



“Aditya Birla Fashion & Retail Limited Q1 FY 2022 Conference Call”

July 30, 2021



**MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER
MR. VISHAK KUMAR – DIRECTOR & CHIEF EXECUTIVE
OFFICER, LIFESTYLE BUSINESS**



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

Moderator:

Ladies and gentlemen, good day, and welcome to the First Quarter of FY 2022 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion of the company's management on Q1 FY 2022 performance, followed by question-and-answer session.

We have with us today, Mr. Ashish Dikshit – Managing Director; Mr. Jagadish Bajaj – CFO; Mr. Vishak Kumar – Director and CEO, Lifestyle Business. 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 risks 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. Jagadish Bajaj. Thank you. And over to you, sir.

Jagadish Bajaj:

Yes. Good evening and welcome to the earnings call of company. The quarter under review has been a difficult quarter for the company due to widespread lockdowns in most part of the company linked to second wave. The business witnessed severe disruptions in the quarter as the bulk of our network was closed. The later part of the June saw a substantial part of the network restarting operations. Despite loss of one full month of operations in this quarter, business was able to recover to 40% of pre-COVID levels, that is of Q1 FY 2022.

With the momentum picking up strongly by the day, we are seeing our July sales coming back to 85% of pre-COVID levels of FY 2022. This is despite partial lockdowns that we are still witnessing in many parts of the country. As on 26 July, out of our 2,150 stores, close to 65% of our total retail network resumed partial operations. With more states gradually opening up, as we heard Maharashtra announcing opening today, we are very confident of an even faster recovery in the coming months. We expect this quarter to be better than the second quarter of the previous year. We believe the pace of vaccination will also improve the coming months which will help rebound consumer optimism strongly.

The revenues of the quarter are not comparable with the previous Q1 or FY 2021 due to the more severe shutdown in Q1 last year. Consolidated revenue for this quarter is Rs. 812 crores compared to Rs. 323 crores in Q1 FY 2021. Due to our extensive focus on our digital initiatives, the e-commerce channel grew to more than 2.5 times over Q1 last year, while our partners' e-commerce has grown tremendously, our Ownbrands.com have also scaled rapidly. The company has decided to make substantial investment in building its digital and e-commerce capability in a bid to strongly pivot its business model around digital. This will be the significant driver of company's growth in coming years and tandem with its strategy of network expansion and product innovation.

Let me take you through some of the initiatives which will help the company leap frog into a more digital company. Roll-out a new multi-brand e-commerce website and app to leverage combined

equity of our brands digitally by Q4 this year; enhance digital customer engagement through social media; expand omni-channel coverage from 1,300 to 2,000 stores and strengthen our digital backend capabilities.

On cost initiatives, with our consistent focus in aligning our rental cost with the scale of the business, we are happy to report that we have been able to achieve lower rented percentage to sales in this quarter versus the same quarter last year. This is due to continued and proportional rent reductions that we managed to get from our landlords for the quarter. We continue to engage in discussions with our landlords for further rent concessions going forward. The company continues to focus on cost optimization as its first priority.

Our other expenses, comprising mainly of store operating expenses, warehousing, logistic and other operating costs were higher by Rs. 70 crores compared to last year, and most of them are variable. And they grew in line with growth in sales this year. Apart from this, we spent Rs. 20 crores more on advertisement and a one-time additional expected credit loss provision of around Rs. 12 crores.

I will now take you through the performance of individual business, starting with our Lifestyle Brands. Lifestyle business continues to focus on taking its brand to more customers, across markets, channels and product categories. We have made significant shifts in our product portfolio last year in line with consumer demand, because of which our casual wear portfolio has grown to 59%. The strength of these brands have been visible right through the pandemic and reported in last two quarter. Even this year, Lifestyle Brands continue to March ahead of its competitive shift by recording rapid recovery in sales post May. The revenue trajectory in July is expected to cross 85% of pre-COVID levels of July 2020. This strong performance is on back of a versatile product portfolio, agile go-to-market and a deep multi-channel distribution strategy.

In line with its continuous focus on delighting customers, business took leaps in transforming itself digitally. E-commerce revenue of business grew by 3 times over last year's levels. The business is India's largest omni-channel branded fashion network with more than thousand stores now enabled for omni-channel retailing. The business continues to press home its advantage and plans to open 400 plus stores during this financial year. Nearly 90% of these stores build around franchisee based asset light model. Out of the total expansion, nearly hundred of new additions will happen in Q2 itself. In line with its product innovation and premiumization strategy, business will enhance its portfolio during this year with the launch of versatile premium product offerings such as Van Heusen flex denims, and a new premium casual wear line in Louis Philippe. During the quarter, revenue of the business was Rs. 435 crores and EBITDA loss was Rs. 57 crores.

Moving on to Pantaloons business. Being a large-format store, Pantaloon took longer to resume operations as a large chunk of the network is in malls, which took longer to open. However, that did not deter Pantaloons in reaching out to its consumers through various digital modes, serving their fashion needs. Pantaloons accelerated its e-commerce presence with average daily doubling

on pantaloons.com which was launched this year. Before I move to the various initiatives, the revenues for the quarter for Pantaloons business was Rs. 220 crores and EBITDA loss was Rs. 55 crores. This year marks a landmark here as Pantaloons embark on executing key elements of its growth strategy. Pantaloons used last year to refresh all aspects of the consumer pricing assets. In line with this, Pantaloons has launched a refreshed and contemporary new retail identity which significantly elevates brand imagery and consumer experience.

In line with its strategy to expand consumer wallet share through extensions into newer categories, Pantaloons will build on its newly launched categories such as home, sarees, infant wear, and bolster the offering through introduction of new brands in premium ethnic wear and street loungewear. Pantaloons will execute one of its largest ever expansion by opening more than 60 new stores this year. Nearly 20 stores are ready for launch in next 30 days. Finally, in line with emerging consumer habits, the business is launching a new website and app for its captive digital channel pantaloons.com. In summary, business is well positioned to leverage its strong operating model which had already started to show strong profitability and incremental return on capital by expanding consumers, product categories and channels.

Innerwear and international brand. The innerwear, active wear and athleisure business wrote the strong demand for such contextual products during last year. Consistently building on the momentum, the business this quarter grew more than twice of last year levels. The products are now available across 23,000 plus trade outlets and over 50 EBOs. E-commerce posted significant growth over last year with the scale of business growing four-fold. The business is looking to aggressively expand its EBO footprint with doubling the EBO count by end of this year. Youth western fashion and super premium brands have continued to do well and have now established their profitability. Revenues have grown to 4 times of last year sales and Collective.in has performed exceptionally well, gaining 5 times of last year's sales on website.

Ethnic business. We have executed our comprehensive strategy to build a complete portfolio of strong ethnic wear brands across multiple occasions and price points. Apart from growing the existing brands in collaboration with designer partners, we are all set to launch two premium ethnic wear brand in coming quarters; one, men's premium ethnic brand; and two, premium women's ethnic wear brand in next quarter or so. The ethnic business partnership with Sabyasachi and Tarun Tahiliani have just begun. The Jaypore business continues to do well online. In parallel, we will build our offline presence by opening 10 stores during the year.

Coming to the debt. The net debt of the company as of 30 June 2021, is Rs. 1,200 crores due to losses incurred in Q1 and rise in working capital requirements in line with sales recovery last year. As sales recover in coming months and business operations assume normalcy, we expect the debt situation to improve over current level.



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

Finally, to conclude, through the sleeve of initiatives and strategic interventions last year, we believe the company has come out much stronger and is well positioned to leverage from large opportunities that Indian fashion sector offers. Thanks, and we are open to questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Hi, good evening. Couple of questions from my end. Can you throw some more light on the gross margins in the quarter and why they are sort of lower sequentially? And second question, on the last point you made on debt, we it's gone up because of obviously operations being shut and working capital. But when do you expect debt to say come back to 4Q levels? Any sort of timeline assuming there's no further lockdowns, of course.

Ashish Dikshit: On the gross margin, Aditya, the business has been pretty stable and strong because this quarter doesn't have too much mark down which is the first quarter. The lower gross margin is primarily due to absorption of manufacturing cost because manufacturing operations were shut for about 40, 45 days in the month of May and parts of April and June, and that's the reason why the manufacturing cost had to be absorbed in that and that's why it's appearing in the gross margin. There's no other reason other than that.

Aditya Soman: Understand. So, there's no further discounting, right?

Ashish Dikshit: No, in fact, it's much lower discounting across businesses because there is no reason to really create leverage of discounting. I think consumer footfall was what it was. No discounting in the industry, yes. Some of our gross margin is a mix of channel mix also. Different channels operate at different level of sales realization and therefore, there is an element of gross margin movement, which happens depending on the channel movement, but not from the discounting itself.

On the debt level, Aditya, I think if recoveries remain what it is showing early signs and if there is no third wave, then I think we should be able to sort of record strong recovery by Q3. It's hard to put a number to it, and I wouldn't want to give a number right now. But clearly, I think as the recovery comes back and if the cash flows remain strong, if the normalcy is restored and stays till Q3, I think we will come back

Aditya Soman: Understand. And since we are seeing already, I mean, in July you said it's back to 80% to 85%, are we already seeing an improvement in cash levels or its probably

Ashish Dikshit: Comment on 85% was regarding Lifestyle brands. The Pantaloons business is relatively lower, it's about 70% odd. But definitely, I think as retail opens up, large part of this business is retail, which is where the cash flows immediately come in, your receivables is practically zero days. So, cash flows have started to come in strongly in July itself.



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

- Moderator:** Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.
- Aliasgar Shakir:** Yes. Basically, I was trying to see the reconciliation of the debt increase from the last quarter. So, how much has gone into inventory and how much has gone into loss?
- Jagdish Bajaj:** Ashish, the net working capital has gone by Rs. 200 crores and another Rs. 350 crores has gone into...
- Ashish Dikshit:** No, how much is in inventory?
- Jagdish Bajaj:** Inventory, and proceeds
- Ashish Dikshit:** So, it's mostly the losses for the quarter and the NWC has gone up by Rs. 200 crores.
- Aliasgar Shakir:** Okay. Got it. This is helpful. Second thing, I was just wanting to understand your strategy on Pantaloons. We are looking to add 60 stores, how are we seeing at franchising these stores? Are we looking to do large portions with franchisee or are we still looking to do largely in-house through our own stores?
- Ashish Dikshit:** Very large format stores are not amenable to franchising beyond a point. We are perhaps one of the few retailers which has 15% to 20% of a mix which goes through franchising. We will keep the same level. I don't think we would want to increase the level of franchising.
- Aliasgar Shakir:** coming from the backdrop that some of our peers have a very reasonable portion of now larger stores also coming through franchisee. So, is there an operational issue that we face that makes you kind of restrict your franchising, because obviously Lifestyle already is significantly on franchisee? Or what else do you think is a hurdle
- Ashish Dikshit:** No, I think at 20% with the size of the network, Pantaloons is one of the largest franchise businesses. We believe fundamentally retail is about running stores, and unlike brand business, where there are many other drivers on what you bring to the table. To that extent, we don't want to run the only skill that sort of only core art of retailer is to manage and run stores well. I think, beyond 15%, 20%, we don't think it's healthy. Also, from return on capital point of view, as we had shown in our presentation, if you recall, you can go back and look at it, the ROC on Pantaloons stores is extremely good at store level. And therefore, it also deserves the capital. We feel in terms of managing consumer experience, standards of operation which are important pieces for a retailer, we wouldn't want to go too much on the other side on this issue.
- Aliasgar Shakir:** Understood. And just last question on the Ethnic Wear. You mentioned that there two new launches in the Ethnic Wear, can you just throw some more color, are they largely in-house or are they through some of our partnerships with some of the acquisition that we have done? So, what price point, what category, and what kind of investments and growth we are building here?

Ashish Dikshit:

Okay. So, in Jagdish's speech, he had called out two new launches that we are talking about. The first one is Premium Men's Ethnic Wear, which is through a partnership, but this is the company in which we hold 80% stake and Tarun Tahiliani holds 20% stake. The purpose of that partnership is to take his design skill, but launch it in an affordable premium segment for menswear brand. That is due to be launched in October and we expect to open between six to ten stores in the next six to eight months, which is by the end of this year. That's as we said in our announcement of the partnership, we plan to open about 150 stores over next three to four years in that business. So, it will be five years in that business, so that will be a very large play in the affordable Premium Men's segment, largely built around wedding and such occasions, festivals. So, that's number one.

The number two brand that Jagdish had mentioned in the speech was the Premium Ethnic Wear line. As you know, inside Pantaloons stores, we sell a huge amount of Ethnic wear at the premium end, largely through external brands. We have therefore decided to launch one premium brand, which will start in Pantaloons with probably 40, 50 stores of Pantaloons and is getting launched this September, so we are just a couple of months away from that. And we will also take it out and launch 10 to 15 stores this year to test out its external format. So, these are two brands which will play in a very affordable segment of menswear and women's wear. The women's wear line will be more daily wear and office wear and other such occasions, not meant for bridal or very premium occasions while the menswear line is created more around wedding and festivals. But again, it's in affordable range. Both these are scalable opportunities and ethnic wear.

Aliasgar Shakir:

Got it. And how much investments are we expecting here over the next two, three years?

Ashish Dikshit:

So, Ali, we will have to see. I think at this stage, we have put in capital of around Rs. 70 odd crores in that business when we invested in that business. But as we scale up, we will have to figure out. We feel both these modules are very unlike previous discussion on Pantaloons stores, both these models once established are very, very franchisable because this is a store format which we do in Lifestyle brands. And once we crack this format, these will be franchisable. So, I suspect once we establish the model, I think the capital needs will come down significantly.

Moderator:

Sir, the line for the participant dropped, we move on to the next participant. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu:

Ashish, got a couple of interrelated questions, but before that if I can make a request to you to reconsider telling us what are the pre IndAS 116 numbers, because I personally, for one, find it very, very difficult to fathom what is really going on in the business from a margin perspective with these numbers. And also considering that your FY 2026 target that you have stated on the Investor Day, that is really based on pre-IndAS numbers, right? So, I guess if we have to track the progress of that, I think the reverts to a pre-IndAS number would be very, very helpful. So, I would request you to consider that. So, that's one bit if I can put on the card.

Now, coming to the question. If I look at the drop in your turnover versus the losses that happened this particular quarter, right? And if I look at Slide 11, you are really talking about a turnover of about Rs. 435 crores for the Lifestyle business, and Pantaloons is about Rs. 220 crores. But with half the turnover, both these businesses have actually made the same amount of losses, which is Rs. 57 crores for lifestyle and Rs. 55 crores for Pantaloons. Can you put some perspective into this because I would think that the Pantaloons would be a more higher operating leverage kind of a business as compared to Lifestyle brands?

Ashish Dikshit:

Yes, Richard. So, you can therefore see how the losses in Pantaloons are much higher as a percentage of revenue if you were to see compared to Rs. 220 crores of revenue, the loss percentage is much higher simply because of the fixed cost structure that retailer has more prominent despite all the savings and rent concessions. It remains a fundamental fixed cost structure. And that's why the losses numbers are much higher as the percentage of sales. In Lifestyle brands, also to a certain extent, 55%, 60% of our business is retail, but the share of retail is not entirely fixed cost, there is a part of variable cost through franchise network and that's a significant part of our business. To that extent, the losses are less compared to it. But if you were to look at our overall overhead, and I presume you are talking with respect to Q1 FY 2021 or are you talking of Q4?

Richard Liu:

Right now I am just talking about Q1 FY 2022 in absolute terms Ashish, because with 2x the turnover in Lifestyle, you still incurred as much loss as Pantaloons did with half the turnover. My question is that the Lifestyle is...

Ashish Dikshit:

Are you talking about comparing profits or losses between the two businesses?

Richard Liu:

Between the two businesses, Ashish.

Ashish Dikshit:

In the two quarters?

Richard Liu:

Between the two businesses in the same quarter, so let me just repeat. I mean, Pantaloons has about Rs. 220 crores of turnover for this quarter Q1 FY 2022, and made a loss of about Rs. 55 crores. Lifestyle has 2x the turnover of Pantaloons which is Rs. 435 crores and still landed up making as high a loss as Pantaloons. My question is that, if the level of revenue was significantly higher, should not the losses have been much lower than Pantaloons?

Ashish Dikshit:

So, there are two, to three elements. One is, Lifestyle brand runs a large manufacturing operation. As you know, close to 40%, 50% of our products we manufacture ourselves, we have nine factories which have a large cost in that. So, that cost absorption is unique to Lifestyle brand in their comparison, Pantaloons has no fixed cost on that. And this has just happened maybe second time in last 20 years when we had to shut our factories because of COVID related reasons. So, there is a one-time large impact of 40, 45 days of factory overhead, which has sort of taken away this quarter performance as far as Lifestyle brand is considered, if you were to compare the two operating models. Barring that, that number would have been much lower, but we had to take that

cost in Lifestyle brands. And that sort of exaggerated the losses of Lifestyle brands, it has no impact in Pantaloons because of the purely variable and buy and sell model.

There are few other factors which is advertising, which also because Lifestyle brands revenues have been strong simply because there is a lot of support, E-commerce revenue has been strong. So, there is, as Jagdish mentioned, about Rs. 20 crores more additional advertising and large part of it is Lifestyle versus Pantaloons. So, some of the fixed costs, whether it's factory overheads or advertising, are differentially played out for this quarter specifically, between Lifestyle brands and Pantaloons, and that's showing up in the difference in performance.

Richard Liu:

Okay. And now if I compare it Y-on-Y Ashish, so you did about Rs. 190 crores of turnover in Q1 last year, in the Lifestyle brand; and this year, it is about to Rs. 435 crores, right? So, it is more than double. But yet, if I look at the EBITDA losses that you reported, that has come down by only Rs. 10 crores, Rs. 68 crores last year, Rs. 57 crores this year. I mean, why would it be so, especially since, if I remember correctly, last year Q1 you had a very, very low gross margin of about 41% at the blended level, and this year, it is much higher at about 50%.

Ashish Dikshit:

So, I think, again, you need to look at as a percentage of that and there is a fixed cost impact that happens, there is increase in advertising that's got played out, as I had said. Last year, we had to cut the costs completely because we were very uncertain. This year, if you look at it, we are talking already about 80%, 85% of revenue. So, a lot of our investments are back, whether it is in advertising, whether it is scale of operations or some of the costs are variable costs that have gone up, the investments in e-commerce or even in terms of the fixed overheads under absorption which was quite severe. It was I think, I don't know the number for last year similar quarter, it must have been probably slightly lower than that, but that's the reason. We can give you probably a closer tally, maybe separately Jagdish can take you through on the two numbers. Jagdish, is there anything you want to add to that?

Jagdish Bajaj:

No, it's okay, Ashish. Actually, it is unabsorbed fixed overhead...

Ashish Dikshit:

So, that's a large part. I mean, unabsorbed fixed overhead is a very large part for this quarter.

Richard Liu:

Okay. Ashish, I'll take it up to Jagdish. Thank you for that. I would just once again request you to consider the pre and post IndAS thing, just to help us understand this better. Because it's absolutely difficult to fathom what's really going on with the numbers based on these post IndAS numbers. Thank you very much. Wish you all the best.

Ashish Dikshit:

Richard, we will come back to it. I mean, we thought that we should consistently follow what gets reported and explain that and rest of the industry. We were the only company we continue to show post IndAS a year after. But we realized that most people in the industry have moved on. So, we recorded your request. Let's see, it's always difficult to keep two accounts and tallying between them. But let's see, if there is a smart way to be able to explain both numbers, I think we will try and do that.



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

- Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Yes. Sir, three questions from my end. First, on the 400 stores target that we have laid out for the Lifestyle brands, how many of them would approximately be Peter England, Fred and Allen Solly format?
- Jagadish Bajaj:** So, roughly about 150 stores would be Peter England and Fred, and about 50 stores would be Allen Solly brand.
- Nihal Jham:** That's helpful. The second part was on the new Ethnic Wear brand we are launching, I am talking about the second one. It is clear on the first part that the premium brands were ethnic. The second one that we are launching initially inside Pantaloon, is that targeted only towards women to be sure of that aspect first?
- Ashish Dikshit:** Sorry, I missed that question. Can you repeat it?
- Nihal Jham:** Yes. I was asking that for the second ethnic wear brand that you are planning to launch in October, which is going to start off with Pantaloons 40, 50 store format pilot, is that only men's or women's ethnic wear to start with?
- Ashish Dikshit:** Yes, that's meant for only women's ethnic wear.
- Nihal Jham:** And you said that, it would be more of regular wear rather than it being closer to bridal or the high-end format in ethnic wear.
- Ashish Dikshit:** Yes. It will be at the meet of the market, at the largest segment of the market, which is mid-premium to premium. And that's where Pantaloons has strong customer franchise right now. Most of that business is currently being serviced by external brands and we feel Pantaloons has the design and merchandise capability to fill that space.
- Nihal Jham:** Absolutely. The only thought or understanding was that maybe Pantaloons had a high share of collections of women's ethnic which was targeted at these price points, maybe starting at Rs. 500. So, is it that this is going to be more premium regular wear, in addition to what we were already serving?
- Ashish Dikshit:** No, you will be surprised the amount of premium ethnic wear that Pantaloons sells; between Rs. 1,200, Rs. 1,500, and Rs. 2,000, it's largely done through external brands. And it's the increasing share of private label and therefore this brand is a premium brand not competing at Rs. 500, Rs. 8,000, but more at Rs. 1,500, Rs. 2,000, Rs. 2,500.
- Nihal Jham:** Understood. That's helpful. Just one last question on the innerwear side. What I notice is that last year when we ended, we had around 28,000 outlets in innerwear, I don't know, the presentation says currently we are having a reach of 23,000. So, I just wanted to understand, is that a reduction in the number of touch points you are having on the innerwear side?



Aditya Birla Fashion & Retail Limited
July 30, 2021

- Ashish Dikshit:** No, what had happened is, earlier we used to report men's and women's separately and the team used to add up those numbers. This year, we did a reconciliation of common outlets and we realized actually we should report one number where one outlet appears once. Earlier, we were reporting separately for men and women and therefore have used to add up the number, very often, these outlets were common.
- Nihal Jham:** That is helpful. And exclusively for women, what would be the touch base out of these 23,000?
- Ashish Dikshit:** I don't have the number, but it will be definitely north of 5,000, 6,000.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** My first question pertains to debt type. I missed the number. Debt of Rs. 1,200 crores was as on June or as on today?
- Ashish Dikshit:** June.
- Tejas Shah:** So, this is before the last tranche of rights money would have come in?
- Ashish Dikshit:** Yes, yes.
- Tejas Shah:** Okay. Second, Ashish, aspirationally and philosophically, just wanted to understand our view on debt from here on because we have just come out from a very bad cycle pandemic and the debt also when we entered the cycle was very high. And obviously, with dilution and interventions that we made of strategic investments, we brought it down to very good level. Now, as we again come into growth phase, incrementally, would you like to deploy more capital to chase growth first or would you like to settle the debt at certain level and then chase growth? So, debt number will be a goal seek function or it will be a residual number for us.
- Ashish Dikshit:** I think we'll have to stay balanced on that, Tejas. I wouldn't take one position or the other. I think we need to stay balanced. Remember, we have now a portfolio where there are multiple opportunities that we are chasing. If you look at the opportunities for Lifestyle brands, Pantaloons, innerwear, the new ethnic business that we are building, there is an acceleration of digital play that's going on. We feel very well positioned. In fact, probably the only company in the industry which has such a wide portfolio and such a large canvas to play on. So, we are very confident of future. And therefore, we don't want to also start with debt as an operating constraint. But we also understand the level of limits at which we need to operate. We feel very comfortable in our current sense of projection on where, let's say, debt-to-EBITDA will play a year from now. This year is hard to predict, but whichever way it goes, even if it gets a little worse, we will still be in a reasonably good debt-to-EBITDA position as far as FY 2023 is concerned. So, I wouldn't say that we don't care about debt, I think it's important, we need to keep a ratio and that in mind. But really, we are very well positioned to accelerate, we are well-positioned competitively, the portfolio of our brands, the opportunity in front of us, so that remains sort of a North Star for us.



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

- Tejas Shah:** Understood. But if you can give an objective number there on debt-to-EBITDA, where would you like to stop that number?
- Ashish Dikshit:** So, see, in past we have gone up to 2.73, but we would be more comfortable between 1 to 2 at best, and that's really the maximum range that we should look at.
- Tejas Shah:** Sure. Second, on demand, you mentioned in the PPD that recovery, we are expecting full recovery by festive season. But hypothetically, if this quarter has to open up and as Mr. Bajaj also said that today Maharashtra has also given some good news on opening up. Hypothetically, if we have to open up from today or next week onwards, do you think that pent-up element can actually bring back recovery faster than the festive quarter? Or you believe that the underlying economic environment needs festive push to go back to normalcy?
- Ashish Dikshit:** No, there is certain element of pent-up demand which will show up in this quarter also. But like every year, I think the real boost and trigger to demand uplift happens during festive period. This time, it's got pushed a little bit in terms of closer to October than September. And therefore, to that extent month wise it may sort of move over more to Q3. But I do believe that even quarter two, if there is no third wave, I think we will have a reasonably good recovery. But for a full recovery with the combination of all stores operating fully, because even today if you look at it, Tejas, a lot of stores are operating on weekdays, there are stores which need to shut early in the evening, so we are operating with extremely sort of difficult retail environment in that sense.
- Tejas Shah:** Sure. And the last one on Lifestyle brand, recovery in wholesale is slower than the system level recovery there, so any insights there to share?
- Jagadish Bajaj:** Yes. Tejas, I think it's always been a slight lag between smaller formats of retail recovering and then larger formats of retail recovering. So, there is that bit of a lag. In fact, if I were to tell you in July, it's a lot more significant recovery in the wholesale part as well, okay? So, there is just that little bit in the Q1 piece, which in the end of Q1 period. But maybe I would say the lag is about a month between wholesale and retail.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead. Please go ahead.
- Ankit Kedia:** Sir, my first question is on your new e-commerce strategy. In the presentation, you have alluded on a multi-brand app. A couple of quarters back, you were talking of launching individual brand apps for the Madura brands. So, now, we have separate loyalty programs for the four brands as well. So, how does the change in strategy come about now? And will it also include Pantaloons on all the other international brands as well?
- Ashish Dikshit:** So, first part, we remain focused on individual brand, so we are not planning to launch a platform where all brand sell across each other, but we are looking for an architecture where consumer can easily shop from one brand to another and switch over to that. But within each, he will have very

unique and deep experience of that brand. Because at the end of the day, we are a branded company and our biggest strength is the brand. So, the experience will be rich and unique and distinctive for each brand, but it will allow consumers to swap across brand as we move forward. At this stage, the idea is to take Lifestyle brands and similar brands next stage will get extended where some of the international brands can get added.

The current intent is to build that and have a second platform for Pantaloons, because that's more transaction heavy business while the nature of the brands is more content driven, engagement driven. So, there is a slight nature in the way architecture plays out. Therefore, at this stage, two points I would make, a separate pantaloons.com and a separate brand.com. Brand.com, although multiple brands is what you can access, but it's not that you can shop, let's say, trousers of all one brand together. This is not a multi brand site in that sense, it's a combination of single brand sites coming together where we get synergy of data, consumer traffic, consumer also gets option to switch across brands. Some of the details are still to be worked around loyalty and other pieces, I think that will unfold as we go forward.

Ankit Kedia:

Sir, my second was on launching e-commerce only brands. So, could you talk a bit on that as well, which category, what price point are we looking at? And will it also be on our own app or purely from a market place perspective?

Ashish Dikshit:

So, first of all, in terms of where it will be, while it can be on our own app and it will eventually be. I think the opportunity that we are seeing is, our ability to create consumer facing merchandise, design is our strength. And in partnership with large platforms who have consumers, we find many white spaces where this can be done. We look at it in women's fashion, in some of the casual segments of the market. But the list of where such white spaces is larger and we are in constant engagement, we will build a reasonably large business, which will be digital heavy. So, the proposition, the price structure, the cost structure, gross margin structure, et cetera, will be designed for pure e-commerce, and that's really the thought. I think there are multiple white spaces, we are starting to look at one or two of them now. I think by end of the year, we will start to see the impact of these.

Ankit Kedia:

And sir, my last question is on the Pantaloons. In the last two years, we have taken people to Pantaloons, Home, Saree, Kids and now we are talking of a premium women's wear brand. So, we would have also removed some other low throughput brands out of Pantaloons. So, the question is, during the pilot phase and certain 40, 50 lows, how is the response of these new categories? How many months will you see that throughput coming back to the normalized levels of the company averages, if you can share some highlights?

Ashish Dikshit:

Okay. So, many of these categories Home, Sarees, were launched just before COVID. And therefore, we haven't seen even one full season of stable performance, because Pantaloons has been more affected right through last 15, 16 months. So, I would say, at this stage while we have launched many of these categories and we are also launching some brands and replace, we are

doing both things, we are rationalizing our internal brand architecture to simplify it for customers and we are, of course, replacing the lower throughput, low productivity, lower profitable external brands. So, both these are getting played out at this point of time. I don't think today we are in a position to definitively comment on how they are performing, because we need to give them at least one season. And hopefully, this coming season will be a good play, where you would have sarees in 50, 50 stores, home in 50, 60 stores, if not more.

As far as new premium brand is concerned, again, it is going to over a period of time take share from existing external brands that we have, because Pantaloons is a large franchise, and a very large business of premium women's ethnic wear. But we have not created our own brand, this is primarily a step to increase the private label share in.

Moderator: Thank you. The next question is from the line of Priyam Khimawat from Infinity Alternatives. Please go ahead.

Priyam Khimawat: Firstly, on our EBITDA margin at the company level going forward, so if I look at the last four, six quarter, you have almost closed out 30 to 35 loss-making Pantaloons, and 150 odd loss making stores. So, with these stores not being a drag on profitability anymore and with the cost rejig which you would have done on account of the pandemic, shouldn't our pre-IndAS EBITDA margin of the company level structurally improve by say, 100-150 basis points and reach to the 10% level mark whenever we achieve full recovery? What is your take on that?

Ashish Dikshit: So, I think it's a very broad question and I wouldn't want to speculate right now, because there are multiple elements in this. You are absolutely right, what we have done in last 15 months is pushed very hard to structurally correct the cost of unviable stores. Some places, we have got a deal which keeps us going and not just for this period but going forward. In some cases, we couldn't get that and therefore we have been quite sharp in terms of shutting or pruning that part of the network. As we emerge from the whole situation going forward, obviously, we are looking at intrinsically both some of the structural costs at an operating level coming down, as well as the health of network improving. So, I think because it's so phased and differentially sort of timed, it's hard for me to put the number right now on that.

If you have seen, if you look at our businesses, our Lifestyle brand has been reasonably consistent in the margin profile, Pantaloons for last pre-COVID, for every single year for previous three years was delivering between 100 to 150 basis point improvements in margin, and we were close to about 8% when we ended December of FY 2020. And then we were quite hopeful that that performance will get us to 10% there. Lifestyle brands is already above that and fairly consistent and robust on that. I think amongst our loss-making businesses if you know go back, Forever21 which used to lose at its peak about Rs. 35 crores to Rs. 40 crores, has become breakeven business. Innerwear where losses were initially high continues to be at this point of time hasn't reached breakeven, but that's primarily because of COVID effect. I think a year from now that will also come back.



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

So, if you look at therefore the various elements of individual businesses, the profit profile was improving sharply and I think it will continue to improve as soon as recovery comes back. Now, it's hard for us to put a number right now on when that could happen.

Priyam Khimawat: Okay. So, exactly taking what you said, when you do a basic back of the envelope calculation of all our businesses, if the COVID third wave were not to hit us and when we reach Rs. 10,000 crores revenue mark, would it be safe to assume Rs. 1,000 crores to Rs. 1,100 crores pre-IndAS EBITDA, is that what you are working towards?

Ashish Dikshit: Definitely. Our aspiration is, because we think for a company, with our profile, with our portfolio of businesses, Rs. 1,000 crores EBITDA is not a number which is out of sight. And this is pre-IndAS numbers I presume you are referring to?

Priyam Khimawat: Yes.

Ashish Dikshit: It's not out of reach and that's something that when normalcy restores, will definitely be one of the immediate targets that we will have.

Priyam Khimawat: Okay. And my second question is on the size of our innerwear and athleisure business right now. With unorganized players still facing the heat especially in the segment, our growth seems to be a little tad underwhelming. So, what do you see like, when we look at the two-three year perspective on this, what is the size of our current innerwear business and how do we see it going forward from here?

Ashish Dikshit: So, I think because of COVID, our momentum sort of got stopped at the peak of where the journey was beginning. As I have said, our first target was to get to Rs. 500 crores, realistically, we would have got there by now if things were normal. But I think that's the underlying size of the business, although, it's not showing up in number at that level. Our immediate next goal in next two years would be to target closer to Rs. 1,000 crores because that's the next number that we have. We know how to get there, and we know what it would take to get there, and I think we will have to execute on that. So, that's our immediate Rs. 500 crores, and I think two years from now, about Rs. 1,000 crores is the goal that we have for that business.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Sir, my first question is with respect to our rental cost. Sir, of course, we have received few concessions in this quarter and also we will receive some in the next, that is 2Q of FY 2022. I just wanted to understand from a normalized basis, given that we don't receive any concessions and the demand is normal, what would be our quarterly run rate for a rental cost that will occur in this year or probably going ahead again?



Aditya Birla Fashion & Retail Limited
July 30, 2021

- Ashish Dikshit:** So, I think on a base, and these are slightly rounded numbers, we are a network of about Rs. 300 crores rental, Jagdish, for a quarter?
- Jagdish Bajaj:** Yes.
- Ashish Dikshit:** So, it's about Rs. 1,100, Rs. 1,200 crores is the rental that comes in. It comes largely as fixed, but there are variable components of that. But if you were to put one number, it will be around that. This is without any rebate and base level of number.
- Jagdish Bajaj:** Despite increase 2x and 4x of revenue, we could reduce rent number
- Ashish Dikshit:** That is the question or you want to know the rent as a stage of sales?
- Vikas Jain:** No, sir. You answered my question with respect of the absolute amount. Sir, my second question is also with respect to our finance cost. So, this quarter, you did Rs. 85 crores. Out of that, can you split what was actual interest cost or was there some element of the lease into it?
- Jagdish Bajaj:** It includes the lease impact also. Otherwise, the effective interest rate in the business is around 7.75%.
- Vikas Jain:** And what would be the absolute amount this quarter?
- Jagdish Bajaj:** This quarter, I have to split up, again I have to go into detail. But I have given you the number, Rs. 1,200 crores is my debt, which has built up in this quarter month-on-month.
- Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.
- Devanshu Bansal:** Just a small clarification first. This 85% recovery that you have indicated for July, is it for stores that are open or a system-wide recovery?
- Ashish Dikshit:** No, this is for the full business, it's not stores, nothing, this is for full Lifestyle business.
- Devanshu Bansal:** Sir, you were saying that 65% network is open and with that 65% we have seen 85% recovery in the company?
- Ashish Dikshit:** No, you are wrong, more than 85% of network is open. But the numbers that we have indicated is the total number across all channels. So, obviously, the share of e-commerce, retail, all channels put together, that's the number.
- Devanshu Bansal:** Okay. And secondly for ethnic wear, currently, based on industry performance, the recovery in this category has been relatively slower. So, in terms of consumer preference in women category where ethnic has a larger share at about 70%, what according to you are the drivers for this category to maintain this higher share and continue growing faster?

- Ashish Dikshit:** So, I think the underlying reason is like most categories, but let me specifically talk about women's ethnic wear. What are the usage? There is a regular daily usage that women does at home or for casual occasions. There is an office wear usage in ethnic wear and there is a festival, going out, those kind of usage. As you can make out, in last 12 to 15 months, both festivity has been subdued and going out has been constrained. And therefore, there are strong reasons why, from the demand point of view, this category has suffered in the medium term. I think, as normalcy comes back, all the three elements of it, which is women going to work, women buying clothes for festivals and special occasions or for going out will come back in a strong way. So, we think, it's quite directly linked to how last 15 months have played out in the life of women or generally more consumers in absence of occasions.
- Devanshu Bansal:** Sir, do we maintain that industry percentage of 70% which this category can retain this much and even grow the share?
- Ashish Dikshit:** Sorry, I didn't get your question. What's the point?
- Devanshu Bansal:** I am saying Ethnic Wear is currently 70% in women's wear. So, with these growth drivers, this amount of market share is sustainable?
- Ashish Dikshit:** So, two parts. One is, there is undeniable rapid growth of women's western wear, but it's happening at the lowest end of the market. Women are buying cheap, young girls buying cheap tops, and skirts and so on. So, there is a large growth of women's western wear at the bottom end of the market. On the ethnic side, however, the value equation is changing, people are paying more to buy ethnic wear and less for western wear. So, there are basically counter factors, there is a share of women's wear that will grow in western, but will happen at lower price point, probably the value share may not grow as much. Although, organically, I think over a longer period of time that will grow from the current levels. But what it has done therefore because of increase in value in ethnic wear, as more and more better brands, better product, designer led products, special occasion, lot of interest in design and merchandising in this category has grown, women are finding that they pay a lot more for ethnic wear today than western wear, and I think there is therefore a value migrations upwards which is happening. And that perhaps may allow that share to drop much slower than what was anticipated earlier.
- Moderator:** Thank you. Ladies and gentleman, we will take the final question from the line of Niket Shah from Motilal Oswal Mutual Fund. Please go ahead.
- Niket Shah:** Just a couple of questions. You mentioned about ethnic wear launch for women as well. Is it going to be the price point of Rs. 1,000 to Rs. 3,000, somewhere where the likes of TCN operate? That's the first question. And the second question is, when you mentioned 85% of the pre-COVID levels being achieved in July, are you referring to the July base of last year when you said 85% of pre-COVID level?



*Aditya Birla Fashion & Retail Limited
July 30, 2021*

Ashish Dikshit: Okay. So, two questions, the first question, what would be the price point of the Premium Ethnic Wear line, this would be more between Rs. 1,500, Rs. 2,000, Rs. 3,000 -- Rs. 2,500, Rs. 3,000, maybe some entry price point product maybe Rs. 1200, Rs. 1300. So, it's fits right at the heart of the business. The second question on, when I mentioned 85% business recovery in Lifestyle brand, that is with reference to pre-COVID times, which means July 2019, which is pre-COVID levels.

Niket Shah: Okay, got it. And one final question is, given the fact that your e-commerce sales is moving up, you would have a lot of data offline as well as online now coming true, what is the strategy on cross selling some of your products for multiple customers because you have a very rich base of database now in terms of their preference and so on and so forth?

Ashish Dikshit: So, I think you will hear more about it as we sort of progress on our multi-brand app. But most of this consumer data is consolidated at a central server. So, our customer knowledge is very deep. We know if somebody has bought across our brands, product categories, which he or she buys from one brand, and how many brands does she have in a portfolio and so on. So, there's a lot of opportunity in that. I think, because our share of e-commerce and our overall revenue in e-commerce at brand.com was too small, we were not leveraging some of these things. In last 12 to 15 months, we had picked up both capability, IP architectures and ways of actually understanding this data better. When we have our websites and apps fully in place where a lot of these cross-selling and sort of upgrading opportunities will come up, I think that's when it will get played out fully. We are still doing it, each of our brands have access to the full data, it's consolidated and centralized. But I think the real effect of it will start playing out in six to twelve months from now, when there is an enabling technology infrastructure behind it.

Niket Shah: Got it. And if I may just squeeze in one more question on Ethnic. Would it be possible for you to give us some sense on medium-term guidance on what margins can we make either pre-IndAS, post-IndAS, whichever number you want to give it at some reasonable scale? Because what we generally thought that this would be a reasonable business obviously, because of COVID it is that way. So, some sense on that would be helpful.

Ashish Dikshit: Which business? I missed it.

Niket Shah: Ethnic business.

Ashish Dikshit: So, see, we have a wide profile of Ethnic businesses. There are established ethnic business at super premium level, which is Sabyasachi and Tarun and all that. I mean, pre COVID, they were very profitable businesses though very, very small. So, I will leave that aside, I think they will come back to where they are, which is a reasonably healthy profitability, but they will sort of swing the needle for a company of our size. So, it will come down to these two brands that I talked about. In terms of our men's ethnic wear brand, we expect we should get to double-digit number in three years from now, because we have been investing to build scale and sort of build equity for that brand, and that's what it will take. I think, we will get to healthy double digit in this business,



Aditya Birla Fashion & Retail Limited
July 30, 2021

because in many ways this business is less susceptible to fashion, and therefore obsolescence is much lower. We will still need to invest to build the brand, build customer franchise, etc, it's a one player market in which we will have to create presence. We are quite confident that this will be a profitable business.

On the women's wear side, we are playing both sides which is to build the brand inside Pantaloons and improve gross margins of Pantaloons through increased share private label, that of course is a sort of clear strategy. As we go out, we will see how profitable is it and the retail expansion on the physical side as exclusive store will be managed depending on the profitability that plays out in that. So, that we will have to evaluate more closely as we go along. And depending on how well we find the intrinsic profitability, we will scale that business. Otherwise, it can always remain as a Pantaloons-led brand.

Niket Shah:

Sure. But on an overall basis, on a consolidated ethnic revenue, we wouldn't have any negative EBITDA? Because the reason I am asking this, so if you look at historically, we had some or the other way where we had some drag coming from some business, whether it is Inner wear in the past, and now when innerwear is likely to breakeven or move to profitable territory, we now have ethnic. So, safe to assume that everything will become profitable, depends on margins. I mean, somewhere it can be 2% to 3% margin to start with, and then over a period of time moving to double digit in the next year as you guided, but everything will be profitable. There will not be any drag from any businesses over the medium term.

Ashish Dikshit:

So, I would hesitate to make that point for immediate term. I think, even as we recover, let's say, FY 2023, I think our new ethnic business, whether its menswear brand or the existing business, which is Jaypore. And I would just call out these two, I think others will be profitable. These two will probably take a year or two to turn around. So, we will have losses for two in these businesses.

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.