be something which would be postponed as far as buy is concerned. So we do see that trend also as far as outerwear is concerned. Even though over the year, for 9 months it has shown growth, during this quarter we are seeing the trend which we feel is temporary.

Gaurav Jogani: Sure, Sir my other question is again with regards to the high cost inventory that is now getting over. So in terms of pricing, if I remember it right, you had taken an 8% price increase around December last year and I believe that is going to overlap now in Q4. So what kind of pricing are we looking ahead from Q4 onwards on a Y-o-Y basis and especially in the context where the raw material prices have come down sharply.

V. S. Ganesh: But Gaurav, when we looked at the pricing intervention last time, if you see, we didn't touch the prices like everybody else because we took a long-term view because we wanted to continue to be a value for money brand for our consumers and we took a projection of how that raw material trend will work and then we touched the price accordingly. Things more or less have happened as we expected so this is something that we have considered. So as we speak, we are not looking at any immediate price interventions.

Gaurav Jogani: Sir, but if I get it right, I mean you generally take a 3% to 5% price increase every year. So will the same trend will be maintained in the coming year as well?

V. S. Ganesh: You are asking whether we will be increasing the price by 2% or 3% next year. Am I right?

Gaurav Jogani: Yes. The regular ones that you do usually.

V. S. Ganesh: We need to watch, it all depends on the raw material price movements. As you rightly said, it has softened over the last year. So if the trend continues, we can be more conservative on that, but this only time can answer. We are just watching how the input costs are going to move. So we will take an appropriate call at the right time based on the input cost movement.

Gaurav Jogani: Sir, just lastly, 2 more questions from my end. One is on the distribution front. Given that you have been aggressively expanding distribution over the last 1.5 to 2 years so in the wake of this recent slowdown in demand, will you also consider some slowing down in the distribution expansion as well?

V. S. Ganesh: We are looking at a normal expansion because we are not present everywhere. There is so much headroom and, as I told you, our long-term view is very, very positive. So we are actually not slowing down on those aspects because there is so much potential out there and we are continuing to be aggressive as far as retail expansion is concerned both in EBO and MBO space. Gagan, would you like to add anything more?

- Gagan Sehgal:** Mr. VSG, sorry. It was on mute here. You've answered it. And as Mr. VSG said, that we are also building for the future. We are very, very optimistic. And wherever we see that there is a gap and an opportunity where we can be present and be nearer to the consumer, we will not hold ourselves back. This is temporarily for 1 or 2 quarters, but we need to be near to the consumer so the distribution footprint expansion will continue. Yes, we will not go on a rampant drive thinking that we have to open "x" number of outlets and there is a certain target that we have to make. But we will go slow and steady in terms of wherever there is an opportunity, we'll make sure that we move this faster than ever. So it will continue and this year also you have seen there's been a 10% increase in terms of our distribution footprint. So there's no reason this will not continue in the future.
- Gaurav Jogani:** Sure. And just one last bit, sir, if you can clarify the volume in pieces for this particular quarter or maybe the 9 months that you called out for 9 months FY '23? I just missed that.
- V. S. Ganesh:** You want to have the volume for the quarter?
- Gaurav Jogani:** Yes. So fourth quarter and 9 months exact volume in pieces if you can highlight them?
- V. S. Ganesh:** The volume for the quarter is 52.8 million and the volume for the 9 months is 172.4 million.
- Moderator:** We have next question from the line of Rishi Mody from Marcellus Investment Managers.
- Rishi Mody:** So my question is on the attrition part, right? Your channel sales team seems to have decreased from 759 to 714 in this quarter. This is the Q-o-Q number. So just wanted to understand what happened here. Have there been layoffs? Has it been a natural attrition where people are going to our competitors?
- V. S. Ganesh:** Gagan, do you want to take that?
- Gagan Sehgal:** Yes. It's a natural attrition that's happened during the course so it's nothing to do with the tertiary sales as such. So it is something that's temporary and obviously as and when we'll get the replacement. But as Mr. Ganesh had mentioned earlier also that we have been very, very prudent when it comes to our expenses.
- So whenever there is a requirement, we'll obviously plug in the gap. So it's natural attrition. There is nothing by design and people do move during this time so somebody would have changed the industry, somebody would have gone to the competition. So it is something that's happened earlier as well so there's no cause for worry there.
- V. S. Ganesh:** And can I add to what Gagan said? We also take a lot of initiatives on productivity improvement and with that initiatives in place, we may not have a one-to-one attrition replacement because we are seeing kinds of improvement on the actions which we are taking. The productivity of the sales team is improving and there is much more work which is happening on that front. So we can afford to be more prudent as far as investment in people is concerned without affecting the business growth.

- Rishi Mody:** Got it. So basically your ARS should help you free up some resources?
- V. S. Ganesh:** Absolutely.
- Rishi Mody:** Right. So staying on the sales line, right, I see that our LFS touch points have been volatile in the past 4 quarters wherein in Q2 we dropped down from 3,000 odd touch points to 2,700 odd touch test points and now we've got back some 225-odd touch points. So could you explain the trajectory of what's happening here? Are we not getting acceptability in certain type of LFS stores or what's happened? Why is there such sort of volatility in the LFS sector?
- V. S. Ganesh:** Thank you for asking that. Rahul Shukla, who is with us today, and he will be the right person to give you clarity on this.
- Rahul Shukla:** Thanks for this question, Rishi. There's no volatility as such. As an ongoing process, we do keep looking at critically evaluating our relationships and wherever there is a synergy which Page values and the aspirations, we continue with our expansion with this point of sale. They need to be profitable, viable and meaningful for both the partner as well for us. We are the preferred partner for expansion for practically every player in the LFS ecosystem.
- And coming out of the COVID, there was some rationalization that the LFS partners themselves had done with some of their stores which were probably not viable or not working. Because in the LFS ecosystem, we operate on the expansion that the partners do not stagnate. So we remain very buoyant and upbeat on the prospects of our growth in the LSS ecosystem. We are the preferred partners. We occupy a leadership position in the segment that we operate in the LFS. So there is no such concern of any volatility on that front.
- Rishi Mody:** So like what explains that drop in 280 LFS points in Q2?
- Rahul Shukla:** So there are different types of large format stores. Without getting into the names of those partners, there are some regional players who might not be a viable proposition, they might be rationalizing their own stores. So wherever we don't see synergies with the partners, we rationalize and look at only those partners where there's a mutual synergy between the two.
- Rishi Mody:** So if I am to read into this, I'm guessing the value format is where we would be struggling because the customer base is not really at Jockey nowadays?
- Rahul Shukla:** No, not necessarily because with the value for money proposition that Jockey offers, even in the value format we are doing quite well. I'm talking about some regional players that probably themselves might be finding it difficult to sustain their chains and hence would be rationalizing their own chain of stores, not the national chains as such. With all the national chains, we have a very robust relationship.
- Rishi Mody:** My next question is you mentioned that there's been some factory overheads and hence we were underutilized on the factory front. Could you give more color or more details on that what happened?

K. Chandrasekar: I can take that. For example, we produced last year this time about 38 million pieces and this time we produced about 42 million pieces. So the production was less because the sales was less as explained by Mr. Ganesh. So invariably we have an absorption of the standard rate into the COGS and we had last year a good absorption, which means that there was about a 3% better adoption of the labor and factory overhead. This time we didn't have it, it was almost flat. So in comparison, there is about 2.8% lower absorption of the labor and factory overhead. If you don't produce enough, what you'll actually pay out in labor and factory overhead, a part of that remains in your P&L.

Rishi Mody: So now that our ARS system is in place, right, and I think last quarter also you said that we are in line -- our primary sales and secondary sales were largely flowing in line. So going forward, we should be seeing inventory reduction at our end as well as the retailers or the distributors end. So this quarter what has been the -- what are the inventory days versus, let's say, last quarter and Q3 FY '22? Like how much of inventory day savings have we done because of our ARS?

K. Chandrasekar: You're talking about Page inventory not the channel inventory?

Rishi Mody: Yes, our inventory, the company's inventory.

K. Chandrasekar: Overall, including raw material, we are at the highest point as I mentioned and from here, we will only see the inventory come down quarter-on-quarter and then at an optimum balanced level. So right now we are carrying close to about 3.5 months of inventory.

Rishi Mody: And what was it, let's say, last year same quarter?

K. Chandrasekar: Last year same quarter was about half of that because we didn't have inventory and that is why this buildup happened in the past 3, 4 quarters. So last year we had almost half number of days I'd say.

V. S. Ganesh: Because let me just give you the perspective here that last year we were struggling as far as the inventory is concerned. Because of the supply chain disruption and the huge demand which we had, our number of days inventory was very low. In fact we had some lost opportunities because we were not able to fulfill all the demand which was flowing in. So it is not comparable. So now we have additional inventory because we built some strategic raw material stock because it was very volatile out there.

Even if we are willing to pay price, the supplies were not coming through. Those were times when the demand were also high and we actually invested in stock, which we believed is the right thing to do, and that is what is now getting utilized. So you will see as we move forward, the inventories reducing and normalizing.

Rishi Mody: So what would be our long-term target for inventory days where can we be on a sustainable basis?

K. Chandrasekar: About 2.5 months on an average inventory on revenues. Just to add to what Mr. Ganesh said and clarified. So for example if you go back to last year Q1, we had about 110 days of inventory and

then it came down to below 60 days because Q2 and Q3 last year were better than expected and we almost were very, very low on inventory. That's why we came to that. So 2.5 months is about the right I mean number of days that we would plan. And more importantly, to have the relevant inventory to maximize the sales. So those kind of efforts going.

Rishi Mody Understood. Okay. Final question.

Moderator: Mr. Mody, could you please come back in the question queue? We take the next question from the line of Sameer Gupta from India Infoline.

Sameer Gupta: I have two questions. So first question on the gross margin and this is the COGS line that you report in the reported SEBI format, I see that there is a contraction of 340 bps on a sequential basis. Now there is a higher price inventory which we had and which was getting normalized this quarter and there is more to go?

I don't understand why sequentially our gross margin should reduce unless there is a very adverse revenue mix that we have seen this quarter. But you also clarified during the call that the men's innerwear, which I assume is the higher margin product, that has seen a double-digit growth. So I'm not able to understand why GM contraction should happen on a sequential basis. That would be my first question?

V. S. Ganesh: I explained, I think you may have missed, earlier in the call couple of questions before that we had about 2.9% lower absorption this quarter so that is why we are seeing this. So when the production and the resourcing, which is the labor and the factory overhead together, are balanced, then typically we should have -- the production should absorb all the cost being incurred. That is the main reason I would say.

Moderator: We take the next question from the line of Akhil Parekh from Centrum Broking.

Akhil Parekh: Sir, if I look at our performance versus say an apparel retailer or a footwear retailer who is operating mid-premium, premium segment; they have continued to deliver very strong even in the third quarter and there is no sense of a weaker retail demand. So my question is our lower performance, has it to do with the increased competitive intensity in certain pockets and not much to do with the overall weaker retail environment? That's my first question.

V. S. Ganesh: I'm sorry. Mr. Parekh, what I was clarifying was like when we look at the competition, we can see that we have done much better than all the competition. And I was just trying to clarify that it's very, very important that we look at it at a category level rather than at an apparel industry level. If you look at it that way, you will find us performing much better than the competition.

Akhil Parekh: So there's no meaningful change in the competitive landscape as such. That is what you were trying to imply.

V. S. Ganesh: Yes, yes.

- Akhil Parekh:** And my second and last question is can you give some color in terms of demand slowdown across Tier 1, Tier 2 and Tier 3 towns? Is it same across all 3 or is it different across different tiers?
- V. S. Ganesh:** Mr. Parekh, your line was not clear, I couldn't make out the question.
- Akhil Parekh:** My question is whether the demand weakness is democratized across different tiers of towns or is it more specific to say Tier 2 and Tier 3 and probably Tier 1 is doing relatively okay as compared to the Tier 2, Tier 3 towns?
- V. S. Ganesh:** What we see generally across the board is we couldn't see any particular rural or urban. But one thing we are seeing the premium -- the consumers who are buying our premium product, we don't see any slackness there. But overall if you look at it, there is no much difference between the tiers of town.
- Moderator:** We take the next question from the line of Sameer Gupta from India Infoline.
- Sameer Gupta:** I'm sorry, I got disconnected. Just on that follow-up on the GM question. So when I'm looking at the 340 bps contraction, I'm basically looking at the raw material consumed line and the change in inventory line that you report in the SEBI format. So there the overhead absorption should not make a difference, right? This is purely the sales that you do and the raw materials that you consume.
- K. Chandrasekar:** Correct. This is what Mr. Ganesh explained at the beginning of the call that there is a higher price raw material which is coming in. And we had gone pretty low on inventory in Q3 of last year because the demand was better than expected and therefore there was an inventory buildup at a higher price during Q4, Q1. And so those inventories are now reflecting into the Q3 at the contribution level.
- Sameer Gupta:** Again sir, just a follow-up. So I'm looking at from 2Q to 3Q so if at all the consumption of high inventory is happening, probably it should reduce in 3Q versus 2Q, right?
- K. Chandrasekar:** Again the weighted average of the inventory has started reflecting more in Q3 than in Q2.
- Sameer Gupta:** Second question, sir. So now we are seeing a general slowdown in discretionary consumption. This is across companies. This is not only with Page. So in this context, what do you envisage? I mean when can we get back to our double-digit growth trajectory? And I mean I would still assume that the macro or the consumption environment would need to pick up even with the primaries and the secondaries difference that you are having. Getting back to a double-digit growth trajectory would still require overall consumption pick up and what could be the drivers for that?
- V. S. Ganesh:** Mr. Sameer, few things which we need to. One is to have a close look at the market and see because we need to bounce back the moment we get the opportunity. From our side, we expect things should normalize by Q1. But what we are looking at as an organization even if we have only modest growth and if this continues even in Q1, and Q2, how can we maintain our margin.

So we are looking inward and seeing what all cost controls we can put in place and what all are the governance measures that we should incorporate in our system so that we can protect our margins and if the market recovers faster, then it is a bonus. So that is the outlook we have. So we are looking at the very essential expenses, focusing on the core of the business and postponing other investments which can be postponed so that we can maintain the margin, watch how the market recovers and invest for growth when the market normalizes.

- Moderator:** We have the next question from line of Resham Jain from DSP Investment Managers.
- Resham Jain:** So just to clarify, you mentioned about INR 5.28 crores of inventory. Does this mean that this quarter you had 11% kind of volume degrowth? Is that the right number I'm looking at?
- V. S. Ganesh:** KC, you want to take that?
- K. Chandrasekar:** We mentioned about 11% year-on-year. Is that the question?
- Resham Jain:** Yes. My question was 11% volume degrowth. Is that the right number?
- K. Chandrasekar:** It is.
- Resham Jain:** Secondly, my question is on EBOs. The ARS system which you have implemented in this quarter or you have reintroduced from last few months, is it applicable for EBOs also or does this is more to do with MBOs?
- V. S. Ganesh:** Mr. Jain, this is more to do with the MBOs. EBOs, we're always following this. So it's more to do with MBOs.
- Resham Jain:** So just to get a sense of how the secondary movement might have been, can you help us with the EBO growth number in this quarter?
- V. S. Ganesh:** Mr. Jain, as Mr. Chandrasekar clarified last time, we don't give channel-wise breakups. It is good for all of us to not share that information, which is competition sensitive.
- Resham Jain:** Okay. So why I'm asking this specifically is because, let's say, if EBO, secondary sales and ARS is implemented, then the MBO might have actually degrown much higher than -- from volume perspective higher than what we actually see for the company as a whole because in the past you did mention about EBO being 20% of your sales. Is that statement correct?
- V. S. Ganesh:** Yes. The impact, as you rightly said -- you are right in your judgment as regards impact is concerned because if you look at the primary, the secondary is what we need to look at when we are doing this correction. So secondaries has been now getting in line with primaries. That shows the inventory correction has more or less happened. But you are right, the impact has been more on the MBO side because of the correction which we undertook through the ARS system.
- Resham Jain:** So the last one is on in-house versus outsourcing mix because what we could see from numbers, and I could be wrong here, that your purchase of traded goods number as a percentage of sales has been going up consistently since last few years. So has your own manufacturing contribution

has come down? If you can just give a sense of how it has moved over the last 3 years, that would just help to understand the trajectory. That's it.

V. S. Ganesh:

Mr. Jain, we always have been around 33% to 35% of what we sell has been outsourced. So we always maintain that we have not increased it. There was a slight increase during the pandemic time because the demand was very high and the quickest way to augment capacities was through outsourcing.

But we are back to the same 66:34 ratio. Long term we will continue to expand because you should also understand it's a growing concern so while we internally grow, outsourcing also grows because of the overall demand if you see the year-to-date growth also, it's a significantly high growth which we had. And as the relationship with our supply partners improves and they are like extended arm of Page, we may look at a higher ratio also because they are just like another factory of ours. They are like franchisee factories and that's the kind of relationship with which we have built this.

So we'll continue to look at that so that we have a good balance between in-house and outsourcing. This is very important to have agility with more and more volatility in the business. If there's cyclic upside which we need to look at, we need to have both the levers in our hands.

Resham Jain:

Can I squeeze one more, one last one? Sir, just one is on kids just based on what we understand from the market. Kids which we were expanding quite rapidly since last 2, 3 years or 2 years specifically, we have seen some slackness there in the marketplace and some slowness. If you can just explain what's happening on the kids side, has there been any change in strategy or are you seeing anything in the marketplace specifically? That's it.

V. S. Ganesh:

Mr. Jain. we are seeing good growth in kids. I'm not talking about Q3. But if you see year-on-year, we have grown significantly so there is no slackness as we see. Of course, we are taking measures to see how we can further accelerate the growth of this category, but it has grown to our plan.

Moderator:

We have next question from the line of Ashish Kanodia from Citi.

Ashish Kanodia:

Yes. Sir, the first question is on the gross margin. So if I look at the 4Q '22 gross margin, my understanding is it benefited because of the price hike you took in anticipation of the GST rate hike which never happened. So is that understanding correct that the 4Q '22 gross margin was actually higher?

V. S. Ganesh:

Not exactly. The price corrections which we took because of the input cost pressures because of the cotton price. There also we didn't want to cover the entire expenses because of the input cost measure. We were looking at taking a long-term view and we were looking at how the projected cotton price is going to move and touched accordingly. So this price increase was not purely because of the GST.

Ashish Kanodia:

Sure, sir. Secondly, if you can highlight what is the costing approach for raw material? Is it like -- or for the COGS, is it first in first out or is it a weighted average?

- V. S. Ganesh:** The method is weighted average.
- Ashish Kanodia:** Sure, sir. And the last question is you talked about the lower absorption of overheads in 3Q. Now if I just weave through some of the earlier commentary so we are already at highest point of inventory and then there is some slowdown as well in demand. So is it fair to say that when we look at 4Q maybe again because we are carrying some inventory so the product level would be lower than maybe sales purely because demands are expected to be slightly muted and you have already high inventory and we may see some lower absorbs in 4Q as well.
- V. S. Ganesh:** What we are doing is we have raw material and see, as I told you before also, long-term outlook is very robust. So what we are doing is to utilize the capacity and produce what is safe. So we are looking at the core products, the 80:20 rule, that 20% of the volumes gives 80% of the revenue.
- Those products we are producing so that we can utilize the capacity which we have installed and we have also worked with our vendor partners from the outsourcing side and since most of them work for multiple buyers, they are able to manage their capacities and we are in a position to slow down the offtake from there. So this is where, as I told you before, it is very important as a company. We have both the levers in our hands so that we can manage this well.
- Moderator:** We take the next question from the line of Vikas Jain from Equirus Securities.
- Vikas Jain:** My first question is with respect to your outlook and the growth that we estimate for FY '24. Can you maybe elaborate as to like which segments will deliver the growth for us in FY '24 as a whole? And also some color as to like how -- so will it be like women's wear or kids wear that will be the key frontrunners or will it be equally contributed by the men's wear as well as athleisure also? Some color there, please.
- V. S. Ganesh:** Vikas, it definitely has to be across the board because if you look at the market share which we have and the headroom we have, there is tremendous potential to grow in all our categories and that has been the case. If you look at year-to-date, all our categories have grown and that will be the trend going forward as well.
- Vikas Jain:** Correct. Sir, but wanted more so from the perspective of men's and athleisure wear as well, right? Because last year in FY '23, we have seen a very good growth in athleisure as well as the men's wear category whereas we are making incremental efforts to grow in our women's wear as well the kids wear category.
- More so from our perspective will it be like a base effect that will be coming here and the growth will be much higher on the new emerging categories or it we like even in terms of percentage wise also men's and athleisure will be growing at a similar pace that you
- V. S. Ganesh:** I see the emerging categories like outerwear, especially women bras, they should have an accelerated growth because we have less penetration and there is much more headroom. But overall, all categories should grow. Athleisure, yes, during the pandemic as the consumption pattern was such that there was a higher demand for it and it softened post pandemic. But long

term that should definitely grow because the pandemic was a great opportunity for many of our consumers to discover our product on athleisure and it was something wherein we were able to engage a lot of new customers. So this is definitely going to help us in the long run.

Vikas Jain: Correct. And sir, and some color with respect to the current quarter that is 3Q of '23. Any color as to like which category did well and which category was under pressure?

V. S. Ganesh: As I told you, the men's innerwear category did comparatively well, it's recorded double-digit growth. Our bras category is well received, it has also shown good growth softer than usual, but it has grown.

Vikas Jain: Sure. And athleisure?

V. S. Ganesh: Athleisure if you look at year-to-date, it has definitely shown decent growth in line with our expectations. Yes, quarter 3 was challenging.

Vikas Jain: Sure. Sir, and the last question. In last call we did mention that we are now focusing on the exports market as well. So any meaningful progress that we have achieved this quarter?

V. S. Ganesh: Sorry, Mr. Vikas, was not able to make out question.

Vikas Jain: I was talking about that in the last earnings call, we did mention our increased focus on growing in the Middle East and other export markets. So any meaningful progress that we have achieved there.

V. S. Ganesh: Yes. So in the last call, what I was saying is we are concentrating more here. And as far as the overseas market is concerned, we are concentrating more on the Middle East because with the economic situation in Sri Lanka and Nepal, it's not so buoyant, Therefore, whatever effort we are putting in, it's more focused on the Middle East market for the time being and we are closely watching how these markets are recovering in the other territories.

Moderator: We have the next question from the line of Rahul Jain from PhillipCapital.

Ankit: This is Ankit here. Just wanted to understand, sir, our new capacities from Orissa is expected to come in in the months of April or May. From the usual distribution side, we have done a lot of good work and broadly this going to be for modern classes. How are we looking at distribution to take care of this capacity and would we initially start with double shift or single shift only given the current demand environment we're having for this capacity?

V. S. Ganesh: So Odisha when we commence operations, it will be in a single shift. We always will have the option to go to double shift. But the commencement of operation would be on a single shift because there is a huge effort required as far as training the operators and getting the efficiencies. It is much easier to manage if it's in the general shift. And as we move forward if there's a need, we can always explore the double shift opportunity.

- Ankit:** And sir, can you elaborate on the rural distributorship, what has been the progress and how do we plan to utilize this incremental capacity? Because a few questions back you answered you want to be 65:35 in own manufacturing and outsourced. With your own manufacturing share increasing significantly with this capacity coming in, where do you plan to use this product? Which product are you looking to manufacture from a distribution perspective?
- V. S. Ganesh:** Okay. So Odisha is going to manufacture the men's innerwear product. And as far as capacities are concerned, Odisha capacities is more of a replacement of some of the capacities which are here in Bangalore as a modernization project because some of our units here are getting rationalized for the operations and we are moving some of our sewing capacity to Odisha.
- Ankit:** Sure. And sir, can you also talk on the rural distributorship?
- V. S. Ganesh:** Gagan, you want to take that?
- Gagan Sehgal:** Yes, Mr. VSG. So we currently have around 150 distributors who are purely in rural whom we call the DHQ distributor. So we have made some rapid expansion. This used to be almost half the number couple of years back. So currently we are present and we are servicing till the last taluka.
- And also if you look at because of these exclusive distributors for rural, in the last 2 years we have opened almost 50,000 new outlets, out of which 50% almost has come in Tier 3 and Tier 4 and in rural. So our focus on rural continues in terms of both our retail expansion as well as an exclusive distributor who will focus on limited styles for the rural markets. And the journey will continue. We are very optimistic about continuing here and we have the markets already planned out where we'll be opening more distributors as well -- production as well as distribution.
- Ankit:** Sir, did I hear right? Do you have 150 distributors for the rural market today?
- Gagan Sehgal:** Yes. These are distributors who are only focusing on rural markets. There might be some other distributors who might be in the city and if there is a rural market nearby, they might be servicing. These 150 are exclusive only for rural.
- Ankit:** And typically they would be catering to 150 towns in their small geography wherever they are?
- Gagan Sehgal:** Yes.
- Moderator:** We take next question from the line of Avi Mehta: from Macquarie.
- Avi Mehta:** Sir, I just wanted to check on the inventory bit. Now what drove the sequential increase in inventory? Was it more to do with demand being lower than what we were expecting or was it more due to ARS?
- V. S. Ganesh:** Mr. Mehta, I will say both and there is also a movement of inventory from raw material to finished goods because we are utilizing the raw material, which we have repositioned as a

strategic stock. But the demand has been lower than what we planned so that definitely is one of the reasons.

Avi Mehta: And sir, but the finished goods were already high in 2Q. So if the finished goods inventories rose further and that was not working well. That is the way to understand it.

V. S. Ganesh: Yes. So the way we abide it ourselves, you will be getting reduced and normalizing in the coming quarters and we start seeing improvements from Q4.

Avi Mehta: Okay. And sir, to ensure that the similarity doesn't happen because we expected something similar to happen in 3Q. It's just that you will watch how the demand pans out and that's how the production continues possibly? I mean that's how you would kind -- that is what would be the reason that gives you more confidence in moderation this time, right, sir?

V. S. Ganesh: Yes, because we can always manage the capacities with outsourcing vendor partners also and that's where we have done significant corrections as far as outsourced quantities are concerned. And this is why I said you would see us improving on this front. From Q4 onwards, you will see improvement.

Avi Mehta: And second, sir, just following up on the margin rate. The way we see inventory being, this could possibly be peak of the inventory. Would it also be fair that this is probably the bottom of the gross margin and EBITDA margin because things will only improve? It's nothing incremental cost that is coming in, it's the high cost inventory that is going away. Is that understanding correct, sir?

V. S. Ganesh: More or less because we have been utilizing the high cost inventory, but the main thing we need to see is also how the market recovers because it's important we get our top line and that's where we are working very, very hard on.

Avi Mehta: So the margin performance will dependent on how the growth pans out is what we would kind of argue. Fair enough, sir.

Moderator: We have the next question from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: I had a question on penetration levels. With the increase in our distribution network over the last few years, would just like to understand the penetration levels across categories that you used to talk about prepandemic?

V. S. Ganesh: Gagan, you want to take that?

Gagan Sehgal: Yes, Mr. Ganesh. So as we have been mentioning that while we have grown, but we also see a lot of headroom because when it comes to penetration even when it comes to the men innerwear piece, we currently look at a 20% to 22% penetration. But when we look at athleisure and then when we look at juniors and when we look at women's innerwear business, there's a huge headroom because the penetration that we would have reached by now is around 7% to 8%.

So that is the reason why we have expanded our presence in Tier 3, and Tier 4 markets and also in metros as well. So because there is a lot of headroom because when it comes to penetration, I think there is a lot more to do and there is a huge markets. Hence we are very optimistic for our growth in the future as well.

Prerna Jhunjunwala: Okay. And sir, my next question is on the women's wear segment. How is the response in Tier 2, Tier 3 and rural area for the products that we are present and expanding in these areas? Because we know Tier 1 is anyways aware of Jockey as a brand in the women wear. But how is this response in the newer areas that we are penetrating?

V. S. Ganesh: In fact it is equally good and I should thank the initiatives we took as far as marketing campaigns are concerned, which has created a great awareness across Tier 1, 2, 3 and 4 cities. And when it comes to bras or women's innerwear, see what we need to understand is our TP is the same. They just happen to be there in the rural, but they have the appetite to buy our product and they just geographically happen to be there.

And therefore, it is very important that we are present closer to our consumers and that's why we are having very healthy expansion as far as retail footprint is concerned. Coming to consumption, it has been increasing across the tiers. Of course there is higher affinity towards Tier 1 and metros, but the growth even in the Tier 2, 3, 4 cities are as per our expectations.

Prerna Jhunjunwala: And do you find any resilience in terms of price points versus whatever is available in those markets?

V. S. Ganesh: Actually no, because if you see even during these tough times, our bra categories which is a high ASP premium product comparatively has done very well. It is well received. So it's a clear indication that the consumer expects the value for money proposition which we are doing.

Prerna Jhunjunwala: Okay. And sir, I understand we've been talking on this call about inventory and movement of raw material to finished goods and stuff. So just wanted to understand whether we can see sequential improvement in margins or it should be near to these levels only at least for a few quarters because we are not able to understand when this high cost raw material and finished goods that you are holding should actually exhaust?

V. S. Ganesh: See, I think you will start seeing that this is improving across the next quarters because we have almost consumed the high cost inventory. But if you look at overall margins, it all depends on how the overall market is. What is giving immense satisfaction for us is despite all these challenges which we are seeing in the marketplace, we continue to dominate and compared to the competition, we have performed exceedingly well. And we will continue to focus on that and will be obsessed with what our consumer needs and that in the long run should pay the dividends.

Prerna Jhunjunwala: Sir, my last question is on ad spend and promotion spend. Any increase over there in this quarter and strategically are we looking at some increase till the time demand improves?

V. S. Ganesh: Well, this quarter, yes, there has been an increase because the marketing spend -- the campaigns they have their timeliness, they need to plan it and therefore, the outlay was comparatively higher in Q3. As far as overall marketing spends are concerned, we are now normalizing it to pre-COVID levels so we used to spend around 4% of our top line for marketing. We are planning to be in that zone and there is no need for us to be media dark any longer.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session and I'd like to turn the call back over to Mr. Chandrasekar K, CFO, Page Industries Limited for closing comments. Over to you, sir.

K. Chandrasekar: Thank you. Thank you so much to all of you for dialing in and so many engaging questions and very educative and supporting the journey of Page. I hope you all have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Page Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.