Wakefit Innovations

Operator: Ladies and gentlemen, good day and welcome to the Wakefit Innovations Ltd. Q2 FY27 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshat Desai from IIFL Capital. Thank you, and over to you, sir.

Rakshat Desai – IIFL Capital: Hi, good morning, everyone. I have the pleasure of hosting the management of Wakefit Innovations for their Q2 FY27 earnings call. From management, we have with us Mr. Ankit Garg, Chairman, CEO and Executive Director; Mr. Chaitanya Ramalingegowda, Executive Director; and Ms. Parul Gupta, CFO. I will hand over the call to management for their opening remarks, after which we will open the floor for Q&A. Over to you, sir.

Ankit Garg – Chairman, CEO & Executive Director: Thank you so much for the introduction, and good morning, everybody. A warm welcome to all of you, and thank you for joining our Q2 FY27 earnings call. Before we begin, I would like to wish everyone a happy Diwali and a prosperous new year. May the festive season bring happiness, good health, and prosperity to you and your families.

On this call, we are joined by Chaitanya, Executive Director; Parul Gupta, CFO; and our investor relations advisors, Strategic Growth Advisors. The results and presentation have been uploaded on the stock exchange and company website. I hope everyone has had an opportunity to go through them.

For Q2 FY27, revenue from operations stood at 452 crore, our highest-ever quarterly revenue, reflecting year-on-year growth of 19.9%. EBITDA for the quarter stood at 50 crore, with an EBITDA margin of 11.1%, while PAT stood at 15.9 crore, translating into a PAT margin of 3.5%. For H1 FY27, revenue from operations stood at 856.9 crores, registering year-on-year growth of 18.4%. EBITDA stood at 106.6 crore, with a margin of 12.4%, while PAT stood at 39.3 crore, with a margin of 4.6%.

On the demand front this year, our festive sale events began in the second week of October compared with the last week of September last year. This resulted in a portion of the festive demand shifting from Q2 to Q3. Encouragingly, October trends have been positive following the commencement of the sale events. We therefore believe that H1 performance, when viewed alongside Q3, will provide a very meaningful picture of underlying business momentum.

On the cost front, the operating environment remained challenging, with crude-linked raw materials, particularly polyol and TDI, continuing to remain elevated. Geopolitical disruptions in West Asia have also impacted raw material availability and logistics across the industry. Given the volatility in raw material prices, we have undertaken calibrated price increases while remaining mindful of customer affordability and maintaining absolute profitability.

Coming to our category performance, mattresses and furniture continued to deliver healthy double-digit growth during the first half, supported by our expanding omnichannel presence.

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Furnishings remained softer, though we saw some improvement toward the end of the quarter. Over the longer term, we remain committed to building Wakefit into a one-stop destination for home-related solutions. With our current share at well below 1% of the combined mattress, furniture, and home access industry, we see significant headroom for growth.

Before I conclude, I would like to thank all of our employees for their continued commitment and dedication in navigating the operational and cost challenges during the quarter. Their efforts remain central to our growth journey. Now, with this, I will hand over to Chaitanya Ramalingegowda, Executive Director, to explain further. Thank you.

Chaitanya Ramalingegowda – Executive Director: Thank you, Ankit, for the introduction, and good morning, everyone. Let me give you some operational highlights for Q2 FY27.

Mattresses contributed 61.8% of revenue, registering year-on-year growth of 21.4%. As our mainstay category, we expect steady growth supported by our expanding omnichannel presence, a good portfolio of products, and improving retail conversions.

Secondly, furniture contributed 30.1% of revenue, with year-on-year growth of 24.9%, which is a higher growth rate than mattresses. Our focus remains on improving same-store sales and productivity across the existing network. We expect growth to accelerate as our jumbo stores also become operational in the coming months and our product catalog continues to deepen and expand.

Furnishings contributed 8.1% of revenue. We have seen some improvement toward the end of the quarter and remain focused on getting back to the growth rate that we enjoyed earlier in this particular category.

Moving on to our retail expansion, we continue to expand our company-owned, company-operated store count during the first half, adding 41 stores in Q2 and 68 stores in H1 FY27. This takes our network to 205 stores as of September 30 across 137 cities, compared with 164 stores across 100 cities as of June 30.

Going forward, we will moderate store additions in H2, with a greater focus on ramping up recently opened stores, improving their productivity, calibrating the metrics, and then pushing the pedal once more at the right time. Alongside our company-owned, company-operated network, our MBO channel also continues to help us expand into new markets with limited upfront capital investment. As of September 30, we had 2,589 MBOs across 787 cities, compared with approximately 2,250 outlets across 701 cities as of the end of June.

Coming to our channel mix, our own channels, comprising our website and COCO stores, contributed 70% of Q2 FY27 revenue, compared with 60.2% in Q2 FY26, with revenue from these channels growing at nearly 39.4% year-on-year. The strength of these channels reflects our growing brand presence and allows us greater control over the customer experience and the derived margins thereafter.

We are also seeing encouraging customer retention, with over 32% of our revenue coming from repeat customers, reflecting the strength of our relationships and our ability to gain more share of

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wallet. At the same time, external channels, including marketplaces and quick commerce, continue to play an important role in driving traffic and sales and, more importantly, acquiring new customers during sale events.

Another encouraging aspect is cross-selling across categories, with an average cart carrying close to two products. This reflects the strength of our multi-category proposition, where customers purchasing mattresses often add pillows and bedsheets, while furniture-purchasing customers drive sales of complementary products related to that furniture.

Moving to our jumbo stores, construction of the first store in Bengaluru is progressing, and we are targeting its launch in Q2 FY28 as per the earlier plan. Along with the expansion of our product catalog, these larger formats are expected to support the next phase of growth in our furniture business by offering customers a wider range and an enhanced shopping experience. And now, I invite Parul, our CFO, to provide insights on the financial performance.

Parul: Thank you, Chaitanya. Good morning, everyone. Let me now take you all through our financial performance for Q2 FY27.

Revenue from operations stood at 452 crore, our highest-ever quarterly revenue, registering healthy year-on-year growth of 19.9%. Gross profit for the quarter stood at 243 crore, up 12% year-on-year, with gross margin at 53.9% in Q2 FY27 compared with 57.7% in the corresponding quarter last year.

Reported EBITDA, excluding other income, stood at 50.2 crore, reflecting year-on-year growth of 21.5%, with an EBITDA margin of 11.1%. Operating EBITDA for the quarter stood at 38.5 crore, registering a 26% year-on-year increase, with the operating EBITDA margin expanding to 6.7%.

Our employee benefit expenses for the quarter stood at 54.5 crore, registering a year-on-year increase of 30%. This increase was primarily driven by strengthening our leadership team and adding resources to support business growth and network expansion, along with the annual salary revision. This also includes ESOP expenses of 2.5 crores compared with 4 million in the corresponding quarter last year.

Our advertisement and marketing investment for the quarter stood at 5.2% of revenue from operations. Profit before tax stood at 26.5 crore, registering year-on-year growth of 66.3%. The PBT margin also improved to 5.9% compared with 4.2% in the corresponding quarter last year.

The tax expense for the quarter stood at 10.7 crore and included a deferred tax charge of 6.5 crore. This was primarily on account of the reversal of timing differences arising from depreciation and provisions in the normal course of business, along with the partial unwinding of the deferred tax asset recognized on carry-forward losses as the company continues to generate taxable profits.

Excluding these deferred tax movements, PAT for the quarter stood at 22.3 crore, representing 4.9% of revenue and registering year-on-year growth of 39.9%. This better reflects the underlying operating performance of the business. Reported profit after tax stood at 15.9 crore compared with 16 crore in the corresponding quarter last year, which did not carry any tax expense.

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Moving to our half-year performance for FY27, our half-yearly revenue from operations stood at 857 crore, registering year-on-year growth of 18.5%. Reported EBITDA, excluding other income, stood at 106.6 crore, with a margin of 12.4%, reflecting year-on-year growth of 24%. Operating EBITDA for the half year stood at 67.3 crore, registering growth of 39%, with the operating EBITDA margin expanding to 7.9% from 6.7% in H1 FY26.

The ESOP expenses for the half year stood at 3.2 crores. Excluding deferred tax movement, PAT for H1 FY27 stood at 53 crore, registering year-on-year growth of 49%, with the margin improving to 6.2% from 4.9% in H1 FY26. Reported PAT stood at 39.3 crore, registering year-on-year growth of 10.5%.

Looking ahead, we expect to incur capital expenditure of around 100-120 crore in FY27, and nearly 80% of this investment will be directed toward expanding our retail footprint, particularly through the rollout of our jumbo stores. The remaining 20%, as mentioned earlier, will be invested in manufacturing automation and other regular business upgrades to further strengthen operational efficiency and support our long-term growth objectives.

With this, we can conclude our opening remarks and open the floor for the Q&A. Over to you, please.

Operator: Thank you, ma'am. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question comes from the line of Siddharth Para with Nomura. Please go ahead.

Siddharth Para – Nomura: Hi. Thanks for the opportunity, and congratulations on a good set of numbers, sir, in a challenging Q2. I think we did see a good acceleration in growth despite the shift in the festive period, which you rightly pointed out.

Sir, if you can share some initial thoughts, how has festive demand been in the current quarter, given that we will probably have a favorable base now? Do we see any further acceleration from current levels? And for the last quarter also, is it possible to highlight what same-store sales growth we would have seen?

Management: [pause] Thank you, Siddharth. The festive growth, as Parul mentioned, has been different, and we cannot compare September of this year with September of last year because the sale started only around October 8 this year, as opposed to September 22 last year.

Having said that, the sale started off spectacularly well. Usually, the sale is split into three or more waves, and the first wave is usually for about 7-10 days from the start of the sale. That wave was quite good. It started with a very big jump, and after that moderated to the normal growth rates that we usually see in the festive season in the second and third waves.

In general, the overall festive sale of 32-33 days has been decent, but not the spectacular event that we expect in some years, given that consumer demand and consumer spending on

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discretionary products have been moderate and have seen ups and downs this year. In addition, we have seen good growth overall, but it is not a spectacular number that sometimes happens.

Secondly, on like-for-like same-store sales growth, we have been able to deliver mid-teens-level growth on the stores that were already existing.

Siddharth Para – Nomura: Got it. And on the COCO store additions also, we had a plan to add about 80 stores for the year, perhaps. Now that we are already close to 70 in the first half, do you think we will probably end up with a higher number for the year, even if we build in moderation in the second half? And...

Management: That's right.

Siddharth Para – Nomura: Okay. Okay.

Management: Please continue.

Siddharth Para – Nomura: No, I think the third question was on the price hike. We have probably seen the worst of the impact in terms of costs in Q2, which is very visible in terms of our raw material-to-sales ratio. Where does the pricing stand now? From here onward, are you seeing any moderation in commodities and any further price hikes that we have planned to pass on the costs? Or will the improvement from here be more driven by commodity softening and so on? If you can share some thoughts here.

Management: Right. On the first part of store openings, you are right. Even if we moderate the pace, we will end up with a higher number of net store openings compared with the target of 80 that we had provided at the beginning of the financial year. That is correct, but we do not have a number as yet because we deliberately front-loaded the openings so that we can deliver most of the revenue in the second half from mature stores. We are continuing to open stores even in Q3. We may have more clarity on where that number will land in the next earnings call, but we will definitely have more than 80 stores at the end of this financial year.

Secondly, on raw material prices and price hikes to pass on the costs, you are right, we have undertaken a couple of price hikes and one price drop since the war started in February. However, we do not believe that we want to undertake any additional price hikes because we have always been treading the fine line between growth and destroying volume growth. It is value growth versus destroying volume growth. Consumer demand operates at a very specific frontier, and we do not want to breach that frontier in either direction.

Currently, we do not think there will be any more price hikes, barring completely unforeseen further increases in crude prices. The second matter is that, last quarter, we also mentioned that even if we were willing to pay [trails off]

Management: ...there was a severe shortage of raw materials in the market. That, uh, one seems to have eased out, and two, we have utilized the strength of our relationships over the last 11 years and managed to get access from different plants and different geographies to ensure that the engine keeps running. That part has been taken care of, and we hope that we do not have to undertake any more {? raises ?}.

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Siddharth Para – Nomura: Got it, sir. Thanks a lot. I will come back in the queue.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Harish Advani with Axis Capital. Please go ahead.

Harish Advani – Axis Capital: Hi, sir. Congratulations on a good set of numbers despite the festive shift. My first question was on like-for-like growth in Q2. You did mention that the sale started on September 22 last year. If we were to look at how we had performed up to, say, September 21, 2026, what kind of growth would we have seen? That is my first question.

Management: Are you saying up to the end of September this year versus the end of September last year?

Harish Advani – Axis Capital: No, I am saying that the festive sale last year started on September 22, correct? So if I were to ask you for sales from July 1 to September 21 and compare that with what we did this year, what would the growth have been?

Management: Got it. That again would not be a meaningful number because usually about 10-15 days before the announced sale event...

Management: ...furniture also had tepid growth last quarter, and we explained two specific problems. One was a machine breakdown, and the second was labor issues due to the festive season, weddings, and elections all coming together, further exacerbated by the LPG shortage.

However, all of those issues have been sorted, so furniture demand was never the problem. We just had to ensure that the engines were running very well in terms of production and delivery. Thus, the displayed delivery date on the consumer website is now very short and attractive to those who are considering buying. That has been fixed, and that is why furniture has returned to a 25% growth rate, which is higher than mattresses. That has always been the case over the last 2 years, except for the last 2 quarters. The reason is that furniture has a smaller base and a larger market, and it has always grown faster than mattresses. Now it has returned to that level.

Now coming to your question on furnishings, the only reason there was a problem was the absence of the head of the furnishings category, who left the company and became an entrepreneur. This was about 6-9 months ago, and there was a leadership vacuum, while the individual sub-category owners were less experienced professionals.

Once we filled that position, it also took us time to stabilize, and now, from July-August-September, the growth rate has returned to normal. Furnishings is a category that does not grow through marketing because it is already a small-ticket-size item. The 3 best places where furnishings sell very well are, first, displayed cash-and-carry products in stores; secondly, the frequently bought-together add-on widget on the website; and third, marketplaces and quick commerce.

In these places, it works very well, and availability, good quality of the catalog, and short delivery times drive conversion more than marketing spends. This has returned to normal, so you will see much better growth rates in the ongoing quarter.

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Harish Advani – Axis Capital: Understood, sir. Thank you, and all the best.

Operator: Thank you, sir. Ladies and gentlemen, you are requested to limit your questions to 2 per participant. Thank you. The next question comes from the line of Dhiraj Kashyap with Emkay Global Financial Services. Please go ahead.

Dhiraj Kashyap – Emkay Global Financial Services: Hello, sir. Congratulations on the great set of results despite the environmental challenges relating to the delay in the festive period. We are also seeing a very steep increase in raw material prices since the past quarter, but we have still delivered a good amount of growth and protected our margins, which other companies facing the same problems have not been able to do.

I wanted to understand why external channel growth has been much higher. If we look at it, it has reached almost 40% and 70%, while last year it was 60%, and internal channels—sorry, external channels—have fallen by 10% or more.

I also want to understand that we have incurred a very low amount of advertising and A&P expenses and are still delivering this kind of growth. Is it that, if we talk about our internal channels, including not just stores but also online sales, we are getting a higher growth rate per rupee of advertising expense compared with the external channel?

We are also guiding for higher A&P expenses for the second half. There is, of course, a good festive season compared with last year, and raw material prices are going down. We are guiding for better A&P expenses compared with H1. What will be your guidance going forward? Also, if you can combine this with a comment on internal and external sales channels, spending, and returns on advertising expenses.

Management: I will break it into 2 parts. One part will be about the channels, and the other part will be about A&P spending.

On the channel front, it was a very conscious company-level decision to move more sales to our own channels because, number one, it is margin-accretive. Number two, we get to own the customer data and, more importantly, the customer relationship, unlike the external platforms, where we do not get customer data and cannot talk to customers on an individual basis. It was a conscious decision to do this.

However, external partners play a very important role during festive periods and quarterly sale events because they enable higher discovery and also allow new-to-category and new-to-company customers to learn about Wakefit and our products. We respect and always partner with those external companies, but the change in the ratio was a very conscious decision by the company.

Going forward, regarding A&P spending, it might be wrong to look at A&P spending only from the perspective of accounting standards. Accounting standards cover all performance marketing and all brand marketing, and that is the A&P spend. However, in reality, the world works in a way where every time we open a new store in a good locality, there is footfall and we undertake hyper-local activation to communicate that a Wakefit store has opened. That ends up becoming a point of

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marketing for Wakefit.

Therefore, as a company, we look at overall advertising sales as marketing expense plus store operating expenses because that is essentially a way of marketing for the company. That is the reason for the finely calibrated tracker that we maintain on an ongoing basis.

To return to my original point, as Parul also outlined, there could be quarterly changes, with share moving from own to external channels or from external to own channels based on sale events, festive periods, and so on. But at a company level, we like a split of approximately 70-72% on own channels and 25-28% on external channels, and we hope to keep it steady.

Secondly, advertising and marketing spend will include all of these elements in our view. We try to manage the slab and scale based on that. We still want to spend about 7-8% at the overall accounting-level marketing spend.

Dhiraj Kashyap - Emkay Global Financial Services: Okay, sir. Just one quick question on the H2 commentary. Are we seeing any price pass-through from our suppliers on raw materials, given that crude prices have decreased?

Management: It happens on and off, and because spot prices are very high, we never engage in spot buying. It is a very thoughtful process of deciding when to buy and whether we can buy and hold the material for 6 weeks, 5 weeks, or 4 weeks because it is a non-perishable raw material.

There is definitely some easing in availability, but not as much easing in prices. Raw material prices remain elevated by 30-60% compared with the pre-war scenario.

Dhiraj Kashyap - Emkay Global Financial Services: Okay. Just one question about H2. Last year was a very soft base if we compare it with Q3 and Q4 of FY24. We are also increasing our A&P spending for the next half. We have already opened a lot of stores in H1, and in H2 this year we are seeing a better festive period compared with last year. What kind of guidance can we look at in terms of revenue and margins going forward? Is 25-30% revenue growth achievable from here?

Management: We will not be able to provide a very specific percentage for revenue and margins, but we are happy to share that we are tracking well toward the Annual Operating Plan that we shared with and received approval from the board. If you look at the growth rate that we delivered in Q2, it is fair to say that we will remain in that ballpark going forward.

Dhiraj Kashyap - Emkay Global Financial Services: Okay. Sure, sir. Thank you so much for answering the question, and best of luck.

Operator: Thank you. The next question comes from the line of {? Rudraksh Pajeja ?} with Ithought Financial Consulting. Please go ahead.

{? Rudraksh ?} - Ithought Financial Consulting: Thank you for the opportunity, sir. I wanted to check on the rent expense. Last year, we had 139 stores and paid 84 crores in rent broadly, and this year we will probably add more than 80 stores, as you have guided. The rent expense guidance is around 80-90 crores. Could you help us understand this?

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Management: [pause] Yes. So, with our new guidance and the new [trails off]

Management: ...number of stores that we have added in H1, we anticipate that the number of stores may exceed 80, and our rent expense would range anywhere between 90 and 92 crores. That is the current number we are tracking.

{? Rudraksh ?} – Ithought Financial Consulting: Understood, sir, but that number is still lower than what one would expect on a {? 50-60% ?} expansion.

Management: You did understand that this rent expense includes not only store-related rent but also rent for facilities, including warehouses and office locations. Everything is included as part of this rent.

We are also optimizing some of these aspects by trying to renegotiate or improve the arrangements with a lower footprint or smaller warehouse sizes. That is where you are seeing the benefit also coming in. Therefore, this rent comprises all of those components as well.

{? Rudraksh ?} – Ithought Financial Consulting: Understood, understood, ma'am. On store capex, can you quantify the capex that we spent last year on COCO store expansion for FY26 and H1 FY27?

Management: In H1 FY27, we have invested around 60-65 crores by now in terms of cash outflow, primarily comprising our retail stores, some investment in the jumbo store, some automation-related changes, and general upgrades related to network expansion. These are the investments that we have made.

Compared with last year, I think we invested around 30 crore in capex for the full year.

{? Rudraksh ?} – Ithought Financial Consulting: Got it, ma'am. Can you quantify, out of this 65, how much has been spent on the COCO store component?

Management: In terms of the COCO store component, we have invested around 25 crore. Got it—25-30 crore, yes.

{? Rudraksh ?} – Ithought Financial Consulting: Got it. And, ma'am, if I talk about the channel mix, can you quantify a few figures for H1 FY27? I would like to know what our own website sales and marketplace sales were in H1 FY27.

Management: We track our own channels and the external channel at this level, without breaking it down further, because for us, online and offline—which comprise our retail stores and website—cannibalize each other. A customer can visit the website and buy after experiencing the retail store, and the reverse can also happen.

Therefore, it would be unfair to view the growth percentage by breaking it down further. We communicate online and offline together, and as we mentioned, for this particular quarter, our own channel share has been around 70%, which is growth of around 40% on a year-on-year basis.

Operator: Thank you, ma'am. Mr. Vinayak, I would request you to please come back in the queue for further questions. Thank you. The next question comes from the line of Dikshant Gupta from Yogit

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PMS. Please go ahead.

Dikshant Gupta – Yogit PMS: Hi. Congratulations on the good set of results. I wanted to know why other expenses as a percentage of revenue have decreased. Apart from advertising expenses, what could be the factor behind this, and how can we expect this to develop in the second half?

Management: This is primarily also coming from operating leverage due to the price increase that we have undertaken in terms of ASPs. If you see, our gross margin and PAT as a percentage have diluted, while EBITDA remained at a similar level. The reason is that we have been able to manage absolute profitability despite the increase in raw material prices. That is where operating leverage is driving the reduction in other expenses.

Obviously, this also includes the efficiencies that we are bringing into the overall ecosystem, but a major part of this also includes the effect of operating leverage.

Dikshant Gupta – Yogit PMS: I also wanted to understand something that an earlier participant asked. Why are deferred tax assets and current tax expenses both appearing? I know this is not an actual cash outflow, but the effective tax rate appearing in the P&L is around 40%. Why are we charging current tax expense when we have a sufficient DTA balance?

Management: [pause] We do have brought-forward losses from earlier years, which can only offset business income, while we are also earning income from interest, which is the other income portion, as you can see in our financials. Therefore, we still have to pay cash to the government in the form of income tax.

The current tax appearing in the financials is a portion of the tax outflow on other income, which cannot be offset by the DTA. The rest forms part of the DTA unwinding.

Dikshant Gupta – Yogit PMS: And is there any impact from elections? There are UP elections that will happen in Q4...

Management: As of now, we do not foresee any such impact there. [pause] Hello?

Operator: Yes, ma'am, you are audible. We will move on to the next question. It is from the line of Avinash Nahata with Parami Financial Services. Please go ahead.

Avinash Nahata – Parami Financial Services: Am I audible?

Operator: Yes, sir.

Avinash Nahata – Parami Financial Services: My question pertains to mattresses. The team has alluded to a couple of price interventions along with one price drop. Can you talk about the cumulative price intervention since March 1, since the outbreak of the war? The idea is to understand the gross margin we were operating at before March 1, 2026, and how far away we are from that number. Whether we have under-recovered or just recovered, I want to understand that.

Management: Our average price hike is around 10-11% compared with before the war started, versus where we are operating currently. In terms of recovery, we have been able to recover the absolute increase in raw material prices.

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Avinash Nahata – Parami Financial Services: As you said, the average increase in raw materials would be something between 40% and 50%. Assuming a gross margin of 50%, you would need a price hike of at least 20%.

Management: Our gross margins are not at the level of 50%. They vary by segment. For mattresses...

Avinash Nahata – Parami Financial Services: I am talking about cumulative mattresses.

Management: Even for cumulative mattresses, the gross margins are not at 50%. That is what I am trying to explain. Raw material prices have increased by around 40% on a blended average basis. That 40% increase in the raw material component of the overall cost leads to an increase of around 11%, which is what we have also increased in terms of ASPs. Therefore, we are managing the absolute numbers completely.

Avinash Nahata – Parami Financial Services: So your gross margin before March 1 and now are similar?

Management: In terms of absolute rupee gross margin per unit, yes, it is similar.

Avinash Nahata – Parami Financial Services: Okay, not percentage. Understood. My second question is that we sold 915,000 mattresses last year in terms of volume. You provide volume on a yearly basis. Can you give us a sense of how H1 and H2 are distributed?

Management: Do you mean how it happened last year?

Avinash Nahata – Parami Financial Services: Yes. How was the 915,000 distributed between H1 and H2? There would be some variation based on the festive period, I understand.

Management: It was around 45% last year—around 50%, you can say, 50-50 between H1 and H2. There was a 2-3% variation here and there.

Avinash Nahata – Parami Financial Services: Thanks a lot. I will come back and join the queue.

Operator: Thank you. The next question comes from the line of Bhavin Rupani with Investec. Please go ahead.

Bhavin Rupani – Investec: Hi. Thanks for the opportunity. My first question is on rentals, continuing from the previous participant's question. Our per-store rental expense, which was somewhere around 1.5 to [cut off]

Bhavin Rupani – Investec: ...{? Indian ?} per annum in Q3 last year, has reduced to almost 1.1. How should one understand that?

Management {? Parul ?}: This is also a factor of the composition and size of the stores in which we operate. Until last year, the majority of our stores were the mega-store format, with an average store size of around 3,500 square feet, while the new stores we have been opening and accelerating over the past few quarters are primarily mini stores, where the average size is around 1,000 square feet.

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That is changing the overall mix in terms of the average store size, and rental is also a factor of that because rent for a mini store is much lower than rent for a mega store.

Bhavin Rupani – Investec: Would it be possible for you to bifurcate how many stores we currently have in the larger or mega-store format versus mini stores?

Management {? Parul ?}: Out of 205 stores as of September 30, around 110 stores are mega stores and 95 stores are mini stores.

Bhavin Rupani – Investec: And what was it last year?

Management {? Parul ?}: Last year, out of the 139 stores as of March, only around 30 were mini stores.

Bhavin Rupani – Investec: Okay, got it. My second question is on tax. What were our unutilized brought-forward losses as of September, the tax losses available for set-off?

Management {? Parul ?}: Instead of giving the absolute figure, I could give a range in terms of how much of the brought-forward losses we anticipate being able to set off in the future. We anticipate that by FY28, either in the second or third quarter, we should be able to fully exhaust our brought-forward losses.

Bhavin Rupani – Investec: Got it. Thank you.

Operator: Thank you. The next question comes from the line of Praneet with S J Investments. Please go ahead.

Praneet – S J Investments: Hi, sir. Thank you for the opportunity. I wanted to start by understanding the reason why we had to raise cash. As I understand it, we had cash before we went public, and we also raised money during the IPO. I am trying to understand the strategy. Why did we need to have such a large cash pile today, and what is the plan for it?

Management: You are right. We had somewhere around 400 crore of cash balance before the IPO, and we raised about 377 crore. Then, as a cash-generating company, we added to that pile.

The initial thought process was two-, three-, or four-fold. One was a permanent base for our factory, the second was opportunistic inorganic acquisitions, and the third was a more rapid scale-up of jumbo stores. All of these initiatives have progressed at a much slower pace than anticipated. We hope to deploy the cash according to the deployment plan that we had committed to over the next 2 years and then determine the next steps.

Praneet – S J Investments: Understood, sir. Coming to the jumbo store strategy, I understand that you mentioned earlier that, as far as the financials are concerned, you may not be able to forecast revenue growth. I am trying to understand the cost, at least. Overall, for the 2 stores, how much are you planning to spend, and what will be the approximate difference in terms of economics compared with our existing stores and existing strategy?

Management: We are focusing on making 1 store successful, and as we have said, it is expected to go live in Q2 FY28. The economics are going to be slightly different because these stores will have

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more than 1.2-1.3 lakh square feet of retail space, and there is going to be a sale recorded at the POS machines as well as influence sales from the surrounding 3-5 kilometers. We intend to track both very closely.

However, the payback period that we are targeting even for these large-format stores is still close to the 2-year ballpark. That will bring us to the same payback period as what you see in traditional industries. We are taking this massive bet, and as I told you, our normal stores currently have a payback period of under 1 year. We have taken a slightly longer runway for ourselves because this is a format that we are running for the first time.

Praneet - S J Investments: What is the exact cost of setting up this jumbo store, and what rental are we expecting from it?

Management: As we have alluded to in the past, we expect the overall cost, including capex, construction, display inventory, and everything else, to be more than 50 crore for 1 store.

However, the rental will be very small because we pay rent only for the land, and the construction has been undertaken by us for our specific needs. You will therefore see a slightly lopsided structure, with high capex that is hopefully paid off very quickly, while the rental is very low. It will be a few lakhs a month.

Praneet - S J Investments: Understood, got it, sir. Regarding our COCO stores, I understand that there has been growth in store presence in terms of improving brand presence and sales. I am trying to understand the exact impact on growth over the last few years and get a sense of what you could estimate. I understand that everything is centralized, so you may not be able to break it down very deeply, but could you estimate the amount of sales activation and the number of sales we were able to generate from the store itself?

Management: We do track the conversion that happens in sales, obviously. We have systems and AI-enabled trackers that do that.

However, the reason Parul explained politely is that it would give a very incorrect picture because the movement of customers between online and offline is very fluid. There may be a small bank offer running online; customers may go there, come to the store, like 3 additional products, and end up increasing the cart, and so on.

We do track it, but the total number is 70%, which is the more important number. Otherwise, we would make incorrect capital allocations on advertising spend online versus offline, and incorrect capital allocations on store-opening speed. We are therefore very focused on saying that the total omnichannel figure is what we should track, rather than this figure, for decision-making purposes.

Having said that, one data point that might give you comfort is that in smaller towns where we have opened stores and previously had no offline presence, overall online-plus-offline catchment-area growth has been more than 3 times what it used to be earlier. This means that while we can track X, if you ask about the impact in the surrounding areas 6 months after a store opening, the entire figure has increased by 3x.

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Operator: Thank you. The current participant has been disconnected. We will move on to the next question. It is from the line of Rohit from I Thought PMS. Please go ahead.

Rohit – I thought PMS: Thank you for the opportunity, and congratulations on very good numbers. I had 2 questions somewhat related to what was asked by some of the previous participants.

First, if you look at the overall own channel growth, you said that it has grown, but if you double-click on that, the retail component has grown much faster. We have seen the online component—both your own channel and the external channel—somewhat plateau over the last 2 years.

How do you see this? You mentioned earlier that it is a conscious decision to increase your own channel because you can own the customer. But, considering the salience of the channel, why has the channel not grown, whether it is your own website or external websites and marketplaces? Is there cannibalization, or is the potential of the channel only this much, with the growth rate now tapering and growth having to be led by offline stores? That was my first question. I have one more, which I will add after you answer this.

Management: I will reiterate this, and I will urge you to think about your own decision-making, your family, your friend circle, and so on. You might see an advertisement on Instagram or Google, see influencer content on YouTube, browse that company's website or Amazon, but finally say that this costs more than 10,000 rupees, so you want to touch and [cut off]

Management: ...then you would end up going to the store. You might not just go to this store; you may go to 2 other competitor stores, and then, if you are in the mood, you will go to the store and purchase. If you are tired, you will go home and place the order online.

Therefore, advertising spends are largely online and measurable, but the transaction can happen anywhere. The second side is that a customer who has seen a store in a particular location for more than 6 months may think, "I did not have a need when the store opened. I did not even know about this brand's existence. But now that I have passed in front of it twice a day for 6 months, the next time I have a need, I will go to the store." That customer may have no link to the brand online at all.

The third type of customer is someone who is very comfortable buying on marketplaces such as Amazon and Flipkart and will therefore continue to buy there. However, they may not trust the brand, so they will start with purchase 1 and then, after 6 months, make purchase 2, and after another 6 months, make purchase 3.

All 3 kinds of behavior exist, and that is the reason you see a lot of change between online and offline in a particular quarter, and between own and external channels in a particular quarter, based on sale events, store openings, and who is running what discount.

For example, for a brief period of around 10 days, one of the marketplaces was running a marketplace-funded bank offer. For those few days, transactions moved to the marketplace. Therefore, it does not provide a real picture through which we can make decisions.

Hence, for all spending we make outside, online plus offline within our own channel is one metric. For all spending we make on marketplaces, we look only at the sales that happen on marketplaces

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and allocate capital based on that.

Rohit – I thought PMS: Got it. No, that is fair enough. I will probably reach out separately and understand it a little more, but I understand what you are saying.

The other question is that, given the economics of your COCO stores are very good, how do you see some of the traditional players with older brands? Are you also seeing them increase their own COCO stores? Have you seen competition increase on that side? Any thoughts on that?

Management: [pause] I would like to separate EBO and MBO as one dimension, and COCO and FOFO as another dimension. We usually conflate the 2, which does not give you a clear picture.

Traditionally, large mattress brands have operated through EBOs. They have definitely had EBOs where only that brand is sold, but those have largely been franchise-operated EBOs. Hence, the unit economics, the drive to increase conversion, the drive to sell and earn more, and even the way customers are treated are all very different in a franchise-owned store.

We have stayed away from that so far. All of our COCO stores are obviously EBOs, but every one of them is staffed by Wakefit employees who are rigorously trained and have incentives aligned toward higher sales. We are able to launch new products very quickly in the stores and get them real estate, so it is a very different model.

Another reason our payback is faster is that, in our stores, the store space is similar to what an EBO would have, but we also sell furniture, recliners, coffee tables, pots and pans, furnishings, and decor. Given all of these things, both the cart value and the number of products in the cart are very different compared with a traditional mattress brand that might have a franchise-operated EBO.

Rohit – I thought PMS: Got it. Finally, one last question on your jumbo store. You have been mentioning that the break-even or payback you are targeting or benchmarking is under 2 years or approximately 2 years. Can you double-click on that a bit? Given the kind of investment you are making, you said the capex, store, and everything together would be {? 5 crores ?}, and there is also the operating expense. If you can share anything further on why you expect it to break even in a couple of years, that would be helpful. We have seen that some larger stores take time, including some larger furniture stores. If you can share some more thoughts on that, whatever you can.

Management: [pause] Sure. Number one is the TAM, or total addressable market, for furniture. We have conducted a ground-up analysis by visiting and interviewing more than 150-200 stores across Bangalore, which is where the first jumbo store is coming. We identified the price points at which we operate and the market size for only that part of furniture in Bangalore per year. That number comes to a few thousand crores.

The second point is that when we look at the unit economics and P&L of furniture, and ensure that a large part of that furniture is sold within a few pin codes surrounding the jumbo store, the supply chain cost improves by a double-digit percentage of the selling price. What I mean by that is that if the supply chain cost for pan-India furniture is X% of the selling price, it ends up being double-digit better in a jumbo store format because supply chain is a large element of furniture cost.

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Number three, we have kept operating expenses very low in the store, and capex enables us to lay out, structure, and build the facility in a way that will drive optimum discovery of the large catalog that we have.

If you think about it, we have tens and dozens of SKUs and variants in each of the main categories of sofas, bed frames, tables, chairs, and so on. In any standard mega store, we would be able to display 2 or 3 of each of them.

When you have all of them in a design destination and also couple that with food and a day-out kind of scenario for the whole family, the transactions, when viewed from both a revenue and margin perspective, add up because the supply chain cost is much better, revenue potential is much higher, and, given the cost structure that we have established, the revenue required to achieve payback is very small.

Rohit – I thought PMS: Okay. Okay. Got it. Thank you very much, and congratulations again on a very good quarter. Thank you.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing remarks.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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