

17<sup>th</sup> November 2022

To,

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

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 Transcript of Conference Call held with the Investors/Analysts on 11<sup>th</sup> November 2022 and the same is also available on the Company's website i.e. [www.campusactivewear.com](http://www.campusactivewear.com)

This is for your information and records.

Thanking you

**For CAMPUS ACTIVEWEAR LIMITED**

**Archana Maini**  
**General Counsel & Company Secretary**  
**Membership No. A16092**

Encl: As above

**Campus Activewear Limited**  
**Earnings Conference Call**  
**Nov 11, 2022**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Campus Activewear Limited Q2 FY23 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, Whole time 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:** Thanks, Kathy. Good evening everyone. Welcome and thanks for joining our second quarter of FY23 earnings call today. We appreciate and deeply acknowledge your trust in our vision to create India leading sports and athleisure footwear brands. Delighted to share that our quarterly performance has been broadly in line with our growth expectations. Despite inflationary macro, environment and transient demand contraction in rural and semi urban areas. There's been a

sustained improvement in YoY quarterly financial exhibiting marked improvement in our top line and profitable growth across all revenue streams compared to Q2 FY22 which had tailwind support of pent up demand with markets opening up after second official lockdown in India on account of COVID-19 last year.

Because of seasonality seen across product mix consumption, quarter two empirically has been contributing 20% to 22% of our annual net revenue.

During Q2 FY23 we sold more than 5.5 million pairs at an aggregate level, thereby clocking net income of INR 334 crores and a YoY growth of 22% versus quarter two which was at INR 273 cores. Both trade distribution, and direct to consumer channels have delivered profitable growth of about 7% and 44% respectively on a YoY basis versus Q2 FY22. With the sales of 5.5 million pairs in Q2 FY23, we registered YoY volumetric growth of 16% in comparison to Q2 FY22. Not only volume our quarterly ASP is also grown by 5.3% from INR 577 in Q2 FY22 to INR 608 in Q2 FY23. Despite a challenging inflationary environment. Balance sheet demonstrates the position of strength with robust return ratios such as ROCE and ROE of 30.1% and 30%, respectively. We are sincerely thankful to our end consumers, our channel partners, all our investors and stakeholders and our passionate team which has helped us in delivering this performance which you have marked the underlying strength and resilience of the brand. As always, we thank you for the 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. We continue to uphold our paramount focus on sales growth in market share enhancement as we have maintained earlier as well. Just like FY22, while inflationary environment and supply chain

disruptions result in a negative demand impact at an industry level, it also opens-up interesting pockets of opportunity from a growth and market share enhancement perspective. We witnessed a robust growth in Q1 FY23 and tried maintaining similar growth momentum in Q2 FY23 as well, while being mindful of raw material inflation and direct and indirect impact of currency depreciation on our input cost structures in quarter two, while being cognizant of market dynamics. We tried offsetting input cost inflation in transit, increase in the request with sales-mix led premiumization. Our endeavor is to neutralize this downward impact with potential pricing fees and enhanced operating leverage in our upcoming quarters in the second-half of the year. At the same time, we continue at land investments towards brand building D2C network and infrastructure expansion and talent acquisition, all of which is expected to generate margin accretive impact in the subsequent quarters

Now adding on to this in all our distribution channels, category cohorts, and pricing segments, have demonstrated robust growth both in terms of volume and value amidst the challenging operating environment impacted by supply chain disruptions and inflationary trends, especially in semi urban centers. Basis price segments our sales, in Q2 FY23 has exhibited sustained premiumisation viz-a-viz FY22 full year wherein sale contribution from semi-premium and premium categories have increased from 64% in FY22 full year to 70% in Q2 FY23. Similarly, on a category basis, revenue mix across men, women and kids have improved from 84:16 in at FY22 full year to 80:20 in Q2 FY23. On a trailing 12 month pay sales revenue from operations have increased by 22% YoY to INR 1,457 crores in TTM H1 FY23 as compared to FY22 full year revenue of INR 1,194 crores. Similarly, at TTM H1 FY23 EBITDA stood at INR 278 crores as compared to FY22 full year EBITDA at INR 244 crores demonstrating a 14% YoY growth. At TTMH1FY23 EBITDA

margin stood at 19.1% versus 20.4% in FY22, which is kind of transient in nature because of these lean first half of the year. Net profit during H1 FY23 on a TTM basis stood at INR 140 crores with the PAT margin of 9.6% as against INR 124 crore in FY22 with the PAT margin of 10.5% (prior merger).

On the supply chain front, we continue to stay cautious on the challenging inflationary environment in the near medium term, ensuring raw material and semi-finished goods availability above anything else. To maximize sales potential in the coming quarters, we continue to maintain a close watch on our input costs and are confident of restoring that trend line growth rate and margin profile in the near to medium term in the balance year to go. I will now hand over to our CFO, Mr. Raman Chawla to take you through more details on the quarter two and first half FY23 performance.

**Raman Chawla:**

Thank you so much Piyush, good afternoon, everyone and welcome to the Q2 FY23 earnings Call of Campus Activewear Limited during the quarter under review campus as a brand demonstrated a lot of resilience. Campus delivered profitable top line growth and protected bottom line profitability while ensuring requisite investments in future capacity and brand building that is essential for sustained growth and margin recovery. Revenue from operations increased by 22% YoY to INR 334 crores during the quarter with both channels, Trade distribution and D2C exhibiting profitable growth and creation in the quarter despite industry de-growth in mass and mass premium segment across select consumption cohorts across India. EBITDA was at about INR 44.2 crores as compared to INR 55 crores in Q2 FY22. EBITDA margin stood at 13.3% in Q2 FY23 versus 20.3% in Q2 FY22. Net profit during this quarter stood at INR 14.5 crores as compared to INR 28 crores in Q2 FY22. Our Q2 FY23 sales volume registered a 5.5 million

pairs as against 4.7 million pairs in Q2 FY22, thereby generating a 16% YoY Volume growth while Q2 FY23 aggregate ASP, stood at INR 608 per pair versus INR 577 per pair nearby resulting almost 5% YoY ASP growth.

On the balance sheet side and our net debt has increased marginally, from INR 174 crores at FY22 and 204 crores as at September 30th, 2022. On account of working capital investment to ensure the optimal season preparedness. Net Debt to EBITDA ratio is constant at 0.7 X in FY22 and in TTM H1 FY23, despite the transient investment in the working capital to ensure our season readiness. Similarly, our return on capital employed has also gone up from 29.7% (pre-merger) in FY 22 to 30.1% in TTM H1 FY23 and we managed to deliver a robust return on equity ratio of 30% in TTM H1 FY23. With this, I'll conclude and hand it over to the operator for questions and answers. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer. Session. The first question is from the line of Jignesh Kamani from GMO. Please go ahead.

**Jignesh Kamani:** I just want to check on the average inflation so blended inflation in the our raw material basket and our ASP is increased by close to 5% YoY so price has been very low, you can say maybe around 2%-3%. So to what extent additional price hike is needed to cover the inflation.

**Piyush Singh:** So there are two components to this, which has led to an impact on our gross margin in a transient way. The first one is the raw material inflation and second there was an increase in minimum wages at one of our plants. This was a back-to-back increase in the month of August and September 2022, which we are yet to pass. In terms of pricing fees, so I'll just break it up for you a while our gross margin has gone down by 4.5% points on a QoQ basis. Almost 3.5% to 3.75% is on back of raw

material inflation for now and the remaining 1.25% is on the back of our increasing conversion cost. Now for in order to offset all this we would need a price increase of around ₹100 on our average MRP. So if our average MRP currently is around ₹1200 will need to take it up to ₹1300 in order to offset this entire thing. So this price increase is something that traditionally we have always taken in a stronger half of the year or third and fourth quarter, which is the second-half of the year, and we are very mindful of how the market dynamics are and at the opportune time we would try and make this in into our next season launch.

**Jignesh Kamani:** And second question, the demand environment is there in demand softness across the metro. I mean Metro Tier 1, Tier 2 obvious thing. More weakness in Tier 2 and the economy segment versus a premium and the metro.

**Nikhil Aggarwal:** Yes. So there has been some softness that is being witnessed in the rural and semi urban areas, especially in the states of UP and Bihar and we are also witnessing that softness. This is true for the entire footwear trade, not only specific to Campus. And while our Western areas of Maharashtra and Gujarat. These states have grown remarkably well along with even south, but just the North had sort of not grown in-line with expectation and that's where the West has rather made-up for the lack in the north region.

**Piyush Singh:** That depends on a portfolio level. All our segments, be it mass, mass premium or premium. They have witnessed growth, it's just the geographical pockets where we're kind of offset our offline sales with the softness across UP and Bihar with more than expected sales in Gujarat and Maharashtra. And just to add to it, our distribution channel per say despite all the softness is at an industry level, has managed to

grow at almost 8%, 7% out of that 8% is driven by ASP growth, by the way.

**Moderator:** Thank you. The next question is from the line of Chirag from CLSA, please go ahead.

**Chirag:** I have two questions. Nikhil can just give us a sense of the distribution expansion progress that we have seen in different parts of the country and it can break it down more geographically and the second question is more related to the online business? My question is, is there any lumpiness in revenues that we have because our e-commerce revenues have practically grown from about 3% of the overall revenues to about 30%-35% today? So that means that given that hyper growth phase you will obviously have some very high base in the subsequent quarters and would that mean that it would be difficult to meet those numbers as we go ahead in the next few quarters.

**Nikhil Aggarwal:** So in terms of distribution, let me give you a geographical split us so our North has contributed about 44% of the revenues, west just contributed about 20%, South again has contributed about 9% to 11%. Central is 6%. East is about 18 to 19%, so this is well like we said, we've seen some dip in the north. Thanks, it's largely due to a UP and Bihar but that's being made-up by the West.

**Chirag:** Sorry. What I meant to say was in terms of the progress in reaching out to more number of touchpoints, what's in the progress in each of these categories? Except north obviously yeah. That is strong, but we. Need to increase the touch points in the in the balance part of the country.

**Piyush Singh:** If you'll recollect that we had a differentiated go to market strategy across our various market. So north and east undoubtedly are our core markets. .North and eastour approach or endeavor to go deeper into the market to gain market share, gain more shelf space and that is the



reason why we have kept growth as a paramount agenda, especially in our core markets. So, we are not looking at any further counter additions Or meaningful counter additions in these markets. By our approach in the emerging markets, which is essentially West India and parts of MP, Chhattisgarh, AP and Telangana, Our approach is more hybrid in nature in terms of adding more counters and distributors. Yeah, we have added a meaningful number of distributors over the last six months and our distributors count has gone up by 10% and our overall counter share has also gone up by around 500 to 600 counters. And this is what has led to exceptional performance across especially the Western Belt of India that is Gujarat and Maharashtra during these challenging times which has led to an overall growth of 22% and similarly we continue to stay opportunistic in South India with online and our own store network as the beachhead for kind of continuing our growth momentum in South. So, if you see our revenue contribution profile has changed meaningfully over the last six months. While earlier the North and central used to contribute 55% of our overall revenues, it has come down to or it has kind of moderated at 50% while still generating growth. West India which around six month back used to contribute only 14% to 15% has now gone to 20.6%. Similarly south which earlier used to contribute 9% has now gone to 12.6% and east contributes the rest, which is 18%. So east has kind of stayed static, earlier it used to be 19%. Now it's around 17.5% - 18% for us. So which means that we are driving more growth from newer territories, emerging markets, frontier markets and expanding their footprint. Now coming to your question around online. So I'm actually relieved to tell you that despite the hypersonic growth that we have seen in this channel, we still see a lot of juice left in the channel and on the quarter on quarter basis, our growth numbers have been kind of fairly above expectations. If you see even in this quarter, we have grown at a click of 40%. So far as lumpiness is concerned. FY 22 was one full year for us.

Unlike distribution in online, we had a full complete here so it was while, holistically spread out, so migrating from quarter two to quarter three and this year we have a fair line of sight that we will maintain our growth momentum this year as well so far. As little bit of lumpiness concern that is a transient INR 20-25 crores of sales, which is which kind of sets in either quarter to quarter three depending on the flagship platform events across Flipkart and Amazon called Big Billion day sale or Great India Sale festival. Last year and this had a certain impact on our quarter 2 numbers this year which is transient in nature in the sense that last year BBD&GIF were in the first week of October, this year they were there in the last week of September. Because of it and incremental sales of around INR 25 crores has gotten shifted to Q3 FY23 in our case because last five days of sales were not considered from a delivery standpoint or a revenue recognition standpoint. Now, the impact that we have seen this time is, while we had done all the previous marketing specifically in this quarter. The goodness of that entire marketing would be seen in a quarter three and hence we mentioned that our margin compression this time on account of online which has not happened on an aggregate level, is only transient in nature. So just to summarize, we don't see any lumpiness in moving across quarters for the balance of the year, we have a clear line of sight in terms of our growth across e-commerce and some of the margin goodness, we'll recoup in quarter three because investments were done in quarter two in the in the month of September, while majority of the goodness has flown in quarter 3 in the month of October.

**Chirag:**

So, what is the amount of price hike needed to completely offset the marking pressure and that we are almost into the middle of Q3. How much of the price increases have you already taken to offset the margin pressure?

**Piyush Singh:** We are still monitoring the market because it's not just about courtesy. The second-half of the year, which is roughly 55% to 60% of our revenues. Once the market takes complete, full throttle pace in terms of offtake at the end consumer level. That is the time when we typically take a price increase. Even if you say at record, we have essentially taken price increase in the month of December, January, but historical benchmarks should not be taken as a cast in stone so far as this year is concerned. Nevertheless, that said, there are two very important levers which leads to margin expansion in the second-half of the year, which is enhanced volume as well as some bit of price increase at the same time. It's the operating leverage which also starts kicking in into these quarters because most of our fixed cost are very much front loaded in that sense.

**Chirag:** And my last question, if I may can you just comment a little bit around the long term AMP spend as well as we get into. Newer markets do you see there will be a need to try and find some of the AMP spends.

**Piyush Singh:** Very valid question, you'll remember that six months back we had given the guidance that we whatever operating leverage we have generated 1.5%-2% of that we have reinvested in our AMP spend because our long term objective is to strengthen the brand and own customer mindset. Despite softness in the market and generating 22% revenue growth we have sustained on these investments because we know that these investments are for the long term and they'll be revenue and margin accretive in the subsequent quarters. Not just for this year, but for the years to come. So we are still maintaining that trend line of 6%-6.5% of the AMP spend. Some of this AMP spend was front ended in the way as I mentioned that a bulk of it for this quarter happened in the month of September. For the month of September, we have spent roughly around INR 30 crore for the quarter. We have spent around 30 crores

in AMP spend. Half of which was targeted in the month of September, both on the online side and the offline side, but the entire goodness would be realized in the subsequent month. So say, for example, whatever billboards we had done, whatever print media ads were done to or retail meet that we did as part of this spend, their goodness and the offtake happened in the second-half of September or last week of September, followed by the early weeks of October. Similarly, the entire online print that we have done towards preparation of the Great India festival Which ran for two months and the big billion day, which ran throughout September and October, a majority of its goodness is yet to be realized in the month of, or rather gotten realized in the month of October. So in that sense, some bit of our advertisements spends were front ended in this quarter, while the goodness has kind of rolled over to quarter three.

**Moderator:** Thank you. We move to the next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

**Aliasgar Shakir:** You did speak about the online growth that we have seen, which has been pretty strong despite the competition. If you could just share some more color in the last few quarters we have noticed some of the players have got reasonable pre funding and is it correct? And there's a lot of competition that has started over there in terms of price, late competition. I mean, just wanted some color from you in terms of has the competition gone up? Are you seeing any impact because of that in your business?

**Piyush Singh:** See the way we have structured our e-commerce business. It's based on very robust fundamentals and not to add more English around this the way we have structured the business is across 3 or 4 verticals of pure-play marketplace, managed marketplace and our value addition and Online to offline pieces. While there are some smaller players we

have recently received some bit of equity investment and that's only because of the opening up of the sector and the insight that people have started getting into the sector once we got listed. And there were other players who were already listed in this space that has not really caused any dent in our market share or in our position on ecommerce site specifically. Rather, over the last six months. We have -accrued market share. We have a creatively gained both market share and margin share in in our respective P&L and balance sheet over the last Six months, and which is reflective of the kind of growth, we have demonstrated last quarter. We did 150% growth on a YoY basis. For this quarter on a year over year basis we have still maintained that momentum even on a large space, We continued at a 40% growth on a YoY basis or an aggregate level, the growth is still above 100% on this first half of this year vis-a-vis first half of last year and that said we have still maintained our ASP growth even in the online channel. So on an overall basis, not only we have done revenue growth, but we have also done margin accretion in this channel on YoY basis. Despite the increasing competition.

**Aliasgar Shakir:** Got it, so this is very interesting. Any reason you see what has helped us the? Is it any increase in SKU ,any new launches or any, you said price action is not taken so what is led to this?

**Piyush Singh:** So there are two reasons behind two prominent reasons. One is being enhanced brand pull and the way we have designed our customer journey. Then the way we handled our customers throughout the online and the Omni channel experience and 2nd is we have deepened our partnerships with our strategic partnership with the platform, so we are not just a seller on the platforms, we have increased our level of engagement with these partners. So as you can see that this year also we run a very successful 3rd edition of Global Giri 3.0, we launched

some top of the line SKUs specifically on Flipkart and Amazon and Myntra and Ajios. We had campus crazy and similarly we are starting a newer properties with other fashion verticals and there are multiple other strategies and multiple other folks into play right now, which are still in the works in which we are not disclosing to the public at large, but everything is focused on enhancing our partnership and strategic engagement levels with the platform and not just say as a seller out there.

**Aliasgar Shakir:** Understood this is very helpful. Just last question, on your expenses. So you did mention that we have front loaded as spends, so the kind of increase we saw in this quarter in other expenses, which as you mentioned, was predominantly because of the increase in A&D spend that we have front loaded. Should we expect Q3 & Q4 now accordingly to kind of see relatively much lower increase or there should be some kind of adjustment because of this factor.

**Nikhil Aggarwal:** Yes this is correct. We should see some normalization there as most of the cost has been front loaded in H1. So for second-half anyways there are these other factors at play where we generate a lot of operating leverage. Thanks to the cost being front loaded, I think this should bring in better profitability and better margin accretion.

**Piyush Singh:** If you can see on QoQ basis our expenses have increased by roughly INR 30 crores, so INR 15 crores increase on back of our enhanced AMP spent which goes towards long term brand building and some bit of it is front loaded in the month of September. Goodness is flowing in the month of October and November in subsequent months around that when the season actually kicks in. The other big expenses around retail store expansion. So if you recollect last September or retail store ground was around 51, out of which 48 stores were 47 were COCO and 3 were FOFO. now retail store count as 150 at the end of September

30<sup>th</sup> 2022, the entire business has grown at a click of 100% YoY despite being the early vintage. Of the stores. Now, most of these stores in the initial part of the year was COCOs and hence most of the expense in terms of rolling out retail stores is front loaded in that sense. Now, as these stores gain more maturity our margin, profile would further increase and we will see the normalization of these retail store expenses as well.

**Aliasgar Shakir:** Understood this very helpful just. To clarify the number here. If we have about 6% to 6.5% kind of ads spend. And this year it would be somewhere approximately between 90-100 crore which would last year have been about INR 70 odd crores. So is my understanding correct that H1 this year we did about INR 45 crore against probably something close to around INR 20 crore odd so we've doubled and now the coming quarter, therefore the increase will be much lower against INR 40 crore last year. It could be something like approximately INR 40-45 crore itself.

**Nikhil Aggarwal:** Yes, your understanding is correct. We have roughly done around INR 50 crores on a sales of INR 670 crores, so hence the front loading the remaining part of the year, which is expected to generate another 55% to 60% of our revenues. The balance to go is roughly close to INR 40 to 45 crores. And hence, this expense would get meaningfully normalized.

**Moderator:** Thank you, the next question is from the line of Akshen Thakkar from Fidelity. Please go ahead.

**Akshen Thakkar:** Just a couple of questions around the demand environment. Could you just sort of recap first on what was the growth seen X online? So if you're if you take your MBO/EBO channels, what does the growth over there? That's question one.

**Piyush Singh:** So I'll give you a break up across all three channels. In MBO. Then for the trade distribution network in this quarter on a YoY basis, we have grown at a rate of 8%. The entire growth is driven by ASP, which is our sales mix, in the ecommerce channel on a YoY basis this quarter versus same quarter last year we have grown at a rate of 40% and in our own retail network and key accounts we have grown at a rate of 92% YoY.

**Akshen Thakkar:** So, if I think about sales growth that MBO means MBOs channel, etc. are now growing by about 8%-9% percent. Was there like in through the quarter slowdown that you saw that was evenly how it was spread out. I'm just sort of give me your growth like you said on a full year performance and ecommerce has been very credible. So if I had to pick a whole, I would say MBOs channel where you've grown a little slow. So just wanted to get your perspective on why there was a little bit of a slowdown over there. Then how are you thinking about growth in that sort of segment for the rest of the year.

**Nikhil Aggarwal:** So certainly, the growth in the MBO has been slower than expected. And we understand that because there has been remarkable softness in the market, especially in the Hindi speaking belt. You know where we sort of dominate the market in a big way. So it. It's impacted the MBO growth, which has been more than being made-up by the other channel, but going forward as well. We have a very robust plan in place where of course, while macros will certainly help, but at the same time we have taken a lot of actions within the channel itself in order to make sure that every counter the service levels have gone up significantly. Along with order fulfillment and coverage of all the all the counters in a meaningful way in order to ensure that the growth sort of normalizes comebacks to its budgeted levels in the distribution piece.

**Piyush Singh:** And I think just to add to that even in the trade distribution side, while the industry has degrown because of this softness, we have still



maintained this growth because of the network diversification that we've managed to achieve in terms of our enhanced footprint in Western India and parts of southern India. So while there was some bit of softness in the Hindi speaking well, especially in the states of UP and Bihar, we were largely able to offset it and kind of do some accretive sales, especially in the in the states of Gujarat, Maharashtra AP and Telangana.

**Akshen Thakkar:** So this is and not to look for guidance, but just directionally have you seen in UP, Bihar demand pick up into October, November. Not really looking for a number, just trying to understand directional trends on demand.

**Nikhil Aggarwal:** Personally, directionally you are bang on, because there are three main levers which leads to kind of enhanced sales in the second-half of the year, especially in the hindi speaking belt. These three levers are the festival, the onset of the festival season, second, the onset of winter, and 3rd is the onset of marriages and weddings. Yeah, so this time the wedding season muhurat starts with 24th of November and it goes till 20th of December which is the peak of third quarter. And then it we restores again in or it kind of come kicks back again in the quarter four. Now onset of winter is slightly delayed this time, but we are expecting another week or so. The winters would also be added full might. And these two factors, along with the festivities around in the in the second half of the year as a traditionally led to an enhanced demand and in our sales and consumer offtake in the subsequent quarters of the year.

**Akshen Thakkar:** OK, my second sort of set of questions around pricing strategy so your presentation talks about 5% higher ASP growth. Now ecommerce is growing faster and that's higher realization business so there is some mix impact on channel as well. So for like to like would seem that your realization growth will be low single digits. I don't know if there. Is a

mix impact within the shoes that you're selling in MBO, EBO etc or that's the headline price increase that you've taken and, in a year, where general inflation is high, just love to get your thoughts on the reluctance to take maybe another four 5% price hike right now.

**Piyush Singh:**

Interesting question I'll take your last question first in terms of when the right time to take a price increase. See, we have seen that a few our competitors, took a price increase and then had to do a rollback. We are very cognizant of how the market reacts, especially in the mid premium segment. So for us, Paramount is to maintain our growth trajectory and to keep on gaining more and more shelf space and market share because once you have kind of establish yourself in the in the network both online and offline, it's easier for you to get the margins back so long as you're not doing a discounted sale. What is comforting here is if you look at all our channel splits and our growth profile, all the channels are growing holistically and not on the back of a discounted sale. Which is kind of a triangulated with the help of ASP growth that we have demonstrated, the more comforting part is that our entire traditional train distribution network has grown purely on the back of sales mix and ASP growth in a softer market where volume kind of state muted or kind of the volume growth was missing for the time being. So far as our overall ASP impact is concerned, you'll be surprised that ecommerce channel for now is holding its ASP despite, our enhancement, acknowledged women and kids category and the entire sales, largely driven by volume growth. For now, the entire ASP growth or the premiumization is led by both our trade distribution as well as our own retail. So which are very comforting levers for us for now, because these levers actually give you that pricing power even in a difficult market. Had it been on the back of discounted sales and margin loss because of additional discounting, we would have limited number of options to take their price increase and I mean just to just

to recap that entire thing, but we've mentioned to Jinesh also from GMO. The overall price increase that we need to take at an opportune time in order to offset this entire transient hit of raw material inflation, which is now cooling down, is not more than ₹100. Which I mean, we believe we have the pricing power but we are just being mindful of how the market behaves, especially in the offline side. So we believe once demand offtake starts in the in the peak of winters, we'll get a more opportune window to kind of exercise this option.

**Akshen Thakkar:** OK, right. So then in just the last question from my side, sorry I've asked many questions is the last question was in terms of margins trend, now we continue to focus on top line growth. Q3 could see some transitory impact of inflation as well. We should think about margin normalization, by normalization. I'm thinking more like the 20%-21% margins that you did last year by Q4 or early next year, would that be the right way to think about margin.

**Nikhil Aggarwal:** It's a little premature to comment on that that directionally will be kind of rolling over in the next fiscal year to kind of regain our margin profile. We believe quarter three would start seeing that normalization impact because raw material session started softening a bit and operating leverage would start kicking in a meaningful way because quarter three is a meaningful quarter for us, by quarter four, I mean, it's a little premature. So directionally, yes, we'll see margin reversal happening in a meaningful way in the second-half of the year a line of sight still stays the same, where we were operating in the in the last fiscal and all our endeavors are towards holding the fort on that front. So whatever compression we have seen in quarter two, we can with the you can say we can kind of comment on that that this is transient in nature and part of the goodness would be reflective in the subsequent quarter, which is quarter three and at the same time we had been mindful of our

operating leverage and working towards all the normalization efforts that we can take internally to kind of offset this impact.

**Moderator:** Thank you, the next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

**Akhil Parekh:** My first question is on EBOs. I think you mentioned that we have expanded our EBO reach from 50 to 150 odd stores in the last one year. So what kind of geography is we are looking at for EBO expansion and how different is a product portfolio in EBO channel versus MBO and online channel?

**Piyush Singh:** So EBO footprint is largely driven with the fact that the rollout is happening for premiumization of a distribution network which you will witness in a quarter 2 numbers as well, as I mentioned already, whatever growth we have generated in quarter two in a trade distribution network. Is largely on the backs of ASP premiumisation, which again has happened because of a EBO rollout strategy, so these EBOs are getting rolled out into the markets where we already have a meaningful brand presence and brand re recollection. So, from an overall projection perspective, we are kind of evenly distributed on a pan India level now, so our 150 stores are largely present across, say, 25 - 30 stores are based out of Delhi NCR. Another 20-22 stores are based out of UP; 10 stores are based out of Bihar. Gujarat has almost 30 stores. Now Maharashtra has another 20-25. Stores and we are increasing our footprint very rapidly in in the states of AP, Telangana, MP, Jharkhand, West Bengal is another state that we have added in Karnataka to get back. As on date, our store count is 180 and by the end of this calendar year we expect the store count to reach 200. In terms of product profile. The product profile is highly premium in our stores and that has led to higher ASP realization in our stores. Are source is actually keep so long as men footwear is concerned, which is

80% of portfolio our stores essentially start at a price point of INR 1,500 MRP and goes as high as INR 3,500 MRP, so the product profile is very, very unique so far as our stores are concerned, but that product you'll find also find on e-commerce, we try and maintain price parity across all our channels in order to offer an Omni channel experience to our customers.

**Nikhil Aggarwal:** I would just like to add that the number of stores are marginally higher in terms of FOFO counts. Franchisee Owned Franchise Operated there than COCOs so the focus is now on increasing our franchising on stores going forward.

**Moderator:** We move to the next question from the line of Ankit Kedia from Phillip Capital. Please go ahead.

**Ankit Kedia:** Sir two questions from my side one, could you just quantify the volume decline you are seeing in UP, Bihar and the time the volume growth you are seeing in Western South market just to get a color on how intense the pressure, we are seeing in those markets. Second question is regarding the ASP. Could you share the difference in ASP between online and trade distribution now and while I understand that the trade distribution demand is weak so price increase could be difficult, but what is stopping you to take the price increase in the online market given that you know the product is very premium, you don't sell it offline, so there it could be more easy for you to take a price increase on immediate basis.

**Piyush Singh:** I will take your second question 1st and then I'll address your question around volume decline and volume enhancement. So far as our portfolio strategy is concerned, we don't do a vertical split in terms of segregation or portfolio across distribution online and our own retail. We rather do a horizontal seasons plate so at any given point in time

all our products would be available across all channels. So, taking up a price increase only across one channel and not across the other channel is actually not very customer experience friendly that we have seen what we have done instead is we have taken selective price increases in terms of new exclusive launches especially during the month of September when we did that exclusive Global Giri campaign and the launch of our casual ranges. So while the volume is still nascent. The response was very encouraging, even on a higher priced product portfolio. The entire portfolio was priced at INR 1,999 and above that was exclusively available on the D2C network and the sell through were very, very encouraging from that aspect. While it's just a small step in that direction we are meaningfully working in this regard, where exclusivity special drops in collaborations become a meaningful part of our volume contribution and hence it kind of gives us a hedge against any kind of inflationary impact in the traditional network. Now so far as your other question is concerned, around the volume decline the volume decline in in UP and Bihar was close to 7% during the first half of the year, which kind of got offset by the states by Gujarat, Maharashtra and AP, Telangana we had the 8%-8.5% of volume increase was seen on a on a slightly smaller base. So, from the volume offset, was there, your last question was around the ASP differential, so the ASP differential is roughly to the tune of 15% between our trade distribution and up online panel, and it stays as such and it was roughly the same even at the end of FY22.

**Moderator:** Thank you. The next question is from the line of Harsh from Marcellus. Go ahead with your question please.

**Harsh:** So my first question was around inventory. So while our top line for the last three four quarters is largely this on similar trends, however,

our inventory from Q4 to Q2 has increased from 350 crore to 500 crore, and there's quite a bit of a meaningful jump. So what explains this?

**Nikhil Aggarwal:** So this is largely in line with what we had planned because this is all front end inventory. We build up the inventory for the season during the second-half of the year as it contributes to about 55% to 60% of the overall revenue. This is the normal trend that we see every year in terms of inventory buildup, mostly during quarter 2.

**Harsh:** OK, and this regarding this category of sport shoes, especially from the price range from INR 500 to 2,000 and so now we are growing at a very healthy rate. However, at what rate is this category itself growing in India at the Pan India Basis?

**Piyush Singh:** So the category itself is growing at a rate of around 15% to 18%. I mean by barring these a couple of hiccups around demand, softness and all on a holistic level at a CAGR basis. We can easily assume that the overall category, including unorganized and organized players is growing somewhere between 15% to 18% as of now. And the industry side is close to INR 12,500 crores.

**Moderator:** Thank you, the next question is from the line of Rama Krishnan from Equity Intelligence Private Limited. Please go ahead.

**Rama Krishnan:** So could you give me a break up of sneakers and chapals so we have an average realization of around ₹600. And I think earlier one of the answers you said that ₹1200 is the price and you have to take a price increase of 100 rupees for the margin correction and the second thing is this on the e-commerce, what is the return? Because the other guys were talking about 20% return. So what kind of return and break up of your online through, and the e-commerce sell?

**Nikhil Aggarwal:** So in terms of see you're looking at the MRP. Our ASP are X factory in nature or neutralization. So that's approximately 50% in the case of trade distribution and slightly more in the case of the other channels. So that's why our ASP stand at about INR 600 odd level versus the MRP of INR 1,200. So, in order to offset the inflationary impact, we need to take an MRP increase of ₹100 at ₹1200, which would translate to roughly ₹50 on The X Factory levels in terms of our ASP increase.

**Piyush Singh:** If I may give you an illustration very quickly so on an average level. As Nikhil mentioned MRP is ₹1,200 are caused by marking multiplier on a blended level is somewhere close to 4 to 4.2 X. So that means the cost of manufacturing that shoe which I select an average of ₹1,200 is close to ₹300. Now, because of this raw material inflation and increase in minimum wages across our plants on a on in back-to-back months and cost of processing has gone up by almost ₹5. And our raw material inflation has led to an increase in raw material costs by another ₹20, which means my cost has gone up from INR 300 to 325. If I need to maintain the same margin profile, I need to increase my MRP from INR 1,200 to 1,300 rupees. So that whatever realization I get, which is incremental realization of ₹50, I'll be able to offset not only the increased input and conversion cost, but I'll be able to maintain my material margins at an additional INR 25 bucks. That's how the illustration closes.

**Rama Krishnan:** I asked for the breakup of basically sneakers and chapals, and as well as their return on ecommerce.

**Nikhil Aggarwal:** 90% of our portfolio is sneaker and sport shoes only 10% is open footwear which is not only flip flop. We don't know very basic white chapals we start with the flip flops. Slip ons, which are more premium in nature, starting at INR 499-599 which is all premium range.



**Moderator:** Thank you. The next question is from the line of Jasdeep Waliya from a clockwise capital. Please go ahead.

**Jasdeep Waliya:** So I went to your show room. I think in the beginning of September it was not during the big online sales events. And I checked the prices of your premium products which are at around ₹2,000 now I checked the price on Amazon as well. All of them are available on Amazon at around 30% to 40% discount. Now my first question is, what's your strategy on pricing in offline and online channels on a long-term basis. And if this is the kind of discount which is going to continue on e-commerce, then it doesn't make sense for consumers to buy offline. Hence the investments that you are making in your offline channel, whereas whether it's on expanding distribution or your EBO there could be use suboptimal returns in future.

**Piyush Singh:** See, the thing is what, how we are actually segregating the portfolio. As I've already mentioned, we don't do a vertical split because that is suboptimal in nature so far as ad-spends are concerned. So what we have done is we have picked our own retail and our trade distribution on the on the back of freshness. Now this change is something that we have incorporated over the last one year. There are so whatever shoes you must have seen over there must be part of the phased-out portfolio that we kind of take out from our stores. Because September is the month when we do an autumn winter launch in in stores and across our trade distribution. So how we try and maintain this is whenever we launch a new season. The launch is also not knee jerk and the phasing out is also not kee jerk. You have to kind of pays out the inventory that residual inventory which is lying there at the stores. And make it available online and elsewhere at a slightly higher discount. The discounts that are not at all funded by us, these are transient and funded by the platforms only during the event. So what we do is once

we launch a certain product specifically if we are doing a spring summer launch in autumn winter launch. What we ensure is during the next three to four months, which is the kind of the freshness phase of the product. We maintain price parity across channels, so whatever fresh launches we do in the month of September, you will see that whether you go and find that product online or you find that product in the store or through our trade distribution. The maximum discount cap is 10% and that to kicks in after the second month of the launch in the initial months, there is absolutely no discount and we only trend on freshness and this is the kind of a discipline that we are trying to implement across all our channels. While we I mean we are mindful that it's only the first year and there is some residual inventory, residual season styles which are still hot selling across all channels, so this will take some time for kind of a portfolio segregation perspective on a horizontal split level. Otherwise, the strategy is very, very clear or across all channels during the current season and season minus one we are trending on freshness and for legacy seasons and for SMU manufacturing in special collapse we are kind of doing that value proposition in in collaboration with the with the platforms, which might lead to submit up discounting for few days. I would not put a number around this, despite whatever portfolio discount you have seen on an anecdotal basis, are overall aggregate discount on our e-commerce channel has stayed within the realms of 17%-18%. And has never crossed the threshold of 20% so far.

**Jasdeep Waliya:** So basically that means that there will be exclusivity of SKUs available offline and online only during the launch phase. After that, broadly when the SKU get around.

**Piyush Singh:** We fresh portfolio every six months, so in every refresh we introduce 150 to 200 new designs. So whatever is the current season offering, you

will hardly find that on discount. And within six months we kind of refresh because for running the stores, be it MBO stores or beat our own stores, you need that freshness. Because freshness is the only hook which kind of attracts the customer in.

**Moderator:** Thank you, the next question is from the line of Darshit Shah from Helios Capital. Please go ahead.

**Darshit Shah:** Just wanted to understand what will be our margin looking like for FY23 because if we see our margin is actually increase lets say from FY19 when we submit increasing our share of D2C pie in our revenues which were incrementally higher in terms of mass? But if I see the margin like Q1 and Q2 and these are kind of margins where we may not actually reach 20% for FY23. So you think that will be at least 18% margins by FY23. Is there something that you can ride for?

**Nikhil Aggarwal:** Sorry, your voice is a kind of getting phased out in between. So while we can hear that you have requested for some margin outlook for the balance of the year, we couldn't really understand the balance of your question.

**Darshit Shah:** Yeah, so I'm just talking out from outlook for margins at FY23 because if I see the margins have increased every year it will increase in Share of D2C, which is incrementally higher margins. What kind of margin are looking for FY23 because D2C growth has not slowed down the growth in online and it was 44% account is now 155 stores, what kind of margin are you looking at for?

**Nikhil Aggarwal:** I mean we are not giving any specific guidance around our margin profile. All we can say is directionally we are heading towards the best part of our year in the which is the second-half of the year so far as volume delivery, top line growth as well as margin enhancement is concerned. Right now, we are looking at an opportune time to kind of

offset the raw material inflation that we have seen in order to normalize as a legacy margin structure of FY22. And we are confident that with the right steps in place we should be able to do it in the balance of the year.

**Darshit Shah:** So have you taken any pricing increase in Q3?

**Nikhil Aggarwal:** Not yet we have. I mean five months until they're on a on a year to go basis. So we'll look at the opportune time, because for us, the paramount thing is to ensure that we continue our growth momentum, we keep on gaining more and more market share.

**Darshit Shah:** Because the marriage season starts on the 24th of November and goes on till 20th of December. There's a very big season, at least in the North, so any price increase would have actually helped you to increase margins in Q3 cuts half of the quarter is already done for year, right?

**Nikhil Aggarwal:** Yeah, see like Piyush mentioned earlier, a couple of competitors tried doing that in the season and they had to reverse their decision so it has to be a very well thought through strategy and see there are multiple other variables, then multiple other levers available at play for us to not just ensure growth but also to recoup margin, so I mean by directionally these are the levers like tested season, onset of marriage, then onset of winter. But there is no hard correlation between when we should take a price increase viz-a-viz the onset of these levers. So as we mentioned, we are very watchful of the market dynamics. And the kind of demand profile that we are seeing all across the country and specific cohorts in core markets we'll do the same at an opportune time.

**Moderator:** Thank you ladies and gentlemen, due to time constraint we take the last question from the line of Harsha from Incred capital. Please go ahead.

**Harsha:** What is the proportion of discounted states for us in second quarter and how has it trended compared to historical level.

**Nikhil Aggarwal:** So a discounted sales have not exactly gone up versus last year. We can come back to you with exact numbers. But you can very well triangulate this from the fact that despite a tough quarter for the industry, we have still managed to grow our ASP by 5%, which is actually a full year trendline for this kind of ASP growth. And margin contraction essentially led by the raw material increase in the conversion cost increase. It's not so much better that discounts.

**Harsha:** OK, and this is just one clarification. What he said is that the INR 20-25 crore ecommerce sales right? So on a like to like basis that should have been recorded in Q2 right? If we compare it with last year, which will flow for us in Q3. Is that right Sir?

**Piyush Singh:** So that sales last year was part of our quarter three numbers any which way is because the major festivals the Flag Ship Festival started on 30th of September and went to the balance of October. This year they started on 23rd of September and kind of follow through in the month of October. So, the first flagship event, happened in the first week itself and a majority of its sales got rolled over a while on a BAU level this is a normal phenomenon across quarters, but what we are mentioning here is the incremental sales that has that happen once a year depending on when the event happens.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today's Campus Activewear Q2 & H1FY23 con call on behalf of Campus Activewear limited that concludes this conference. Thank you for joining us and in case of any further queries, please reach out to campus activist, Investor Relations team at [ird@campusshoes.com](mailto:ird@campusshoes.com). You may now disconnect your lines. Thank you.