"Vedant Fashions Limited Q3 FY2022 Earnings Conference Call"

March 1, 2022

MANAGEMENT: **MR. VEDANT MODI – CHIEF MARKETING OFFICER**
MR. RAHUL MURARKA – CHIEF FINANCIAL OFFICER
MR. SIDDHARTH SARAF– CHIEF STRATEGY AND INVESTMENTS

MODERATOR: **MR. GAURAV JOGANI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Vedant Fashions Limited Q3 FY 2022 Earnings Conference Call, hosted by Axis Capital Limited.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. Actual results may differ materially. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 this conference call, please signal for an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Jogani from Axis Capital Limited. Thank you and over to you, sir.

Gaurav Jogani: Thank you, Neerav. Good afternoon everyone. It is my pleasure to welcome you all to Vedant Fashions maiden earnings conference call. From the management side, we have with us today Mr. Vedant Modi – Chief Marketing Officer, Mr. Rahul Murarka – CFO and Mr. Siddharth Saraf – Chief Strategy and Investments.

I would now like to hand over the call to the Management for their opening comments. Post that we can take the Q&A session. Thank you and over to you, Vedant.

Vedant Modi: Thank you. Good evening and warm welcome to all the participants. I hope that you and your families are safe and healthy and taking due precaution from COVID. I welcome you all to our maiden earnings call after the initial public offering.

Before I speak about the Company, I would like to thank everyone for supporting the IPO. With this support and trust, the IPO was oversubscribed. As this is the first call, there are a few people with whom we will be interacting for the first time. I would thereof like to quickly give a brief description about the Company before we move on to the performance of the third quarter of this financial year.

It all began in the 1000 square feet office space with Rs. 10,000 as capital. Manyavar began its journey as a thought in 1999 when we ventured into a family business with revamped men’s ethnic wear. The Company got incorporated in 2002 in Kolkata. What followed was a full swing retail operation thriving from 2008 and since then the Company has grown from a niche 90 employees to a blissful (+1000) employees at the backend and (+3,000) associated with the brand at the frontend. Manyavar has expanded its reach to (+200) cities in India, U.A.E. and the U.S.A. Manyavar transformed men’s ethnic wear fashion into a signature statement. The Brand opened up a much wider variety of men's garments and accessories, which rendered it as a one-stop-shop for celebration wear. Since then, the label has become synonymous with wedding wear, a one-stop store draping the world with joy and finest Indian elegance. Thus, Manyavar completed Celebrations.

Paving the path for a happier family, the brand introduced Mohey, celebration wear for women in 2016 and acquired one of the biggest fashion brands in southern India, Mebaz in 2017, a one-stop destination for men, women and children. We commanded a dominant position in conventionally unorganized market and have been able to scale and organize a highly unorganized and fragmented category. We're the largest Company in India in men's Indian wedding and celebration wear by revenue and profitability as per the CRISIL report based on Financial Year 2020 numbers.

The Company is built on four key pillars:

1. Transparency
2. Efficiency
3. Inclusive Growth of all Stakeholders
4. The Use of Technology and Innovation.

Let me give you a quick introduction to our brands:

Manyavar is a category leader and a creator in the branded men's Indian wedding and celebration wear market with pan India presence. Manyavar is our flagship brand in the mid premium Indian wedding and celebration wear price range. Twamev is a premium offering in men's Indian wedding and celebration wear market and is priced between Manyavar and the other ultra-luxury brands. Manthan is a value brand that offers its products in the men's Indian wedding and celebration wear category and seems to cater to a sizable number of midmarket weddings and other celebrations through its product portfolio.

We have been growing presence in the women's Indian wedding and celebration wear market with Mohey, an emerging brand in the women's mid premium segment. It is also the largest brand by number of stores with pan India presence in the women's celebration wear category.

Mebaz is a heritage brand with a strong regional presence in Andhra Pradesh and Telangana. It is a one-stop shop for ethnic celebration needs of the entire family in mid premium to premium price segment. We are a one-stop destination with a wide product portfolio for every celebratory occasion. Aspirational, yet value-for-money offering that makes Manyavar special.

Let me highlight a few key strengths of our Company:

We have a strong presence in the large and growing Indian wedding and celebration wear market driven by an increased spending on such wear. One crore marriages take place every year. Multi-day and multi-event wedding celebrations are growing, and the trend is increasing very quickly. The celebrations are not only national, but also regional festivals with ethnic wear being added to the category growth. Market leader in Indian celebration wear market with diversified brand product portfolio across the value spectrum for the entire family, unique business model combining an asset like brand, playing along with seamless purchase experience. Majority of our sales are via franchises owned EBOs. We have (+300) franchise partners. Minimal dead stock regardless of no discounts for Manyavar brand makes it very unique. Combining **aspects of** consumer and retail to create a unique model with high barriers to entry. We have the first mover advantage and a lot of moat and entry barriers for competition like technology-based supply-chain network with strong processes in place.

We have a unique supply-chain management with a 52-week design collection model, artificial intelligence and algorithm driven demand forecasting, rich data for 14 years to replenish stores at pin code level with maximum accuracy.

Technology helps us to take data driven decisions and forecasting of cultural and evolving fashion trends across India. Attractive marketing initiatives of creating connections through emotions, theme-based marketing campaigns around Indian traditions and values to develop deeper emotional connect with the customers. All our brands are aspirational yet value-for-money at the same time. Widespread pan India multichannel presence with approximately 90% of our sales coming from customers through EBO network with a scalable franchise model. We have an experienced and professional leadership team and board of directors aided by professional partners. We have a strong growth trajectory with industry-leading margins, return metrics and a healthy cash generation. Every rupee of working capital can generate equal rupee of profit after tax with 90% being free cash flow.

Now, let me focus on our strategies going forward:

Independent growth strategy for each of our brands for retail expansion, within and outside India. We plan to expand in new geographies, in new cities, towns, in existing geographies, increasing penetration in existing markets across existing cities, robust expansion plans to improve reach across online and offline channels. We plan to double EBO retail space footprint from FY21 1.1 million square feet to 2.2 million square feet in the coming years. Leverage on e-commerce boost by adopting omni-channel strategy to allow customers to have flexibility to access products through offline and online channels. We currently have a presence in three international countries. We have a strong focus on increasing presence in international markets to cater to the large Indian diaspora with strong rooted Indian traditions with high spending power.

Up-selling and cross-selling initiatives, deepening customer connection and extend buying opportunities, leveraging wedding customers to move to non-wedding events like festivals and celebrations to expand our product portfolio, focus on opportunities in adjacent product categories within Indian wedding and celebration wear like kids' apparels and their accessories. Significant potential in space for growth of our emerging brands, independent brand strategy for our brand Mohey enabled with assessment of customer demand, international and local trends and evolving customer preferences, to establish a leadership position in women's Indian wedding and celebration wear market like Manyavar. With Twamev, focus on further upselling at existing Manyavar stores. With Manthan, increase the footprint to cater to 5 million weddings in a year, target new customers via attractive pricing initiatives, focus on online sales via online channels.

We have followed a disciplined approach toward acquisitions, and we intend to continue following the same approach. Our inorganic growth should result in increase in customer base or economies of scale or an increase in profitability margins or a higher market share or a Company that helps us improve our tech capabilities.

Behind the scenes at Vedant Fashions Limited, works a team of young and energetic sales professionals and employees who are an integral part of brand building and have been adding value to the organization. All efforts enumerated are to make an impactful difference in their lives and in the lives of all stakeholders of the brand driving towards one vision - Earn your respect. We live in a country where language and culture changes every 50-100 km. We can be the thread to unite this diversified country and that is our dream.

With this, I would now handover to Mr. Rahul Murarka – our CFO to take you through the financial performance of the Company for the third quarter and nine months under review.

Rahul Murarka: Thank you Vedant. Namaskar and good evening everyone. Before we start with the Q3 Financial Update, I would like to highlight key financial strength of the Company:

The Company has a very strong growth trajectory with best-in-class financial metrics and return, which has consistently grown over the years. Industry leading high gross margin of 65% and above enables generation of strong profitability for the Company. The Company also has industry-leading ROCE of around 50%. The Company is cash rich and is having cash equivalent of more than 480 crores as on 31st December, 2021. Even after doing buyback and dividend payout of around 500 crore in last two to three years. The Company has a track record of generating significant cash driven by a healthy cash conversion ratio.

Now, I will share the highlights of our performance on Consolidated Financial Results for the Q3 and nine months ended December 2021:

Starting from YTD December 2021 update:

The Company reported revenue from operation of 745 crores during YTD December 2021 as against 373 crores in YTD December 2020 delivering a very strong growth of 99.5%. The Company continued to report industry leading gross margins of 67% during YTD December 2021. The EBITDA margins were around 50% and the EBITDA stood at 374 crores for YTD December 2021 as against 191 crores in YTD December 2020 with a jump of 96%. The PBT during YTD December 2021 significantly increased by 161% to 303 crores as against 116 crores in nine months financial year 2021, which is YTD December 2020. The Company reported best-in-class PAT margin of 30% and profit after tax stood at 226 crores during YTD December 2021 with a significant growth of 165% over YTD December 2020.

The Company has also reported industry-leading ROCE of around 60% (this is not annualized) during YTD December 2021. The Company has also reported a very strong trailing 12 months January to December 2021 revenue of around 936 crores and PAT of around 274 crores with PAT margin of 29% despite of April to June 2021 being significantly affected due to COVID. The YTD December 2021 revenue and PAT growth was round 14% and 36% compared to YTD December 2019, which was a non-COVID period, based upon the integrated internal MIS, which we have prepared.

Now coming to Q3 performance update:

During Q3 FY22, Company reported revenue from operations of 385 crores delivering a very strong growth of around 28% over Q3 of FY21. The EBITDA margin was around 52% and the EBITDA stood at 198 crores for Q3 of FY22 as against 162 crores in Q3 of FY21 with a growth of around 23%. The Company reports PAT margin of around 33% and profit after tax stood at around 128 crores for Q3 of FY22 with a growth of around 24% over Q3 of FY21. The Company has reported revenue and PAT growth of around 20% and 35% in Q3 of FY22 compared to Q3 of FY20, which was again a non-COVID period based upon the indicative internal MIS prepared by us.

The net EBO store area of 57,000 was added in current Q3 with total presence of 1.21 million square feet as on 31st December 2021. The sale of our customers was around 1075 crores during YTD December 2021 and grew by more than 90% compared to YTD December 2020 with SSG of around 79%. The sale of our customers during Q3 of FY22 was more than 600 crores with growth of around 40% compared to Q3 of FY21 with SSG of around 31%. Q3 of FY22 was one of the best ever quarters in the history of the Company.

Thank you and Namaskar everyone. We can now move to the Q&A session.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of exam from the line of Nihal Jung from Edelweiss. Please go ahead.'

Nihal Jung: Thank you so much and congratulations to the team on this performance. Three questions from my end. Rahul, the first one is that on the gross margin, could you give the gross margin corresponding number for Q3 FY2021 also including the subcontracting charges because I'm not sure if that is disclosed separately and in case it is, my apologies in case I've missed it.

Rahul Murarka: No problem. In Q3 of FY22, we had a gross margin of 67.9% and in Q3 of FY21, we had a gross margin of 65.5% and this is after considering the job charges that you are mentioning.

Nihal Jung: Absolutely. So, the question related to that was that this improvement in margins, is it because of it being a robust season and our mixed was better, would that be the right understanding? And a related question to that is that there has obviously been a slight reduction in the EBITDA margin if I look from last quarter. So, is it right to think that there has been a step-up in marketing expenses? If you could just give a sense of that.

Rahul Murarka: So, if you will see our gross margin pattern, we have been able to generate significant gross margin over the years and it has improved also over the years. That improvement you would have seen every year because the focus is to improve in cost efficiency and that has been the key focus of the Company over the years, and that is where you see improvement in gross margins also. Now, considering your question on EBITDA margin being slightly lower by maybe 1% compared to Q3 of FY21, you are right, it was because of higher marketing cost, which was around 6.7% compared to 3.2% in the previous quarter, which was partially set off by improvement in margin and efficiency in other costs.

Nihal Jung: Sorry, if you could repeat that. You said 6.1%, your spend was 3.2% in the corresponding quarter?

Rahul Murarka: 6.7% was the spend compared to 3.2% in Q3 of FY21. One of the major reasons was we had spent Rs. 10 crores in ICC World Cup T20. So, that was one of the expenditures, which we had in the current quarter.

Nihal Jung: That is helpful, Rahul. The second question was that this quarter you're obviously seeing an entry into ten new cities. I just wanted to get a sense how has the response in these new cities been and when you enter a new city, how do you plan the collection because for existing cities, as you said that there is pin code level data, but as you're entering these new territories, how does the planning of the collection and other aspects go?

Vedant Modi: I think the response from all the new cities has been very good. It's been very similar to the trends we've seen with opening of stores previously and in the historical trends of the company. Talking about our management of the new inventory that goes to newer cities, so we look at different trends of the region that replicate the cultural needs of a city. So, we will look at cities, which are the closest to that particular city and we also have a lot of MBO's and SIS stores that we already work with in that particular city. So, we study that data along with a small survey that we conduct in order to understand the appropriate set of inventory that we send to these new cities.

Nihal Jung: Vedant, are these ten mainly Tier-3 cities only? That would be the right understanding, right?

Vedant Modi: Sorry, I didn't get you completely.

Nihal Jung: Apologies. I was saying that these ten new cities that we have entered this quarter would mainly be Tier-3 and 4 cities only, right or does it include any T1 or T2 cities also?

Vedant Modi: Majorly. We'll get back to you on that one to give you accurate information.

Nihal Jung: Sure. Last question from my side. When you say you're looking at doubling your footprint from 1.1 to 2.2, could you give a bifurcation in terms of what could be the split in terms of getting into new cities or maybe split stores or maybe existing territories or new territories in the cities you are present in, in case there is a plan around that, if you could just give clarity around? I'll come back in the queue.

Vedant Modi: So, we have three strategies like we've mentioned before. So, the first one is to enter new cities that we're not currently present in. The second one is to enter new markets in existing cities and the third one, which is a very unique concept to Manyavar, which is the penetration concept where we increase our market share in certain key markets of India, let's say for Commercial Street where we now have about three stores, New Market area of Kolkata where we now have about four stores. So, the growth expansion would majorly be split between all the three strategies. There would be some changes here and there, but it's more or less equal between the three of them.

Nihal Jung: That's helpful. Thank you.

Moderator: Thank you. The next question is from the line of Vicky Punjabi from UTI Mutual Fund. Please go ahead.

Vicky Punjabi: Thanks for taking my question. I just wanted a little bit more color on the revenue performance. Can you help us what's the same store sales growth like versus a pre-pandemic Q3 FY20, how the same-store has behaved this quarter?

Vedant Modi: So, when we look at YTD levels, so compared YTD FY22 compared to YTD in FY20, it's flat, the triple SSG growth, it's at about -1% to 0%. It's between that level. Whereas in Quarter 3, we say an improvement of 15% compared to pre-pandemic levels.

Vicky Punjabi: Okay, and this Quarter 3 improvement, is it led by an increased marriage season that we've seen this quarter or were there other drivers for the same?

Vedant Modi: Sure. By the way, I just wanted to finish my previous point. So, we also just wanted to mention that the major growth was actually also hampered by the malls, which were shut during a lot of time during COVID and saw less footfall and also the metro cities, which were shut down for a longer time and took some more time to pick up in the season.

Rahul Murarka: You're right Vedant and SSG growth of Tier-2 and Tier-3 was significantly higher, but because of tier1 and malls only, there was…

Vedant Modi: Yes, and like you mentioned, the wedding season was great. Q3 has always been our best quarter, and the wedding season was amazing for the entire country this year. As we're talking about YTD numbers, I think a lot of those questions that you have are already answered because Q1 of this year was almost entirely shutdown due to COVID. So, when we look at the year-to-date number, almost all of that pent-up demand, so to say, has been taken into consideration when we talk about the year-to-date number.

Vicky Punjabi: Sure, thanks for that. Just one more thing, on your expansion strategy, I just wanted an understanding. So, we've seen 30+ stores rollout this quarter. Is that the kind of pace that the company is targeting going forward or how do I look at it on an annual basis, the store expansion strategy?

Siddharth Saraf: So, basically you shouldn't see on number of stores specifically for us. It should be in square feet terms. So, I can tell you that in the past, from 2016-2021, we have grown at a CAGR of 15-16% as far as square feet retail space is concerned. You should be considering this. We're confident of delivering the same in the future as well. We don't see a reason of not delivering the same.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Phillip Capital India. Please go ahead.

Ankit Kedia: Sir, my first question is regarding the conversion from secondary sales to primary sales. We've seen around 64% conversion this time around vis-à-vis 70% in Quarter 3 while the nine months numbers seem healthy at 69-70%. So, what was that, is it seasonal in nature or is it a one-time thing because we work on season model. So, this time a lot of sales came from where the commission is higher paid to the franchises?

Rahul Murarka: So, generally I think the range is similar when we talk about primary and secondary conversion, but when we compare these two quarters or when we talk about YTD December 2021 and YTD December 2020, then on a YTD level, you will see that it is similar. There is no major gap on that. However, on a quarterly basis, last year if you see, for the first six months, there was a major lockdown nation-wide and transportation and everything, goods movement was restricted. Because of which you can see some difference, but otherwise, it is more or less similar on a YTD level.

Vedant Modi: Also, just adding to that, we also have a build up during Q2 for the upcoming festive quarter in Q3 so that measure is also there, which is only true for these two quarters primarily.

Ankit Kedia: Sure, and my second question is on the rental paid because we work on different models with franchise. So, if you can share for how much square feet area is the rent being paid by the Company, and going forward of the store additions, which we do, what model does the Company prefer and why?

Vedant Modi: So, about 60% of our revenue comes from the area where we pay rental, and in terms of model, it's a very strategic decision that we take, and it's based on each store. So, the idea is that the Company wants to hold the least for strategic stores, which are especially our flagship stores and stores in mall where we want to have control over that land. So, it's a strategic call, which we take on a store-to-store basis rather than on a holistic level.

Ankit Kedia: Sure, and one last question from my side. On store closures, you have said that 75% of the franchises stick with you for three years or longer, which means 25% of the store closures also happen within the first three years. So, it would be helpful if you can talk on store closure, like why does the franchise close the stores, what are the reasons for store closures?

Vedant Modi: That metric has not been picked up correctly. So, 75% of our current franchises have been with us for more than three years. The remaining 25% have joined within the three years. This is how it should be read. In terms of franchise churn rate like you've asked, historically, we've been extremely strong with our franchises. Almost no franchise has left us because of their own will. We have a very strong franchise scorecard mechanism that we rate them based on different parameters of efficiency, operating measures and the kind of terms and relations they have with the Company and basis these terms, we rate them on a quarterly basis, and if their performance is below a certain threshold, then we put them on a training program and try to improve them. However, even after a significant amount of training, if they don't improve then we churn them out. So, majorly all the franchises that have left the system has been because the Company has decided to change that particular franchise due to operational inefficiencies.

Ankit Kedia: Sure, that's helpful. Thank you. I'll come back in the queue for more questions.

Moderator: Thank you. Next question is from the line of Tejas Shah from Spark Capital Advisors. Please go ahead.

Tejas Shah: Thanks for the opportunity and congrats on a good set of numbers. My first question pertains to if you can give some sense on brand-wise growth for the quarter and nine months between Mohey, Manyavar and Manthan and Twamev, and if you can also give some sense on the growth plan for Manthan and Twamev as well.

Rahul Murarka: So, from a brand perspective, Manyavar has been leading the overall spectrum and has been there for almost two decades. The new brands, which we have started like Manthan and Twamev we started two years back and after that COVID, they didn't see any normal year as well. Mohey also we had started in 2016. So, currently as far as brand growth and those metrics are concerned, we would not like to maybe discuss at this point of time because once it becomes more sizable, then maybe we can discuss those brands because all of these brands are very new for us. We have followed a very calibrated approach to what we can say in terms of brand growth and how we strategize. What we can also mention is that… Yes, Siddharth…

Siddharth Saraf: So, what we can basically tell you is that we have a number in mind after which we would like to share details on the brand level wise, which is a 150 crore of kind of topline, which we are comfortable given the size of our Company, we think that should be sharing the numbers and as far as the growth of this brand is concerned, I can tell you for sure that all these brands are doing well on them. There's no doubt in it. We are seeing good traction. Every year the efficiency is improving for each of them, as far as Mohey is concerned, Twamev is concerned, Mebaz is concerned, we are seeing improvement in all the KPI that we track for our Manyavar, in each of them and Manthan we have just started the trajectory. We are working on the same and soon once we will have a normal year, we will have numbers in that as well.

Vedant Modi: Sure. Just adding on to that, all our brands since their start have been EBITDA positive and we are a very bottom line focused Company and that is what we aim to achieve. Going to your second question, focused on Manthan and Twamev, the strategies are pretty clear. For now, Twamev has almost crossed the incubation level where we understand the categories that have been working really well for us. Manyavar being such an aspirational brand, we were already getting these high ticket consumers walking into our flagship stores in metro cities, which have already started upselling to Twamev. So, the brand has been doing you phenomenally well during this period of the last three quarters and we are really excited. We are also going to launch Twamev EBOs very soon in the next financial year itself and are really excited for the brand. In terms of Manthan, it is still in the incubation stage, we are testing out different categories, trying to understand what the fashion tone of the brand will be, what are the categories that we would like to launch and see how those pan out in the next few quarters. With the online strategy of Manthan, because it's a value-based brand and different industry reports recommend that in India almost 50% of products under Rs. 1000 would now come from the online business, Manthan has been doing great on that front. So, we are very excited for that brand as well and we're all working on the same.

Tejas Shah: So, cumulatively as on today, 95% will be still driven by Manyavar for the nine months?

Vedant Modi: So, in RHP, we have already mentioned, Quarter 2 ended, about 84% was Manyavar and 16% were the other brands, which is mentioned in our RHP document.

Tejas Shah: Perfect. Second, Vedant, you spoke about the penetration strategy and in one of our recent channel checks in Calcutta we are seeing in places like Gariahat, you have stores which are not more than even 500 meter apart. So, how does the profitability work for such stores where they are not even a kilometer away, if I got my distance correct there.

Vedant Modi: So, when we see a certain store, which has extremely high productivity levels and has been doing extremely well that is when we understand the potential of a market and take the decision to open a higher and bigger store next to it and in most cases what we see is that the previous store continues to perform well and do well while the newer stores take a good share of the market and grows in its own way.

Rahul Murarka: Also, just to add up on what Vedant mentioned, when we open a new store in the same market, we first give the opportunity to our existing franchise so that he can also grow from here on in the similar market, so that is also one thing, which we do.

Tejas Shah: The last one on the competitive landscape. So, in the last 12 months or 18 months, we have seen so many big houses throwing their hats into the space. Are you seeing any pressure in terms of getting your desired retail space, A? B, is there any fight to recruit more franchise? More importantly, since some of this competition is very at the initial stage, are you facing any talent crunch already because I am assuming that these new houses also will be recruiting a lot of talent, which we have created in our base?

Siddharth Saraf: So, basically to all your three points from location to talent, we are not seeing any challenges as such right now. We are doing well as a Company and we don't feel that competitive intensity till date and would not like to comment on the competition right now.

Vedant Modi: And just adding to some of these points, so in terms of location, we were already kind of competing with the overall landscape, it's not that the location is just for the Indian wear segment, so we are kind of competing with the entire apparel segment in order to get a good location. So, it’s always existed. In terms of talent, I think, our major strength has been our homegrown talent, our ability to get in youngsters and make them a part of this family, help them grow with us and truly become leaders in their own sense. So, I think we've been doing pretty well on those fronts.

Rahul Murarka: Also, you can refer our key strength, which we have included in slide number #16 of our presentation, which we have uploaded also. This highlights the key strengths of the Company, which act as a barrier to other companies from an entry perspective. So, that is something, which you can refer to and that will give you a good idea.

Tejas Shah: Sure, I'm looking at it. Thanks and all the best. That's all from my side.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis capital. Please go ahead.

Gaurav Jogani: Thank you for this. Sir, my question is with regards how has been the revenue growth in terms of Q3 FY20, both at the Company level, as well as the consumer level sales.

Rahul Murarka: From Q3 FY20 prospect, as I was mentioning during my speech also, the revenue has grown by around 20-21% compared to Q3 FY22 and the PAT has grown by around 35%.

Gaurav Jogani: Sir, my question is with regards to is the 20-21% you're mentioning is the reported Company level sales or is it the consumer level sales growth?

Rahul Murarka: Company reported level sale I am saying, revenue from operations.

Gaurav Jogani: What would this be for the consumer level sales?

Rahul Murarka: It would be around 33%.

Gaurav Jogani: Sir, my next question is with regards to, you have mentioned that you will be looking to add approximately 15-16% square feet of stores, similar to what you have done in the past what we have seen, would you like to give any specific geographies that you are targeting given that your higher salience towards the southern part as of now. So, any particular geographies that you are seeing good growth and looking to expand in those geographies?

Siddharth Saraf: So, Gaurav, first of all, the 15-16% which I mentioned was the CAGR on which we have grown and secondly what we see is that the opportunities are equal across tiers and the cities. So, we have grown equally and we don't see any challenges growing equally going forward as well.

Gaurav Gilani: Okay, thank you, that's all from me.

Moderator: Thank you. The next question is from the line of Kevin Jain from Motilal Oswal. Please go ahead.

Kevin Jain: Hi Siddharth, hi Rahul, good evening, trust you are doing good. So, I just want to know one broader question that you have created a fantastic franchise in the men's ethnic wear. So, what is the addressable market of men's ethnic wear today and over three to five years, what will be the market for women's ethnic wear and kid's ethnic wear, which we are trying to foray into. I want to know that what will be our rights to wins to make it big on the women's and children's ethnic wear and from a three to five years' view, can there be a positive surprise on the women's and children's ethnic wear because on the men's side, you have established yourself and you are there as number one. Why I am asking this is because the size of women's ethnic wear is far higher in terms of per unit piece or the spend, which they do unlike men's wear. So, what is your thought on this, if you can just give us some qualitative viewpoint that would be great. I have only this one question.

Vedant Modi: Absolutely sir. So, just explaining the whole industry to start up with your first question. The entire ethnic wear industry of India currently stands at about 1.8 lakh crores in FY20 based on the CRISIL report. The men's part of it is about Rs. 18,000 crores of which the branded celebration wear segment is expected to grow at a CAGR of 18-22% over the next five years. Similarly, for women's, which is the bigger market, it's about Rs. 1.45 lakh crores of which the branded celebration wear industry is expected to grow at a CAGR of 17-20% over the next five years. With women's celebration wear, our strategy has been clear from the beginning where we started Mohey in late 2015, early 2016 time area, and we started with all categories. So, we now understand that the nucleus of our brand will be lehengas supported by saris and gowns. Once we understood that, we launched independent marketing initiatives in 2019 with Alia Bhatt as our brand ambassador and the brand really picked up. It showed us the true promise and we have been able to create a very aspirational brand that is yet value for money. So, the idea is in India right now, a woman is kind of inspired or aspires to buy a high-end luxury designer product, but is unable to afford it. At the same time, you will find the only alternative they have is the local markets in their city, that is where Mohey steps in with a great and beautiful store in locations like Lower Parel, locations like South-Ex in New Delhi, Park Street in Kolkata, providing the best of customer experiences, the best of consumer products, amazing range of lehengas and with India growing and more and more women working, we feel that the difference between a man and a woman in terms of their spending choices, especially the way they look for products is gradually decreasing, which we are currently also witnessing at the store level. I think Mohey is set for the next leg of growth, and we are very excited about the same. With kids, I think Manyavar has already witnessed a good kind of portfolio for kids and we already have a lot of kids walking in who aspire to wear those celebrity-inspired products from our brand and because the brand has been so productive, I think space has always been an issue for kids, but with bigger and larger stores, we are accommodating a larger space for kids and just talking about boys precisely for now, I think we are set to grow for the coming years.

Kevin Jain: Thank you, and one last thing, for the nine months, what would be the volume growth and value growth?

Vedant Modi: Yes, just give us a second. We'll get back to you on that one.

Kevin Jain: Thank you. Done.

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

Devanshu Bansal: Hi. Thanks for the opportunity. I just wanted to check in terms of you indicated 15% SSG growth over pre-COVID levels if you can provide the breakup in terms of volume and pricing growth that would be helpful.

Vedant Modi: So, pricing is almost negligible or almost insignificant so to say, it's primarily through volume growth.

Devanshu Bansal: Okay. Thanks. That's it from my side.

Moderator: Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance. Please go ahead.

Jitendra Arora: Hi. Thank you for taking this question. Just wanted to understand what will be the average ticket size for a lehenga at Mohey and also if you can help me understand what will be the average ticket size for celebration wear in Manyavar.

Vedant Modi: I think these are confidential at the moment. So, we won't be able to share the exact details, but talking about sort of our range of products that we have, so if we talk about Indo-Western and sherwanis in Manyavar, we go from about Rs. 11,000 all the way up to Rs. 40,000 in Manyavar whereas at the same time for lehengas, we have options from about Rs. 17000 to Rs. 60,000 to Rs. 70,000 in Mohey, so that is the sort of range we have in our stores currently.

Jitendra Arora: Okay, thank you.

Moderator: Thank you. The next question is from the line of Yajash Mehta from Kotak Mahindra Bank. Please go ahead.

Yajash Mehta: Hi. Congratulations on a good set of numbers. Basically what I really want to ask was obviously you have mentioned that 84% of the sales are coming from Manyavar, so over the long-term what would be the mix that you would be probably looking at and what are the operating margins for the various brands if you could just throw some colour on that.

Vedant Modi: Thank you for your question. The thing is there is so much potential to grow in Manyavar itself that it’s been beating our expectations in terms of growth and because of that it is hard to comment on the kind of share we will see going forward, but as the newer and emerging brands are much smaller in base, we can assume their growth to be faster than that of Manyavar. At the same time, in terms of margins, they are lower than Manyavar currently, but we are very confident that over the years, we will be able to get them to current Company average.

Yajash Mehta: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Lavita Lasrado from Mirae Asset. Please go ahead.

Lavita Lasrado: Hi. Thank you for the opportunity. So, with respect to the questions asked before, I have similar kind of questions. I want to understand your strategy or your expectation in terms of Mohey brand as you have seen, the Mohey brand has been growing much faster than your men’s brand. So, do you expect a similar kind of performance in the coming five years and the second question is, did you have any sort of discounts during the last 12 months in order to reduce any of the inventory? Thank you.

Siddharth Saraf: Hi. So, I would not like to give any guidance as such, but what we can say is all the efficiency parameters that we track for each of our brands, so Mohey is also showing very promising numbers from the same and as Vedant mentioned that we leant over the time of which categories should work for us, we focus on the same and the two categories that form the majority part for our revenue, that’s close to I can say 80%, saris and lehengas are showing very promising growth. So, we can see that we are on the right trajectory on our path to grow.

Lavita Lasrado: Okay, and how about the discount policy that you have, do you still continue to having no discount, did you have any discount in the last 12 months.

Vedant Modi: In Manyavar, we have not sold a single product on discount in the history of the brand and with Manyavar there has been no discount in the last 12 months as well. With Mohey and Mebaz, there have been discounts, but at a very small level, almost nothing too significant, low single digit numbers you can say.

Lavita Lasrado: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Hi sir and thanks for taking the questions. Two questions from my side. One, can you explain the seasonality in the business so typically how much lower is the customer level sales in 4Q versus 3Q? That would be my first question.

Rahul Murarka: So, typically from a complete year prospect, Q3 is the best quarter for us and Q2 because of lower weddings all over India that is where the percentage of revenue contribution is lower all over. So, typically if you ask me to split, the Q1 and Q4 is around 25% on an average, Q2 is around 12% and Q3 is highest around 35-37%. So, that is a general split, which is there and of course because of marriages, it may happen that some of Q4 getting split into Q1 or defer to Q1, that can happen.

Sameer Gupta: And the gross margin, there is no seasonality, right?

Rahul Murarka: No, gross margin, there is no seasonality.

Sameer Gupta: Sir, second question is that I just heard in your opening remarks that you have a target to reach 5 million weddings from the potential 10 million that will happen. So, any number that you can share and what it is currently for us, how many are we reaching right now?

Vedant Modi: Yes, so that's not exactly what we had mentioned. So, about Manthan as a brand has the opportunity of addressing 5 million out of the 10 million weddings that happen in India according to researches that we have conducted based on the pricing of the brand, and in terms of the number of weddings we are present in, we have data to address internally, but I don't think it is well researched enough to share it on a public forum.

Sameer Gupta: No problem sir, thank you. That's all from me and all the best.

Moderator: Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance. Please go ahead.

Jitendra Arora: Another question, which I have. Is there a significant difference between per square feet sales for a Tier-1 versus a Tier-2 or a Tier-3 city store?

Rahul Murarka: Did you ask per square feet sales, productivity between Tier-1, Tier-2 and Tier-3?

Vedant Modi: Yes, so they are different. However, it's nothing too significant and when we look at it in terms of profitability, both from our end and in terms of our franchise partners, it ends up being very similar because it's cheaper to run stores in Tier-3 and Tier-2 cities. So, while productivity might be slightly low, profitability levels are almost similar across the tiers.

Jitendra Arora: I do understand that but given the fact that our growth footprint will increasingly be higher in Tier-2 and Tier-3, it may have implications for us in terms of overall growth, so that's why I wanted to understand that.

Vedant Modi: We'll get back to you with the exact numbers after the call.

Rahul Murarka: But having said that, I would just like to add up on what Vedant mentioned. So, currently we have more or less equal split between Tier-1 and Tier-2, Tier-3 together. Of course, during COVID period, we have seen Tier-2 and Tier-3 performing better than Tier-1 because the restrictions and lockdowns were there. Having said that, if you see Tier-1, we feel that still Tier-1 has lots and lots of potential to grow, so it will be incorrect to mention that Tier-2 and Tier-3 will grow higher in future compared to Tier-1 because I will speak about one of the city, Hyderabad, right. That city in itself has so many stores, it contributes the highest revenue for us as a percentage and that is one of the Tier-1 cities and we have also grown significantly in terms of our growth from Tier-1 what we were three or four years before compared to what we are now. So, we see a very high potential in Tier-1 as well. So, we will equally grow in all Tier-1, Tier-2 and Tier-3 cities in future.

Jitendra Arora: Thank you.

Moderator: Thank you. The next question is from the line of Pranay from Mirae Asset. Please go ahead.

Pranay: Thank you for the opportunity and sorry for the inconvenience earlier with regards to the network. So, I have two questions with regard to Mohey. Correct me if I am wrong that 84% of the revenue comes from what Manyavar and Mohey or it's just from Manyavar?

Vedant Modi: Just from Manyavar.

Pranay: Okay and secondly so could you just tell us how much Mohey contributes and the current stores of Mohey?

Siddharth Saraf: So, as we said that we would be comfortable sharing on brand level wise. We have already shared on the other percentage being 15% including Mohey, but as we said, we'll be comfortable sharing the numbers brand wise once they reach a particular size, and as far as the number of stores are concerned for Mohey, it is close to 94-95 stores currently.

Pranay: Okay, alright, thank you. Just last one, could you just highlight on how the royalty terms are with the franchises?

Vedant Modi: Yes, so we operate in two models. The first model is 18% where the franchise bears all the cost and does not bear the least cost, where the Company bears the least cost and they are given 18% royalty along with the GST component. The other agreement we have with them is 29.5% plus GST where they also bear the least cost.

Rahul Murarka: This is what Vedant was mentioning as the franchise margin. So, they are not paying any royalty to us. We give them the franchise margins depending upon the two models, which Vedant explained.

Pranay: So, these both are margins and not royalty.

Rahul Murarka: No, there is no payment of royalty in our business.

Pranay: Alright, that would help. Thank you.

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

Ankit Kedia: Sir, thank you for taking my question again. Just on the A&P spends, while this quarter we have spent a lot, from a long-term perspective, what could be our A&P spends strategy going ahead because if I look at from FY18 to FY20, our A&P spends have pretty much been similar at between 65 and 70 odd crores. So, going forward, will we be spending that 6.5-7% or can we curtail that number.

Vedant Modi: So, just talking about Q3 marketing, I think given the kind of hectic period we saw, it was a great opportunity to tap on the Indian space through the World Cup, which turned to be very good for us and during COVID, we had a great shift from different offline mediums of marketing through a transition to going to digital marketing. This allows us to target our brides and grooms, their close families and friends in a much more efficient manner and that's why we were able to curtail our costs during FY21 and also when you look at a year-to-date basis in FY22. Given the kind of learnings we've had in these two years, we believe that we should be at a stable state rate of about 5-6% in the coming few quarters if the kind of A&P spends, we are targeting.

Ankit Kedia: Sure, that's helpful. My second question is regarding the flagship stores versus EBO. So, if you can just highlight in these Tier-2 to Tier-4 cities, will we continue to open flagship stores also or they would be smaller EBOs, 1000 to 1500-2000 square feet stores so we could have a bigger store opening number while the area addition could still be slightly lower or if only malls or metros, the flagship stores make prudent sense to us.

Vedant Modi: It's an overall combination of things. So, while in Tier-3 and Tier-4, the chances of a flagship are lower. In Tier-2, definitely we have been opening a lot of flagship stores and we'll continue to do so, and it would be a combination of these things. Currently, about 60% of our revenue has been coming from flagship stores and we believe that number should go up in the coming few years.

Ankit Kedia: That's helpful. Thank you so much.

Moderator: The next question is from the line of Mayur from Wealth Managers India. Please go ahead.

Mayur: Good evening, thank you for taking the questions and let me congratulate you for a lovely listing. Anybody who is tracking the sector will be very proud to look at a fashion Company with such huge margins and return on capital employed, so it's very exciting to look at the Company and second thing, let me also apologize that I have not gone through in detailed, the prospectus or this, it is my first introduction, so pardon me with certain basic questions here. The first one is now here, please don't take it as a pointer, it's just I wanted to understand your experience now that it's the first interaction in a call like this after the quarterly result, for less than Rs. 1000 sales, we have listed at Rs. 20,000 crore market cap. How do you think, as minority shareholders over the next three to four years, what kind of value creation process is possible and were these valuations, obviously these have come after your discussion with the lead managers and everything and it is the market situation, but was it anywhere near because even the best of the listed companies don't come at 20x at sales, obviously the financial matrix and everything has been put together, I am not at all questioning that, but I am just trying to understand how has been your experience to look at such a phenomenal listing and the way market has accepted and how do you see minority shareholders gaining over the next three or four years, the wealth creation which you have created and how they will create over the next three, four, five years?

Siddharth Saraf: Hi. So basically, we are here to discuss the Company's result and the business updates. Markets or valuation is not something in our hands, I believe. We had multiple rounds of discussion with the investors and the bankers, and then we came with this valuation. For a Company like us, I think just price to sales parameter that we are seeing for such a profitable Company should not be the only matrix to be seen and rest you should definitely compare with the peers in the industry, but again here we are to speak about the performance of the Company and the business outlook going forward and as far as minority shareholders are concerned, as you have asked, so we have always been a shareholder friendly Company, which has the highest aspirations to benefit and optimize the best returns for our stakeholders and will definitely keep up doing the same in the future as well.

Vedant Modi: Just in addition to that I think you might want to just contact Axis Capital and join one of their conference calls that they host where you can get a full presentation that we've been doing for our prospective investors.

Mayur: Okay, so from a completely top-down, let me just come to the operational aspects, I think that will be better. If you look at our average per square feet sales is around 7,500 per square feet, this is an average, so I am sure the range would be much higher. So, would you be in a position to share what kind of range the oldest store or the flagship store must be so that we just get the kind of potential and how many stores as a percentage would be above the average?

Rahul Murarka: So, 7,500 is not the right number if you ask us, it's much higher than that. I'm not sure how you have computed that number, maybe you have considered the revenue from operations, which is coming in the PL, but that is after reducing the franchise margins, which we give. So, that is not the right parameter to consider. As far as profitability, productivity and these assets are concerned, 75% or more of franchise are working with us for more than three years and 67-68% of franchises have more than two or more stores, that very much establishes and demonstrate the profitability, which we have been able to set for our franchise and they are also doing very well and they have grown with us over the years and that is a key moat of the Company that it believes in inclusive growth of all stakeholders, not only the franchisees, vendors, shareholders and everyone.

Moderator: Thank you very much. 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.

Rahul Murarka: Thank you everyone. Thank you so much and I hope we were able to properly answer all your questions and queries and if anything else is there, then please feel free to mail us across at our IR email ID, which we have mentioned in our presentation also and we look forward for more and more calls in future as well. Thank you so much.

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