

SWEET DREAMS

“S D Retail Limited H1 FY25 Earnings Conference Call”

November 18, 2024

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Moderator: Good evening everyone. On behalf of Kirin Advisors, I welcome you all to the conference call of S D Retail Limited.

From Management Team we have Mr. Hitesh – Chairman and Managing Director, Mr. Utpal, Whole Time Director and Mr. Ritesh, Chief Financial Officer.

Now I hand over the call to Mr. Hitesh. Over to you sir. Thank you.

Hitesh Ruparelia: Good evening, esteemed investors, and a warm welcome to S D Retail Limited's H1 FY25 earnings call.

Thank you for your unwavering trust and commitment as we continue on our journey to outfit each family member with comfortable, stylish sleepwear that enhances every hour of rest. Our mission is clear to clothe each member of the family for 70 hours a week in comfortable and stylish sleepwear, positioning ourselves as the most reliable and sustainable sleepwear ally.

Sweet Dreams has evolved over three decades, transforming from a traditional distributed apparel brand to a contemporary brand that now serves both in-store and online customers. From our manufacturing hub in Ahmedabad, Gujarat, we oversee designs in-house while collaborating with trusted manufacturers for production. With approximately more than 2500 retail MBO locations which includes approximately 370 shopinshop, we're committed to provide fashionable sleepwear accessible to families in every part of India.

In the nightwear segment, we view our primary competition as the common practice of wearing old clothes to bed. We're focused on reshaping consumer perceptions by championing the idea of *fashion sleepwear* that's both stylish and emotionally resonant. Our products are thoughtfully crafted for use from 8 PM to 8 AM, meeting every need before and during bedtime and offering a taste of style, comfort, and personal expression. Our vision extends beyond bedtime, as we aim to bring style into every home moment—be it family gatherings, movie nights, or time spent with loved ones. With trends like pajama parties at weddings gaining popularity, we see an exciting opportunity to set the standard for sleepwear that blends comfort with a sense of occasion.

Our sleepwear line caters to men, women, and children from age 6 to 16, offering fits that accommodate diverse body types. The decision's taker in our category is women in the age group of 20 to 45 year. We've developed our unique 3W framework—Wear-Time, Wardrobe, and Wallet—to drive our growth. In this industry, Wear-Time holds a 60% market share,

Wardrobe contributes 9%, and Wallet share is at 6%. Sleepwear accounts for approximately 60% of a person's weekly hours.

Over the past two years, we have launched our Exclusive Brand Outlets, which are expanding rapidly. In H1 FY25 alone, we opened 10 new EBOs, bringing our total to 34 stores and marking a pace of roughly two new stores per month. Revenue from our EBO business surged by 136% in H1 FY25, and we are committed to accelerating this channel's growth in the future. Across all channels, our average gross margin for H1 FY25 stood at 48%. Our EBO footprint spans 16,000 square feet, with an average store size of 472 square feet. The average sales price is ₹1,600, and the average billing value is ₹3,620, while our annualized sales per square foot stand at ₹16,048. Of our 34 EBOs, 22 are in malls, 7 on high streets, and 5 at airports. The average selling price of Rs. 1600 falls into mid Premium segment.

We are expanding through a cluster-based approach, focusing on a mix of Company-Owned Franchise-Operated and Company-Owned Company-Operated stores. Historically, H2 performs exceptionally well for us, contributing around 60-65% of total annual sales, thanks to the shifts in fashion trends and consumer demand during festive season followed by approaching summer season. Typically our margins perform the best in second half of the year. As we grow EBO business, the results will have lesser impact of seasonal billing.

Over the past 20 years, Sweet Dreams has established a diversified, multi-channel sales strategy that includes MBOs, Large Format Stores (LFS), online channels, and EBOs. For MBO channel we have a monitoring system for Secondary sales and primary is only done on that basis. This framework reduces dependency on any single channel while maximizing reach across consumer segments. Our presence is concentrated in northern and western India, which collectively accounts approximately 80% of our revenue due to robust demand, and we aim to focus on these regions for further expansion. For H1, 55% of revenue came from offline trade, 13% from EBOs, 8% from Large format stores, and 18% from our online business and balance 6% from exports and direct sales. Our reach spans across India, a combination of physical outlets and a strong online presence, supported by our website, www.sweetdreams.in, and major e-commerce platforms.

We have completed our IPO of 49,60,000 Equity Shares of Rs. 10 each at an issue price of Rs. 131 per equity share amounting to Rs. 64.976 Crore. The Objects of the issue is Capital expenditure for setting up new exclusive EBO's, Funding Working Capital Requirement & General Corporate Expenses.

In the first half of FY25, S D Retail Limited showcased good financial performance. Revenue from operations reached ₹ 71.68 crore, marking a great year-on-year growth of 26.66%. We are

pleased to report a turnaround, with EBITDA at ₹ 2.43 crore, reflecting an EBITDA margin of 3.39% as we transitioned from loss to profit for H1 Results. Additionally, EBIT stood at ₹ 1.56 crore, further highlighting our progress toward profitability and reinforcing our commitment to sustainable growth.

Thank you investors for your support and trust in S D Retail Limited. We appreciate your commitment to our journey.
Thank you again.

Moderator: Thank you, sir. I request to all the participants to write your queries in the Q&A box. We have first question from Shreya Desai. How does the clustered-based approach in store expansion help you optimize operational efficiencies and better target key markets?

Hitesh Ruparelia: Good evening Shreya, thank you for your question. Cluster-based approach, India is basically seven different countries in terms of product base. Since we are into fashion sleepwear, the colors, the types of bodies, everything varies across geographies. So, whenever we expand, we learn the market first through a couple of stores and fix the product which is needed for the market and then we build the cluster based approach accordingly. Since we will have a very root level team including the cluster managers and area sales managers, regional sales managers. So, cluster based approach for team for product optimizing everything will help us build further.

Moderator: Next question is from Amit Chaudhary. While H2 historically performed well, how do you plan to mitigate the seasonal impact on margin and ensure consistent profitability throughout the year?

Hitesh Ruparelia: Thank you, Amit Bhai, thank you for your question. Yes, this has been a big debate within the company. How do we even out the margins and profitability across all quarters and half years. So, the latest expansion or addition of channel as I shared with you is EBO, which is a consistent secondary business. And as the ratio of EBO, currently H1 contributed 13%, when we will cross 30% and above, the evenness of results across quarters, across half years will become more evident.

Moderator: Next question is from R. F. Banerjee. Where do you see S D Retail Limited in next 5 to 10 years in terms of revenue, market share and product diversification?

Hitesh Ruparelia: Thank you, R. F. Banerjee. It's difficult to predict, but yes, we will be easily growing anywhere between 15% to 20% annually. And we will also focus on margin expansions while we grow our topline.

- Moderator:** Sir, next question is from Rahul K. What would be our same store growth number if available for COCO plus COFO stores for H1 FY 25? How is our brand being received and given in the recent expansion in the prime location?
- Hitesh Ruparelia:** So, we are tracking this same store sales growth for our internal purposes and it's a double digit growth as we speak for the first half year.
- Moderator:** Next question is from Ankur Gulati. How has profitability in terms of margin of general trade and modern trade including store in store performed over last 2 to 3 years?
- Hitesh Ruparelia:** General trade and modern trade has been part of our business for a very long time and those channels have been under pressure all throughout over a period of years and the margins remain stable. I mean there is no expansion, there is no major concern over it but those are very stable margins. Growth is a challenge in both channels, profitable growth, I would say profitable growth is a challenge in both the channels.
- Moderator:** Next question is from Gaurav Shah. What aspiration of management in terms of revenue say in the next 3 to 5 years? When can they hit double digit EBITDA margin from current 3 PC rate? Also, what's the planning for EBO expansion?
- Hitesh Ruparelia:** So, to answer your last question first is we have raised fund for opening 65 more EBOs in COCO model and probably 25 more in COFO model that's the expansion plan for EBOs. We aim to get into double digit EBITDA in next 3 to 5 years.
- Moderator:** Gaurav sir, I hope that answers your question. Next question is from Naisar Shah. What are your EBO expansion plan and where do you see EBO over the next 5 years?
- Hitesh Ruparelia:** So, as I said that we have already put forth the plans for 90 more EBOs across next 2 to 3 years and our aim is to reach about 50% of our topline coming out of EBOs over the next 5 years.
- Moderator:** Next question is from Ankur Gulati. Please walk us through profitability J-curve of an EBO store?
- Hitesh Ruparelia:** Sorry, I'm not so good with the financial terms. What does the J-curve mean, if somebody could explain me? If I can understand the J-curve of an EBO, I would be able to answer that.
- Moderator:** Yes, Ankur sir, you may again type the question in the chat box so management will be able to answer.

- Hitesh Ruparelia:** I have seen the J-curve over the phone. In our case, the EBOs start breakeven from the first month itself. So, we are not expecting that first our EBOs will dip. In fact, we are delivering good double digit sales to sales growth. So, probably we have not reached a stage where the J-curve is applicable to our growth story. Have I answered it correctly, Ankurji?
- Moderator:** Sir, he is asking how will normal profitability of an EBO store play out in 1 to 2 years?
- Hitesh Ruparelia:** So, our EBO stores, 80% of our EBO stores currently are EBITDA positive and double digit EBITDA positive. So, we are not in a situation where we have to initially start the EBOs in a below breakeven and then take it to profitability. That's not the situation with us.
- Moderator:** Next question is from Anjali Gupta. Can you provide more details on how the IPO proceeds are being allocated, particularly for setting up new EBO and working capital requirement?
- Hitesh Ruparelia:** So, a typical EBO requires 50 lakhs to 60 lakhs of investment which includes CAPEX, inventory and deposits to landlord or malls. As we have shared as part of our RHP, we are planning to open 65 more EBOs over next 2-3 years and 25 more on FOFO model. So, total Rs. 16.48 crores is what we will be using as CAPEX for EBOs and about Rs. 35 crores we will be using as working capital. Rest of the proceeds will go towards the corporate expenses.
- Moderator:** Next question is from Shubham B. Are we thinking about tech-led investment like inventory replacement system, ERP system collecting data of high selling SKUs and OPOs, etc. Thank you.
- Hitesh Ruparelia:** Thank you Shubhamji. This is a very important question and yes, we are thinking because any leadership category will have to be a tech led category and we have recently developed proprietary software, which will collect a lot of data from point of sales including customer data, replenishment data, frequency of data, repeat buys and also towards the management efficiencies of the store in terms of monitoring of retail staff, cleanliness of the store, upkeep of the store, fast selling skews, availability at the store. So, a lot of things are being worked out as a tech led EBO segment.
- Moderator:** Next question is from Chaitanya Deshpande. What specific strategies are being employed to shift customer behavior from using old clothes as a nightmare to purchase dedicated sleepwear?
- Hitesh Ruparelia:** Chaitanyaji, if you have any solid idea, I would be happy to learn. We are continuously exploring. The only way we can do is by being very aggressive on social media, we are doing nightwears promoting various occasions and trying to change this maybe hundreds of years

old habit of wearing old clothes or same clothes to bed, right. But if there is any solid idea coming from anywhere, any corner, we are happy to hear, but that's our mission.

Moderator: Next question is from the line of Anandi Mittal. Are there plans to adopt any advanced technologies, such as AI-driven consumer analytics or inventory management system to enhance efficiency and customer satisfaction?

Hitesh Ruparelia: So, the inventory management, yes, we are definitely working. AI use, we are still at exploratory stage. We have not taken any concrete steps for AI driven consumer analytics as of now.

Moderator: Next question is from the line of Shubham B. Are we planning to stick to COCO/COFO model due to our premium positioning or we are planning to transit to FOFO once we have developed systems?

Hitesh Ruparelia: So, the first 100 stores, we definitely want to continue COCO and COFO stores and build the unique consumer experience across the retail chain. Depending on the financial outcomes and results of these 100 stores is when we will decide the next strategy whether we should go for FOFO or not.

Moderator: Thank you. And the next question is from the line of Rishabh Shah. Sir, do you see company migrating from SME to main board segment in next three to five years?

Hitesh Ruparelia: Yes, Rishabhji, we are aiming to transit to the main board.

Moderator: Next question is from the line of Ankur Gulati. How will normal profitability of an EBO store play out in one to two years?

Hitesh Ruparelia: This is the question which I would answer on one-on-one. There are certain business secrets which we wouldn't like to reveal on a common platform.

Moderator: Next question is from the line of Bimal Gandhi. What impact have pajama party trend and other lifestyles have had on your product, offering and marketing strategies?

Hitesh Ruparelia: So, pajama party is a very good example of occasion led consumption. And very early we started partnering with a platform called Curly Tales. They do wonderful pajama parties and high end pajama parties and digitally very well marketed. So, we are partners to Curly Tales for organizing pajama parties and it leads to what happens is whenever there's a pajama party, I think the budgets become secondary and Sweet Dreams becomes the obvious choice because the number of styles that we produce and the number of offering that we produce is

next to none in the country. So, the general perception is everybody wants to wear a unique sleepwear or different sleepwear from the others. So, Sweet Dreams becomes a very obvious choice in terms of going for pajama party outfits.

Moderator: Thank you. Next question is from Shubham. Portion of men/women/children's sleepwear difference between pricing and the number of SKU, how does it vary?

Hitesh Ruparelia: So, in terms of topline, women contributes to about 55% of our sales, men followed by 30% and kids is balance 15%. Our SKUs ratio generally is very scientifically derived. It's primarily based on the number of options, the business generated by per option. So, generally they are evenly spread directly related to the business that is generated. So, in simple words, women will have twice the SKUs than men and women will have about 4x SKUs than kids, both kids, I mean boys and girls put together.

Moderator: Thank you. Next question is also from Shubham sir. Our competitors are very aggressive on online channels like Instagram. What are our plans to expand online building and omnichannel strategy?

Hitesh Ruparelia: Thank you Shubhamji. Yes, this is an important question. Currently, 18% of our revenue for the H1 FY25 come out of online sales. So, it's a very decent number in line with industry and on different platforms in the country which are the most popular, we are among as the top sleepwear brands consistent across all platforms. So, in true sense, we are already on path to be omni-channel.

Moderator: Thank you. Next question is from Naisar Shah. Please explain EBO stores level economics, revenue per square feet, gross margin, rent, operating expenses and etc. and thus store level EBITDA. Please explain COFO dynamics as well.

Hitesh Ruparelia: Thank you, Naisar. I will share a few of the numbers which I have already shared. 16,048 is the per square feet revenue per annum or EBITDA as I have already shared is a double digit EBITDA at chain level. The other numbers I would still again would like to share with you in personal rather than on a common platform.

Moderator: Thank you. Next question is from Anandi Mittal. How is S D Retail Limited preparing to navigate potential economic challenges, such as inflation on supply chain disruption that may impact consumer spending and overall operational costs?

Hitesh Ruparelia: So, operational costs, yes, we are very conscious. We are benchmarking ourselves with the industry and same size players, players little bigger than us. We believe we are still at a nascent stage we should be worrying about economic challenges because there is nothing

that we will be able to impact when there is an economic challenge faced by the country. We are too small to bother about that at this point of time.

Moderator: Thank you. Next question is from Naisar Shah. What percentage of sales is full price sales and EBITDA margin profit or profile across MBO, LFS, EBO online?

Hitesh Ruparelia: Again, this is a number which I would be comfortable disclosing on one on one, or rather than on a common platform, because these are all information which probable competition will be looking at.

Moderator: Thank you. Next question is from Chaitanya Deshpande. How much of your revenue coming from online sale? How do you plan to enhance your digital presence and e-commerce capabilities to capture larger large share of the market?

Hitesh Ruparelia: So, currently for H1 FY25, we are at 18% revenue from online channels. In terms of planning, we have observed for last couple of years that this channel is also mature so now the growth of offline and online channel is almost simultaneous with same single digit growth happening across channels.

Moderator: Thank you. Next question is from Naisar Shah. Why debtors day went up sharply in FY24 and where do you see working capital cycle as the share of EBO rises?

Hitesh Ruparelia: So, as I explained in my opening statement, our H2 sales are very heavy. It's about 60% to 65% of our annual sales and out of that, Jan-Feb-March is more than 45% of the sales. So, what happens is when we dissected at March end, a lot of sales has happened in past couple of months or 2, 3 months. That's so whenever we grow as a company, the collection also grows because large portion of our business at this point of time is coming from trade channel which enjoys credit on supplies. As EBO channel grows, yes, the number of days overall as a company from current around 200 days, we are expecting it to come down. Our target is to improve by 10 days every year.

Moderator: Next question is from the line of Amit Chaudhary. How are you adjusting your pricing strategy to remain competitive while maintaining a bit premium positioning?

Hitesh Ruparelia: So, in fact, since we were largely trade dominated, this price control was being dictated by them. Now that we have experienced EBO as a channel and e-commerce as a channel, we are in fact using the lever and using it to our advantage. So, we expect the lever is hardly used and we still have a room to go upwards. There is no point in correcting downwards or controlling price because we are fairly priced at this point of time.

Moderator: Next question is from Shubham. Just one last question. Are we planning to expand into any other category in future and what's the long term vision for the company?

Hitesh Ruparelia: So, currently sleepwear itself is a very underpenetrated category. So, next 3 to 5 years is definitely will get consumed in this category. However, if you see the philosophy of the company is we are looking at consumption between 8 p.m. to 8 a.m., so any consumption story any consumption idea in this time zone which is 8 in the evening to 8 a.m. in the morning would naturally be an add-on category for us in future.

Moderator: Next question is from the line of Naisar Shah. Do we have any manufacturing facilities/expansion, a mix between in-house and outsourcing? CAPEX plan for FY25 and 2026?

Hitesh Ruparelia: So, historically, Sweet Dreams has been a manufacturing and marketed brand, very consciously for last 10 years we have been transiting to outsourcing model. So, as we speak, we are about 66% outsourced and 34% in-house manufacturing. Going forward as we know this ratio is still going to tilt in favor of outsourcing. In terms of any CAPEX for manufacturing, we don't have any plans for next one or two years.

Moderator: Thank you. Sir, he's asking whom do you respect as a competitor and benchmark yourself?

Hitesh Ruparelia: Okay, so as a fashion sleepwear, we do respect Marks and Spencer as a competitor because our price benchmarks and detail are similar to what M&S would be doing. However, we have a huge advantage in terms of we being a focused sleepwear player and a very high fashion sleepwear player, we have a large assortment to offer to consumers, so consumers don't get bored of sleepwear by buying same things over a period of time again and again, but yes we respect Marks & Spencer, they do make good quality products and they are reasonably priced.

Moderator: Thank you. Next question is from Amit Chaudhary. How does we stand out in the fashion sleepwear market, which is still considered a niche and who do you see as your main competitor in this piece?

Hitesh Ruparelia: So, to answer this question, I take a little longer route. Let's understand what is sleepwear as a category. So, sleepwear as a category is divided into three consumption areas. The first being old clothes. So, the largest consumption of sleepwear is happening a huge percentage by used clothes or old clothes or corporate T-shirts. So, that's one. The second consumption by consumers is core sleepwear. So, somebody buys a pajama from W or a T-shirt from Enamor, and they pair it and make a set or maybe somebody buys a bottom from Jockey. So, that's how that's the core sleepwear. However, core sleepwear player, there is none in the

country. And it is the business is distributed between so many brands put together because there is no novelty. You know, everybody can make a pajama. Everybody can make a T-shirt. So, every, single brand has a single digit share coming out of this core sleepwear product range. The only third option which remains is the fashion sleepwear which is a statement in itself when you are spending money for yourself when you are on your own. So, that's the area where we are dominating today and we would like to continue dominating there in coming times.

Moderator:

Thank you, sir, for patiently answering all the questions. As there are no further questions, I will now conclude the conference call. Thank you, everyone, for joining the conference call of S D Retail Limited. If you have any queries, you can write us research@kirinadvisors.com. Once again, thank you, everyone, for joining the conference call.

Hitesh Ruparelia:

Thank you all the participants for patiently listening and encouraging us. Thank you so much.