"Aditya Birla Fashion & Retail Limited Q1 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the First Quarter of FY '23 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the Company's Management on the Q1 FY '23 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 – Director and CEO, Lifestyle Business; and Ms. Sangeeta Pendurkar – Director and CEO of 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 yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

With this, I hand the conference over to Mr. Jagdish Bajaj. Thank you, and over to you, sir.

Jagadish Bajaj: Thank you. Good evening, and welcome to the Earnings Call for our Company. The first quarter of FY '23 has been a disruption-free first quarter after a gap of 3 years. The quarter has seen strong demand and has followed the trajectory of the last 2 quarters. Since the Q1 of both FY '21 and '22 was severely affected by COVID, I will compare the performance of this quarter with Q1 FY '20, which is a comparable quarter to give investors a comparable perspective of our performance.

Now let me take you through the performance of Q1 FY '23:

ABFRL did its best ever Q1 Performance in terms of both sales and profitability at consolidated as well as business level. Sales in Q1 FY '23 is Rs. 2,875 crore, a growth of 39% over Q1 FY '20. EBITDA in Q1 is Rs. 500 crore, which is 51% above Q1 FY '20. The net profit after tax in the quarter is Rs. 94 crore compared to a net profit of Rs. 22 crore in Q1 FY '20. E-commerce continued to deliver strong performance with revenue scaling to more than 3x of pre-COVID number. The share of sales from digital channel in our total revenue is now more than doubled over Q1 FY '20. We have continued to ramp up our digital capabilities in omni networks, with more than our 1,600 stores network now omni-enabled which makes us one of the largest omni network in fashion industry.

The net debt of the Company stands at Rs. 649 crore at the end of the quarter. I would like to reiterate that ABFRL has continued to deliver excellent performance in continuation of what we saw in H2 FY '22. After 6 quarters of strong resilience in COVID phase, this is the third quarter in succession that we delivered robust growth over pre-COVID levels, and we strongly believe this momentum will continue in the quarters to come. This also is testament to the versatility of our brands and execution of the growth strategy.

I will now take you through the performance of individual businesses:

Starting with Lifestyle Brand. Lifestyle Brand has delivered an outstanding performance in the quarter, backed by exceptional retail growth and strong e-commerce performance. This business has continued on its journey of significant market share expansion.

Sales in Q1 were Rs. 1,519 crore, showing a growth of 51% over Q1 FY '20. We are very proud to say that our large retail network has delivered like-to-like growth of 29% over Q1 FY '20 on 2,000-plus store network. EBITDA has grown by more than 40% of pre-COVID to Rs. 266 crore. Both casual and formal wear has shown strong growth in the portfolio, and we expect this strong momentum of demand to continue in the upcoming festive and wedding season. Retail channel has grown 76% of pre-COVID levels, while e-comm channel continued to accelerate to 50% growth over last year. Our wholesale channel also bounced back almost to pre-COVID levels.

I would like to reiterate that Lifestyle Brands is one of the largest e-commerce apparel players in the country. Lifestyle Brands closed the quarter with a network of 2,527 operational stores, spanning across more than 3.2 million square feet of area. We'll continue to rapidly keep growing our network for the next few years in all geographies from metros to Tier-3 and Tier-4 cities. Lifestyle Brands has been successful in the transformation journey of shifting to a largely direct-to-consumer business model, driven by larger shift to retail and e-commerce channel.

Let me give you an update on Reebok transfer:

Reebok India operations will transfer to us with effect from 1st October 2022. And for the interim phase, that is from 1st April 2022 to 30th September 2022, ABFRL is entitled for the net economic benefits from the Reebok India operations. Now Pantaloon business. Pantaloon has recorded another quarter with Rs. 1,000 crore plus revenue and continued to generate strong EBITDA. Revenue in Q1 grew by 15% over pre-COVID to reach Rs. 1,027 crore. EBITDA for the quarter grew by 33% of pre-COVID to reach to Rs. 218 crore with noticeable expansion of 270 basis points in EBITDA margins. E-commerce channel grew by 70% year-on-year, backed by strong traction of own platforms.

Pantaloon continued to expand its private label portfolio with new launches, addressing diverse spaces like casual wear, innerwear and **(Inaudible)** 05:38 segment. Pantaloon exited Q1 FY '23 with a total of 375 stores, while Q1 saw an addition of only 4 stores, we have opened further 7 stores in July and likely to close the H1 with 30 new stores. Our plan to open 70-80 stores during this fiscal stays on track.

And lastly, our other business segments, which include active athleisure, innerwear, youth fashion wear and super premium brands. Revenue from other business segments witnessed 38% growth over Q1 FY '20 to reach Rs. 282 crore versus Rs. 205 crore in Q1 FY '20. These businesses have now started contributing to profitability of ABFRL with Rs. 23 crore EBITDA during the quarter.

Our active athleisure and innerwear business segment achieved highest-ever quarterly sales with business growing to almost 2.5x of last year. We have continued our network expansion with the addition of approximately 2,000 trade outlets, with the network with our brand now available across 29,000 plus trade outlets. The youth fashion and premium international brands continue to scale up the business profitably. American Eagle grew to 3x of Q1 FY '20 and is now established as a premium denim wear brand for its consumers. Forever 21 improved its margin, with gaining better control over product by leveraging local sourcing. The super-premium brand business segment, which includes the collective and international mono-brands, is one of the fastest growing within ABFRL portfolio, with sales growing more than 2x of pre-COVID level. The business continued to deliver strong profitability.

Ethnic wear. ABFRL is one of the strongest and most comprehensive portfolio of Ethnic brands across price points, consumer segments and occasions. ABFRL has made a bouquet of partnership with leading designers, Sabyasachi, Tarun Tahiliani, Shantanu & Nikhil and Masaba Gupta to add to its first investment in Jaypore. The revenue of the segment in Q1 FY '23 was Rs. 101 crore and EBITDA of Rs. 4 crore. This financial year, we'll see ABFRL rapidly scale up its Ethnic business with investment in both the channels, off-line and online.

Let me briefly cover the developments in the Ethnic businesses. Jaypore, revenue is 3.5x of last year, with both the channels off-line as well as online showing strong growth. Physical network for the brand has now been expanded to 11 stores. New categories in the portfolio such as home category, sleep wear, lounge contributed significantly towards the brand growth. Shantanu & Nikhil, the business delivered the highest ever Q1 performance with revenue growing more than 2x of pre-COVID levels. The brand added 2 stores, and is now available across 12 stores. Sabyasachi grew by 160% over pre-COVID levels. Apparel business continued to be a market leader in luxury designer segment with industry-leading profitability. After strong acceptance from customers, Sabyasachi will continue to increase its focus on new segments like jewelry and accessories in FY '23.

Tasva has seen a strong demand in the 6 stores it opened in FY '22. This brand has received a stellar response in the market it has launched. At the base of a strong consumer appreciation, the brand is on track to build a large distribution network in a shortest span of time. In Q1 FY '23, Tasva had 12 operational stores, which are expected to increase to 70 by the end of this fiscal, making it one of the fastest expansion stories in fashion space in country. House of Masaba, the Company completed the transactions to acquire a majority stake in House of Masaba during the quarter. The brand is available across 7 stores, and brings to the table a unique form of designer ethnic for young women. We are pleased to announce that the beauty and skincare line of Masaba just got launched today and is available across leading beauty e-commerce platforms and its own website. ABFRL is poised to be one of the leading players in the large ethnic wear market.

Tomorrow, our direct-to-consumer subsidiary, we have announced our intention to enter the exciting world of direct-to-consumer brands in apparel, accessories, home, personal care and other allied lifestyle segments. We intend to build a portfolio of 30 to 40 digital-first brands within this entity through organic and inorganic mode. This entity has been incorporated, and the organization is being set up to execute this vision.

Summing up, our business portfolio has a unique combination of strong existing businesses and exciting future growth platforms. Lifestyle Brands has successfully transformed itself into direct-to-consumer player and most of the sales is coming directly from our exclusive stores and e-comm retail channels. The Pantaloons business model is now formally proven both in terms of profitability and cash generation, return on capital employed. I'm confident that these metrics will only improve over the next 3 years.

Innerwear will continue to scale rapidly with aggressive expansion in both exclusive stores and trade channels. Our Ethnic wear portfolio is one of the finest and will be industry-leading in spaces it operates. ABFRL has significantly strengthened its balance sheet by reforming its working capital management and increasing capital to take care of all its future growth plans.

Before I conclude, I would like to draw your attention to last 3 quarters' performance in which the Company has delivered a cumulative revenue exceeding Rs. 8,000 crore and EBITDA of more than Rs. 1,500 crore in these 9 months. This is despite the disruption caused by the Omicron wave in December '21 and January '22. This reflects the increasing strength of our brands and business models. We expect this momentum to accelerate further in the coming festive and wedding seasons and beyond. We are confident that we will exceed the goals that we have set for ourselves in our long-term strategy shared with you in March 2021.

Thank you. We'll now take your questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Three questions from my side, starting off with Madura. So, in Madura's case, if I look at our revenue per store, even if I compare it to pre-COVID, there has been a significant improvement and whether it is even in the like-to-like number that you have disclosed. What I wanted to understand, Vishak, was other than the casual portfolio that we've added, are there any other incremental changes that have happened in the Madura portfolio, which has led to this significant improvement? I'm assuming there would be a slight mix element, but we would believe that wouldn't have too much of an impact in terms of how we are seeing this number.

Vishak Kumar: Do you want ask all your 3 questions or you want to go one by one?

Nihal Jham: I would go one by one if that is fine.

Vishak Kumar: All right. Okay. So, I think you're right, it's many things. There was, of course, the impact of casualization, which significantly helped us. There were other factors also at play, including a very strong consumer movement of back-to-office, physical offices. Wedding season also was quite strong for us during the quarter. I think many of our other initiatives on assortment, et cetera, also paid a lot of dividends. And of course, the fact that market was good. All these together may have contributed to a strong quarter. And we had an overall 29%. Our premium brands were even higher. So, especially in the premium segment, it was a very, very strong like-for-like productivity in retail.

Nihal Jham: And just 1 follow-up. What will be the casual share comparing it with, say, the pre-COVID quarter to this quarter, in general, what is the number now like versus pre-COVID?

Vishak Kumar: I think casual, I mean, offhand about 55% to 60% depending on the brand, okay? But I must also say that there has been a very strong resurgence in the formal segment also, okay, in the last few months, which is primarily because of people coming back to physical offices.

Nihal Jham: That's helpful, Vishak. The second question was again on Madura and taking the other channel on e-commerce. Now ideally some of the trends that are currently visible are because of the spending that is happening in off-line. There has been a slight moderation at least lasting out on the e-commerce. But in your case, even that as a channel has accelerated. Again, the question is that this is a like-for-like growth or have we been available on more platforms? Or we've got new brands on e-commerce which drives this kind of traction?

Vishak Kumar: So, I think as far as the Madura Lifestyle business is concerned, there is no new platforms or no new brands. It's the same set of platforms and brands. It is just productivity improvements, also very strongly aided by our omnichannel network. So, with the omnichannel network, both the assortment that becomes available to a consumer on the marketplaces, as well as the speed by which we deliver both significantly improved, leading to better productivity and throughput.

Nihal Jham: One last question on Pantaloons. So, you've alluded to the fact that the EOSS being postponed has helped margin. I just wanted to understand, so would it be fair to believe that given the larger part will fall in Q2 that margins will moderate? Or are we looking at a lower number of EOSS days for this year?

Sangeeta Pendurkar: This is Sangeeta. So, as you rightly pointed out, I think this decision that we took to postpone the EOSS was primarily because we wanted to make sure that as our business has been growing over a period of time, if you go back to FY '20, at that point of time, there were several changes that we had made, which had resulted in a very good margin even in FY '20. Intrinsically, several aspects of the business, if you recall from improvement in product, improvement in planning, there were inherent shifts that we had made in the business. And if it was not for the last 2 weeks of COVID, FY '20 would have been our best ever year in the history of Pantaloons. And at that point of time, our margin was at 18.5%. We took a very informed decision this year to shift the EOSS. It may have costed us a little bit in terms of our growth on the top line. But inherently, with the confidence that we have in the business, we made this decision to take a shift and July has been our EOSS. Effectively, we have reduced for this EOSS, we have reduced the number of days for the EOSS. And therefore, this is also reflected with the better margin in quarter 1.

Moderator: Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: A couple of questions. First on Lifestyle Brand. If I see there is a very interesting interplay between the different channels, whereas wholesale has a 3-year CAGR basis kind of de-growth, but other 2 channels have done phenomenally well. So, any insights if you can share, is it deliberate or is this how consumers are also or footfalls are also changing?

Vishak Kumar: Tejas, first thing is first. Yes, we are scaling up our retail business much faster with kind of expansion that we're having, as well as throughput improvements in retail. Multiple initiatives going on to constantly keep strengthening the retail network and expanding it. On the wholesale, however, I think the wholesale business actually has been quite strong. Two things have impacted specifically the quarter 1 performance, one being the lack of business with Central during the quarter. Central, as you know, is a fair large trading partner for us. We have not been able to do any business with them over the last 1 quarter. So, that's affected our Q1.

Second is also we've been going through this process of disintermediation of our Peter England distributor business. So, there is a bit of change in the way we -- so it's now directly to the retail stores. And hence, that pipeline is gradually being removed. That also has impacted the primary sales to the channel in the quarter. So, these are 2 reasons why the wholesale number looks like that. Having said that, the larger point around retail becoming bigger, it's very much valid, Tejas.

Tejas Shah: And just 1 follow-up on the Central point. So, many other companies had some exposure outstanding to Future Group and they have taken provisions. So, any update on that from our side?

Vishak Kumar: So, just we do business with the Future Group on both sides, which is Madura brands, which sell with them and some of the Future Group businesses, which sell through at Pantaloons. We are squared off in terms of our exposure.

Tejas Shah: Interesting. Yes. And sir, on Pantaloon, so when I see and I try to gauge consumer sentiment from our different segments number, our revenue line item, in particular, there seems to be a robust recovery. But in Pantaloon, and Sangeeta has been vocal about it on this that we have been working on improving profitability, and I understand there's an EOSS element also this quarter. But still, even if I take inflation in picture, I'm reasonably sure that like-to-like article cost will be higher than 5% CAGR versus pre-COVID FY '20 quarter. So, just wanted to understand, A, are we kind of respecting growth to improve profitability, A? And B, how should we think about sustainable growth in Pantaloon going ahead?

Ashish Dikshit: So, Tejas, I think you mentioned that Sangeeta has been talking about profitable growth. As she started the first question, let's just rewind FY '20 same quarter. Also, our EBITDA margins were north of 18%, close to 19%. So, Pantaloons intrinsically has improved its intrinsic profitability of the business. This quarter, it was further aided because of the decision to shift to EOSS out. And we have not just shifted EOSS out. I think we've also shrunk it to 4 weeks. Earlier it used to be 6, 7 weeks, et cetera. So, we have taken that out. The outcome of that is the revenue line has probably not grown as fast because EOSS you get a lot of revenue, the volume growth is much higher, et cetera. So, we sacrificed that in the short term, which is the revenue growth is lower than what could have been if you had followed the normal path. But our profitability is slightly better. But please remember, this is the profitability not very different from what we had in FY '20 also.

On the larger question of Pantaloons growth, I think, which is intrinsically the point that you're raising, we are quite confident of Pantaloons' store model and the fact that our constraints of capital, COVID situation, ability to execute at that point of time has resulted in lower expansion in Pantaloons in the last 2 years. Even this quarter, we could open only 4 stores, and now we have the visibility for another 20, 25 stores in H1. We remain committed to opening about 70 stores for Pantaloons, that will change the trajectory of Pantaloons. So, there are really 2 parts: One is intrinsic store economics, which is very, very strong, and there is a fundamental expansion both leading to rising out of store expansion, which you couldn't see this time, which will hopefully play out over the next 9, 12 months. On the question of value versus volume, in a quarter like this, when you forego end of season sale, obviously, most of the growth comes from value because you've given up a lot of volume which happens during the quarter. But I would say that's a more short-term phenomenon.

Tejas Shah: And sir, out of the 70 stores, any guidance on how much will be on a franchise basis?

Ashish Dikshit: We have been consistently talking about 20%, Sangeeta?

Sangeeta Pendurkar: It's 20%, yes. So, broadly, that's been the trend. I mean, we used to be at about 15%, 18%. Currently, it's 20%, and I think that's what we expect would be the case for FY '23.

Tejas Shah: Yes. So, Sangeeta, just 1 follow-up on this. So, if I remember, I could be slightly foggy on the time line. But if I remember correctly, we were one of the first 3 if not the first 2, experiment with the franchise route to large-format store kind of model. And of late, other players, we are seeing that they are actually ramping up the presence of both on value side and even on the slightly premium side on franchise basis. So, it seems that the model is working, and there is now a proof of concept as well. So, any restriction or inhibition on our side as a business model that we think we don't want to put too much weight on that vehicle of growth and we still want to fund it through our own balance sheet only?

Ashish Dikshit: So, I think Tejas, we have to recognize that primary business of retailer is to retail, and there is a bias to control that experience from our side. You know we are capable of doing franchising because we are the largest franchisee Company in the country in the fashion industry, and you know the Madura side of the business, even Pantaloons starting from 0 we've got to 18%, 20%. I think it's important to keep that balance. Also considering the store economics, the return per store, it's a very attractive investment even for us, even in franchising. So, as our balance sheet has improved, we feel even more confident, that ability to execute is much faster and especially considering the fact that there are apprehensions among franchisees for large format, there are apprehensions from our side in terms of what kind of quality of consumer experience they will be able to deliver, to what extent we should allow them. And that's why it's a balanced approach. I don't think at this point, we are ready to swing completely to a franchisee model, even though financially it may be possible to achieve it.

Moderator: Next question is from the line of Aliasgar from Motilal Oswal. Please go ahead.

Aliasgar Shakir: A couple of questions. First, a bit on the macro. So, I mean, I hear the commentary very positive, and we've seen very good performance across the vertical. Some of the channel checks we do indicate that a lot of the rural markets and also, in fact, a lot of companies indicate rural market Tier-2, Tier-3 are not doing very well. So, if you can just share some color in terms of how have we delivered across multiple regions? And do we see any pockets of regions which are weak for us or could be any concern? Or I mean, how is the outlook here?

Ashish Dikshit: So, Ali, I don't think there are very strong discernible and statistically valid data that we can pull out and say 1 region is doing much worse particularly and so on. I think not just this quarter, but if you look at our performance, previous quarter and quarter before that, there is all around sort of buoyancy in the market. There is definitely greater resilience as you go up the price point. Our higher-priced products, brands which are more premium, have shown much faster growth, reflecting clearly a resilience in the premium end of the market. The challenges as you come down the price points are slightly more visible.

But I would say a lot of commentary in the market right now is driven by essential products perhaps where inflation and other recessionary trends are visible. As far as our business is concerned, while there is a higher growth at the premium end the market, I don't think the growth is a challenge even at the bottom to middle of the market as of now for us. It probably also reflects, to some extent, the level of under-penetration that this industry has. We don't really have a large part of business coming from Tier-3, Tier-4 towns at this point as an industry, I'm not talking about only as a Company. And to that extent, therefore, we may be representing fully strata of the market and consumers, which is probably less affected in these times.

Aliasgar Shakir: This is very helpful. Second thing on Lifestyle Business. So, I think Vishak did indicate the performance in casual and womenswear, in fact, has also done well. If I faintly remember correctly, I think rather the men's formal wear category was somewhere like about 40%, 50% contributor to us. And that was 1 category, which has a moderate growth, and we have now extended, of course, in multiple categories. If you can just share some more color in terms of this big growth we have seen, can you share some softer aspect about what is the kind of growth we are seeing in the formal wear and other categories? And how we should look at the overall segment, given that there is 1 category which would have a moderate growth and the brand extensions that we are doing are giving us a very good strong growth. So, how should we look at this segment overall from that point of view?

Ashish Dikshit: I'll let Vishak comment here. But let me first Ali tell you that as an industry, we are in very early stage of sort of penetration to a branded market. We see very strong opportunity in all parts of the market, the formal wear, the casual wear, the athleisure. While there may be industry shift, there is also consolidation in market share gains that our brands are actually achieving and recording these times. And therefore, for us, this kind of growth can only come if all segments of the market are growing. Vishak talked about recovery as people came back to office, as people started going out. So, Vishak, do you want to add to this question?

Vishak Kumar: Yes. So, Ali, I think if you look at the various segments which we operate in, there is formal workwear segment, which like I was telling Tejas a little while back has grown beautifully during the quarter when a lot of people came back to physical offices. There is a wedding segment, which has again done very well in the last quarter and continues to be on a great momentum. There is the casual segment, which, again, like we've built a lot of capabilities around that, extremely well done. Denim segment, which again has had a fantastic response, lot of innovative products that we've launched in denim, which have done extremely well. Flex, Athleisure, Ath Work, all of which are active lines and Athleisure lines, which have again done beautifully.

So, I think the key is to be able to respond well to the right guys, to the spirit of the times, so brands which are able to see the trends in the market and respond well, definitely get some of the benefits of that. I think we have to be constantly watching that. There will be times when different segments will have greater or lesser traction, and we'll have to be able to create assortment plans, which reflect that strongly, Ali. I think we've been able to do that, and some of that is what is giving us the kind of results that we've had.

Aliasgar Shakir: Quick follow-up. If you could share what would be formal wear share now? And if I compare both, I mean, could you give us some color in terms of what is the formal versus nonformal wear, either for you or for the industry? I'm just trying to get some clarity about what is the pace of growth in both segments.

Vishak Kumar: It would vary across brands. For example, Allen Solly has a much larger casual component and so on. But on an average, between the Lifestyle brands, about 45%, 46% would have been formal wear and the rest of it is the other segments that I spoke about. Actually, for Q1, all segments would have had similar growth, we can give you the data, but I would say it's not as if something has grown at the expense of something else. It's been a fairly strong uniform growth across both formal and nonformal categories.

Aliasgar Shakir: This is very useful. Just last one, if I can slip in. Pantaloons, if I understand, we've seen 2 store closures in this quarter. So, any reason we have a very strong growth target for this year, about 70 store addition, what has happened in this quarter that we have not added stores?

Sangeeta Pendurkar: So, as Ashish mentioned earlier that, first and foremost, because we do believe that we have a very strong business model, we are very confident that this year, we are going to stay on our plan, and we will be on course in second quarter to open the 70-odd stores that we committed at the beginning of the year. Now in retail, and especially with COVID as we've had disruptions, I think we review the economics of our stores from time to time. And whenever there's an opportunity where we believe that the store from a potential standpoint perhaps is not going to be working for us, we take calls every quarter to shut a few stores. So, this is just a part of that. It's, I think, the numbers look different because this quarter, we've not been able to open as many stores as we would have liked. And July, for example, as Jagdish said, we have already opened 7 stores. So, some of the openings of June actually slipped into July. And in H1 of this year, we will have 30 new stores for the year.

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

Gaurav Jogani: My first question is with regards to again Pantaloons. I mean, if we see in terms of the margins for Pantaloons, that have been very wavy. I mean, while we understand that there have been elements of COVID also in between impacting the brick in format stores. But according to you, what would be a steady-state margin for this format now with the assumption that the things would be normal going ahead?

Ashish Dikshit: So, unfortunately, we have operated in some form of COVID impact for most of last 2.5 years, except perhaps Q3 of FY '22 and Q1 this year. So, if you remove those quarters and go back to even go as far back as Sangeeta was saying FY '20 for 3 quarters which you see, you would get a fairly good sense of margins, which are stable margins for Pantaloons. We continue to improve on that, just as we have done in previous 4, 5 years of Pantaloons journey. I think a lot of variation, there is intrinsic seasonal variation that fashion business has. And therefore, whether it's Madura, Pantaloon, any other fashion business would have quarter-on-quarter. But if you average it out and look at the weighted average of 3, 4 quarters or couple of years, we'll see a consistent improvement in margins. This quarter is a further improvement over what was Q1 2 years back, 3 years back, which is the previous normal quarter. It's not an extraordinary shift. It is actually a marginal improvement over what we had delivered in the same quarter 2, 3 years back.

Gaurav Jogani: Sir, if you can quantify what would be the element of benefit on the margins because of the shift in the EOSS for Pantaloons this quarter?

Ashish Dikshit: So, hard to say because what happens is, on one side, you make the margin gain. On the other side, there is a loss of revenue. It's a notional loss, but we know it's a rare loss. It's not that we lose money on that revenue, we make less money on it. And therefore, it will be a hypothetical number if I were to give you one. You can go back and look at maybe FY '20 numbers that had 15 days of sales. This time, it didn't have. But anything in between of what we had then, which is about 18.5%, 19% to what we delivered this year would potentially be the number around that.

Gaurav Jogani: And sir, in terms of the overall gross margins also for the business, we see the performance has been quite strong despite the headwinds in terms of the inflation that we have seen, especially in the retail business. So, what would you allude to this and how sustainable these margins are on the gross level as well?

Ashish Dikshit: So, first, a word of warning. In a highly complex multi-divisional business, the gross margin that you see is still a reflection of the mix of business than the individual gross margin. But let me come back and anyway address the point that you've raised. I think the improved gross margin is a reflection of the strength of our brands, in our ability to pass on a large part of an exceptional inflationary environment, the textile industry has gone through over the last 12 to 15 months. We have managed to, by and large, pass that off, more so in premium brands and a little less in the brands which are in the mid-premium segment or below that. So, I would say it's a reflection of that, and as time goes, hopefully, we'll be able to retain some of these margin gains.

Gaurav Jogani: And sir, just last couple of bookkeeping questions in the sense. One is on the Reebok part. So, while the economic benefits are to be transferred to us in this quarter, so if you can quantify how much of this benefit we would have received from Reebok for this particular quarter?

Ashish Dikshit: So, I think right now, we are in a mix of business, which is transient. I wouldn't want to give a number because that probably is not fully reflected. There's so many moving parts in that. It's in a transitional phase. You will start to see a more stable number as we take over business just 1 quarter away. I request you to give us time to see that.

Gaurav Jogani: Sure, sir. Just if you can clarify on this part, that will it be qualified under the Madura brands or the Lifestyle brand segment or it will be classified separately maybe in that terms?

Ashish Dikshit: As of now, we will classify under other businesses in the Madura segment. But as we go forward, we'll look at how best to represent it.

Gaurav Jogani: And sir, just 1 last request from my end is on the taxation part. I mean, given that we have accumulated losses over the past couple of years, how should we build tax rates going ahead?

Jagadish Bajaj: For the next 2 years, there is no current tax. So, whatever we have this deferred tax assets in our books, the rate will be around 25%, which we have to expense it out.

Moderator: Next question is from the line of Devanshu from Emkay Global. Please go ahead.

Devanshu Bansal: Congratulations for continued strong execution in Q1. Sir, with Lifestyle moving towards B2C, what is the growth trajectory expected for wholesale channel within this segment? And related to this, how is the EBITDA margin performance profile for wholesale segment versus the other 2 segments?

Ashish Dikshit: Vishak, do you want to comment?

Vishak Kumar: Look, I don't want to put a number for wholesale growth. All I want to tell you is that it's an important part of our business. We will continue to build that. Like I said, as and when the Central business comes back, that will prepare the overall wholesale business further. We are also looking forward to a strong festive, especially with the early bookings for Onam are looking very strong. Puja, also the indications are very strong. So, usually when Onam and Puja do well, the Diwali business is strong. So, we are looking at a strong wholesale, I don't want to put a number to it. Profitability-wise, our profitability model is such that our retail profitability is largely a function of the sales per square foot, you saw the kind of like-to-like that we have done, so both these are like in that sense, profitable channels for us. It's not this versus that. There is a consumer opportunity in both the channels. So, we have to make the most of that and be where consumer is expecting our brands to be.

Devanshu Bansal: My concern or maybe the question was to understand if the wholesale mix sort of goes down, will the margin trajectory for Lifestyle segment improve or decline. So, just wondering if you can share some ballpark commentary on that it would be helpful.

Vishak Kumar: See, again, wholesale is not 1 homogenous segment. We have a multibrand trade. We have a department store. There are depletion channels. So, there, it's not 1 homogeneous wholesale. So, we'll have to, again, further de-average that to look at which segments. I just want you to know that each of these are opportunities. And each of them would have at different points of time different growth trajectories. They continue to be an important part of our business. So, it should not be seen as some business shift from here to there. It's just the rate of growth in the different channels might be different. At this point of time, we have significantly gained share as a retail business. And that's good for us. It's a profitable retail. But we will continue to build on the wholesale business as well.

Devanshu Bansal: Sir, with all the investments that we have done in our supply chain, I wanted to check, what should be the trajectory of our working capital going ahead?

Ashish Dikshit: So, I think, Devanshu, the question is see fundamentally, if you look at our operating model, we operate with light working capital, matching our inventory and payables. As the share of retail grows, the share of inventory and our book will grow, but it will be sort of balanced with the payables on the other side. And that's the net balance we have found. Our net working capital in Madura business is in early double digits. In Pantaloons, it's low single digits. And therefore, we are operating with a net working capital to sales, which is very, very sort of competitive and one of the benchmarks in the industry. We have taken this as a conscious call and achieved it consistently over 4 or 5 years. So, this is not a sort of one-time phenomenon. Obviously, we continue to keep improving our inventory models through automation of supply chain models, distribution planning and so on. But those are benefits that you keep seeing incrementally year-on-year. Our overall wheel is very well balanced in terms of net working capital as a percentage of sales.

Devanshu Bansal: Sir, lastly, I wanted to check for Pantaloons. How should we see the longevity of this 70 to 80 annual store additions in this segment as the play here is in a very large economy market. So, how should we see the longevity for Pantaloons store additions?

Sangeeta Pendurkar: So, as we mentioned before, we've been on a journey as far as Pantaloons is concerned. Today, we feel we traveled a long path and feel extremely confident of our expansion plan simply because both our business model and the fundamentals of the business have intrinsically improved. This year, and as Ashish mentioned, that in the past, we have perhaps not been expanding to the extent that we would have liked. This year, we are confident that we will open about 70 stores. There is a huge opportunity in this market wherein the penetrations we have and the distribution footprint that we have to open more stores. And therefore, we feel confident that every year, a number of 50 to 70 stores is what we will continue to open, and this will obviously keep getting reviewed every year, based on the opportunity could be higher, could be lower. So, this year, we stand committed to the 70 stores that we talked about a quarter ago.

Moderator: The next question is from the line of Priyam Khimawat from ASK Investment Managers. Please go ahead.

Priyam Khimawat: Two questions from my end. Firstly, on Pantaloons, just trying to correlate our margins with net store additions. Because when I look at the net store additions over the last 3, 3.5 years, it has been very underwhelming and much lower than what we had guided for or as well what competition has been able to achieve during this period. Because we were close to 310-odd stores, and now we have the 375 over this period. So, is it just because we were short of capital or maybe it was because we have kept closing a lot of stores leading to such a low number of net store additions? And also if we have closed out so many stores which have been loss-making, has that actually been the key driver for a significant margin improvement in Pantaloons?

Ashish Dikshit: So, I think, over the last 2, 2.5 years, we are trying to restructure the balance in terms of rentals and fairly tough conversations over this period. Wherever we felt that the meaningful benefits that we are seeking were not possible, even if the store was marginally or recently profitable, we've taken a call to sort of set an example and shut some of those stores. So, I think past 2, 2.5 years are reflective of the underlying dynamics that retailers and the landlords have gone through. Clearly, our addition of 70, 75, which you mentioned, we have done over this period, perhaps we have done about 40 stores in '20 and about 19, 20 stores in '21 where we had literally shut shops sort of shuttered. '22, we have come back to about 49, but we have also shut stores because of the reason that I explained.

I think where we stand today, and I don't think this dramatically explains the shift in margin because that's not a material number. That's a very small number in a network of 350 stores. And if you actually look at the kind of stores we would have showed, the share of revenue would be even smaller than that. So, I don't think that has had an impact which is meaningful enough, but it was important to execute the agenda that we were on in the COVID period. And Sangeeta explained, now that we have demonstrated, feel strong in terms of balance sheet of the Company itself, therefore, both willingness and ability to execute, you will see a very different pace of expansion in Pantaloons.

Priyam Khimawat: Sir, and on the Lifestyle Brands business, while we have done a great job, if you could share some more color on how the smaller format stores in Peter England and Allen Solly have been performing?

Ashish Dikshit: Vishak?

Vishak Kumar: I believe when you say smaller formats, you mean the smaller town formats?

Priyam Khimawat: Yes.

Vishak Kumar: Yes. So, I think it's been a very strong journey on, not just in Peter England and Allen Solly, but also across Van Heusen and Louis Philippe. Of course, Louis Philippe we don't go that deep into town classifications, but in the other 3 brands, we go fairly deep, deepest in Peter England. I think the traction has been very, very strong. And we continue to expand a lot of our expansion.

On 1 hand, there is malls in urban markets, on the other hand, there is also a small town expansion. We've also taken a statewide drive in this because we also realize that each state is very unique in terms of merchandise, assortment, sensibility and so on. So, it's a very state-wise scaling up plan. So, we go 1 state at a time. For example, Van Heusen is available in Tamil Nadu and UP, Allen Solly likewise is in Tamil Nadu, Andhra and Telangana. So, we've taken a very state-wise approach to this so that we are able to make the most of consumer insight in these markets and they're scalable. But the response has been very, very good.

Priyam Khimawat: Sir, and lastly, just 1 suggestion or feedback, which even earlier has been highlighted to you if you could please give the pre Ind AS numbers as well in your presentation, because when you look at all our p-asset companies like V-Mart, Trends, Shoppers Stop, or even QSRs and multiplex for that matter, everyone gives the data and especially for a Company like ours, who has given the 5-year road map on pre Ind AS basis, it would be really helpful for the investor and analyst community if you could disclose that number.

Ashish Dikshit: Thanks. I think we have received this feedback in past. One of the problems we've had is that people are using different numbers at different points of time. As an industry, most companies are consistently reporting post Ind AS numbers, and therefore, there is comparison possible. Even in relative terms, numbers, which are reported to stock exchange, people could pick up data from different places. To ensure consistency of information and singularity of information is why we continue to believe that it will create more confusion in the larger market. Of course, analysts, some of you who have greater sort of time desirability to synthesize data would probably get benefited, but that also creates confusion and duality of information across wider people. And that's really why we have refrained from it so far.

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

Ankit Kedia: Sir, 3 questions from my side. Firstly, in our segmental EBITDA, there is other section, which is the Rs. 8 crore loss we have reported. Bas that got to do with the new B2C subsidiary we have created? And should we annualize the number as a onetime loss?

Ashish Dikshit: So, these are small expenses, which, of course, include B2C and other experimental ventures that we do. Please remember that these kind of things take a long time to come to fruition. Specifically, B2C, we have just started the business, but we have been working for it for the last 6 to 9 months, where expenses of research, analyzing companies, looking at attractive customer segments to enter, and therefore, various other expenses. While you can annualize the cost, please remember there will be revenue that will follow because that's the whole purpose of this entity. And to that extent, there would be the classified, the revenue and hopefully some profits. But, yes, there will be expenses on the other side as well.

Ankit Kedia: Sir, so the investments in B2C, which we would do, would these companies would be profitable from day 1 or we would actually have losses in the start-up phase and then the profits will follow back ended?

Ashish Dikshit: We will have both. I think, the current plan is to look at a portfolio mix, which looks at some companies which are on marketplace model and intrinsically profitable. And also to look at some companies which have the scale opportunity, and therefore, you need to invest for growth. We'll keep the balance as we go forward, but it's too early to sort of indicate a number on that right now.

Ankit Kedia: Sir, my second question is our fund raise happened around 2 months back, and you said the investments would only increase from there. So, is it fair to assume getting into quarter 2 and quarter 3, our investments into advertising businesses would only increase and that could put some pressure on the margins given that the benefits of the investments would again be slightly delayed?

Ashish Dikshit: So, things like advertising, yes, definitely, they will go up. I don't think fund raise was meant to fund the P&L of the business as much as the growth ambition coming out of new stores, building new businesses. Of course, there are new businesses like Tasva, some of the Ethnic brands which are in early stage where there would be losses which we'll have to fund. But clearly, the advertising investments will go up significantly towards the end of Q2 and largely in Q3. But they also come in line with a significant increase in revenues. So, to that extent, they balance each other out.

Ankit Kedia: And my third question is regarding debt. Despite actually Rs. 750 crore of fund raise because warrants money 25% would also come in, our net debt has actually increased. So, is it fair to assume our working capital would have increased by around Rs. 1,000 crore in the quarter?

Ashish Dikshit: No, chance. Your assumption is wrong. We have not yet received. Our process of fundraise is still undergoing a few steps. That money has not come in. And to that extent, therefore, what we have done, if you look at from March results, our debt has effectively at consolidated level has gone up by Rs. 100 crore, which is also equivalent of the investment that we have done to acquire stake in Masaba and a little bit that we have invested in Reebok initial expenses. So, I don't think our working capital has significantly increased. Perhaps as a percentage of revenue, if anything, it has come down even further.

Ankit Kedia: No, my assumption was the money would have come in on the fund raise.

Ashish Dikshit: No, it will come in the second quarter.

Moderator: Next question is from line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda: I have a query on this Lifestyle Brands EBITDA margin. Sir, if you look at the EBITDA margin, actually, it was down by 150 basis points to 17.5%. We have had a robust growth, but the benefit of operating leverage is somehow not visible. Any specific reason over here, sir?

Ashish Dikshit: So, there is a channel mix issue, which while 1 side of the business has done very well, the wholesale has not fully recovered. Vishak explained some of the reasons that existed at that from this time. Obviously, there is also an element of higher growth in e-commerce, which today generates less profit compared to the retail channel growth. So, these are the channel mix issues, which are actually driving the shift in margin.

Bharat Chhoda: And sir, 1 question on this Reebok stores. Like how does the investment and CapEx happen over there? Will this be basically on a franchise basis or how this model will work?

Ashish Dikshit: So, the primary model right now that Reebok has in India is a complete franchisee model. We believe, to strengthen the brand, we will do a combination of franchise in other, but also do some exclusive Company-owned stores. This is required to reposition the brand well to gain share in some of the key markets. But as you know, all our small format businesses are largely franchisee-led. So, it will remain that way, but there would be some investments in at least the key markets where we would like to establish the brand more strongly and spend the Company's money.

Moderator: Next question is from the line of Priyanka Trivedi from Antique Stockbroking. Please go ahead.

Priyanka Trivedi: So, my question is basically for Pantaloons and on the non-apparel segment actually. So, I wanted to understand our focus on that segment. So, if you see that the footwear is a fast-growing industry and many peers are focusing on this segment now. And globally, also footwear is very important for retailers. So, what is our plan for footwear in the Pantaloons business and what is it contributing currently?

Sangeeta Pendurkar: Priyanka. So, this segment actually includes multiple categories. The largest ones, of course, are footwear, bags. We'll do some bit of jewelry, a new category that we launched was home. And a lot of these category focus areas that we define were pre-COVID, and we've continued to kind of invest in them as we've seen recovery in the market.

I think accessorization is a very important trend. And therefore, with our strategy of wanting to complete the **(Inaudible)** 57:50 for the lady, the women consumer or for the man for that matter with accessories, I think, has been our stated strategy. And therefore, if you see over the last 1 year also, of course, in FY '22, given that a lot of people were still not stepping out of the house, et cetera, we had seen a dip in non-apparel as a category.

But we've seen a good comeback, and we will continue to invest in terms of expanding the categories, home has been 1 addition where we have started off well. And we think as these are adjacent fashion categories, both in case of adjacency to apparel and home because our life changed during COVID and a large part of time was being spent at home. Both of these will continue to be areas of focus going forward.

Priyanka Trivedi: And what would be the share currently on the non as such?

Sangeeta Pendurkar: So, currently, in quarter 1, it's about 10%.

Priyanka Trivedi: And my second question is basically on the athleisure. So, like you've mentioned that formal wear as such has been picking up now with the normalization in the life of the consumers. So, are we witnessing any shift in the share towards formal and athleisure reducing? Or is it improving going ahead?

Ashish Dikshit: This question is for Vishak.

Priyanka Trivedi: Across and in terms of the trend across in the Pantaloons as well as in your Lifestyle Brands.

Ashish Dikshit: So, I think to some extent, there are some trends which are democratic and will continue to grow. The journey of casualization is a 10-year trend. It's not a 1-quarter trend. And therefore, it'll continue to grow quarter-on-quarter, because some quarter people are not going to work, so formal wear may fall and it will make a comeback. But those are gradual and incremental shifts. There is nothing very dramatic with it. And as Vishak explained, our portfolio allows us to capture opportunity as those shifts happen when formal wear comes back, the share of formal wear will look high, but it doesn't mean absolute growth of athleisure will come down.

I think as consumer lifestyles you must agree is shifting to greater comfort, work-from-home, if it was 100% at some point of time, but it will not go back to being 0, whatever it is. So, some of those shifts are gradual and happen over a period of time and will reflect in the share of segment. I think 1 quarter here and there is not really a good way to look at the shift in trend.

Moderator: The next question is from the line of Tejas from Spark Capital. Please go ahead.

Tejas Shah: A couple of follow-ups. Sir, anecdotally, it seems based on our channel check that we would have gained market share in Lifestyle Brands versus pre-COVID period. So, any insights or there could be buyers, but I just wanted to know if you are also getting some sense validated by numbers?

Vishak Kumar: One indicator of this is our performance in malls vis-a-vis other brands, et cetera, which seems to be suggesting what you're saying. The other is our rankings in department stores, which have also been very, very strong, which also suggests that we've had some gain in share. But as you know, there is no Nielsen or no clear numbers to say what is your share, so we can't confirm that. But I think broadly, the kind of growth that we've had should have resulted in an increased market share, Tejas.

Tejas Shah: Perfect. And last one, you spoke about Reebok being early to comment on capital deployment and other strategies. But just on pricing part or how you want to position the brand, any thoughts because it has gone all over the place in the last 5, 10 years? So, where do you want to place the brand and how do you want to actually scale it going forward?

Vishak Kumar: Tejas, it's a very, very powerful brand, okay? It was at some point of time the largest sportswear brand in India. I think the task ahead is to be able to bring that kind of position back to the brand. Multiple things have to be done. As you know, we would be moving in from 1st of October. Pricing one of them, the kind of product segments where we want to strengthen further, the kind of geographies, the distribution, multiple dimension pages which will have to be addressed. All I want you to know is that, look, this is a brand which has what it takes to be a market leader.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of the management, we thank all the participants. In case of any further queries, you may please get in touch with Mr. Rahul Desai or Mr. Amit Trivedi. On behalf of Aditya Birla Fashion and Retail Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.