



“Aditya Birla Fashion and Retail Limited Q3 FY-19 Earnings Conference Call”

February 4, 2019



MANAGEMENT: **MR. ASHISH DIKSHIT – MANAGING DIRECTOR,
ADITYA BIRLA FASHION AND RETAIL LIMITED
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER,
ADITYA BIRLA FASHION AND RETAIL LIMITED
MR. VISHAK KUMAR – CHIEF EXECUTIVE OFFICER,
LIFESTYLE BUSINESS
MS. SANGEETA PENDURKAR – CHIEF EXECUTIVE
OFFICER, PANTALOONS**



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Moderator:

Ladies and gentlemen, good day and welcome to the Quarter 3 FY19 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a pre-discussion by the company's management on the quarter's performance followed by a question-and-answer session.

We have with us today Mr. Ashish Dikshit – Managing Director; Mr. Jagdish Bajaj – CFO; Mr. Vishak Kumar – CEO, Lifestyle Business and Ms. Sangeeta Pendurkar – CEO-Pantaloons.

I want to thank the management team on behalf of all the participants for taking valuable time to be with us. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces.

Please restrict your questions to the quarter and full year performance. With this I hand the conference over to Mr. Jagdish Bajaj. Thank you and over to you, sir.

Jagdish Bajaj:

Good afternoon, ladies and gentlemen and welcome to the earnings call of our company. Our third quarter for FY19 was impressive with an all-around performance improvement and also supported by the strong festive season. Our revenue grew by 23% Year-on-Year and adjusted for IND-AS the growth is 24% coupled with EBITDA growth of 28% Year-on-Year.

Our company had performed well in all segments with highest ever Q3 sales recorded for lifestyle business and highest ever L2L growth of 17% recorded for Pantaloons. On the wake of store expansion, impactful marketing campaigns and improved focus on customer centricity.

Now let me give you a snapshot of financial performance of our company. Our company during the quarter has continued its momentum and is on track for a long-term profitable growth trajectory. The revenues for the quarter were at Rs. 2,282 crores registered a growth of 23% over Q3 last year's revenue at Rs. 1,855 crores.

YTD revenues were Rs. 6,202 crores as compared to Rs. 5,428 crores in the last year registering a growth of 14% for YTD. Growth in profitability continues to be key focus area for us. In line with the same we have shown a spectacular growth of 28% in EBITDA over last year. Reaching EBITDA of Rs. 186 crores versus Rs. 145 crores in same quarter last year.

The YTD EBITDA has also seen a strong growth of 44% and reached Rs. 470 crores compared to Rs. 327 crores last year. PAT for the quarter had doubled to Rs. 70 crores compared to a profit of Rs. 35 crores in the same period last year. YTD PAT is at Rs. 119 crores compared to a PAT of Rs. 5 crores last year.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Now I will take you through the performance of individual business starting with lifestyle plans. The business continues with its strong focus on product innovation, category extensions, network expansion coupled with increased investment in marketing which is leading to superb business performance Quarter-on-Quarter.

The IE impact marketing for our brands is a significant driver of growth for the business. The revenues have grown by 16% from Rs. 983 crores in Q3 FY18 to Rs. 1,137 crores in Q3 FY19. The business has registered a L2L growth for the quarter 8%. YTD revenues have risen from Rs. 2,851 crores to Rs. 3,172 crores recording a growth of 11%.

The business posted strong EBITDA growth of 15% from Rs. 115 crores in third quarter last year to Rs. 132 crores in the current year. On YTD basis EBITDA has increased from Rs. 283 crores to Rs. 350 crores registering a growth of 23%.

The EBO network expanded to 1959 stores in Q3 FY19 from 1,798 stores in the same period last year. Moving to Pantaloons, Pantaloons continues to cause strong performance with highest ever L2L growth achievement of 17% in this quarter driven by continued product improvement and strong brand investments. Sales have risen by 28% adjusted for IND-AS it is 30% due to shift in Pujo from Rs. 749 crores to Rs. 961 crores in this quarter.

YTD sales have risen 15% from Rs. 2,220 crores to Rs. 2,560 crores. The profitability enhancement journey of Pantaloons continues. The EBITDA for this quarter was Rs. 88 crores as against Rs. 65 crores in Q3 FY18 showing remarkable 36% growth. YTD EBITDA has risen from Rs. 146 crores to Rs. 218 crores, an increase of 50%.

The retail network has now expanded to 302 stores and will continue expansion in the newer markets.

Next, we move to the fast fashion business:

We are continuously focusing on improving the profitability of the fast fashion business by rationalizing the stores and cost. The losses at EBITDA level for YTD have reduced for YTD period from Rs. 50 crores to Rs. 27 crores, a reduction of almost 48%.

Almost also after a prolonged period of decline in sales this quarter we saw a revenue increase for the business. And lastly, our other businesses which include innerwear and international brands. The innerwear business continues to scale up rapidly and has reached 12,000 outlets at the end of December 2018.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

We have also been able to successfully build up momentum on the successful launch of women's innerwear last quarter. The product is liked by partners and consumers giving us confidence on a promising outlook ahead. In the international brand business, we continue to scale up our mono brand businesses. Ted Baker opened its second store in Delhi in this quarter after the well accepted launch of the first store earlier this year.

Revenues from the other business witnessed 90% growth over third quarter last year from Rs. 56 crores to Rs. 106 crores. EBITDA losses in the quarter also reduced in this quarter from 19.4% to 18.2% of sales. YTD revenue grew 87% to Rs. 262 crores from Rs. 140 crores and YTD EBITDA loss stand at Rs. 61 crores from Rs. 41 crores.

Finally concluding with the future outlook and way forward for our various business segments. Our lifestyle brands will continue to grow the business through network and category expansions with high impact advertising and marketing campaigns. In Pantaloons we will continue to invest in enhancing the brands improve products and expand our store footprint.

Fast fashion we will continue to improve the business. We aim to gradually build up our international brands portfolio and finally we will continue to pursue growth aggressively in the innerwear business.

Thank you and we are now open to questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is about book keeping so this other income of Rs. 13 crores in which business you are showing this? Will it be fair to assume it is Madura only?

Jagdish Bajaj: We can spread into various business segments, but the other income if you see September was Rs. 27 crores was the FX gain so it is normalizing at these levels, but they are coming primarily from interest income on surplus fund and insurance recoveries.

Abneesh Roy: But when you are showing profits for different business you are not allocating to any of the businesses, right? This you are keeping overall for the corporate entity level? Second one was again book keeping. You are showing around Rs. 33 crores elimination in Q3 FY18 and then Rs. 24 crores. What exactly is this elimination, is this largely inner wear which is being unsold in Pantaloons? Here they have missed the answer to first part of the question.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

- Jagdish Bajaj:** This is you know sales at Pantaloons stores of Madura products?
- Abneesh Roy:** But will this be largely the four bigger brands, will it be inner wear more of that because that is a new business?
- Jagdish Bajaj:** Mostly Peter England and other brands also.
- Abneesh Roy:** Yes, because I think in nine months that is a fairly large number Rs. 100 crores, so it is largely Peter England you are saying?
- Management:** No Abneesh, it includes all the brands that we sell at Pantaloons, because of the nature of business at Pantaloons the share of brands like Peter England will be higher but it includes all including inner wear business that you are talking about.
- Abneesh Roy:** Sir, I was more concerned of the inner wear because inner wear is a business which is seeing very high growth. Now in FY18 when you say Rs. 100 crores was the inner wear size, how much would have been this unsold inventory say in Pantaloons? Will it be a small number, will it be a large number out of this Rs. 100 crores?
- Management:** Insignificant. You can almost count zero. It doesn't matter. It is a very small part of inner wear business and Pantaloons business is very small to inner wear's overall revenue.
- Abneesh Roy:** And for nine months also it will be similar only, right, it will be insignificant? Sir, now coming to the overall business there is a very large gross margin drop both Quarter-on-Quarter and Year-on-Year, 345bps is Year-on-Year drop and 219 bps quarter-on-quarter. Could you explain that part?
- Management:** So, I do not think you should look at in a mixed portfolio business like ours as gross margin movements around that. Each one of our business has got a different mix when businesses like inner wear grow rapidly, gross margins are lower. There is a small drop in gross margin in premium brand business also but I do not think gross margin at an aggregate level actually makes meaningful sense to analyze.
- Abneesh Roy:** So, but where is the pressure, is it cotton, is it pricing pressure?
- Management:** See if the pressure was there it will show up in our profitability. There is no pressure on account of that. It is the mix of business which is why I am saying you should not be looking at gross margin in such a diverse business across the businesses.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Abneesh Roy: Sir Pantaloons again you have done well. One follow-up question I had there. So, EBITDA of Pantaloons is up 36% in spite of 3x marketing spend and in spite of the mix which you just highlighted that mix could have changed even for Pantaloons right. It would not have changed only for Madura. So, could you explain what has moved in terms of EBITDA being up 36% in spite of 3x marketing spends and in spite of gross margin pressure?

Sangeeta Pendurkar: Yes, hi, this is Sangeeta. So, I think the first thing is that we have got fantastic like-to-like growth in this quarter as you have seen in the numbers and with the same cost we are selling more through our stores which is I think great news for us. The second piece is of course our share of private label as you have seen has also moved up. Both of these have helped us in profitability. The third element is really in terms of our cost.

So, both on sale mix and in terms of our overheads we have managed to have some actions which have helped us control these costs. So, I think it is the combination of these three and great like-to-like with good PT shares with control cost is what has helped us deliver, of course the increased over sales is the big factor.

Abneesh Roy: And last question if I can squeeze, so Madura 62 EBOs in this quarter it is a very, very large number. In the past we have seen that this has its own challenges especially on the margin side. So, if you could elaborate and on the FDI policy on e-commerce, is it from a medium, short term, medium term negative for you, positive for you?

Management: Okay Abneesh, I will take the easier one first which is our expansion. I think even two quarters back I had said this that we will open (+300) stores this year. We are well on track for that and we will exceed that number, okay. We are also opening a lot of these stores in smaller towns where there is a lot of **(Inaudible 12:55)** these stores are doing very well.

A large part of this expansion is fueled by Peter England in smaller towns, Tier-4, Tier-5 kind of towns which is again giving us very good dividend. I think on e-commerce we still have to figure out how the things are going to pan out, yes, we will have to watch and wait on that one.

Abneesh Roy: But sir, it has already started right, now where is the time to watch out and?

Management: No, I think people are not clear yet on what is it that is going to happen in the next few weeks and months. So, we will have to just see how that goes.

Moderator: Thank you. The next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Richard: Hi, this is Richard here. Ashish, I just want to understand what are the milestones that you are looking at you know at Forever21 now, because this loss number which one thought was supposed to have been in the Rs. 5 crores to Rs. 6 crores kind of a range per quarter it has been consistently persisting at Rs. 10 crores to Rs. 12 crores. And I understand last year's number was high because there were some inventory write off of Rs. 15 crores, Rs. 16 crores that was there, right so one is actually looking at Rs. 8 crore of loss last year which has now gone up to Rs. 12 crores?

Ashish Dikshit: So, Richard, no I think first of all this includes people and few smaller brands that are included in that. Secondly, the inventory write off see there is no one time write-off. There is a policy of writing off old inventories which we do consistently across all businesses and all brands every month. So, there was no one off provision that was being made. If there is very high inventory at some point of time it gets older, the older inventory gets written off but it is done incrementally across the businesses and consistently.

So, what you are seeing is actual like-to-like business performance which is for fast fashion business, minus 22 coming down to minus 12. A part of it is Forever21. We are still not in the black yet, but the losses are significantly dropping and that I think that trajectory will only keep getting better from now.

Richard: What happens to the breakeven target for this segment?

Ashish Dikshit: We will have to see, you know we will have to deliver that. At this point of time it is still inching at a level where it is overall double-digit sort of losses in terms of growth. In the immediate short term we do not see it turning around that rapidly, we will have to look at how the next year looks.

Richard: Okay and second, Pantaloons you spoke about 3x brand investments. Is this level of brand investments extraordinary or is it that the base was low and if this is the normal level of brand, and if this is not the normal level of brand investments, have you already hit double-digit margin in Pantaloons?

Ashish Dikshit: See I think Sangeeta explained that you can see the margin as you can see in the reported results. That has come with fairly large and deep investments in advertising. We think for some more time it will be good to make sure that Pantaloons remains fresh in consumers' mind their traction towards Pantaloons among younger consumers, more premium consumers is also requiring some level of investments.

Obviously at some point of time marketing will take a backseat and we will hope that the consumers will come to Pantaloons more for the product proposition that it offers and we are



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

probably going through a phase of slightly excessive investment, but we feel that is necessary at this point of time to spur the brand to.

- Richard:** Okay so this is not really the normal level but this level will continue for some time?
- Ashish Dikshit:** Yes, I think not on a quarter-on-quarter basis because advertising investment is also a function of seasonality but overall level yes there is a slightly higher than normal investment at this point of time.
- Richard:** Okay and Jagdish last one if I may what is this un-allocable capital employed that is there in the segment result, I mean which seems to be quite a big move Quarter-on-Quarter?
- Jagdish Bajaj:** This is the temporary investments.
- Richard:** The liquid surplus?
- Jagdish Bajaj:** Yes.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir, first on Madura. Like-to-like growth in Lifestyle brand was 8% and we had also Year-on-Year very robust growth but still our margins were flat, so if you can actually elaborate on that?
- Management:** Okay. Thanks Tejas. Yes, we have been reasonably well on L2L. Multiple initiatives which were happening at our retail stores to be able to drive that. EBITDA margins are primarily because in Madura also we have invested disproportionately on advertising, so it is almost like a 40% growth over last year on advertising spends.

So, that is an again like Ashish was saying for Pantaloon, it is not something which we need to do all the time and yet I think we have to scale up our brand salience across markets. Lot of new campaigns I do not know if you had a chance to see any of them, extremely well received, have significantly helped us in our brand track scores. So, that is one part. Second is also some of our scaling up is happening in Peter England and in smaller town Peter England which come with a relatively lower gross margin.

Okay so that as a weighted average has resulted in this but most of this is explained by the larger spends on advertising. But if you were to actually look at our YTD performance our margin has actually improved by 1% point, EBITDA margin.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Tejas Shah: So, this wholesale outperforming retail growth by almost 2x, you are saying that also would have contributed more to this flat margin than EOSS or ad spend, is that correct?

Management: No, it is primarily because of the greater ad spends, because the wholesale retail weightages have not changed too much. Okay it is primarily coming from more spends, Tejas in advertising.

Tejas Shah: So this ad spend increase Year-on-Year and then sudden thrust behind the same, is it to match competitions from voice share or are we outperforming them disproportionately on this count?

Management: See we do a brand track and I think clearly our brands are now very, very salient in the brand track scores, so it is clearly showing. What we also did was to move significantly from print as the primary medium to television and digital as the primary medium, which also required a larger scale in the game, larger critical mass. I think it creates entry barriers for others, I think it also creates a much greater salience for our brands. It is something we plan to continue, should give us much stronger wicket for each of our brands.

Tejas Shah: Sure and a couple of questions on Pantaloons. Pantaloons like-to-like growth was 17% which is very heartening after a long time we are seeing this kind of robust number. Is it largely because of festivals bunching up in this quarter or you are seeing a strong recovery in the format and consumer sentiment as well?

Sangeeta Pendurkar: Yes, so I think it is a combination of various factors, so yes there is some shift in terms of number of festive days last year versus this year and that is one of the factors. But if you have seen our performance again over the last couple of quarters and the actions that we have been talking about we have seen steady positive response from consumers on some of the interventions that we have been working on. So, we have been talking about upgrading our product, we are seeing very positive response to that.

We have been talking about investments in marketing which Ashish talked about as well and investing in the brand. The promotions in store that we ran during the overall festive season all of this I think the good thing is it is helping us get positive traction in terms of the number of bills we are seeing more number of people buy products from our stores and also buy more.

I think that is a very positive gratification of some of the actions. So, overall we do believe that there is a positive traction in our stores led by the set of actions that I just talked about and leading to a very, very strong growth in this quarter.

Tejas Shah: And this recovery and these factors are you seeing them stretching beyond this quarter's number or are they sustainable in nature or you believe that there might be hick ups on that?



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Management: So, I think Tejas it is not comparable quarter-on-quarter and how it will but we see a definite continuous improvement trajectory in Pantaloons which is what we have been talking about. It is getting sort of played out quarter-on-quarter over longer period of time so some of these things one has to see over longer period and not move from one quarter to other.

The overall journey of Pantaloons finding greater traction with consumers proposition getting better, the quality of product performance improving the brand connecting with consumers at a higher level, it is really the generic trajectory of improvement that we are seeing right across.

Tejas Shah: Sure. And sir lastly Pantaloons expansion plan run rate, what are we going within FY20?

Sangeeta Pendurkar: Yes, so we have been talking about opening about 40 to 50 stores this year. We are on track to achieve that and we will deliver the number that we have committed. We stay positive in terms of expansion. We are looking and any given year we open anywhere between 50 to 70 stores that is how we are evaluating our expansion even in the coming period.

Moderator: Thank you. The next question is from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah: Just one thing on the Pantaloons. I mean we have seen now almost 200 bps kind of an expansion in margins. Earlier the start of the year, our guidance was much lower than that for the expansion for the full year, so where do you stand there in terms of Pantaloons margins?

Management: You mean to say margins are sustained at this level or what?

Anand Shah: So, should we model of bake in a 200 bps for the full year as well or in to that extent and in general also in the medium term also what is your outlook for the Pantaloons' margins?

Management: So, I do not want to give a guidance on that but you have our nine-month performance to see, instead of one quarter you should look at our average nine month performance. That had a reflection of how the trajectory is moving. We have constantly been talking of improving about 100 basis point year-on-year and that we are slightly ahead of it at this point of time, but these things average out overall so I would not put a number but it is clearly going along the long-term plan that we had laid out for Pantaloons.

Anand Shah: Okay and on this Pantaloons like-to-like growth, I mean I think you calculated SSG based on 24 months right so I mean given that you are in a very strong expansion phase in Pantaloons for the last two, two-and-a-half years, is some of those stores finally getting into SSG base now just trying to contribute in that LTL growth? Is the understanding correct?



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

- Management:** I think more of them would come from next year onwards because our SSG will take from the 1st April of previous year. So, yes, clearly the new stores will start adding and that is the point we have been making the calls but the weight of new stores would start to matter only from next year.
- Anand Shah:** Okay. So, incrementally you should keep seeing a positive momentum in the SSG for Pantaloons?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Chirag Lodiya from Value Quest. Please go ahead.
- Chirag Lodiya:** My first question is on Madura growth. If I look at internals my others portion has grown by around 25% and wholesale grew by 10% vis-à-vis the retail just grew by 6%. So, what has led to increase in others sharply?
- Management:** Others are primarily e-commerce and it would also include the depletion channels but it is primarily the growth is primarily because of e-commerce.
- Chirag Lodiya:** Okay so going ahead what one should expect in terms of SSG for Madura steady state?
- Management:** We have been in the 7% to 10% range for quite some time. There is no reason why that trajectory should slow down, okay. We have got many more initiatives in place, many more things that we can do to keep fueling growth. So, we would like to keep doing going as close to double-digit L2L as possible SSG as possible and there are initiatives in place which should help us to get close to that.
- Chirag Lodiya:** And in terms of margin others margin would be lower as compared to this EBO or wholesale that is a fair understanding?
- Management:** Yes.
- Chirag Lodiya:** So, that would be one of the reasons for slower margin improvement?
- Management:** No, like I was saying the overall margin improvement I was telling Tejas was because of larger spends in advertising. Okay so that is really what Q3 margin a small dip in the overall EBITDA percentages was because of.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

- Chirag Lodiya:** Okay and one question on Pantaloons. So, currently how many stores are under this calculation of SSG for first nine months average stores?
- Sangeeta Pendurkar:** 187.
- Chirag Lodiya:** 187 and which are the areas we are expanding this 40, 50 stores on an annual basis, some flavor on that would be helpful?
- Sangeeta Pendurkar:** Yes, so I think as we have mentioned is in Tier-2, Tier-3 towns but as and when we find opportunity in the existing cities and existing towns where we believe there is opportunity to add another store we would do that but a good part of our new stores would be in Tier-2, Tier-3 towns which may be our first store or newer cities that we are going into.
- Chirag Lodiya:** And now with increased competitive intensity for these kinds of stores are we seeing our overall payback period stretching from say like two, three years earlier to more?
- Sangeeta Pendurkar:** No, like we have said in the past our new stores are profitable very quickly and which is what gives us the confidence in our expansion strategy. So, we will continue to invest in this and they start up pretty well in terms of profitability and equally on productivity as well.
- Chirag Lodiya:** Okay. Just lastly what is the gross debt as on date?
- Management:** Rs. 1,880 crores.
- Moderator:** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.
- Mayur Parkeria:** At a run rate level in other business which is the inner wear primarily what kind of negative numbers should we look at for FY20 because when we started the year, we were thinking of around Rs. 50 crores, Rs. 60 crores for the whole year, but nine months itself is around about Rs. 60 crores? So, what do you think should we look at broadly the FY20 numbers are we having any specifics in the sense that maximum loss should be this much or it is still focused completely on the growth?
- Management:** No, right now I think we will have to focus on the growth. We are in very early phase of this business. The other businesses include quite a few international brands and inner wear and new businesses that we are feeding. All of them are in growth phase and you can see the reflection of that on the revenue side. So, at this point of time we will remain invested on the growth and that would be our sort of direction going forward as well at least in the immediate terms.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

- Mayur Parkeria:** So, even for cutting of the losses it will be difficult for FY20?
- Management:** No, so everything is possible and it is not difficult except that we have to make strategic choice on what we want to do. When you build business, you will have to make the right investment to position yourselves strongly for future and which is what we are doing right now.
- Mayur Parkeria:** On Fast Fashion would you be in a position to give us on a nine month basis approximately Rs. 27 crores is the segment on the Fast Fashion, how much of that would be peoples and how much of that would be in on a nine month basis if not on quarterly?
- Management:** So, we do not give those flips at the brand level.
- Mayur Parkeria:** But just as a large portion Forever21 despite the fact that on a quarter-on-quarter it may be reducing?
- Management:** Sorry, I did not get the question, you mean to say there is a differential reduction in the losses of Fast Fashion?
- Mayur Parkeria:** Despite the sequential reduction in even Forever21 losses which you indicated earlier, still on a nine month basis would a large part of this would be Forever21 losses?
- Management:** The improvement is sharper in Forever21. Most of the improvement which is reduction losses on a nine month basis that you are seeing is coming on sharp reduction in losses in Forever21.
- Mayur Parkeria:** Last question from my side is we had taken an enabling resolution to raise money on the equity side which we differ in the sense of us. So, now this share prices also improving above 200 do you think we would now be more closer I would like to?
- Management:** So, you know we are improving our performance every quarter and as said in last two quarterly calls right now there is no such plan to go ahead with that.
- Moderator:** Thank you. The next question is from the line of Neeraj Mansinka from Goldman Sachs. Please go ahead.
- Neeraj Mansinka:** Ashish, can you give some small drop on how you are investing in the inner wear and where do you see slightly trajectory going forward and how that acceptance has been where you are marketing, some more operational and other thought processes that you have in that business?
- Ashish Dikshit:** Neeraj, as you know we have started with the men's inner wear a year-and-a-half back. We got to nearly Rs. 100 crores last year and we will double that this year. A couple of months back we



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

also launched women's lingerie which is inner wear plus at leisure and sleep wear and the broader category of the women's lingerie category.

So, right now the investment is one to create visibility to acquire shelf space to get enough consumers to sample and test and give a feedback. I think some of that journey will perhaps last for maybe one more year where the level of investments will remain at this level. As the distribution expansion is rapidly improving, availability also creates certain demand and visibility and that in itself substitutes for advertising which we made more in the early year.

So, as I see it men's wear part will probably start to even **(Inaudible 34:17)** in terms of investments next year but we will have to keep staying invested in the women's side for another year and hopefully in 18 to 24 months from now we will be in a phase where the deep investment phase will be over and we should be able to start seeing some positive outcomes on the bottom line on that.

Neeraj Mansinka:

You are right and are you planning to enter the other category of kids wear or something like that in that side of the business also?

Ashish Dikshit:

So, we do have a very robust kids wear business in Allen Solly. It is an opportunity for us to grow. Now that we have understood how the inner wear market works, we have built strong sales and distribution that is an interesting area for us to look at because the brand is already known, we have a fairly reasonable business in the Allen Solly kids' wear and that is an opportunity that we will evaluate in fact currently looking at.

Neeraj Mansinka:

And some more color on how the adoption of acceptance of the men's inner wear in the market like do you completely get repeat orders, some more color on that would be useful?

Ashish Dikshit:

So, our current business is only repeat order because our channel part is over almost 12, 18 months back. So, the business is running only on repeat order at this stage so we have got a reasonable trajectory. Having said that, our distribution is only in top 11,000, 12,000 outlets at this point of time. So, we will have to continue to expand our distribution. In the early phase we wanted to enter key towns and now we will have to start getting it to next level of towns, the number of retailer within the town.

Our medium term direction is to get to at least double of where we are. We are currently at about 12,000 distribution. We should get to between 20 to 25 by the end of next year and the current performance is primarily driven by replenishment and repeat demands on the men's side. On the women's side still people are experimenting the product, it is being launched, and consumers



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

are testing it. It is early days but on the men's side it has been around long enough for us to feel their stable position has been achieved, now it is the task of scaling up.

Neeraj Mansinka: Right and the sales growth that you saw in Madura on the wholesale side can you give a breakup between LFS and the MBU or some proportions share?

Ashish Dikshit: Neeraj, it is across the Board, we have done well in department stores which I guess you call LFS it is also in multi brand trade. We also have another channel which is exclusive buy and sell retailers, so these are retailers who choose to be exclusive to our brands and for the consumers these are exclusive stores but they also get reported in our wholesale numbers.

All three channels we have had very good traction. And primarily because of good secondary sales because here the channel where you know if your secondary sales are good, the primaries are good.

Neeraj Mansinka: Right and the last question is on the book keeping. How many stores in Pantaloons are a franchisee right now?

Ashish Dikshit: 58 stores are on franchise out of 302.

Neeraj Mansinka: Okay secondly incremental you are adding 50% stores as franchisee in that category?

Ashish Dikshit: No, about 20%, 25% at best.

Neeraj Mansinka: Okay and the long-term strategy would be similar or slightly higher on this?

Ashish Dikshit: No, similar.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I have a few questions. One is on the overall demand environment considering that you know we are seeing significant slowdown in auto side of part of consumption and also few other segments within consumption sector. How do you see the overall business environment?

Ashish Dikshit: So, I think in the immediate visibility that we see, see the organic consumption in a country like India will remain stable to good, and that is what we have been experiencing. In the immediate next couple of quarters I guess external elements like election and environment around that is going to decide overall optimism. We do not see unless there is a strong de-railer or an event of a specific nature we do not see this equation changing at least in the immediate.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Rajesh Kothari: So, this is basically even in month of January kind of thing I mean you are seeing the overall environment remaining same because what I could see is that the discounting season had started much earlier compared to what we normally see, so is it more like a discount driven thing which is environment is supporting this kind of a growth?

Ashish Dikshit: No, I am reacting to your broader question of what the demand side pattern we see. Specific events like change in e-commerce policy leading e-commerce companies to do something or some retailers going earlier and discount those are temporary events. I do not think they fundamentally reflect the organic demand in the market. And they are I would say more aberration in the overall demand pattern that you see in the market.

Rajesh Kothari: No, I am saying right on the realistic situation of course generally economy is going to do well so everything will do well. But I am saying from the discounting perspective, what we have observed is that even in third quarter starting probably mid-December itself, the discounting again started in the retail business overall and across the shopping malls. So, are you seeing the trend whereby discounting is reducing or you are seeing increasing discounting? Can you give some color on that?

Ashish Dikshit: No, I do not think discounting patterns have changed dramatically over last 12 to 15 months. Discounts have been in similar fate across the industry initially maybe fueled by the e-commerce players, but subsequently adopted and responded by brick and mortar retailers. So, it is a pretty static phenomena. There is no significant shift one way or the other.

Rajesh Kothari: Okay. My second question is with reference to the brand investment can you tell us what kind of total brand investment as a percentage of sales you target as we go into fourth quarter or also for the next full year?

Ashish Dikshit: I do not think I will be able to give numbers for quarter but at a broad level we look at depending on the stage of the brand, a role in the portfolio and the growth ambition that we have it varies from as low as 2% to maybe 4% to 5% in a more sort of as far as larger business are concerned. For very small nascent businesses, the percentage could be much, much higher because those are early stages of investments.

Rajesh Kothari: So, overall at the company level what is the total brand investment as a percentage of revenue in the third quarter?

Ashish Dikshit: YTD is close to 4%.

Rajesh Kothari: YTD is 4% in third quarter?



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

- Ashish Dikshit:** Third quarter I do not have similar number slightly more because you have the festivities.
- Management:** Festive season perhaps the number would have gone up to maybe 5%, 5.5%.
- Rajesh Kothari:** So, you expect this 4%, 4.5% kind of thing that is what one should target for the?
- Ashish Dikshit:** No, as I said you should not look at that because it consists of businesses where we are investing 20% and there are businesses where we are investing 2.5%. So, it is driven by the share and intent in that period for that business and depends on independent each of the business is playing out differently. I think at an overall level as Jagdish has indicated we have been operating at about 3.5% to 4% and on the entire portfolio that is really where we would remain.
- Rajesh Kothari:** Understood. And your pay back policy in terms of your new store expansion are you seeing any positive or negative trends in that in terms of number of months it takes to breakeven?
- Ashish Dikshit:** Are you asking if there is any shift in that process?
- Rajesh Kothari:** Yes, I mean considering that you are very capital as well as cost conscious whether you were able to turn around faster compared to what we used to see in last two, three years?
- Ashish Dikshit:** No, I think our retail business as you can make out from the same store performance it is equally well reflected in the new stores. Our overall margin expansion across both our key businesses reflects that our new store expansion is very productive for us and that is why we are able to grow rapidly as well as improve our operating performance. So, I would say last one-and-a-half two years, if anything the pay back times have only improved and which is reflected even in the existing businesses.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** I wanted to understand a little bit on the inner wear business. I know you are growing very rapidly and continue to invest in distribution. What do you think in your mind is the breakeven levels from a sales perspective and I am talking about women's and men's together maybe? What should be the kind of expansion that at a breakeven?
- Ashish Dikshit:** See it is a variable model with a small fixed cost that we are initially investing at this point of time in building infrastructure and sales. It is easy to stop and get profitable at Rs. 200 crores also, at Rs. 400 crores also. I think for us what we are seeing is the large opportunity as we get more and more in the market we start to see how much larger can that business be.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

And therefore at this point of time we will do what it takes to build significant sale of some material manner and we are not looking at a number to cap at which point either to cap losses or to turnaround at a certain level. Having said that, I think our peak of our investments will perhaps be this year and next year, by which time both the men's inner wear as well as the women's wear would have got the initial support that they need. And after that it will start moving to more organic improvement trajectory.

Ashish Kumar: What is the kind of gross margins are you operating in the business currently?

Ashish Dikshit: We do not disclose at that level.

Ashish Kumar: Okay because I was trying to figure out as to how do we pan say let us say in the next couple of years in terms of losses from that business?

Ashish Dikshit: I think it will be the only indication I can give you is that between this year and next year we would probably have created peak loss situation and you will start to see incremental improvement towards the end of next year or definitely in the year after.

Moderator: Thank you. The next question is from the line of Srinath V. from Bellwether Capital. Please go ahead.

Srinath V: I just would like some kind of understanding of how we are approaching the wedding wear market in the men's Lifestyle business?

Management: Okay. It is a very, very important business for us. In fact we address that in almost all our brands, in fact I do not know if you have seen our latest campaign which has the Chennai Super Kings players on Peter England wedding wear. So, in each of our brands it is going to be extremely critical for us to be able to keep growing this business.

It is also a business where consumers have a lot of respect for quality or for dependability and so on. It is also a business where full service store like ours does extremely well, so customers come to our stores, spend an hour, two hours bring their fiancés, spend time with them. So, it is clearly a very, very strong business for us.

We are continuously innovating in this, finding what works. We also have much more of ethnic inspired lines in our brands so there are many more ethnic influences which you will see in our designs. People are also now buying three, four looks for a wedding so right from the reception to the main function and so on. So, all-in-all it is an amazing product and design challenge to be able to keep growing this. It is a very, very exciting segment for us.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Srinath V: What could be the kind of opportunity landscape and currently what kind of top line would we be doing in that kind of a space in our Bangla market. Just wanted to get a flavor of that?

Management: I will give you a simple example Srinath. Last month we sold about last to last month December we sold about a thousand suits from our Connaught Place Louis Philippe store. Out of that about 500 of those would have been wedding suits.

Srinath V: Okay. Can you also give a kind of flavor on women's and kid's wear in the Lifestyle space and I have been noticing in the store that in the handbag section there seems to be a significant up-scaling of your presence so if you could give a flavor on what you are doing in women's and kid's wear in the Lifestyle space?

Ashish Dikshit: So, first things first. Both Q3 and YTD Q3 extremely good growth in both kids and womens. We have women's in two brands, Van Heusen and Allen Solly both have done very well. In fact all the stores are doing well, the growth is excellent we also do very well in department stores. We are also scaling up the EBO network for both these concepts.

We have for Van Heusen roped in Jacqueline Fernandez for our handbag business and that again has a lot of opportunity. I think you very well observed the scaling up of the bags and footwear business in our women's wear portfolio. That is going to be a big growth opportunity for us. I think the brands are very strong, consumers understand these brands very well both in men's and women's segment and in Solly's case in kids as well so I think it is scaling up time now.

Srinath V: And what would the percentage share of women's and kids be right now some kind of a number or a flavor would be great?

Ashish Dikshit: It is still small Srinath so it is small but growing the fastest so this is the kind of stuff maybe by the time we speak to you about a year from now, there will be very, very meaningful numbers.

Srinath V: Okay, just squeeze in a last one. On the Peter England side I noticed inner wear being listed. Is that already launched in, are we looking at inner wear beyond just the Van Heusen brand and that will be it from me?

Ashish Dikshit: There are two different objectives. In Van Heusen we have taken inner wear into distribution in a very, very large scale. Here in Peter England it is largely to complete the assortment in our exclusive stores. So, while there is some of that which is in our e-commerce sides also, but it is primarily to complete the assortment in the EBOs.

Moderator: Thank you. The next question is from the line of Ali Asgar Shakir from Motilal Oswal Securities. Please go ahead.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Ali Asgar Shakir:

First question is on inner wear and thanks a lot for this detailed explanation you gave earlier. Just what I want to understand is given where your peers are in this space and how significantly penetrated they are, where do you see us in maybe three to five years you said that from a distribution point of view you would want to double.

But also if you can give us some detail in terms of the revenue scale we can reach. And you know relating to that also you mentioned that probably your EBITDA losses may be between somewhere around next year, but given that the opportunity could be very big, will our investments not continue there?

Ashish Dikshit:

No, it is a fair question and I think your observation is absolutely right. We agree with you and share with you our ambition and considering the size of the market. If you look at the overall size of the market the growth rate, the number of players I think we have a very, very long way to go. So, the response on your specific question on losses and in response to that, but our ambition is to continue.

We see ourselves growing this like a new business for next four years and maybe even beyond that. In terms of distribution which I talked about, so our first step is really to look at multi brand distribution ambition which when we started, we first wanted to get to 10,000 which we have done in last 18 months. The next sort of pit stop will be at about 20,000 to 25,000. Having said that, just multi brand distribution is not the only strategy that we would have.

With the brand as strong as Van Heusen and the product profile that it has we foresee a very large number of exclusive stores also even in the inner wear segment with the added benefit of men and women together the proposition will become even stronger. So, we see a very large distribution on the exclusive brand outlets also point of view. So, clearly as you rightly said our ambition will not stop where we are, we see a very large opportunity and perhaps five, seven years later also we will be looking at this market to be a rapid growth opportunity.

My response in terms of investment, we will do what it takes to be a meaningfully large player in this segment. And inner wear as a product we already had in other brands also and as Vishak explained even in Peter England even today we have it. The idea is to take one brand and build a very high large-scale business and complement.

The next year of strategy will be to perhaps consider other brands and see what other possible extensions both are the brands offering this expansion through that distribution and that distribution offering opportunity for other products within that brand. So, it is a strategic move, it is a long-term play that we are going for and you are right we will have to keep investing as we go along.



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

Ali Asgar Shakir: Sir, is it fair to assume that while you may peak-out but it may stay at this level of loss probably for the next three to four years before we probably really see the margins similar to what our competition does?

Ashish Dikshit: See there are two parts of it. One is the investment that we have to make in the organization. That investment is more or less made. We had to make very deep investments in when you get into a new category on sourcing, on supply chain, on product development, on design and even in the front end retail force where we have to set up a sales force which could service hundreds of distributors that this business requires.

The incremental cost that would be required to scale up that business now is a very small cost possibly in the front end and just an incremental cost at the back end. So, I would say to that extent lot of that cost which we are incurring on a Rs. 200 crores business will get leveraged over a much, much larger scale business and to that extent, improvement in profitability will start to happen from next year onwards.

The other investment was in creating visibility in the store, the first few stores which is multi brand outlets to make sure that our product is visible. I would say 60%, 70% of that investment is also behind us because the next set of investments will require in stores, but those investments typically pay back much faster because stores have much higher through put in the category. So, it is difficult for me to put a number to it, but I think as we go forward having made much of the deeper investments into the business, our profitability will start to see much sharper increase in a year, year and a half from now.

Ali Asgar Shakir: Okay. And from a stable state basis, like-to-like comparable margins may be possible probably when we reach double of our revenues from here or it will be at a very, very significantly higher scale of revenue that we could do those kinds of margin?

Ashish Dikshit: See I do not know what margins are you talking about it but.

Ali Asgar Shakir: Mid to high teens kind of a number at least?

Ashish Dikshit: So, I would not want to put a guess, because these numbers are sometime further away but yes both in terms of size and profitability, we have ambitions to be a significant player on both dimensions in the market.

Ali Asgar Shakir: And just on the CAPEX if you could share some numbers for probably next year what is given that the kind of growth that we are seeing, do we see that our CAPEX intensity may go up in



*Aditya Birla Fashion and Retail Limited
February 4, 2019*

terms of store addition or again in Pantaloons and you know other businesses or we remain where we had earlier guided?

Ashish Dikshit: See we are at the current scale of businesses across all our businesses put together we are spending between Rs. 300 crores to Rs. 350 crores in CAPEX in a year. I think that is a trajectory that we will perhaps be at for next few years.

Moderator: Thank you. The next question is from the line of Ishprit Kaur from Karma Capital. Please go ahead.

Ishprit Kaur: I just had two questions. You mentioned the ALP spend was 5.5% in this quarter. How much would that be in the last quarter Q3 FY18?

Ashish Dikshit: No, I do not think I was referring to a quarter investment. We are talking about the ranges which we spent, we do not give it out as an exact amount quarter-on –quarter. I think what we were talking about is what are the broad investments in advertising that we do for various parts of the business. As I mentioned and I repeat that that we have businesses where we spend between 2% to 3% and there are businesses where 4% to 5% and there are new businesses where it is probably not even proportionately to the revenues some times 40%, 50% also.

Ishprit Kaur: And last question so do we share the inventory as of December 2018?

Ashish Dikshit: So, we do share our balance sheet items on a half yearly basis which is September.

Ishprit Kaur: Can we get only the inventory figure for December 2018?

Ashish Dikshit: I do not think we share that.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. Thank you very much. On behalf of the management we thank all the participants for joining us today. In case of any further queries, you may please get in touch with Mr. Rahul Desai or Mr. Amit Dwivedi. You may now disconnect your lines now.