Management Discussion

Kasturi Sharma - Analyst, EY
Thank you so much, Anam. Good morning to all the participants on the call. Before we proceed, a quick reminder that the discussion today may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It's important that these be viewed in conjunction with the business risks that that could cause future results, performance, or achievement to differ significantly from what is expressed or implied in such statements. Please note that the results and earning collaterals have been emailed and the same are also available on the company's website.

In case you haven't received these, you can write to us and we will be happy to send them over to you. Now, to take us through the results and answer your questions today, we have the management of Redtape Limited represented by Mr. Arvind Verma, Director, and Mr. Vivek Agnihotri, the Chief Financial Officer. We will begin the call with a brief overview of the quarter and half year, followed by the Q&A session. With that said, I'll hand the call over to Mr. Verma. Over to you, sir.

Arvind Verma - Director, Redtape Limited
Thank you, Kasturi. Good morning everyone, and thank you for joining us for Red Tape's Q2 and H1 FY27 earnings call. With the first half of FY27 behind us, let me begin as how the business has progressed over the over the last 6 months. The operating environment has remained uneven as we discussed at the end of Q1. Through the first half, we have continued to strengthen the brand, reach more consumers, and improve our day-to-day operations. We have stayed disciplined on pricing and discounting as we also mentioned in the last call.

We have managed our channel mix carefully and worked on sourcing, merchandising, and retail operations. Our focus is growing on the- growing the business while maintaining profitability. Turning to the quarter, Q2 tends to be a quieter period for the business. This year, the timing of Big Billion Days also affected the revenue comparison. The event moved from September last year to October this year, taking the associated sales from Q2 into Q3. While this affected reported revenue, our operating performance remained healthy.

We also made progress across our online and retail businesses during the quarter. Online sales accounted for around 31% of revenue compared with around 22% in Q1. This was closer to our historical channel mix with a more balanced contribution from our physical and online channels. We are encouraged by the progress of our brand website redtape.com. Sales through our website reached INR31.9 crore during the quarter compared with INR3.9 crore in the corresponding period last year. Alongside our established presence on leading marketplaces, the website gives us a direct way to reach consumers.

We want to build it into a meaningful part of our online business. Our retail network continued to expand. During Q2, we added 49 EBUs and 5 shopping shops, taking the network to 756 stores across 369 cities. At the end of September, franchisee stores remain- franchisee stores still remain a significant part of this expansion, helping us reach more markets while keeping the retail model relatively capital-light. Together, our stores, online marketplaces, and website give more consumers more ways to access Red Tape.

The next step is to make these channels work better together. As we expand, we want to improve productivity across the network and build closer connections with consumers. Footwear remains at

the heart of the business, accounting for 63% for Q2 revenue. Alongside it, we continue to build our apparel and accessories business. Shared sourcing, merchandising, and distribution capabilities support our growth across these categories. Let me now take you through our financial performance. Revenue for Q2 FY27 was INR474 crores, down 3.5% year-on-year, with the comparison affected by the promotional timing shift I mentioned earlier of BBD. Profitability improved through- during the quarter. Gross profit grew 15.7% year-on-year and gross margin rose to 45.4%. EBITDA increased 8.2% to INR89 crore, with EBITDA margin expanding by 204 basis points to 18.9%. PAT grew 27.3% year-on-year to INR36 crore. The improvement in margins and profits was an important part of this quarter's performance. We have continued to work on sourcing, channel management, and costs with the aim of supporting profitable growth. For the first half, revenue was broadly stable at INR955 crore while EBITDA increased 12.4% and PAT grew 22.7% year-on-year.

Over these 6 months, we have improved profitability by continuing to invest in our channels and distribution network. We now enter the seasonally strong- stronger second half with the festive and winter periods ahead. These are important demand periods for our categories, and this year's Q3 also includes the big billion-day sales that shifted from Q2. Our focus will remain on strengthening the brand, expanding our reach, and improving productivity while maintaining discipline on pricing and margins. We move into H2 with stronger profitability and more balanced online mix, a growing website business, and a wider retail network. Our task now is to build on that progress. With that, we can open the floor for questions.

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. [Operator Instructions] The first question comes from the line of Dheeraj Thakur from Elara Capital. Please go ahead.

Dheeraj Thakur - Analyst, Elara Capital
Hello. Good morning. Actually, I'm new to the company, so just wanted to understand the distribution channel and the store metrics and the store channels.

Arvind Verma - Director, Redtape Limited
So with- hi. So to answer your question, I think I would like to make it very clear here, we are not into the business of wholesale and distribution. Our primary focus remains on expanding our retail network. And growing our online business. For the wholesale and distribution business, we have appointed licensees and given them specific brands to promote and sell. But having said that, we are- we do that business at arm's length. We do not directly interact with any distributors or any wholesalers, and it does not come on our books. Thank you so much.

Dheeraj Thakur - Analyst, Elara Capital
And this is- so just can you explain the retail network, like the How does the store matrix work and the store formats, whether it's COCO, COFO, and the revenue mix across the channels?

Arvind Verma - Director, Redtape Limited
So we have 3 types of retail stores we operate. One is obviously the COCO model wherein the company operates and company manages the store with respect to the CapEx and everything. There's a second model which is the franchise model wherein the franchisee invests everything And

he invests in the CapEx, he gives us a security deposit and we give him stocks. But in both the cases the billing is of company, the software is of company, the GST registration is of the company, so the top line comes to us.

The end consumer gets a bill of Red Tape Limited. So he as a consumer you would never know whether you're walking into a company managed store or a franchisee managed store. In the third part we also have some stores, very few numbers wherein the stores are of company, but we have given the staff management or the operation management to a third party. That helps, that helps us in interiors of the country wherein, you know, we have a very low, control over the local languages or something like, for example, in Kerala or, or in places like Assam.

Dheeraj Thakur - Analyst, Elara Capital
Understood. And can you just dissect the revenue, like revenue mix, how does that goes between the stores and the online and the other platforms?

Arvind Verma - Director, Redtape Limited
Generally, our traditionally, our mix of online business is 30% and retail business constitutes 70%. That's how generally the mix has been historically.

Dheeraj Thakur - Analyst, Elara Capital
And understood. And what is the store metrics for the Fofu and Kofo?

Arvind Verma - Director, Redtape Limited
What exactly do you mean by store metrics?

Dheeraj Thakur - Analyst, Elara Capital
The return ratios you get and the- so

Arvind Verma - Director, Redtape Limited
It's a fixed margin which we give to all franchisees.

It's a fixed margin of 25% which we give to every franchisee all across the spectrum, and he has to, you know, manage the rents, the CapEx, the interest, depreciation, staff salaries, all the miscellaneous expenses, and make profit out of it. So that's-

Dheeraj Thakur - Analyst, Elara Capital
But

Arvind Verma - Director, Redtape Limited
Stock

Dheeraj Thakur - Analyst, Elara Capital
Risk is always with us?

Arvind Verma - Director, Redtape Limited
Stock risk is always us, yes.

Dheeraj Thakur - Analyst, Elara Capital
Understood. And how do we get the new designs into the stores and the online platforms? Like, what is the frequency and What is the way and how, how is the internal design team?

Arvind Verma - Director, Redtape Limited
Yeah, so we have, we have a mix of 18, almost 18-19, NIFT, designers who have passed out of NIFT or, or other institutions, which are based out of our corporate office in Noida. We have a complete design merchandising buying team. Generally the drops happen in the stores, footwear drops happens almost every month. With apparel being, in summers we have almost 2 drops, and in winter, obviously because of the shorter period, we have only 1 drop. That's how it works. So basically you can say for apparel there are 3, 3.5 drops a year, but footwear we have something new coming in every month.

Dheeraj Thakur - Analyst, Elara Capital
Understood, understood. Got it, got it. So yeah, that largely answers my question. Oh, thank you so much for-yeah,

Operator
Thank you. [Operator Instructions] The next question comes from the line of Devanshu Bansal from Emkay Global Financial Services Limited. Please go ahead.

Devanshu Bansal - Analyst, Emkay Global Financial Services Limited
Hi, Arvind, good morning. Thanks for taking my question. So, Arvind, I wanted to check, on if you could just, qualitatively or quantitatively help us better understand the impact of this shift of festive, right. So obviously I understand big billion days would be big for you. So if you could just help us better understand what could be the comparable growth maybe in 7 months so far, so that would be a better idea.To sort of understand, better understand the growth trajectory in the business?

Arvind Verma - Director, Redtape Limited
Hi, thank you. So I'll explain you in my own way the things I've been looking after businesses for the last- in this business for the last 27-odd years in this organization. So I believe Diwali, whenever the Diwali shifts to November, so there's a very shorter period of the season wherein the lean period increases by. So if you see from comparisons in comparison to last year, Diwali has shifted by 19 days.

So what does that actually mean is that your lean period has extended 19 days and your peak season has reduced by 19 days. And if you, if you see the calendar for the next year, next year the Diwali is almost at all happening at 29th, on 29th October, which is 10 days earlier. And then the following the next year, it will be almost at 15th October.

So every 3rd year Diwali shifts to November. Whenever it shifts to November your lean period increases and your peak period decreases. So that helps- that's how- and we're a country of festivals and occasions like that, we shop on occasions, festivals and everything. So that definitely impacts. So every 3rd year you would see the impact of sales going to Q3 more rather than Q2.

Devanshu Bansal - Analyst, Emkay Global Financial Services Limited
Yeah, that's the reason I was checking if we could, call out, 7 months, till October, as in how has been the trend, maybe qualitatively or quantitatively. Or maybe just to ask this in a different manner, we were sort of, gunning for delivering whatever growth that we've delivered for the past 2 years, right, so are we on track to deliver that, so can you give some color on that?

Arvind Verma - Director, Redtape Limited
So I would always like to remain positive, I think we're on track. I think the fundamentals of our

organization are very strong in spite of whatever happens in the market and whatever the market forces. Determine the consumer behavior, but our fundamentals remain strong. We're not running after very, you know, we're not very, very per se that we will go after this number or that number. What we also want to do is we want to keep our bottom lines intact, in fact improve on our bottom lines, and we'll let the market decide, the market dynamics decide what is happening to the consumer, whether he's spending more or less or whatever.

But having said that, October per se has been seen- the consumers are back, they're back to shopping, the numbers are looking good. So we're hoping to have a bumper Q3.

Devanshu Bansal - Analyst, Emkay Global Financial Services Limited
Got it. And, Arvind, from a margin perspective, because there is a certain fixed cost in the business, right, so if top line was not so great, what has led to this margin improvement, if you could just help me better understand that. That would be my last question. Thank you.

Arvind Verma - Director, Redtape Limited
So you would know our retail business has always been given- is our main contributor to a margin structure. It gives us better margins. And what we have also seen, retail is growing in a high single-digit SSG. So in that manner, because the costs remain fixed, the expenses remain fixed, So if we get a good high-digit SSSG in our retail business, that helps us gain more mileage and give- that gives us more momentum to, you know, post a higher profit margin. And in fact, if you remember in the Q1 call also, I mentioned that in the e-commerce arena also we are trying to, you know, put the same mindset wherein we will not, we will not let, ecommerce erode our margin in any place.

So we want to stay to a particular number, if that is the number we want to have, whether ecommerce supports us in that growth or not is a different story. But if you see Q2, which we promised, in Q2 we'll come back to whatever share the ecommerce business used to give us, so it has already come back. So 31% of this Q2 number has come from ecommerce.

Devanshu Bansal - Analyst, Emkay Global Financial Services Limited
Fair enough, sir. Thanks for taking my questions and all the best for upcoming season. Thank you so much.

Arvind Verma - Director, Redtape Limited
Thank you so much. Thank you so much.

Operator
Thank you. [Operator Instructions] Ladies and gentlemen, we will take this as the last question for today. I now hand over to Mr. Arvind Varma for closing comments. Over to you, sir.

Arvind Verma - Director, Redtape Limited
Thank you everyone for joining us today and for your questions. Q2 and the first half saw an improvement in margins and profitability alongside progress in our online business and retail expansion. As we enter the stronger second half, we will continue to build on this progress with a focus on reaching more consumers, improving productivity, and maintaining discipline on pricing and margins. If you have any further questions, please reach out to our investor relations partners at EY, Kasturi and Nikita. We'll be very happy to follow up.On behalf of everyone at Redtape, I wish you and your families a very happy Diwali. Thank you so much. Have a great day.

Operator
[Operator Closing Remarks]