"Aditya Birla Fashion and Retail Limited

Q3 and 9M FY '23 Earnings Conference Call"

February 07, 2023

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Moderator: Ladies and gentlemen, good day and welcome to Third Quarter and First 9 Months of FY '23 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion of the company's management on the Q3 FY '23 performance followed by a question-and-answer session. We have with us today Mr. Ashish Dikshit, Managing Director; Mr. Jagdish Bajaj, CFO; and Mr. Vishak Kumar, Director and CEO, Lifestyle Business. I want to thank the management team on behalf of all the participants for taking out 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 risks that the company faces. Please restrict your questions to the quarterly and half yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Jagdish Bajaj: Thank you. Good evening, and welcome to the quarter 3 earnings call for our company. The quarter saw the highest ever quarterly revenues for the company at both the standalone and consolidated level. This was driven by continued strong growth trajectory of our premium and luxury segment and a strong resilience of the value segment. Addressing network expansion, robust e-commerce performance, new category extensions and successful brand-building initiatives have consistently been our growth drivers that have helped us to deliver impressive double-digit revenue growth over pre-COVID levels for the fifth consecutive quarter.

I would want to highlight one aspect of our business where we had to take a hit in view of the adverse impact of COVID as we emerged out of it, we have amplified our marketing investment since the start of the year. This quarter, our marketing investments have been approximately 2.3x of same quarter last year. And a part of this spend was utilized to build first-ever national TV and digital launches, along with the spending on local activations, celebrity endorsement, influencer marketing, etcetera. Additionally, we furthered our deep investment into our new and nascent stage businesses for the purpose of aggressively growing the distribution network and building a strong brand equity.

Now I will talk about financial performance for our company for this quarter. Company delivered sales of INR 3,589 crores, which is a growth of 20% over the same quarter last year and 39% were pre-COVID. The company achieved a consolidated EBITDA of INR 467 crores. EBITDA margin was broadly in line if adjusted for higher investment in brand building and advertising, which was INR 125 crores, higher than Q3 last year. And also rental savings of INR 55 crores in Q3 last year FY '22. The company continued with rapid network expansion during the quarter. Our branded businesses had an expense in 245 stores led by additions of 122 Reebok stores to our network and expansion of retail network in Lifestyle brands, innerwear segment and ethnic businesses. Pantaloons also continued their expansion journey with addition of 10 stores during the quarter.

The company persisted in its efforts to expand on its digital platform, placing particular emphasis on enhancing its omnichannel capabilities. E-commerce sales grew 33% Y-o-Y across the portfolio. We have continually expanded our omnichannel reach with now over 2,350 stores equipped with omni capabilities throughout India. This represents consistent advancement of our digital initiative as we continually adapt to the changing demands of our customers.

Reebok completed its transition into ABFRL operations with effect from 1st October 2022. This will build a strong meaningful play in sportswear market. We are glad to announce that TMRW it has completed the acquisition and integration of 6 of the 8 digital-first brands previously announced in the press release in November 2022.

Now in terms of our YTD performance, sales grew by 63% over last year to INR 9,538 crores. Company posted EBITDA of INR 1,385 crores. It is important to note that marketing investments to YTD are INR 300 crores more than last year. I'm pleased to tell you that in line with our strategic objective, our other businesses, including innerwear, youth fashion and international brands have grown approximately 50% over last year, while ethnic business has grown to 13x of pre-COVID levels to reach INR 400 crores.

I will now take you through the performance of individual businesses, starting with our Lifestyle brands business. Lifestyle brands maintained their remarkable business performance, achieved highest quarterly sales on the back of robust retail performance as reflected in 5% LTL growth and strong e-commerce performance. This resulted in a testament to the strength of our brands and business model. Revenue for the quarter stand at INR 1,873 crores, 18% higher than last year. EBITDA stood at INR 3,017 crores -- INR 317 crores.

The growth in this business segment continued to be driven by premiumization across brands, along with a strong rebound in occasion and workwear. Our women's wear is continuously growing and achieved 26% Y-o-Y growth. Also other categories like suits and blazers, denim and T-shirts continue to receive strong consumer traction as they posted impressive growth over last year. Retail business grew by 21% over last year on back of solid net additions of more than 110 stores during the last 1 year and consistent same-store sales growth.

Further, e-commerce continued to be a strong sales channel and e-commerce sales grew by 19% Y-o-Y despite overall moderation in e-commerce growth across the industry. I want to reiterate that Lifestyle brands is one of the largest branded fashion e-commerce business in the country. Brands marketing efforts reached back pre-COVID levels resulting in a noticeable enhancement in overall brand recognition and revenues. Our expansion in small town in India continued aggressively as we take our brands to these markets through an asset-light format. We are present across more than 505 stores in small towns, contributing profitably to the top line.

Moving on to the Pantaloons business. The Pantaloons division recorded highest quarterly sales of INR 1,159 crores, with a growth of 9% over last year. EBITDA stood at INR 168 crores. This was achieved despite post-Diwali demand slowdown in value segment. Additionally, this growth needs to be seen in view of the shift of Pujo to Q2 this year versus Q3 last year. A substantial portion of the customer base is located in Tier 2 and Tier 3 cities, and hence, on account of inflationary pressures and weak consumer sentiment led to sluggish performance in these cities and towns. Pantaloon opened 10 new stores during the quarter to exit with 460 stores.

Other businesses. Other business segment continued with its outstand performance, and the portfolio comprises of 4 business lines: active athleisure and innerwear, youth fashion brands, super premium brands and Reebok. During this quarter, the portfolio had posted revenue of INR 363 crores, a 26% growth over last year. Let me begin by talking about innerwear business performance.

The revenues of this segment grew 10% over the same quarter last year despite overall slowdown in athleisure segment. The segment continued to scale up rapidly and has its 31,000 trade outlets. Brands also added 48 EBOs in the quarter to exit with 159 EBOs. The business launched its largest nationwide television and digital advertising campaign.

Youth fashion segment, consisting of American Eagle and Forever 21, delivered a strong performance. American Eagle continued to solidify its reputation as one of the leading aspirational denim brand, and it delivered 24% LTL growth. Brands opened 5 new exclusive brand stores in the quarter and is now available at 31 EBOs and 42 doors of department stores.

Forever 21 also added 5 stores on a net basis during the quarter. The brand is back on expansion journey with 50% Y-o-Y revenue growth on a back of a strong LTL growth and robust e-commerce performance. The collective and other super premium brands witnessed a sharp growth of 43% over last year with a very strong 24% LTL. The segment has consistently maintained strong profitability over the past few quarters. Online revenues continue to surge as our own e-commerce site, Thecollective.in recorded more than 60% growth over last year.

Ethnic businesses, we have built a comprehensive ethnic portfolio across multiple occasions and price points. We'll include partnerships with designers like Sabyasachi, Tarun Tahiliani, Shantnu & Nikhil and House of Masaba, premium men's ethnic wear brand Tasva and Jaypore. The segment achieved revenue of INR 189 crores and has grown 66% year-on-year. Businesses continue to invest in brand-building initiatives and new store openings. Sabyasachi revenue -- revenues grew by 23% over last year, with a strong growth across all the categories. Brands crossed INR 1,000 crores plus quarter revenue -- INR 100 crores plus quarterly revenue.

We are pleased to inform you Sabyasachi's newly opened iconic New York store has received an overwhelming response, and is well poised to establish the brand as a truly global brand. Tasva, our premium men's ethnic brand, added 11 new stores in the quarter and is now available across 32 stores. The brand also launched its first comprehensive marketing campaign, which is currently live across prominent digital platforms and television. Brand and its products continue to be well recognized by the consumers and the industry.

Jaypore brand is present across 15 stores and witnessing a very strong traction across multiple channels. The brand continued to grow on the back of network expansion and growth in new categories that it has added such as home and accessories. Revenue from the brand grew by almost 80% over last year. Shantnu & Nikhil delivered the highest-ever quarterly revenue with 43% growth over last year. Brand is now available across 15 stores. Brand introduced sports-inspired lifestyle category by launching Shantnu Nikhil Cricket Club.

House of Masaba delivered highest ever quarterly revenue with 66% growth year-on-year on the back of healthy LTL growth of 61%. The newly introduced brand Lovechild has continued its expand into new categories such as fragrances. Our products continue to receive favourable response from the customers. And just to reemphasize that the ethnic wear is a huge market opportunity where we wish to build a large meaning play to our comprehensive portfolio. With the way the portfolio is stepping up in terms of performance, we are confident of building a large and profitable business for the next 3 years.

To conclude, our performance is backed by the strength of our brands, our distribution capability, our deep consumer understanding and our sharp focus on operational rigor. With the most comprehensive portfolio play in Indian fashion industry, all our new initiatives have demonstrated expected early indication of success. And along with our mainline businesses, we are confident that we are on the right path to execute our strategy. Thank you, and we are open to questions now.

Moderator: The first question is from the line of Richard Liu from JM Financial.

Richard Liu: So Ashish, I have two questions. One is on the long-range Madura margin, right? I mean if I look at pre-COVID, which is the 3Q FY '20 quarter, you did about INR 1,300 crores of the top line in that quarter. And this time around, it is more like INR 1,870 crores, right? I mean so that's quite a bit of an increase versus that level. But at time you reported a margin of about 17.3%. With a much, much higher revenue base at this time, your margin is lower at 16.9%.

And I remember you all had very emphatically spoken about some structural cost savings that were affected during COVID, which were supposed to keep margin higher on a permanent basis. In light of all that, can you please help reconcile this kind of margin that you've clocked this quarter?

Ashish Dikshit: I'll give you a first response and I think Vishak can add to it. Richard, clearly, a large part of the margin shift this quarter is probably because of significantly higher quarterly advertising, which is a phasing issue and a sort of onetime large investment, having not made investments for last 2, 2.5 years. That's a significant shift.

If you look at the shape of the business, it continues to remain as strong as it was before, in fact, stronger over a period of time. The CAGR, even if you look at it from '20 to '23, ignoring or even accounting factoring in the COVID period, continues to stay very, very strong. This is despite the fact that some of the trade and wholesale customers have fallen off.

As far as structural margins is concerned, I think we are marginally better than where you were in FY '20 if you take care of the additional onetime advertising because we always did 3.5%, 4%. This quarter was significantly higher in account of that.

Your point about structural change in the cost structure, see, COVID went through a lot of pieces which were one time, and there's a few which where structured over a longest period of time. At this point of time, as business is coming back, the difference is, I would say, not as noticeable as it was during the COVID period when you could take a lot of deflationary costs down, overheads, which went down.

Retail parts of the COGS has come back, although the nature of our retail business is more variable than it was in FY '20. And the testament of that is that during the times when things were not very good, Madura business managed to hold on its margin a lot better than pure fixed cost businesses. So I don't know, Richard, if I've answered all your questions. And Vishak, if you have anything to add.

Vishak Kumar: Richard, does that answer your question?

Richard Liu: I got the flavour of A&P, but if -- I mean if I add that A&Ps to boast the quarter, would you be at a much higher level now considering that your top line is much better?

Vishak Kumar: At a percentage margin level, I won't say much better, but better than what we used to be. So this is a dramatically higher top line with a marginally better margin percentage, okay, is the way I would read it. So we have continued to grow very strongly, Richard, while holding on to the strong double-digit margins that we've consistently enjoyed.

Richard Liu: And what about gross margin? Because there was also a thought at that time that discounting as a concept is not going to be so prevalent anymore. Do all those assumptions continue to hold or we have gone back to pre-COVID behaviour?

Vishak Kumar: Richard, here is the deal. I think our discounts haven't changed too much vis-a-vis pre-COVID. But what you must recognize is that they have gone much higher during the COVID years. So to that extent, we have brought it back to pre-COVID levels, so in that sense it has progressed, okay? Is there room for further improvement in that? Incrementally, yes.

Richard Liu: Thanks, Vishak. I'll just move to Pantaloons then, right? I mean if I look at -- and I'm looking at Q2 and Q3 combined, so that we don't get into this Pujo shifting thing, right? I mean if I look at Q2 and Q3 combined, again pre-COVID FY '20, the revenue was about INR 2,000 crores. This quarter, it's about INR 2,250 crores, so that's about 10% higher, right? But your store count is up from about 340 then to about 400 plus now. What explains this? I mean why will you keep investing in this business if this is the situation of the growth that you are able to garner after all these years?

Vishak Kumar: So I think, Richard, one quarter or perhaps performance during this phase may not tell the whole story. Indeed, this quarter has been weak and primarily post Diwali, which is month November is what has pulled down the business performance. So if you look at FY '20 performance and compare that to FY '23, I think our same-store growth is down by about negative 9% or something, which is what is reflecting in the count of numbers that you are talking about.

I would say, Richard, if you were to look at the value segment performance, there is a larger headwind that Jagdish talked about that we are experiencing in that. It's very different from what we are experiencing on the other side of the market, which is where most of our premium brands are, which are enjoying the sturdy comeback that consumers have seen in the higher end of the market. And this has gone out both in terms of consumer segments as well as geographical positioning. Tier 2, Tier 3 towns are seeing much lower recovery and much lower productivity even at this point of time as we speak. And that's something that Pantaloons is factoring from and experiencing that. I think it's a phenomena which we will have to drive through as we speak.

Richard Liu: And what will actually revise the sentiments at the value end? Because I mean we are seeing a lot of these some comments also at, let's say, the lower-priced consumer goods players, and everybody is thinking that the government is going to do ABCD. But I mean, isn't that more of a hope than anything else? I mean what will happen to revise the sentiments at the value end?

Vishak Kumar: I think overall, there has been cost demand destruction during pandemic and a smaller end of the -- lower end of the SME customers, smaller markets. I don't know whether job loss is still relevant in those markets, but definitely, there's been a slowdown in curtailment of discretionary income and expenditure at that end. I think the longer-term picture, and we have seen it before, it's not the first time we are experiencing that. There is an equally strong recovery that happens when consumer sentiments improve.

I think when you look at the premium end and the value end, we are also seeing the resilience at the top and the challenge at the bottom. At least for our business, I don't think government alone -- and those factors are perhaps too macro for us to comment upon in terms of how they will deliver into our performance. Some of it could also be recovery post strong festive, because that period indeed saw -- both Pujo and Diwali saw good recovery. And it's months after that, which has actually pulled us down. If I had to put one factor which could change it, I think overall consumption and economy will have to improve for this to start to seeing a meaningful shift as far as the market is concerned.

Richard Liu: And if I can just slip in one more question. On Reebok, if you can help us understand how much did it bleed, why did it bleed, and what will the -- what does the P&L look like and what will it look like when you get to a decent shape?

Vishak Kumar: So I think there is a onetime effect in transition, we transferred a whole lot of inventory in business and there was a onetime impact on accounting that into it, which we saw in this quarter. It is a strong business. We expect it to get to close to double-digit EBITDA margins sooner than later. And I think that was the shape of the business before we acquired, that any business which has not been looked after for some time, that requires a little bit investment and revitalization. I don't think it's a long journey, it's a very sharp 9- to 12-month journey that we will have to do, but we'll have to see that period towards this point of time.

Richard Liu: And you are talking about double-digit margin despite the royalty that you'll have to pay, right? I mean because I guess the earlier operation did not -- did it also have a royalty construct into it?

Vishak Kumar: Yes, we'll have to deliver that post royalty. I mean that's our margin.

Richard Liu: And you think you can get to that in about 9 to 12 months' time?

Ashish Dikshit: No. I think 9 to 12 months is what it would take us for turning around. Perhaps another 12 months after that. It's very hard for us to right now because it's just few months into our operations. We have cyclical parts of the businesses, making sure the inventory system gets in control, which itself is 6-9 months away from us. Lots of stores needs refurbishment at this point of time. But it's a fundamentally strong business, which is at 350-400 crores business. So we have a good base to work on in that sense.

Moderator: Next question is from the line of Garima Mishra from Kotak.

Garima Mishra: Jagdish, could you please help us with the period ending net debt number? And any major investments or outflows towards promised investments that we should expect over the next 2 or 3 quarters?

Jagdish Bajaj: So the net debt on 31st December is INR 340 crores. The Board has approved investment in TMRW between INR 400 crores to INR 500 crores. Out of that, I already made around INR 120 crores, so this is the only outflow which we take.

Garima Mishra: So the remainder, let's say, INR 350 crores to INR 400 crores for TMRW, what is the time horizon that you have in mind in terms of investing it?

Jagdish Bajaj: It will be this quarter or at best spillover into the next quarter. It's not a very long term...

Vishak Kumar: That is the next 6 months.

Garima Mishra: And specifically for TMRW, the investments that you have, I know there are some details of those that have been disclosed. But is there any sense that you can give us in terms of the cash investment or let's say, the cash loss you may have to incur towards ramping up this portfolio in, let's say, FY '24?

Ashish Dikshit: It's hard to give a number, but you will have visibility of that Garima, quarter-on-quarter. If you look at this quarter, we have about INR 19 crores of loss for TMRW consolidated level. We expect it to marginally go up in the immediate short-term and then subsequently, depends on the performance of the portfolio companies.

Garima Mishra; But as and when you deploy the remainder INR 350 crores, INR 400 crores of the Corpus, this loss number may actually increase if, let's say, the acquired companies are loss-making or they are just start-ups and not really profitable?

Ashish Dikshit: Yes. So it is a combination of -- see, most of our companies that have acquired includes accounts that you see currently in the books, are marginally profitable at consolidated level. However, there is an overhead cost, which is the TMRW company cost, which is incurring this overhead, which is what you're seeing in terms of losses. As we increase investments, it will depend on the quality of portfolio businesses that we'll build. Also, some of these businesses are very scalable, and the reason for -- that's the reason for investments, which would require a deeper loss in those businesses.

So the trajectory would indeed depend on the quality of business at the entry and various investment require it to take it to the next level. It could go up and possibly will go up is my guess, looking at the way digital business eventually turn out. But the range will be between 20% to 30%, 35% kind of number.

Jagdish Bajaj: [inaudible 0:26:34]

Ashish Dikshit: Of course, what Jagdish is saying that all this is covered as a part of overall funding that we have given it. But I think your question is specifically around the losses that we come -- that will come in the books of ABFRL.

Garima Mishra: Yes, that is correct. One more question on Reebok. Could you help us understand the revenue and EBITDA made in this business, specifically in the third quarter?

Jagdish Bajaj: INR 34 crores revenue. As Ashish was saying, around INR 13 crores EBITDA loss.

Garima Mishra: Got it.

Ashish Dikshit: Let Vishak give you a more detailed answer.

Vishak Kumar: Garima, it's like this. In the Reebok business, we've transferred the business from 1st of October, okay? There is an if you look at a pre-royalty component of EBITDA, in fact, in Q3 itself, we would be close to breakeven on that, okay? So it's -- as we -- as the business scales up in quarters to come -- can you hear me? As the business scales up in quarters to come, okay, so we will keep getting some of the benefits of that leverage. There is a fixed cost organization that we've put up. There is a network of retail stores which is being fast ramped up. Okay? There is also a lot of investments into replenishment systems, warehousing, etcetera, all of which kick in, in the next few quarters, okay?

So with that, that is what Ashish was trying to say earlier. In the next 12 months itself, it's going to be a fairly -- we'll be able to get this into some kind of steady state and then get into double-digit margins from the year after.

Garima Mishra: The last question from my side, if I may. Ashish, you mentioned that the advertising expense was indeed very hefty this quarter. How one-off or nonrecurring should we expect this number to be? Because given you are seeding new businesses, ramping up new brands, it may continue at this pace for the next few quarters? So just thought -- I just wanted your thoughts on this.

Ashish Dikshit: No, you're right, Garima. There our advertising spend this quarter coming as a very large sum because that has come back both in existing business, which we felt for a fair bit of period had not seen visibility, as well as new businesses that we are seeding. So your point is valid about the new businesses. Although even for them, this will be the right time to advertise and create visibility because of the season, we were launching Tasva. We had a network of about 30, 35 stores. Similarly, innerwear, where we had not had the opportunity to build because of COVID since launch, a fairly impactful national campaign.

So those businesses also saw, I would say, exceptional level of onetime investment. It doesn't mean that these businesses will not get advertising support, but this would not be in the proportion that we ended up spending this time. And the same is true about the Lifestyle brands business, which is the other place where advertising spend is nearly 3x the normal spend that we have done in the past.

Because there is a sense that we needed to get back and make our brands more visible, having less about 2, 2.5 years of that period. This is definitely an exceptional spend for the quarter as it appears. It reflects our investments in brand philosophy, which we have always done, between 3.5% to 4% is what we have been investing over a long period of time. I don't expect that trajectory to shift.

But this quarter, that will up to almost 200 to 250 basis points depending on which business you are talking about. In the core business, it was 200 basis to 250 basis points. In the new businesses, this was obviously a onetime initial launch expenditure. Our overall advertising spends will remain in the range that we have always done in the past. And the new businesses will continue to get support ahead of the revenue at this point of time. But perhaps all that impact cumulatively is somewhat coming together and therefore, looking so much bigger in this quarter.

Moderator: The next question is from the line of Varun Singh from ICICI Securities.

Varun Singh: My question is on the marketing investment. So if, sir, I may ask that how have we decided to allocate this resource, like how much in which -- for which brands?

Ashish Dikshit: So look, we have a large portfolio of brands, and each one is in a different stage of existence. Many of them have been around for a long period of time, but still have something new to say about themselves. Some are very new and therefore just need to build awareness. So expenditure is, of course, in line with the strategy that we have played out for each brand. So it's not a top-down allocation, although there is a judgment at the top. It's primarily done as a part of the annual planning for each of the brands, and it plays out differently in different quarters.

Varun Singh: Sir, I was just thinking that if you could talk about Lifestyle brands and Pantaloons broadly, something in that direction?

Ashish Dikshit: So Pantaloons business, being a retail brand, typically operates with 2% as its marketing cost, sometimes 1.5%. At the peak, it would go to 2%, 2.5%. Lifestyle runs on the other side operate between 3% to 4%. But in peak periods, like this quarter, it has gone up to maybe 5.5%. But on an annual basis, our value business operate between 3.5% to 4%, and our retail business operates between 1.5% to 2%.

Moderator: Next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: Sir, just one question, kind of an extension of the previous participant's question. Sir, how do you measure ROI on brand investment? And is there any kind of method on which quarter or which -- considering that the broader economic environment was muted after October, is it like that there is an agility in the process that if we see that the response from customers is not coming, we can actually postpone the plan and they can kind of repurpose it for some other time period?

Ashish Dikshit: It is. Tejash, though sometimes it's hard to take a very short-term measure on it. Advertising, as you know, and you watch so many businesses across categories, is a longer-term. And there is a lot of residual effect of advertisers which plays out over a long period of time. Having said that, remember, a part of our business is experiencing exceptional growth momentum. Lifestyle brands business, if you look at quarter 1, quarter 3, including this quarter and continues as we speak, is experiencing very, very strong business momentum.

So this is very much in line with our strategy. Advertising is enabling the brands to stand out, convey the new categories in which they want to play, whether it's mostly jeans or Van Heusen Flex or in Allen Solley category. So each of the brand has a growth driver, which is being supported by advertising. And much unlike the overall mood that your question seems to be indicating, that part of the business is actually enjoying a very good run and the advertising is supporting the kind of momentum that the business has picked up.

On Pantaloons, that's why we don't hear that comment about it because we are careful about spend after October, and we have taken steps to curtail that. On the new businesses, where some of them are yet to be proven, but I think they require the initial awareness building and the message to go to the broader consumers, and that's why whether its Tasva, innerwear, which saw advertising in a significant manner after a long period of time, we continued.

And those businesses, I don't think are experiencing it. Most of the challenges in the market post Diwali are really at the value end of the market. And we have been watchful about spending money in that part of the market.

Tejash Shah: And sir, second question on this Tasva. So you spoke about awareness that requires to be there for the new brand. But then if we -- if I see -- and if I'm not wrong, we actually engaged where we had a Bollywood celebrity for -- a national celebrity for Tasva launch. And when I see that the on-ground business is just 35 stores, so how can that awareness actually converts into demand even if somebody wants to engage with experience brand based on the spend that we have done.

So is it like -- I understand it's always economic between distribution and advertisement. But I was -- as a consumer or as an analyst, I was actually intrigued that we spent so heavily at a time when our on-ground presence was not that high. So I just wanted to know your insight on why -- how we approached Tasva's launch?

Ashish Dikshit: I think, Tejash, you have answered the question in your question. In many ways, there is a bit of a chicken and egg. Do you build retail distribution with a high fixed cost investment in inventory and then wait for demand creation to happen? Or do you do one before the other? I think there is a very strong wedding linkage to this category, that's why the brand which was launched about 6, 9 months back, so this was the first wedding season that the brand has seen. I also wish we had 100 stores instead 30 stores at this point of time. But that would have meant you would have had that much cost, which you would have seen no advertising and low awareness.

I think some of these things have to be done in this manner. We have created a reasonably strong mission visibility for the brand. It would help not just the existing stores, but also finding new stores and getting consumers. Because it's a slow process, and we needed to build that awareness even for the stores which are going to come in next 3 to 6 months.

Tejash Shah: And sir, lastly, what will be our EBO strategy for Tasva as we go along? Will it be FOFO, COFO or a mix of both?

Ashish Dikshit: So initially, as we had said early on at the launch stage. We wanted first 40, 50 stores to the COCO stores because we want to make sure that we establish the brand strongly, both in terms of where we want the stores to be, the quality of store, the experience and also to establish proof of concept even for potential franchisees. And we didn't want it to be held back till that model is proven and franchisee is coming. As we go forward, like all our brands, this will increasingly move from a pure COCO model to a COFO, eventually to a full COCO model. But in the near-term future that you see over the next 1 or 2 years, the movement will be more gradual.

Moderator: Next question is from the line of Kaustubh Pawaskar from ShareKhan By BNP Paribas.

Kaustubh Pawaskar: So my question is on the EBITDA margin. So going ahead, as you said that the marketing spends what you have done for this quarter would phase out going ahead. So considering that, in the core business, should we expect margins to stabilize considering the fact that you will continue to grow in double digits? However, on the consolidated front, it will take another year also because you are investing in some of your newer business, so that will continue to have impact on the profitability. So is it fair to assume that at consolidated, there will be a gradual recovery in margins from FY '25? However, at the core level, we should expect margins to come back on track from FY '24?

Ashish Dikshit: So I think if you look at our business as sum of parts, then you get a better and clearer picture of it. As far as Lifestyle brands is concerned, I think the good indicator of that would be a 9-month picture into this quarter or the previous quarter, etcetera, because the horizontal view of the business is perhaps the most stable view of the business as [inaudible 0:40:39]. That's been a very consistent business and a margin would perhaps be moving in the zone that 9-month margins will indicate. It's around 17-odd percent. It will probably move between 17%, 18%, 19% kind of zone as the business grows over the next couple of years. And that's the Lifestyle brands.

As far as Pantaloons is concerned, the business is undergoing, as we speak, a more challenging situation. But again, I would suggest you look at a 9-month picture, which reflects a reasonably strong performance, not just compared to category and industry but even with respect to FY '20 performance, which was 9 months of same period last year, where the margins have been hovering around 17% to 18%. So these businesses are, in that sense while they may see fluctuations quarter-on-quarter, the longer-term picture is more stable than the quarterly fluctuations.

As far as the new business is concerned, I think we have 2-3 kinds of businesses. There are parts of ethnic businesses. And if you look at, therefore, ethnic profitability, it's marginally breakeven to positive because part of ethnic businesses are already profitable. But new businesses like Tasva are going to take perhaps 2 years to really come back to breakeven and improve.

Some of the other new businesses, which are businesses like TMRW, are little bit more unclear at this point of time to predict. When it would be? Perhaps, a much longer gestation considering the nature of these businesses and then it take more than 2, 3 years to get to that level. But most of our ethnic business hopefully, particularly Tasva, which is the one which is consuming most of the investment at this point of time, will take about 2 to 3 years to become profitable.

Kaustubh Pawaskar: And for this quarter, the interest cost has gone up substantially. So any particular reason for this?

Jagdish Bajaj: This is [inaudible 0:42:47].

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Sir, question was on Pantaloons. With low traction in Q3, do you foresee higher discounting in Q4 as Holi is also earlier this time around versus last year?

Ashish Dikshit: So I think low traction in Q3 itself resulted in higher markdowns and competitors versus working as far as this segment is concerned, in Q3 itself. I don't think situation has changed I mean, both from post Q3. Most of the product situation which went down was primarily in November post-Diwali and a little bit in December. I don't think it will change in terms of higher markdowns in Q4. Q4 would be like previous Q4.

Devanshu Bansal: And January specifically has been relatively much better because of delayed winter sort of getting into. So any lead trends that you would like to share for this month?

Ashish Dikshit: Again, I would say one month sometimes could give a wronger picture, just as I'm urging you to look at 9-month picture for all the businesses to understand the intrinsic nature. January would be an extension of the 9-month story. Businesses are performing along the lines where the premium parts of the business we are facing and experiencing a stronger offtake versus the value end of the segment. A month here and there, picture keeps moving, but I will change our view or any form of outlook on that account.

Devanshu Bansal: And innerwear seems to have seen a higher loss in this quarter, you sort of alluded it to higher marketing. So I just wanted to check, are we making investments at the gross level as well through higher incentives as into gain more shelf space here?

Ashish Dikshit: No. That's -- that part is very stable. Most of the higher losses which are showing in the other part of the [MSL 0:45:06] segment is indeed, as you correctly suggested, is coming from innerwear and a significant part of innerwear losses. In fact, almost all the losses are due to incremental and increased advertising that we did. This is the first-ever national campaign, both television, digital and outdoor that we launched for innerwear. And that's really what has impacted both the profitability of innerwear as well as the overall other business losses.

Devanshu Bansal: And last question from my end, sir. You indicated in previous answer -- the previous participant's answer also, we made some profits in the ethnic segment in Q3. I guess that is due to stronger traction in other ethnic segment ex of Tasva. Just wanted to check, what is the view for coming quarters? As we made about INR 50 crores loss in last quarter and this quarter, it is slightly profit. So what's your view on this segment in coming quarters? So will we return back to that INR 40 crores, INR 50 crores sort of a loss?

Ashish Dikshit: [inaudible 0:46:10] making INR 50 crores loss last quarter -- INR 40 crores, INR 45 crores okay. So this quarter, obviously, both Q3 and Q4 are very good quarters for ethnic wear businesses because of the wedding period. And most of our business in ethnic are related to wedding. I think Q3 will be a better reflection of Q4. Although Q1 and Q2, similarly go through periods of less wedding, and therefore, those are more affected for these brands.

Moderator: The next question is from the line of Vaibhav Agarwal from Basant Maheshwari Wealth Advisers.

Vaibhav Agarwal: So sir, as I looked in the investor presentation, like the EBITDA margins would have been about 18.5%, 19% if we adjust the rent and the higher marketing expenses. So you said that the Q3 EBITDA margins would be in similar lines to the last year one, if you adjust these 2 expenses. So do we see 18%, 19% kind of stable EBITDA margins once everything is sorted like by -- in the next 3, 4 years kind of a scenario, like when the newer businesses also start performing?

Ashish Dikshit: I think I would reiterate the point I'd made earlier for understanding our margins on a longer-term basis, whether you look at on annual basis, this year, last year. Look at a 9-month picture, it gives us fair reflection of where the state of the business is. As I indicated, Madura business operates between 17%, 18%, 19% kind of margin at different points of time. Pantaloons, while this quarter may have fallen a little bit, but has operated between 17.5% to 18% margin. Our new businesses will go through a little bit of fluctuations, while ethnic will probably come back as soon as Tasva investments are over.

Our B2C will take longer time to come back. So they will be less predictable on a quarter-to-quarter basis. Ethnic in second half of the year will have stronger performance versus the first half of the year. As on the overall ethnic basis, because there are a lot of profitable business there, which already reside in that portfolio, they will continue to do well. And particularly in the wedding periods, they do exceptionally well. But our Tasva investments will perhaps withhold the overall ethnic performance in that?

Vaibhav Agarwal: On a stable-state basis, like we are spending a lot on Tasva and Sabyasachi, all these would be a very high kind of a -- high EBITDA margin business when they mature in the next 2, 3 years, right?

Ashish Dikshit: Sabyasachi is already a higher-margin business. It's stable. It's hard growing, but it's a high-margin business because the brand is very, very profitable. The question is really about Sabyasachi -- is about Tasva, which is where we are making the investment. We need to build awareness. We need to build a network of stores, and it would take time before it becomes a profitable business.

Vaibhav Agarwal: And when do we expect operating leverage to kick in from these investments? By then like in the next 1-1.5 years, like in the second half of FY '24, is it possible? Or it would take much beyond that?

Ashish Dikshit: I think it will take a little beyond that, particularly for the businesses which are starting off and investing. We have given a reasonable sense of where we see the shapes of various businesses of ours, same our external investor presentations that we have made. We are largely going around that line, parts of our businesses are running ahead of that and some parts are slightly behind. But overall, at a portfolio level, we have closer to that overall mix that we had indicated at that point of time.

Vaibhav Agarwal: So in the Investor Day, probably you'll revise the data and come up with the newer figures?

Ashish Dikshit: We will come back at an appropriate time with the revised numbers.

Moderator: Next question is from the line of Ankit Babel from Subhkam Ventures.

Ankit Babel: Sorry for the repetition, but my question again is on the profitability. Now I understand you people are in an investment phase wherein you are investing in various businesses for the long-term growth. But as investors, we would like to know about the profitability part also. Now how long this accelerated investments will continue?

And I understand the core businesses of Madura and Pantaloons, you had given that range of 17% to 19% margins which will come up, but new businesses will continue to drag. But we need to understand the extent of the drag which can come from these new businesses in, say, next 12 months so that we can take an informed call?

Ashish Dikshit: So I understand your concern. And just as you repeated previous question, I would restate the response that I've said. Look at the portfolio that we have, if look at 9-month picture on revenue side and look at the weighted average of the business. Madura business is about INR 5,000 crores run rate for 9 months, so you could extend that to look at the annual run rate. Pantaloons today, INR 3,300 crores. You could extend that to look at what. So about close to INR 12,000 -- INR 11,500 to INR 12,000 crores of our business, there is a reasonably predictable, although quarterly fluctuating, profitability shape that one could predict.

Then there is a part of the business, which is new businesses that we're growing. Currently, it's about all the new businesses put together in terms of revenue, would be operating at a run rate of maybe about INR 1,300 crores, INR 1,400 crores for 9-month period, so about INR 2,000 crores annually. That business is the one which is fluctuating. Most of the one -- investments that are likely to come are in Jaypore -- sorry, in Tasva, a little bit in Jaypore, and finally in TMRW. We have gained an indication of TMRW where it will probably be in the range of INR 20 crores to INR 30 crores that we are currently experiencing this quarter.

It will move a little bit here and there as we acquire new companies and depending on the shape of those businesses. As far as ethnic business is concerned, on an annual level, I think we will come closer to breakeven very soon. And I don't expect that to be a very long-term loss-making business because a large part of that portfolio is already productive. And as Tasva gains come, I think it will also come closer to consuming less investment than what it is doing right now. I don't want to give an exact number for next year, if that's what you're looking for. Unfortunately, that's not...

Ankit Babel: No issues, direction is very good and that's helpful. So just for simplicity and just for our and everyone else's understanding, the figure which you had given, say, 2 years back in your Investor Day, was around INR 2,350 crores of EBITDA by FY '26. I understand a lot of things have changed in the last 2 years. But still, for our simplicity and for our understanding, are you in a position to achieve at least that number in terms of EBITDA in absolute terms? Or you believe that you will miss that? Or you believe you will surpass it? Any idea on that number, sir, because that is already there in the public domain, which you people have declared?

Ashish Dikshit: Yes, I know. We have given in public domain, and therefore, I'm never going to contradict except reaffirming the fact that we have given it. Time has passed since then. We will come back to you, as I mentioned, with a revised set of numbers. What would that number be? I don't want to right now give a response which we may have to make it correct either upward or downward. But let me tell you, we are broadly moving in the direction that we have indicated in that. Differences if any, on revenue side or EBITDA side would only be marginal and would be a function of how each of the new businesses will play out. Our core businesses are fundamentally operating in line with what we have projected.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of the management, we thank all the participants for joining us. 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. Thank you.