

May 13, 2022

<b>BSE Limited</b> Scrip Code: <b>543401</b>	<b>National Stock Exchange of India Ltd.</b> Trading Symbol: <b>GOCOLORS</b>
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Dear Sir / Madam,

**Subject: Transcript of Earnings Call – Q4 FY22**

We hereby enclose the transcript of earnings call for the financial results for the quarter ending March 31, 2022.

This is for your information and records.

Thanking You,  
For **Go Fashion (India) Limited**

  


**Gayathri Venkatesan**  
**Company Secretary & Compliance Officer**

Encl: As above



“Go Fashion India Limited  
Q4 FY2022 Earnings Conference Call”

May 09, 2022

**Disclaimer:** E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9<sup>th</sup> May 2022 will prevail



**Management**

- 1. Mr. Gautam Saraogi – Chief Executive Officer**
- 2. Mr. Mohan R. – Chief Financial Officer**

**Moderator:** Ladies and gentlemen, good day and welcome to Go Fashion India Q4 FY2022 Earnings Conference Call hosted by DAM Capital Advisors 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 ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajiv Bharati from DAM Capital Advisors. Thank you, and over to you Sir!

**Rajiv Bharati:** Thank you Nirav. Good morning everyone. Representing DAM Capital, it is our absolute pleasure to host Go Fashion India Limited for its Q4 and FY22 conference call. The company is represented by Mr. Gautam Saraogi – Chief Executive Officer and Mr. R Mohan – Chief Financial Officer. Over to Gautam for your opening remarks and post which we will open it for Q&A.

**Gautam Saraogi:** Thanks Rajiv. Good morning and a warm welcome to everyone present on the call. I hope you all are keeping safe and healthy during these times. I would like to mark a thank you to the entire investor community for the tremendous support during the IPO in November 2021. It was a proud moment for all of us. Along with me I have Mr. R Mohan our Chief Financial Officer and SGA our investor relations advisors. Hope all of you have received our investor deck by now. For those who have not, you can view them on the stock exchange and the company website. FY2022 has been a challenging year for this industry and despite COVID related lockdown, our company has shown brave resilience and we have come out stronger than ever before. We are among the few apparel companies in India to have indentified the market opportunity in women’s bottom wear and have acted as a category creator for women’s bottom wear. We have strengthened our portfolio by adding new products across all bottom wear category. We have leveraged the advantage to create a direct-to-consumer brand with a diversified and differentiated product portfolio of premium quality products at competitive prices.

During FY2022, our volumes grew by 34% and despite the lockdown phase in January, our volumes for the quarter grew by 11% on a Y-o-Y basis. We have a strong unit technology with efficient operating model. We have a standardized and saleable developed model for our EBO base and we have the knowhow and experience for the same. Our unit economics has allowed us to expand our EBO network across various regions in India including new EBOs in tier one, tier two, tier three, and tier four cities and towns. During FY2022, the company has added 54 EBO stores and we have crossed the 500-store milestone during the last quarter. Keeping in line with the growth strategy to open more doors closer to the consumer, the company is pushing ahead with expansion.

We continue to invest expanding our store footprint across geography by adding 120 to 130 new stores every year. We are looking at omni channel engagement for a seamless consumer experience building on a technology driven growth strategy to reach customers across all cities. Our product being core and essential to consumers has enabled us to operate on a business model where we offer limited discount and sale of our product typically at full price in our experience results in greater profitability. 97% of our EBO sales of FY2022 are all on full sales. In addition, our EBOs average selling price has increased primarily on the account of value-added product that we have introduced as part of our portfolio. Our ASP for fiscal year 2022 is Rs.661 per unit. We have strategically undertaken brand value initiative to gain visibility with prudent use of resources while incurring limited branding and marketing expenses. We detail our product under a single brand for improved brand recall and better marketing of our products, which has yielded one of the highest revenue per unit spent in the sector.

We are leveraging technology to bring cost efficiency and enhance consumer experience. We intent to further improve our operating efficiency and ensure efficient supply chain management through global best practices. Among the measures that we intent to undertake include investing further in the infrastructure to improve productivity and time saving. We look to upgrade our warehouse to optimize our inventory and supply management. The intent to implement new technologies further expands and improves customer delivery and enhance customer buying experiences with faster dispatches. We also undertake data analytics and that will allow us to better understand customer preferences, improve sales and help scale our operation. We are also in the process to add and indentify another small warehousing facility in Bhiwandi in Maharashtra.

We continue to focus on further strengthening our online sales to benefit from evolving customer trends in the market. We propose to make investment in digital channel to improve our omni channel engagement experience for our customers and have a dedicated team for the e-commerce operation. We also intend to leverage our existing capability to increase our online presence by improving and upgrading our website. Our focus will be to target customer acquisition to drive sales through our website and online marketplaces. In addition, we intend to invest in content generation to build engagement with the younger audience. We look forward to continue to innovate with a creative approach and launch more products while providing more brand definition for our consumers, which will help us grow and gain market share in the coming years. With this I would like to hand over the call to our CFO Mr. R Mohan for the update on Q4 and FY2022 financial thank you.

**R Mohan:**

Thank you Gautam and good morning everyone. The company has posted a strong performance for the quarter ending 31<sup>st</sup> March 2022 backed by increasing demand across

product category. Our revenues for the quarter stood at Rs. 116 Crores as against 90 Crores in Q4 FY2021 registering a growth of 29% year-on-year led by a volume growth of 11%. Gross profit increased by 30% to Rs. 72 Crores. The GP margin is 61.8% for the quarter. Our EBITDA for the quarter stood at Rs. 38 Crores registering a growth of 53% Y-on-Y as compared to Rs. 25 Crores in Q4 FY2021. Our EBITDA margin stood at 32.4% an improvement of 490 basis points on a year-on-year basis. Profit before tax for the quarter stood at Rs. 15 Crores at a 61% Y-o-Y from Q4 FY2021. Profit after tax for the quarter stood at Rs. 12 Crores at 73% Y-o-Y growth over FY2021 Q4.

Coming to same store sales growth, we have seen a 17% SSSG if compared to Q4FY21 that is last year and an SSSG of 31% for the second half of this year.

Coming to the financials FY2022, our revenue stood at Rs. 401 Crores as against Rs. 251 Crores in FY2021 registering a growth of 60% Y-on-Y. Our EBITDA for the year stood at Rs. 119 Crores as compared to Rs. 46 Crores in FY2021. Our EBITDA margin stood at 29.7%. Profit before tax for FY2022 stood at Rs. 48 Crores whereas profit after tax for FY2022 stood at Rs. 36 Crores. SSSG for FY2022 is not comparable due to COVID related lockdowns. With this we now open the floor for question and answers.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankit Kedia from Phillip Capital India Private Limited. Please go ahead.

**Ankit Kedia:** Hi Sir. I have a few questions. Sir first is what would be the volume growth in SSG of 17% for the quarter which we have posted given that the ASP increase itself Y-o-Y is around 13%.

**Gautam Saraogi:** So Ankit the volume growth would be about 5% Ankit.

**Ankit Kedia:** Sure and you have also taken a price increase in the month of December and January of Rs.50 on the leggings, but if I look at the quarter-on-quarter ASP increase is virtually flat so have you seen down trading from a consumer side or it is more situation wherein the Q3 is high festive demand and winter wear and we will see the benefits of the price increase in Q1.

**Gautam Saraogi:** So Ankit the way it works is see whenever we increase our prices, the prices gets increased for the new pieces which comes out from the outsourced production so till the new pieces gets into the system and we start selling on the new price it takes time for the transition to happen so basically the inventory which is placed at the store level and the other channel level we are not changing the price for the existing inventory so the price increase of Rs.50

what you are talking about, it will show over a period of two to three quarters. It will not show immediately in Q1 or Q4.

**Ankit Kedia:** Sure. Sir in that case our inventory has seen a significant bump up for the year. While we have also guided 90 to 100 days of inventory, it is more than 150-day inventory today so what is the reason for the inventory bump up in the system.

**Gautam Saraogi:** I will take a few minutes Ankit to explain this because this is a very important point. So see Ankit there is right now a very big supply chain issue which is happening because you know raw material prices have been fluctuating. The cotton has become a little scarce in availability so there is lot of supply chain difficulties what the apparel industry is facing as far as cotton and fabrics are concerned. So we have built up inventory keeping our growth in mind what we want to do over the next few quarters and few years and immediate future we have bumped the inventory so that we do not get affected by the external factor. Now today we are having about 165 Crores of inventory vis-à-vis we had 80 Crores of inventory in March 2021, so our inventory has almost doubled, but if I take inventory days as a calculation of what is my current running number. See currently we are doing on average of 47 to 50 Crores of monthly average sale so if I take my current monthly average sale number and then I compare the inventory what I am holding, I am holding about 3.2 months of inventory which is about 95 to 97 days which is very much under control and in line with what our inventory planning is to begin with. So two things here, one is obviously we have bumped up inventory keeping in mind the supply issue which is happening in the market, second most important thing even if I take my current inventory number coinciding with what sale number I am currently doing which is about 47 to 50 Crores on a monthly average, I am having about 3.2 months of inventory which is pretty much under control.

**Ankit Kedia:** Sir can you give us a breakup of finished goods inventory and raw material inventory?

**Gautam Saraogi:** Raw material inventory in that 165 Crores would be about 45 Crores if I am not wrong, around that number.

**Ankit Kedia:** Okay. Sir two more questions from my side. One is on the online sales, in FY2022 we only saw 3% growth while the company was at 60%. While we have invested a lot about online being the key pillar for growth, why is only 3% growth in the online for the system?

**Gautam Saraogi:** So Ankit the online is a very, very important channel but like I had mentioned last time also it will grow at a slow speed compared to offline. See currently what we are doing is we are building our new website a few months ago. Now the new website has already gone live. Now since the new website is live now we are building the omni channel strategy so this push from 3% to probably say double digit in the coming quarter is the work in progress is

starting and to happen now. Since our new site is up and running now we are building the omni channel where we are integrating the new site with our front-end retail so keeping these things in mind, the online sales will start picking up in the coming quarter.

**Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Service. Please go ahead.

**Devanshu Bansal:** Sir thanks for the opportunity. Just in continuation of the question on inventory. I understood that the current revenue base is also low giving the higher monthly run rate the inventory levels are higher, but at FY2023 end should the inventory levels be at 90 to 95 days, is this the correct understanding

**Gautam Saraogi:** We are going to be looking at maintaining similar levels of 90 to 95 days.

**Devanshu Bansal:** Sure and in terms of channels you have indicated that EBO to contribute about 80% mix so just wanted to check as in what is the timeline to achieve this sort of mix.

**Gautam Saraogi:** Sorry Devanshu I missed your question. Can you please come again.

**Devanshu Bansal:** So in the presentation you have indicated you expect EBO channel to contribute about 80% to your overall revenues so I just wanted to check the timeline for that.

**Gautam Saraogi:** So Devanshu it is very hard to specify exact timeline but we are hopeful that maybe over the next one and one and half years or two years we should get to that number.

**Devanshu Bansal:** So if we see online channel you have indicated that you have sort of good plans there so majority of that share shift will happen from LFS is this the correct understanding.

**Gautam Saraogi:** See I will tell you what is our eventual plan, eventually two to three years down the line what we are planning to see that EBO and online together should calculate which is direct to consumer, EBO and online together should contribute to 90% of the sales where LFS share comes down below 10 and our MBO and other channels would be less than 3% so this is our eventual mix what we are planning to achieve in the next two to three years where 90% of our sales is coming from EBO and online together.

**Devanshu Bansal:** But LFS in this quarter has particularly seen about 150 sort of store addition so from that perspective, store additions has been sort of particularly strong so interestingly even tier two, three, four towns actually added about 100 stores of those 150 stores so just wanted to check so what are the plans in terms of store addition for LFS format.

- Gautam Saraogi:** So Devanshu what we are doing in LFS is see we are very selectively growing with our partners. It is not that we are going everywhere and adding stores across the country, it is not like that, selectively where our target markets and strategy are we are selectively adding those stores with LFS partners because LFS is a very very important channel. It give us access to newer town, newer geography before we can think about our opening our EBOs also it gives us a taste and flavor of that new city so we are going to continue to expand and this last one year we have been able to add good number of LFS stores and I am hopeful that even in fiscal year 2023 we would be able to add good number of stores.
- Devanshu Bansal:** Okay lastly I wanted to check what are the kind of investments in terms of opex as well capex for the online investment that you have indicated for the coming year.
- Gautam Saraogi:** So Devanshu see as far as online and omni is concerned it is not a very cost heavy or very investment heavy channel frankly. See our new site what we wanted to do live we have already got it live. Our new site is ready. Our EBO software and our backend SAP software is also ready. Integrating the three for an omni channel experience is not going to be very capital intensive, so the investments in digital are not going to be very material.
- Devanshu Bansal:** Sure so I wanted to check from team perspective. I mean you indicated the investment in team ware housing etc so anything to watch out there.
- Gautam Saraogi:** See on the e-com front we have hired a dedicated e-com team to understand e-com in and out. See we are more of an offline business. We are more of brick-and-mortar business so now we have one dedicated team for e-com and online, their entire focus is only online and they are not focused on offline at all. This team what we have formed over the last few months we are starting to see good result so we are hopeful that this will add and help us grow our online.
- Moderator:** Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.
- Vaishnavi Mandhaniya:** Hi thanks for taking my question. Sir few things, so one on the inventory build up right so do we expect sales growth to probably accelerate at a faster rate versus what we have seen in the last one year if we have so much of inventory buildup.
- Gautam Saraogi:** So Vaishnavi very hard to link the two. I think sales are largely driven by market sentiments and how consumer behavior is happening. Our idea of building the inventory was more from the perspective of there should not be any stoppage in supply chain or break in supply chain, but it will be hard to say that because of higher inventory we would be able to sell a lot better would be a hard assumption. Now since consumer sentiments are anyways back



after third wave, we are very hopeful that sales over the next couple of quarters will be very strong.

**Vaishnavi Mandhaniya:** My second question was on the pledge that was done in the last quarter right. Any specific reason for the same.

**Gautam Saraogi:** So Vaishnavi our pledge was for personal reasons. Our requirement as a promoter family was 150 Crores and this pledge was specifically taken for personal requirements and commitment and this is short term in nature. We understand the sensitivity around this subject and this is short term in nature and we are looking to close the pledge within 3 to 6 months.

**Vaishnavi Mandhaniya:** Thank you.

**Moderator:** The next question is from the line of Akhil from Centrum Broking. Please go ahead.

**Akhil:** Hi thanks for the opportunity. My first question is on store closure so what is the policy or the time frame we apply given that we see significant store closure which have happened over last four years, almost 85 stores have closed so what kind of policy we look at this on the store.

**Gautam Saraogi:** See as far as store closures are concerned, if you take most of store closure what has happened in the last two years is largely related to COVID because post COVID first wave and second wave, there were many markets which did not revive. There were many malls which did not revive so we had not choice but to exit so a large number of those closures were pertained to COVID. In general case scenario our closures have been limited and we usually at least wait for a year or a year and a half to assess the performance of the store and then decide whether we want to close them.

**Akhil:** My second question is expansion in tier two and tier three towns, we have significantly added in tier two, tier three and tier four towns what kind of rent to revenue ratio we look at and how has the store dynamics defer in these cities versus the metro and tier 1?

**Gautam Saraogi:** If I compare tier one versus tier two and tier three the real disparity between tier one versus tier two, tier three and tier four will be slight in revenue. See the kind of revenue what we generate for an average store in tier one versus the tier two there will be small delta difference. Obviously a tier two, tier three and tier four will be slightly lower than a tier one city average store. Having said that the other economic of the business as far as rent to revenue ratio is concerned, salary to revenue is concerned or EBITDA as a percentage to revenue is concerned that is pretty the same because in tier two, tier three and tier four the

costs are that much lower so for us the rent to revenue and the EBITDA percentage does not change. It is only the numerator of the revenue changes are slightly between a tier one and tier two. Having said that the kind of rent to revenue ratio is what we look at while finalizing a store in tier three city or a tier one city, we look at about 15% of rent to revenue ratio when we plan.

**Akhil:** Just one followup on this? Our brand equity in tier two and tier three, I am assuming will be a bit lower as compared to tier one and metro cities. Will that interpretation be correct?

**Gautam Saraogi:** Well I would say our brand recall would be slightly lower in tier two, tier three and tier four because right now our presence if you see in terms of EBO network we are largely the top eight cities so yes our brand recall would be lower in tier two and tier three as of now because our presence is lower.

**Akhil:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

**Gautami Desai:** Sir I just wanted to know your experience on value added items, experience in the sense that what would be a competitive advantages and also I would also tend to believe that in those items there are established brands and hence you are experienced very different to your legends so that is my first question? Another question is are you able to pass on the cotton prices, the hike in cotton prices completely or have you done any change in the fabric mix?

**Gautam Saraogi:** Thanks Gautami so first on the value-added product. For us one of our key strength is product innovation. There have been many products, which we have innovated and developed in-house and then we brought into the market. Like for example a very important value-added product we had launched three to four years back was the kurti pant. The kurta pant was a product innovated and developed in-house so our strength is our product innovation and definitely our value added product has given us the edge over our competitors and one of the reasons for our consumer to keep coming back to our Go Colors store is not only for the variety in colors what we have in our leggings and churidars, but for the kind of range of other products we have across jeggings, pants, harem, Patiala and palazzos. So our value-added products strength is one of our key strengths in terms of our consumer sales. Now coming to the cotton price increase, we have not changed the composition of the fabric. We believe that one of our key selling points is the quality of our fabric so we have not touched the fabric quality at any point. Whatever our long-term price increases what we have seen in raw materials that much increase we have taken at the selling price. When there are short term fluctuations in price we do not really increase our

selling price. We absorb it because our gross margin give us the room to absorb it, but whenever there are long term fluctuations in price, we correspondingly increase the selling price so we increase the price without touching the quality of the fabric.

**Gautami Desai:** So whatever the price hike happened that much you think that with this Rs.50 will get covered?

**Gautam Saraogi:** Sorry can you come again. I lost you in between.

**Gautami Desai:** Whatever price hike that has happened in your fabric cost this Rs.50 price increase which you have taken, will that cover that cost?

**Gautam Saraogi:** We have taken two price increases Gautami. One we have taken in April 2021 and one we had taken another increase in December 2021 so these two increases what we have taken over the last year and a half will cover that increase in raw material side without any cost.

**Gautami Desai:** Sir you say that your LFS is going to come down and that is what you wish for so in that case would your inventory go down below 90 to 95 days because then I do not see any reason for your inventory to stay so high?

**Gautam Saraogi:** Inventory Gautami we are maintaining 90 to 95 days consciously. We want to maintain an inventory of 90 to 95 days because we are on a high growth business and in some shops our inventory does not have any risk because there is no fashion element so at a company level in the short-term future we want to maintain 90 to 95 days of inventory for faster growth.

**Gautami Desai:** Otherwise what changes in your working capital you foresee if you can bring down the LFS to less than 10%?

**Gautam Saraogi:** Sure Gautami what will happen is our receivables which are at about 50 days would start coming down to about 25 to 30 days. I mentioned on the call that our current revenue number is between Rs.47 Crores to Rs.50 Crores so if I take the Rs.60 Crores of receivables what I had in the balance sheet and compare it with my current running number my receivable days is already at 35 days so my overall receivables as a percentage of revenue comes down which further decreases my working capital.

**Gautami Desai:** Sir what we are saying not only you but most companies is that this continuous rise in the inventory cost what that has done is it will revise the overall value of the inventory right? Now you will have a high level of inventory and obviously when you value it, it will be at least 25% to 30% higher than what it was so is there any impact of the same on your margins?

- Gautam Saraogi:** Our inventory is calculated on cost, on an average cost basis so because of the raw material prices increase what is happening is our older inventory value does not increase because we work on an average cost. Our older inventory will lie on the system at the older cost and the newer inventory will be on the newer cost and then the system calculates the inventory valuation on an average cost basis so our overall inventory value in the book does not change with the increase of the raw material price.
- Gautami Desai:** Thank you Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Asset Management. Please go ahead.
- Manish Poddar:** Thanks for giving the call through. Three questions, the first one is would you be able to help me with the channel mix or sales mix that is the base quarter 4Q 2021?
- Gautam Saraogi:** So right now this quarter, Q4 we had a channel mix of EBO contributed about 74% of the business.
- Manish Poddar:** Gautam I asked Q4 2021, this quarter mix is there in the PPT? I am just looking at your base quarter 4Q 2021?
- Gautam Saraogi:** I did not understand.
- Manish Poddar:** Like you mentioned 74.3% is in this quarter? I am just trying to understand the base quarter March of 2021 how much was that mix?
- Gautam Saraogi:** You are talking about last year same quarter; at that point of time it was around 72% so the mix was very similar. The EBO had increased from 72% to 74%.
- R Mohan:** Gautam it was 76.3% last time.
- Gautam Saraogi:** So I stand corrected so last year same quarter EBO contributed to about 75%.
- Manish Poddar:** Then the margin mix stands fine and just then two more questions? The first one is let us say if you look at your Q1 now in the coming quarter just wanted to understand how would you judge the performance because you know last two years the Q1 has been a white wash and Q4 has this Jan impact so when your judging your performance in the next quarter would it be let us say percentage of what you did in December quarter or how are you internally looking at it let us say guiding the team for this quarter?

- Gautam Saraogi:** You have very rightly asked Manish so we are going to be looking at on month-on-month what growth we are going to be doing. Actually for us to compare, we cannot compare anything with last year Q1 and the year before that because of COVID so we would be internally comparing with our previous months number and see how much we are growing month-on-month based on previous trends. That is the way we will be looking at it because if I have to compare it on a Y-o-Y basis it will be difficult because last year the entire Q1 was affected by lockdown and the year before that also was the same.
- Manish Poddar:** Just any sense let us say this quarter January, February and March how are the numbers stacking up? Would it be let us say 20:40:40? Is that a rough slit?
- Gautam Saraogi:** Sorry January, February and March I did not understand.
- Manish Poddar:** This quarter when I am looking at let us monthly number would January, February and March be a split of 20:40:40 let us say figure 100, just a ballpark?
- Gautam Saraogi:** Broadly I will tell you so in March we did broadly between Rs.47 Crores to Rs.48 Crores of revenue in March.
- Manish Poddar:** I am just looking at the end number? Just one last one if I can, just on this warehouse bit so you are putting up a warehouse like you mentioned in Devandi in Maharashtra now what is the capex outlay and I thought earlier the warehousing in South India was enough for you entire expansion plans so just why the change in thought and let us say what is the capex outlay here?
- Gautam Saraogi:** Manish it is basically small warehouse. It is not even like a warehouse. Warehouse is like a small mini fulfillment center and I will tell you the reason why we are doing it. West contributes to a very large portion of our business and what we have noticed that from Devandi even North can be catered very well so we thought let us try out with a mini warehouse like a mini fulfillment center to see if we are able to improve our efficiencies of sale and dispatch for the stores in West and North. It is a small warehouse and the capex what we are looking at will not be very material in nature. From what we understand it will be about to Rs.2 Crores to Rs.3 Crores and not more. We have identified the locations, but the still the capex plan is yet to be full and free but it is not going to be material in nature.
- Manish Poddar:** Got it. Just a small feedback if you can incorporate let us the base quarter numbers let us say for the channel mix and let us say if you can include the pre Ind-AS margins let us say on a quarterly basis or let us say at least on an annual basis that will be helpful to understand the performance? Thank you so much.

- Moderator:** Thank you. The next question is from the line of Anirudha Bhandari from Sixteenth Street capital. Please go ahead.
- Anirudha Bhandari:** Congratulations on the numbers. My question is on cash flows so why are the cash flows from operations so low? EBITDA is Rs.119 Crores? What is the causing the difference?
- Gautam Saraogi:** I think the major reason for our cash flows to be on the lower side is because of the increase in working capital and largely driven by inventory, so our inventory in March 2021 was Rs.80 Crores which has gone up to Rs.165 Crores so one of the reasons for lower cash flows is because of the increase in inventory which I explained the earlier because of the supply chain difficulties what we are seeing in the markets right now.
- Anirudha Bhandari:** What are the receivables pertaining, all your EBO are company operated so most of the receivables are pertaining to LFS?
- Gautam Saraogi:** Absolutely.
- Anirudha Bhandari:** What is the agreement of receivables and do you also take the stock back if it does not sell for a few months?
- Gautam Saraogi:** Sure I will explain that Anirudha. Very rightly you pointed out so the receivables what you see in the balance sheet are largely driven by large format stores so the Rs.60 Crores what number you see in the balance sheet most of that is LFS. We sell to LFS on a SOR basis which is the principle-to-principal relationship. So according to accounting standards we need to show it as debtors in our books. Now as far as returns are concerned, ours is a very core and essential wear products so we have actually not seen goods coming back in large quantities from the large format stores as return. Our returns percentage has been under 1%.
- Anirudha Bhandari:** Under 1% right?
- Gautam Saraogi:** Under 1%.
- Anirudha Bhandari:** Got it and what investment that we are doing to improve this ratio, cash flows through EBITDA? It is very low and it is not consistent over the last four years?
- Gautam Saraogi:** Look as the sales increases and the inventory gets normalized, the requirement of increase of working capital will not be so high as you have seen in the FY2022 so automatically the cash flow from operations will automatically improve.
- Anirudha Bhandari:** Got it. Thank you.

- Moderator:** Thank you. The next question is from the line of Rahul Jain from PhillipCapital. Please go ahead.
- Rahul Jain:** I have a couple of questions. My first question is are you facing any pressure on job work charges given the increase in cost?
- Gautam Saraogi:** Thanks for the question. So Rahul we are not seeing any pressure of increase in charges of the job work and factory charges. I think it is largely been driven by the material cost of fabric, but as far as subcontracting and the factory charges and job working charges are concerned, it has stayed pretty consistent. We do not see any fluctuations there.
- Rahul Jain:** My second question regarding the absolute A&P spends? The cost had declined 20% to Rs.5 Crores against Rs.6.4 Crores in FY2021? What is the guidance going forward for A&P spend?
- Gautam Saraogi:** Usually Rahul, this year has been lower because this year was a COVID impacted year so we were very frugal in our advertising spends to be honest with you. In a normalized year we would be around 2% to 3%. On a long-term ad spent we would be 2% to 2%. There will be some years where we might touch 4% but on a general and normalized basis we will be at around 2% to 3% of revenue.
- Rahul Jain:** Can you quickly share the total EBO area?
- Gautam Saraogi:** So our average is around Rs.390 Crores to Rs.400 Crores average area of cost.
- Rahul Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Resha Mehta from Greenedge Wealth. Please go ahead.
- Resha Mehta:** Thanks for the opportunity. Sir I have two questions. One if you could talk about in terms of the future revenue growth how much of that will come from volume growth and how much from product mix or premiumization and also if you could talk about, you eluded to value added products so how do you define value added products? What is their average selling price?
- Gautam Saraogi:** I will take the second question first and then I will come to the other one. From a value-added products for the sector, how do we define value added products. Leggings and churidars are of your core generic bottom. Value added products are anything like pants, jeggings, harem, patialas, palazzos they come under the value-added mix. Now the value-

added products for us contribute to almost half of our business. Earlier leggings and churidar used to dominate it but now the value-added products are contributing to almost half of the business. The average selling price of the value-added products would be around Rs.800 to Rs.900 a unit. What we are doing as part of pricing our products of concern we try and price the product as low as less than Rs.1049 so for us 83% of our entire product portfolio would be listed less than Rs.1000 because consciously we want to price our product right with very high quality so our average selling price for a value-added product would be Rs.800 to Rs.900 per unit. As far as future growth is concerned, we are as a company looking to grow at a CAGR of more than 20% over a long period of time because our category is very huge and may be in the coming years our growth would be higher. It would be around 30% or more than 30% but on a long-term basis we are looking to grow at a CAGR of around 20% as far as revenues are concerned.

**Resha Mehta:** Got it and how much of this would be volume growth driven versus product mix or premiumization change?

**Gautam Saraogi:** So for example supposing I am looking at a growth of 30% in the immediate couple of year's window probably 15% to 20% should be volume.

**Resha Mehta:** Got it and just a followup on this right so how much would athleisure be a part of your overall revenue mix and also in jeggings, track pants, etc., what would be our right to win versus let us say somebody like Page or Enamor who are operating at broadly similar price points?

**Gautam Saraogi:** For us at athleisure right now is a very, very small contributor. For example all the newer products what we have launching in loungewear and athleisure we are just in the first year. It takes a couple of years for a category or product to settle down so if you see right now as a contributor to sales it will be a very, very small percentage, but one of the reasons why a customer is coming back to a Go Color storeroom, the range of colors and the range of products what they find under one roof right. So today when a customer is coming to a Go Color she is finding the athleisure bottom, she is finding the western wear bottom, she is finding the fusion wear bottom, or ethnic wear bottom under one roof that is the value-added proposition. Our value-added proposition is basically getting all the products all the colors of bottom wear under one roof that is where we have that selling edge.

**Moderator:** The next question is from the line of Manasvi Shah from ICICI Credential. Please go ahead.

**Manasvi Shah:** Thanks for the opportunity. Just two questions pertaining to the inventory. One is what is the aging of your finished goods if you can answer that and second what would be the



quantum because of the revaluation design because raw mat cost and NRV has gone up right, you can just explain both of these?

**Gautam Saraogi:** Most of our finished goods are under one year, we have a provisioning policy also, so inventory which is greater than 365 days old, we provide for it and this year also we have as per the policy provided for inventory in our books which is a very relatively smaller number. If I take the inventory aging of our finished goods and raw materials it is well within one year.

**Manasvi Shah:** The provision is less than a percent?

**Gautam Saraogi:** Sorry?

**Manasvi Shah:** The provision is less than a percent?

**Gautam Saraogi:** It will be around a percent, I am not having the exact percentage in handy, but it will be around a percent.

**Manasvi Shah:** On the second question?

**Gautam Saraogi:** On the second question like I explained our inventory valuation does not change with the increase of raw material prices, because in the books, the cost of inventory will be always based on when it was purchased so the system rolled out a weighted average cost of inventory, so the newer inventory will be at the newer raw material pricing and the older inventory will be at the older, because of the raw materials increase in price, the inventory valuation does not dramatically change.

**Manasvi Shah:** But it could change because of the NRV increase right, and cost realization. Okay it is cost realization, so it is a blended reduction does not change much.

**R Mohan:** I will just interrupt here, it is cost or realizable value which is lower, not higher. We cannot change the price in finished goods.

**Manasvi Shah:** Correct and secondly even if I exclude advertising expenses, your other costs have actually fallen or are flat on a Y-o-Y basis what is the key contributor to this?

**Gautam Saraogi:** Which cost?

**Manasvi Shah:** Your other expenses, ex of employee?

- Gautam Saraogi:** It is hard to compare with last year, because last year was a COVID related year and this year also has been a COVID impacted year, so we have kept costs low even like if I take the advertising cost like I was mentioning we kept it very low as low as 1.2% so from a bottomline perspective we have kept costs low because this has been a COVID impacted year.
- Moderator:** Thank you. The next question is from the man of Gautam Rathi from CWC Advisors. Please go ahead.
- Gautam Rathi:** Thanks for taking my question. I just wanted to understand one thing, in the earlier part of the call you alluded that you have a run rate of about Rs.47 Crores to Rs.50 Crores per month of revenue right, so if I just do a back of the envelope calculation it says that we might have lost somewhere around Rs.20 Crores, Rs.25 Crores of revenue maybe in January due to Omicron, so is this understanding right and if it is so how should we think about then the gross margins at a normalized base right because this base would not be the right to think about, so can you just help us understand this?
- Gautam Saraogi:** You can assume that we have lost Rs.20 Crores, Rs.25 Crores because of January Omicron, that is not a right thing to assume, but from a GM perspective like I told you more than 97% percent of our sales happen on full price, irrespective of the channel right so for us our GM does not really get impacted because of lower sales, our GM pretty much stays consistent.
- Gautam Rathi:** Just wanted to understand is it right to say that your GM last quarter was 66%, this quarter is 68%, what is the right level of GM that we should be working with?
- Gautam Saraogi:** Last year same quarter we had a GM of 61% and this quarter we had a GM of 61% so I think the GM number can assume would be 60% to 61% would be the right number to assume on a long-term basis.
- Gautam Rathi:** This is after taking into account subcontracting cost also?
- Gautam Saraogi:** Yes, absolutely.
- Gautam Rathi:** So, 68% is slight bit of an aberration right?
- Gautam Saraogi:** No, 61% is the right number to assume after subcontracting costs.
- Gautam Rathi:** After subcontracting cost for the full year?
- Gautam Saraogi:** Yes absolutely, so for the full year the GM was 60%, for the Q4 it was 61%.

- Gautam Rathi:** Perfect and just one last question if I may, just wanted to understand this 50 odd stores that we have opened, is it fair to assume that by next year onwards they should start clocking a run rate of anywhere between 80 lakh to one Crore on your which is your normal expectation from a store, is that is a fair ask.
- Gautam Saraogi:** It is difficult to assume like that but from our past experience we have seen that any store what we opened kind of reaches some sort of maturity within 12 to 15 or 12 to 18 months, so we would be hopeful the stores that we opened this year maybe by the end of next year once it crosses 12 months or 15 months, it should reach us some sort of maturity.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital Partners. Please go ahead.
- Deepak Poddar:** Thank you very much for the opportunity. Sir I just wanted to understand in terms of EBITDA margin so what is the range that we might be looking at given the raw material inflation that we have seen over the near to medium term in terms of margins?
- Gautam Saraogi:** Let me talk about pre-Ind-AS EBITDA because that would give a better kind of idea. We would on a steady state basis look at about 20% to 21% of pre-Ind-AS EBITDA as far as annualized is concerned. As the business keeps increasing there will be little upside in EBITDA because of better efficiencies of fixed costs, but 20% to 21% of pre-Ind-AS EBITDA is what we are looking at and if you take post Ind-AS it would be about if I am not wrong it will vary about on an annualized basis between 25% and 27%.
- Deepak Poddar:** 25% to 27%?
- Gautam Saraogi:** No, on post Ind-AS basis it will be between 35% and 37% and pre-Ind-AS basis it will range between 20% and 22%.
- Deepak Poddar:** Okay and the current quarter, our margins was around 33%, so that was largely because of lower revenue base and that is the major reason?
- Gautam Saraogi:** No, one of the major reasons is COVID, because there was a COVID impact in Q4, there was a COVID impact in Q1 and Q2, so the EBITDA obviously has been a little on the lower side because of the COVID impact.
- Deepak Poddar:** So that impacted your revenue right?
- Gautam Saraogi:** So yes absolutely.

- Deepak Poddar:** Okay. That is it from my side. All the very best. Thank you.
- Moderator:** Thank you. The next question is from the lion of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.
- Chirag Lodaya:** Thank you for the opportunity. Sir, my first question was reason for higher other income in FY2022 and how we should look this number going ahead?
- Gautam Saraogi:** See the reason for higher other income in FY2022 is also because of the larger cash balance what we have had so we have had it in fixed deposits and mutual funds so the reason of higher other income is because of higher cash balance.
- Chirag Lodaya:** But if I see last two quarters run rate is about Rs.33 Crores odd whereas full year is around Rs.21 Crores, so I am sure in Q1 or Q2 there is some exceptional other income which would have led to this Rs.21 Crores?
- R Mohan:** It is Ind-AS.
- Gautam Saraogi:** That because of Ind-AS, because in Ind-AS labors are also shown in other income, so that is more of a Ind-AS entry.
- Chirag Lodaya:** Going ahead is it fair to assume, 3 Crores, 4 Crores run rate would continue, right, so it would get normal?
- Gautam Saraogi:** It will be fair to assume.
- Chirag Lodaya:** Second question was on inventory, is it fair to assume again H1 FY2023 will go back to this 95 to 100 days run rate, which is currently 150 plus?
- Gautam Saraogi:** Currently our average sale, monthly sale what we are doing is about Rs.47 Crores to Rs.50 Crores, so based on a current run rate we already at about 93 to 94 days.
- Chirag Lodaya:** But on a reported basis in past few years to be at 90 to 95 days currently on a reported basis it is let us say 150 plus so maybe six months down the line when things get normalized?
- Gautam Saraogi:** On a six-month basis we should be able to come back to that number.
- Chirag Lodaya:** Right and just lastly gross margin guidance which you gave 60%, 61%, is after considering the cotton inflation which we are seeing and the price increase we have taken, we do not see any impact on gross margins right?

- Gautam Saraogi:** No, 60%, 61% should continue. We have already factored in that.
- Moderator:** Thank you. The next question is from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.
- Vinod Malviya:** Thank you for taking my question. I just had one bookkeeping question. Can you just tell us what was the rent you paid for full year of FY2022?
- Gautam Saraogi:** I think it is around Rs.57 Crores. I will ask Mr. Mohan to confirm.
- R Mohan:** Rs.57 Crores.
- Gautam Saraogi:** Rs.57 Crores of rent we paid.
- R Mohan:** Rs.57.25 Crores.
- Vinod Malviya:** How much of it was on a variable cases and how much would be fixed.
- Gautam Saraogi:** More than 90% will be fixed, variable would be a very small quantity.
- Vinod Malviya:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities and Finance. Please go ahead.
- Binoy Jariwala:** Thanks for the opportunity. I just wanted to know what was the Ind-AS impact on PBT for FY2020 and FY2022?
- Gautam Saraogi:** The PBT impact would be not very different, it would be a little different I would see like for example if I take fiscal year 2020 as far as I remember the difference between PAT on Ind-AS and non-Ind-AS bases was only Rs.3 Crores, Rs.4 Crores so the delta difference between non-Ind-AS, PAT and Ind-AS PAT is not too much.
- Binoy Jariwala:** Rs.3 Crores, Rs.4 Crores is a non-Ind-AS PAT was higher and the Ind-AS PAT was lower right?
- Gautam Saraogi:** The non-Ind-AS PAT was higher, you are right. The reported number was lower.
- Binoy Jariwala:** This is in FY2020 and what about FY2022?
- Gautam Saraogi:** FY2022 also Mr. Mohan, how much would it be?

- R Mohan:** No, you have to stand corrected Gautam for FY2020 was around Rs.8 Crores with the effect of Ind-AS 116 particularly, the 115 another row.
- Binoy Jariwala:** No, 116 Ind-AS.
- Gautam Saraogi:** FY2020 was Rs.8 Crores at a PAT level.
- Binoy Jariwala:** Okay and what about FY2022?
- Gautam Saraogi:** Mr. Mohan, he is asking what is the impact on PAT FY2022 and FY2020 because of Ind-AS?
- R Mohan:** I will explain, in this fiscal year 2020, the impact of Ind-AS 116 is around Rs.8 Crores and it is now presently around Rs.7 Crores, this goes because this impact of Ind-AS on PBT will be always there because we are signing up new properties and renewing the old one, so there will be renewal of the old one and engagement of new one so the impact should be around Rs.7 Crores to Rs.8 Crores on a continuous basis on PBT.
- Binoy Jariwala:** And this is the impact Rs.8 Crores and Rs.7 Crores respectively that you have spoken of, is the PAT impact right?
- R Mohan:** PAT and PBT both, there would not be any difference on that.
- Gautam Saraogi:** Yes, it will be the PAT impact. The reported number would be Rs.7 Crores lower or Rs.8 Crores lower.
- Binoy Jariwala:** Understood, fair enough, thanks so much. Second and last question is what percentage of our contract manufacturing is where you provide the raw material to the contract manufacturer?
- Gautam Saraogi:** Largely, so for us majority of our sourcing happens through that model where we buy fabric and then we give it to the subcontractor to convert it, so hard to give a percentage right now because that will vary from quarter-to-quarter, but majority comes from that model.
- Binoy Jariwala:** Is it possible to give on an annualized basis where you look to maintain this percentage in a particular range or something like that?
- Gautam Saraogi:** Sorry I am not having that number handy, but from what I understand it will more than 70% of our entire sourcing happens through when we buy the fabric directly and give it to the subcontractor for conversion.

- Binoy Jariwala:** Understood. That is it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** Two questions from my side. Could you please let us know the seasonality of your company on a quarterly basis like Q1 pertains to what percentage of your total yearly revenue and what other quarters contributes and my second question is sustainable working capital days going ahead assuming normal environment with a breakup in inventory days, receivable days and payable days?
- Gautam Saraogi:** From a seasonality or sales perspective is concerned, we see very little seasonality from the sales perspective because Q3 of course being the highest, Q3 usually contributes to about 33% to 34% of the business and the balance Q1, Q2 and Q4 are pretty much almost the same, Q4 is being the lowest, Q1, Q2 are similar so Q3 would be about 34% and Q4 would be about 18% to 19% as a contribution and Q1 and Q2 would be similar and the second question was on working capital right?
- Ankit Babel:** Sustainable working capital and a breakup between inventory, receivables and payable days?
- Gautam Saraogi:** On a sustainable basis, we look at working capital days from anywhere between 120 to 130 days, so inventory would be 90 to 95 days and receivables would be about 30 to 35 days.
- Ankit Babel:** Receivables would be 30 to 35?
- Gautam Saraogi:** Correct.
- Ankit Babel:** And payables?
- Gautam Saraogi:** Inventory would be 90 to 95 days; payables would be about 10 to 11 days.
- Ankit Babel:** Okay. That is it Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Parikshit Shah from Duro Capital. Please go ahead.
- Parikshit Shah:** Thanks for the opportunity. My first question was on the gross margin. I think in one of the earlier questions you responded, you expect margins to be around 60%, 61%, I just wanted to clarify this is on a steady state channel mix right and I am guessing that as EBO improves

the 60%, 61% can actually go higher and the second question was on EBITDA margin I think you said you are targeting 20% to 22% pre-Ind-AS, just wanted to know what the pre-Ind-AS margins were for Q4 and FY2022?

**Gautam Saraogi:** 60% to 61% are the current gross margin so as the channel mix changes and gets more skewed towards view and online, we see the gross margin definitely improving beyond 60%, 61%, but on the current channel mix we are estimating that 60%, 61% should continue as EBO sales increases, this gross margin will further improve, difficult to quantify how much will it improve, but it will definitely improve. As far as EBITDA is concerned, we are having an EBITDA of about 20% to 21% on a normalized basis, without the impact of COVID we are having about 20% to 21% of EBITDA for the year. For Q4 if I take the pre-Ind-AS EBITDA we were at about 18.9%.

**Parikshit Shah:** Understood, so this was basically the impact of the January Omicron.

**Gautam Saraogi:** Absolutely.

**Parikshit Shah:** Okay, thanks.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint that will be the last question for today. I now hand the conference over to the management for closing comments.

**Gautam Saraogi:** Thank you everyone for joining us. I hope we have been able to answer all your queries. We look forward to such interactions in the future. We hope to live up to the expectations of you all in the future. In case you require any further details, you may contact Mr. Deven from SGA, our investor relations partner. Thank you again for joining.

**Moderator:** Thank you very much. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.