"Vedant Fashions Limited

Q3 FY '23 Results Conference Call"

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MODERATOR: **MR. VARUN SINGH – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Vedant Fashions' Q3 FY '23 Results Conference Call, hosted by ICICI Securities Limited. As a reminder all participants lines will in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Varun Singh from ICICI Securities Ltd. Thank you, and over to you, sir.

Varun Singh: Yes, thank you, Dorwin. On behalf of ICICI Securities, we welcome everyone on the call to discuss 3Q results of Vedant Fashions. We are honored and feel thankful to the top management of Vedant Fashions to have provided us the opportunity to hold this call.

So with this, I request the team at Vedant Fashions to please take over the call and proceed with the conference. Thank you.

Vedant Modi: Thank you very much. Good afternoon, and a warm welcome to all the participants. I am Vedant Modi, the Chief Marketing Officer of the company. Thank you for joining us today to discuss the Vedant Fashions Limited Quarter three and nine months financial year 2023 results. I'm joined by Mr. Rahul Murarka, the Chief Financial Officer of our company.

I hope everyone got an opportunity to go through our financial results and investor presentation, which have been uploaded on the stock exchange as well as the company's website.

Let me take you through the quarter ended and 9-month performance. In this quarter, we increased the number of EBOs, which is the dominant channel for the company. As of December 2022, VFL's EBO area stands at 1.4 million square feet, spanning 640 stores in 252 cities and towns globally. The national EBO footprint tally is at 626 stores, spread across 242 cities and towns. In quarter three, we opened net square feet area of around 58,000 square feet and 14 exclusive brand outlets in India. We are also happy to share that we have a strong and healthy pipeline for new rollouts planned for the remaining part of the financial year.

Our overall customer sales growth stands at 29.6% over quarter three of financial year 2020. The SSSG growth has been 4.2% over quarter three of financial year 2020. Our nine-month overall customer sales growth stands at 47.6% over nine months of financial year 2020. While the nine-month SSSG growth has been 16.9% over nine months of financial year 2020, which was all pre-COVID levels. Our nine-month overall customer sales growth stands at 28.2% over nine months of financial year 2022, while the nine-month SSSG growth has been 19% over nine months of financial year 2022.

An important point to note is that wedding season is spread over November to February, and dates can move in any given financial year based on astronomy. This particular quarter, we witnessed significantly low wedding dates compared to previous year quarter three. However, we also noticed that there is a sharp recovery in Jan as there are relatively more wedding dates in Q4 compared to the previous year, thus resulting in a little bit of a spillover.

I would also like to highlight our marketing and branding campaign with Mr. Ranveer Singh during the quarter. The #TaiyaarHoKarAaiye campaign was built around saving the truest essence of a wedding in your favorite Indian attire. The overall idea is to drive a behavioral shift in Indian men to dress up for Indian weddings. In this quarter, we also ran a Diwali ad campaign featuring Ranveer Singh. We received a positive response on the market, and this was a good step towards reinforcing Manyavar as a celebration wear brand.

Overall, we can see that the fundamentals of the business have been sound, robust, and the company has been encompassing growth. We have been witnessing very positive trends in January and with the wedding season on full swing ahead, we are very optimistic and fully prepared and geared up to capitalize upon the same.

With this, I will now hand it over to Mr. Rahul Murarka to take you through the financial performance of our company. Thank you.

Rahul Murarka: Thank you, Vedant. Namaskar and good afternoon, everyone. I would like to highlight the financial performance for the quarter and nine months year ended December 31, 2022, based upon the consolidated financial statements.

Starting from nine-month FY '23 update, the company reported revenue from operation of INR 1,013 crores during nine months financial year '23, delivering a strong growth of 36% compared to nine months of FY '22. The company continues to report industry-leading gross margin of 67.8% during nine months of FY '23 as compared to 67% in nine months of FY '22. The EBITDA margin was around 50%, and the EBITDA stood at around INR 507 crores during nine months of FY '23, with growth of around 35% compared to nine months of FY '22.

The reported PBT during nine months of FY '23 is INR 430 crores, which have significantly increased by 42% compared to nine months of FY '22. The company continues to report best-in-class PAT margin of around 31.6% and profit after tax stood at INR 320 crores during nine months of FY '23, with a significant growth of around of 42% compared to nine months of FY '22.

With optimization in working capital, we have been able to achieve industry-leading ROCE of approx. 89% during 12 months period December '22. The net working capital days is at 89 days in December '22, based upon trailing 12 months revenue. The sale of our customers were around INR 1,378 crores during nine months of FY '23 with a significant growth of around 28% over 9 months of FY '22, along with a strong SSG growth of around 19%.

Now I'm comparing our performance with pre-COVID level figure of FY '20, basis internal management MIS. Our revenue from operations significantly grew by approx. 55%, and we witnessed significant growth in PAT by approx. 94% in nine months of FY '23 over nine months of FY '20. Sale of our customers also significantly grew by approx. 48%, along with SSG growth of around 17% over nine months of FY '20.

Now coming to Q3 of FY '23 performance update. The company has reported revenue from operation of INR 441 crores in Q3 of FY '23, delivering a strong growth of around 15% compared to Q3 of FY '22. The company continues to report industry-leading gross margin of around 67.8% during Q3 of FY '23. The EBITDA margins were around 51.2%, and the EBITDA stood at INR 226 crores during Q3 of FY '23, with a growth of around 14% compared to Q3 of FY '22. The reported PBT during Q3 of FY '23 is INR 202 crores, which has increased by around 18% compared to Q3 of FY '22. The company reported best-in-class PAT margin of 34.1% and the profit after tax stood at INR 150 crores during Q3 of FY '23, with a growth of 18% compared to Q3 of FY '22.

The company has a track record of generating significant cash driven by a healthy cash conversion ratio. The company continued to generate high cash conversion ratio of more than 100% in Q3 of FY '23, which has been computed based upon operating cash flow over PAT during the period. The sale of our customer was around INR 585 crores during Q3 of FY '23, which was impacted due to significantly lower number of wedding date in Q3 of FY '23. Company has witnessed very sharp recovery since January, and the business is progressing in lines with the expectations of the management.

Now I'm comparing our performance of Q3 FY '23, over pre-COVID levels of Q3 of FY '20, whose figures have been considered, basis internal management MIS. Our revenues from operations significantly grew by approx. 38%, and we witnessed significant growth in PAT by approx. 59% over Q3 of FY '20. Sale of our customers significantly grew by approx. 30% over Q3 of FY '20.

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

Moderator: The first question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: I have a couple of questions. My first question is on competition. So customer has opened up, I think, around 20 stores across India. So just wanted to understand from you where you have a store in the same micro market, say, within a two, three kilometers of that store. What has been the impact on your sales per store for those stores, which are in the same micro market?

Vedant Modi: Thank you for the question, Percy. So the way we track this internally is that we very closely monitor wherever any organized competition is opening up stores. So what we do is we compare the performance of that particular store with the city average in terms of same-store sales growth to give us an idea of what is happening. Now what we witnessed over this quarter and also previously is that actually these stores are -- have a pretty good alpha when it comes to the city average and state average. So even in the locations where we continuously see organized retail competition entering, our stores continue to perform well in adherence and in relation to the city average of our company.

Percy Panthaki: So Vedant, are you saying that basically, what happens is that there is no impact on your store and whatever sales that the organized competition is generating is coming completely at the cost of either other organized players or at the cost of unorganized? Is that understanding, correct?

Vedant Modi: I won't be able to answer that exactly. However, I only have access to our own numbers, which shows a positive trend. So that is all I can see at this moment that in terms of our own financial numbers of those stores, we continue to grow in those particular markets in relation to the city average and state average.

Percy Panthaki: So those particular stores are growing at the same rate as compared to the city average growth?

Vedant Modi: Slightly higher, actually. So there's a delta, which is higher than the city average.

Percy Panthaki: And why do you think it's actually higher? Any theories behind that?

Vedant Modi: I mean, again, these are strong markets where there is good footfall, and that is the reason I think we continue to see a positive trend along with a lot of work being done on different metrics, such as average bill value, and different metrics that we sort of witness at the store level, which are improving in these particular stores.

Percy Panthaki: Second question is on wedding dates. So would it be possible to give me the exact number of wedding dates in second half of this year versus second half of last year?

Vedant Modi: Sure, I can give you an approximate. So wedding dates changes basis location and changes also along with the way you're calculating them. But approximately, according to the Hindu wedding calendar, there are eight to 10 dates in Q3 that we saw compared to last year, there being about 20-odd wedding dates in Q3. In Q4, we are going to see approximately 26 to 30 wedding dates. And I will also share with you how many wedding dates they were in Q4 last year, which is about 40% to 50% lower than this number of what we have this year.

Percy Panthaki: So you're saying this year, it is eight plus 26, which is about 34. And last year, it was -- sorry, how much?

Vedant Modi: It was -- I can share the numbers with you after this call...

Percy Panthaki: 20 plus 13, so about 33.

Vedant Modi: Overall basis, the major spillover is Q3 to Q4. The dates have simply moved more towards January and February.

Percy Panthaki: So basically, you're saying in Q4 this year, the number of wedding dates are actually 3x that of 3Q?

Vedant Modi: More or less, yes. That's correct.

Percy Panthaki: And in the past, have you seen that your sales is proportional to the number of wedding dates?

Vedant Modi: It's not an exact proportion, Percy. So let me explain it in a different way. So people, what we understand, tend to prefer getting married in the November, December period, right? So what happens is that even though wedding dates like 16, 17, 18 days are enough number of dates to cater to those marriages.

However, when this number falls short to eight to 10 days, then the infrastructure of the country is just simply not able to serve to that many number of weddings. That is when it gets spilled over to Q4. So, it is not in direct proportion. However, there's a limit that the wedding infrastructure of the country can support in a given number of wedding dates. So there will definitely be spillover, but definitely also not in the same proportion than the dates are in.

Percy Panthaki: And in the past, whenever you have seen Q4 having so many more dates than Q3, historically, what has been the sort of secondary sales performance of your company relative in these two quarters. Like in the past, you would have seen, maybe three or four or five years ago, that Q4 has double or triple the wedding dates of Q3. In that year, did you actually see that Q4 secondary sales was, in fact, higher than Q3 or something like that?

Vedant Modi: So typically, what we've seen is it's not higher, but it reaches closer to the levels of Q3, and it's higher than the typical 27% that we see. So typically, like we've been mentioning, it's 35% approx. in Q3 and about 27%, 28% in Q4. So that number comes closer to each other. Typically, that is what happens, but we don't see Q4 increasing higher than Q3.

So let me give you another sort of data point that will help you understand this whole phenomenon better. So the kind of numbers we've already witnessed in January, so from October up until 28th of January, based on our internal MIS reporting, our SSSG has already become flat from the minus 8.7% reported in the numbers compared to FY '22 quarter three.

Percy Panthaki: And last question on the general macro environment. Are you seeing any kind of sort of slowdown in terms of discretionary spending in urban, semi-urban India or not?

Vedant Modi: So from our perspective, we feel the major shift in terms of our business has been predominantly because of wedding dates. Every other metric that we track on the front end, be it average selling price, be it average bill value or conversion dates, all of them have been in a positive direction. So from our perspective, we don't see anything on those lines. However, it's just a matter of wedding dates shifting from one quarter to another.

Moderator: We have the next question from Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: Vedant, the first question was you alluded to the fact that the buyer growth this quarter was around 29% versus pre-COVID. So is it fair to assume that as you rightly said about the number of wedding dates being lower that most of these buyer growth was more in the non-wedding related segment, is that a right understanding?

Vedant Modi: So Nihal, what -- so in terms of wedding dates as well, right, what I will kind of explain this is that we feel that the kind of category growth we witnessed in this quarter was a lot to do with a mix of wedding and non-wedding. And even within wedding, I would say we grew faster when it comes to the non-groom segment through -- led by our behavioral shift through #TaiyaarHoKarAaiye campaign.

So it's not that there weren't wedding in this quarter. It was just less number of weddings. And while people wanted to get married -- more number of people wanted to get married in Q3, they just had to spill over in Q4 because of the infrastructural boundaries that we have. So overall business grew across the segments. And it was not that wedding was slow or anything as such.

Nihal Mahesh Jham: The second question was on the accounting bit. Now if I look at our primary to secondary conversion for this quarter, it is at around 75%. Would it be right to understand, as you mentioned about the Jan number also, that in the expectation of a strong season given how the wedding dates have shifted, there was a significant placement of inventory that has happened as a franchisee.

And potentially, this number could normalize in the next quarter that there is a strong secondary sale, but the primary may not apply given we've already placed a big portion of the inventory requirement for the Jan-to-March quarter.

Rahul Murarka: So Nihal, considering the nature of our business, it would be more appropriate to compare the primary and secondary revenue at an YTD level instead of a quarterly level. So, this quarterly, it may vary. So at an YTD level, if you will see, our primary revenue has grown by 36%, and our secondary revenue has grown by 28%. And the difference is mainly on account of the new stores we have opened. So the right way of looking at it is at the YTD level instead of quarter, we would suggest.

Nihal Mahesh Jham: And as per you, what is the long-term average that you think is the right number to believe for this?

Rahul Murarka: The primary, secondary ratio you are saying?

Nihal Mahesh Jham: Yes.

Rahul Murarka: It would be in the range of 70%, 71%. That is the range, which would be there.

Nihal Mahesh Jham: Understood that. Just one last question from my side. You did allude to SSG becoming flat if you consider the month of Jan also from October. In your expectation, what are the kind of SSGs that you would target longer term? And then maybe you may want to build in the expectations from Mohey also, which is a growing part of the business inside the store itself?

Vedant Modi: Sure, Nihal. So, the way we look at it is that as a company, we aim for good single-digit SSSG growth in all of our stores. So that is the kind of aim we try to achieve. And there is also another caveat to this whole piece, which is where if any store is actually witnessing very, very good growth, then the idea is to quickly either add another store in that particular market itself or look for a much bigger store if there is infrastructure for that in that market. So there is both of these strategies that we play in. So the idea is good single-digit growth overall at a company level. But wherever we see higher SSSG growth or a very high productivity level in a store, we tend to open larger stores.

Nihal Mahesh Jham: If I may just slip in one last question would be that, Mohey, would you look at it as a part of a store or that's a separate business that you will try bifurcating?

Vedant Modi: So the way we look at it, if we look at the stores business, where we have to encapsulate Mohey, and that is accounted for in any SSSG number that we gave out. And on the other hand, when you are doing any other studies we do it at a brand level internally. But at a store level we count it -- we count Mohey as part of the store itself.

Moderator: The next question is from the line of Sandeep Agarwal from Naredi Investments.

Sandeep Agarwal: Sir, my question is regarding the square feet area of our EBOs. Our average square feet is approximately 2,200 square feet per store. But in Q3, we opened 14 store, so the average square feet area is approx. 4,100 square feet. So we have changed any average size of our EBO? And any...

Vedant Modi: So the strategy actually is to open larger stores as we move forward. And we've been seeing significant traction towards our flagship concept. So that has been the strategy, and we've discussed with investors before as well that we would ideally like to move towards opening more flagship stores and more super flagship stores. In some certain quarters, what can also happen is that we open a high number of EBO -- sorry, SIS. And when we open a high number of SIS in a given quarter, then that average square feet per store can start to look bleak, but the idea is to open larger stores as we move forward.

Moderator: The next question is from the line of Rushabh Doshi from Nirmiti Investments Advisors LLP.

Rushabh Doshi: Yes. So in the first question, you mentioned that the ratio for Q3, Q4 was 35% and then 27%. So is this for our reported sales or retail?

Vedant Modi: So what I was actually referring to is that has been the long-term historic average of Q3 versus Q4. But like in this financial year, we are noticing, sometimes wedding dates can spill over from one quarter to another because the typical wedding calendar in India is November to February. So...

Rushabh Doshi: Yes. I got that point, but this...

Vedant Modi: Yes, I was referring to that in terms of secondary sales, not in terms of primary sales based on historic average.

Rushabh Doshi: And last year, like did we experience some pent-up demand? Or was it like a normal quarter?

Rahul Murarka: So yes, last year, FY '22 -- as you are aware that Q1 was significantly affected because of COVID. So of course, FY '22 was a distorted period as far as -- because of the COVID. So the numbers would be, to some extent, affected because of that.

Rushabh Doshi: Correct. And like in terms of inventory with our franchisees, like, let's say, last year, Q3 had 100 -- let's say, the base was 100. So like in this time, Q3, was it -- like could you just tell us like how much was it? Is at historically higher the inventories with our EBOs?

Rahul Murarka: So we record in our balance sheet the inventories lying -- whatever inventories lying at our warehouse that is what appears in our balance sheet. So as on 31st of December, around INR 179 crores of inventory was lying at our warehouse as per the balance sheet.

Rushabh Doshi But -- no, I'm just talking like the ones which we've already built to our franchisees. The reason I'm asking is because this time, of course, because of the wedding dates, but the delta between the primary and secondary revenue was quite large. So I just wanted to understand like in terms of the inventory with our EBOs, like is the -- does that also have a delta of around, let's say, 18%?

Rahul Murarka: So I mean, the right way of look -- to read it is there are two things. One is, as we discussed over this call, the right way to compare the primary, secondary would be that we compare to YTD level instead of quarterly level. And when we compare at YTD level, there's only difference in growth is around 8%, which is also primarily on account of new stores we have opened.

Coming to the inventory lying at the franchisee stores, what we can refer is the receivable day. So if you'll see the receivable day is same around 50 days of receivable day we have in December, which is similar to what we had earlier also. So receivable days is something which is more relevant metric when you compare the inventory, which is lying at franchise store.

Rushabh Doshi And lastly, for Mohey, how is this wedding season from a more qualitative standpoint -- view?

Vedant Modi: Mohey has been doing very well in terms of overall numbers. If I were to talk about Mohey, the SSSG growth of Mohey was again higher than the company average comparing quarter 3 of this year versus last year. And so all of those numbers are very positive for us. The main reason being the kind of work that has happened on the back end side of the whole process, where we significantly understand how does the lehenga and saree market work given the kind of data we've collected over operating the women's business over the past 5, 6 years.

And that is why our merchandising mix is continuously evolved, resulting in better conversion rates at the front end and a better inventory turnover ratio and a better productivity at the store. So overall, the numbers were pretty good, and qualitatively, we've been getting very good feedback from the consumers as well.

Moderator: The next question is from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: Just wanted an update on the stand-alone stores of Mohey and Twamev end of quarter 4, we were expecting to launch. Is that on track?

Vedant Modi: Yes. So, with -- for Twamev, we will -- absolutely we're on track to launch one EBO in quarter 4. While there are three more already signed and in the build phase. So we will see them coming up probably in early Q1 or by late Q1 the remaining 20 stores. And with Mohey as well, we've already signed a few stand-alone Mohey stores. However, given that it's a completely new design that we are trying to cater with a new Mohey store, it might be early Q1 or late Q4. So that's about as late as it can get. So about early Q1 is, I think, what we'd be comfortable seeing for the Mohey flagship EBOs that they're coming up with.

Ankit Kedia: And when you mentioned on the last question, the merchandising is getting evolved in Mohey. Can you explain it a bit better in terms how is the mix changing? What changes have you brought on the table? Are the numbers of SKUs higher pricing has changed? What is it that's getting evolved in Mohey now?

Vedant Modi: Sure. So, the way we've actually built a supply chain, it's completely data backed. So what we do is when there is any product that our designers design and then our merchandisers believe it's strong enough to go to the store, we make note of all the attributes and dimension that a product has to offer. So this the kind of fabric used, the kind of embroidery done, the kind of stitching done on that particular piece of fabric.

So we account for all of these things, the color and so on. Then what we do is we use our data models to understand which attributes are working in which markets and then a merchandising team over the years has understood the attributes which are working in certain markets, and then we use this when we are designing newer products.

So that is what I meant that our data-backed supply chain is now able to understand the merchandising of women's wear a lot better, simply because with women's, we have about 6 years of data now compared to Manyavar, where we've actually gained data over two decades. So that will always be a difference, but with scale and size of Mohey increasing, we're able to get much more data and thereby being able to improve our merchandising.

Ankit Kedia: So is it fair to assume the slippages of provisioning, which we do in Manyavar of around 3%. This number for Mohey, historically, would have been slightly higher. And now over the next couple of years, it will move to the Manyavar average of around 3% or it's still going to be higher?

Vedant Modi: So again, this is a little tricky to answer at this point of time because what Manyavar is being able to do is a worldwide success in terms of dead stock management with no discount ever given. So it will be hard to comment if Mohey will be able to reach that stage of 3% or less than 3% with no discounts ever given in a brand. So -- but the idea is we will still be able to beat market estimates by a lot when it comes to dead stock management and what the current industry averages, even in terms of Mohey, we are already doing that. And the idea is to build on efficiency from this point onwards, but that will always be the kind of goal that we have in mind to bring it to Manyavar levels over a long-term period.

Ankit Kedia: And that could also mean the inventory per store in Mohey, assuming both the store sizes are same Manyavar and Mohey? Or you will have more inventory in a Mohey store?

Vedant Modi: So currently -- again, inventory turnover ratio of Mohey is slower than Manyavar. That is there today. But the idea is to work on it and make it as efficient as Manyavar in a long-term period of time.

Ankit Kedia: Sure. My next question is on the A&P spend. Can you just say what was the quarterly A&P spend? And over this year, next year, if you have done the budgeting, what are you guiding for A&P?

Vedant Modi: So this year, what we've been referring to is about 5% to 6% A&P spend overall on a financial year basis. And this quarter, again, was about 5.96%, which is the kind of A&P we've done. For next year, we've still not concluded what we would like to do or kind of talk about it right now. So I think we'll be doing that in the next quarter, and that's all I can tell you right now.

Ankit Kedia: And lastly, on the digital transformation, which was expected to come in quarter 4. Can you talk about that? Is that also on track? Or has it already been completed?

Vedant Modi: Yes. So there are two phases with our digital transformation. And the first phase is currently in testing. So, we are hoping to launch it sometime in quarter 4, so it would be late quarter 4. We launched the first version of the overall digital transformation. And about 2 months from that, we launched the second phase of it, which is the phygital transformation, where the digital world starts to interact with the physical world. So everything is on track, and we are already witnessing great feedback from our employees who have it for testing already.

Ankit Kedia: And can I just share, what are the...

Moderator: Sorry to interrupt, sir. Sir, If you do have any further questions, we request you to kindly rejoin the queue?

Ankit Kedia: Sure, I'll do that.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: My first question, Vedant, is with regards to the October to January number that you mentioned, that the SSSG has now become flat. So just wanted to get your thoughts because last year also January had -- was impacted by Omicron. So do you think there is any base effect, or it's purely this is the kind of sales growth that you're seeing in January is driving this growth?

Vedant Modi: Sure, Gaurav. So, there was impact of COVID in terms of January. However, it's difficult to say what was the level of impact because what we recall from a business point of view that January last year was still growing as per our business plan. And even though there was the wave that was there, yet people were still going out to weddings and the weddings were happening as per the trends and there was lockdown down in very, very few markets as far as we remember.

So overall, the gatherings were happening, and the business was continuing even in January last year. So therefore, we were comfortable in saying that overall at an October to January level, SSSG has now become flat.

Gaurav Jogani: Okay. Okay. Sure. And my second question is with regards to the transformation that you are driving in terms of this, Twamev and Mohey, wherein you were trying to get the merchandise right and you're trying to get the Mohey piece also correct. So if you can help us and carve out some of the key learnings there, what is helping you and how confident you are versus 1 year back, maybe when we're initially doing this? So anything on this front will be really helpful.

Vedant Modi: Sure. So in terms of Twamev, I mean, the biggest advantage that we had is that we were able to use the same data model that we had created for Manyavar. The only major change that we had to do was change the kind of fabrics and the kind of styles we use on top of those data models. And that is why we were able to come out with a very strong premium product from the very early on stages that has been successful at the floor level and seeing very good trends from a supply chain perspective as well when it comes to inventory turnover ratio or productivity that we see on the front end. So with Twamev all of those was pretty great, and we continue to see a phenomenal performance.

In terms of Mohey, as we gain more and more data, we started to understand what products sell well on the front end. So in terms of lehengas, we've identified what is the kind of core price point which we'll operate in, which is the INR 20,000 to INR 40,000 kind of -- INR 15,000 to INR 40,000 kind of lehenga price point.

In terms of sarees as well, we found the sweet spot, which works for gifting and the kind of sarees that work in terms of wearing it for the wedding itself. So we've been able to identify what is working for a brand and we continuously are improving depth in it, while we're also identifying categories within the larger categories of sarees and lehengas, where we want to increase our width and further go into those particular categories.

Gaurav Jogani: Sir, just one follow-up on the Mohey part. So if you can help what kind of positioning you are looking at Mohey, because Manyavar being an affordable fashion kind of a brand, while Twamev is a bit more premium in that sense. So what kind of positioning are you targeting for Mohey?

Vedant Modi: So Mohey will be positioned very similar to Manyavar, which is an aspirational yet value-for-money brand. And that is the idea that we want to kind of bring to Mohey. So the idea in India, there are high-end fashion designers that women aspire to wear. However, majority of the women can't afford to spend a few lakhs on lehenga. While the other alternatives you have is the local market that does not give you the aspiration or fulfill your ego in terms of the kind of wedding purchase you want to make. That is where Mohey steps in where we bring in a store in a very aspirational area like a South Ex in Delhi or a Lower Parel in Mumbai.

We have flagship brand ambassadors, like Alia Bhatt and Kiara Advani, as the face of the brand, adding to the aspirational value, yet the pricing is very tight and our average selling price for a lehenga, for example, is about INR 22,000. So all of this adds up as a combination of providing an aspirational yet value for money experience for our consumers.

Moderator: The next question is from the line of Varun Singh from ICICI Securities Limited.

Mr. Varun Singh, the line for you has been unmuted. You may go ahead with your question.

Varun Singh Yes, sorry. Vedant, I just wanted to understand that how are you thinking about retail expansion when we are adding EBO stores. So, I mean, if you can give some kind of longer-term guidance with regards to, for example, some x percentage on existing base? Or how should we think about the EBO expansion plans?

Vedant Modi: Sure. So in the past, we've grown at about 16% retail footprint CAGR. The idea is to continue on a similar trend for the coming 2 to 3 years. And that's what we aim to achieve from a retail footprint perspective. And like we've also advised before that as a company, we've moved to look at square feet and not number of stores because we are continuing to open larger stores, and we are also consolidating smaller stores into larger stores, which is also increasing our overall business. And hence, the right way to look at it is in terms of square footage. And so if I also have to discuss in terms of strategy, there are three strategies.

The first strategy being entering new cities that we're currently not present in. So this quarter, we entered seven new cities, all Tier 3 cities, where we were -- where we entered. The second strategy is to enter newer markets in existing cities where we are currently not present in. And we had a few examples this quarter as well of the new markets being entered in existing cities. And the third example is of a very different kind of a model that Manyavar follows, which is any area where we have very good productivity and SSSG, we tend to open a much larger store or a newer store. So this, again, the penetration model, which we follow has been a very good success for us, and we continue to follow this model as well.

Varun Singh Understood. Okay. And second question is on operating leverage benefits. So, I mean, despite 8% to 9% negative year-on-year SSSG, we see that our operating margins have been kind of highest ever. So how -- I mean what drives this improvement -- meaningful improvement in margins? And how should we look at this number for, I mean, a 2- to 3-year time frame?

Rahul Murarka: Yes. So in Q3 FY '23, the PAT margin was 34.1%, right? Typically, when we look at a financial year, because Q3 generates the highest revenue, so we get the highest operating leverage in this quarter. And as a result, we have got a PAT margin of 34.1%. Last year in Q3 of FY '22, we were at 33.2%. So this improvement in margin is because of, again, improvement in operating leverage on the fixed overhead expenses.

Historically, at the annual level, but this 34% is because of the higher revenue, which we generate in this Q3. At an annual level, historically, we have been able to generate around 30% of PAT margin. So -- and I don't want to give any particular guidance on what can be the numbers in the future, but our objective is to always improve our efficiency by some basis points every year.

Moderator: The next question is from the line of Manish Poddar from Motilal Oswal Asset Management Company.

Manish Poddar: I do have three questions. One is, if you can highlight what is the share of kids in your total revenues and let's say, list the share of kids in the total or let's say, inventory share in the total, if it is a way to do this?

Vedant Modi: So kids currently stands at about 3% of our overall revenue. And inventory levels would also be at a similar percentage.

Manish Poddar And when did you foray into kids, Vedant?

Vedant Modi: Sorry, I couldn't get that question.

Manish Poddar When did you foray into kids? Is it a 3-year-old phenomenon? Or was this from day 1? [inaudible 0:42:02].

Vedant Modi: We've actually been in kids for a long time. And the idea was that -- we started opening flagship stores back in 2010. So a few years here and there is when we actually launched kids as a small piece. However, that renewed focus and attention on kids began sometime in 2019, 2020, which is when we started to build a vertical for kids internally and also started working on the merchandising that we want to do for kids as a separate function. So all of those have positively impacted our overall kid's business, which has been growing pretty rapidly.

Manish Poddar And kids would be available across the higher traction markets? Is that how it is?

Vedant Modi: Approximately. So, it would be plus/minus 10% of that.

Manish Poddar Okay. Just the second question, if you can. Probably from coming -- can you probably highlight because a lot of data is collected in my understanding. So would you be able to highlight, let's say, wedding growth versus not wedding growth, let's say, on a 3-year basis because -- one can get a sense because you [inaudible 0:43:12] where you show that it's a destination store for Taiyaar Ho Kar Aaiye. So is there a way you all can look at -- I understand there will be some guestimate on that, but is there a way to figure out wedding versus not wedding growth, like a groom versus non-groom growth?

Vedant Modi: There are two versions to it. One is when we talk about the overall number of people walking into the store, we've seen a growth in non-grooms and non-brides walking into our stores as a result of #TaiyaarHoKarAaiye to some extent. However, I would still get back to the point that

#TaiyaarHoKarAaiye is a longer-term play, and a behavioral shift is something which takes time to bring in. And a behavioral shift will obviously take a little longer.

On the other hand, what we witnessed is a higher number of non-grooms walking into the store. And therefore, the kind of purchases linked to non-groom aspects have also increased. However, in proportion, what we witnessed that the groom's basket size has increased proportionally, which is where a lot of training effort is focused on. So, it's a mix of both. So, while more non-grooms are walking in, we are trying to increase the basket size of grooms. So, the overall increase in our business has come from all sides of verticals.

Manish Poddar And one last one, if you can, sir. For Mohey, this number, which was 3% for Manyavar, what does that number start now?

Vedant Modi: So in terms of what -- in terms of you referring to kids?

Manish Poddar In terms of dead stock. Manyavar is about 3%. What is the number now for Mohey?

Vedant Modi: We don't give that number specifically out, but it's larger than Manyavar. So, it's higher than Manyavar. However, we don't give this particular number out, right now. What is important to note is that it's improved by a few basis points every single year. So when we started off, it was in double digits, and now we've come down to single digits, and it's continuously improving.

Manish Poddar Should this just -- should this number be in line with Manyavar over the medium term? Or this will be at least a couple of percentage higher than Manyavar because of the [inaudible 0:45:26] which is there?

Vedant Modi: Like I discussed these piece in the previous question. What Manyavar is doing is a global success in terms of dead stock management. So, it is very difficult to say if a new brand will be able to come to the scale of Manyavar in terms of the overall dead stock percentage. However, that is what we aim to do over the long term. And we are already at a very good position compared to the industry average, even with Mohey. And the idea is to grow from here on and bring it to a very, very decent dead stock number. But of course, the aim and endeavor is to bring it to what is the company average today.

Moderator: Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Vedant Modi: Thank you very much to all of you for attending the quarter 3 earnings call. I would like to finish off by saying that we've had a good quarter 3. And while we saw some wedding dates spilling over to quarter 4, we saw a sharp recovery in January, and we're really optimistic, and business is moving as per management's expectations.

Thank you very much for attending the call. See you all next quarter.

Rahul Murarka: Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.