



“Aditya Birla Fashion And Retail Limited Q4 FY-21 Earnings Conference Call”

May 28, 2021



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MS. SANGEETA PENDURKAR – DIRECTOR & CEO,
PANTALOONS**



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Moderator:

Ladies and gentlemen good day and welcome to Fourth Quarter and FY21 Earnings Conference Call of Aditya Birla Fashion & Retail Limited. The call will begin with the brief discussion of the company's management on the Fourth Quarter FY21 and Full Year FY21 performance followed by the question-and-answer session. We have with us today Mr. Ashish Dikshit – Managing Director, Mr. Jagadish Bajaj – CFO, Mr. Vishak Kumar – Director & CEO, Lifestyle Business, Ms. Sangeeta Pendurkar – Director & CEO, Pantaloons. I want to thank the management team on behalf of all the participants for taking the 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. House-keeping questions can be delt separately with the IR Team. Please note that this conference is being recorded. With this I hand the conference over to Mr. Jagadish Bajaj. Thank you and over to you sir.

Jagadish Bajaj:

Good evening and welcome to the earnings call for our company. We sincerely hope that you and your families are safe during these difficult times.

Let me first take you through the highlights for the quarter:

The emergence of second wave of COVID-19 and consequent lockdowns and restrictions in almost all parts of the country have impacted sales from middle of March 2021. Currently the focus of the top management of the company and Aditya Birla Group is safety of employees and staff. We recognize people as our biggest strength and their safety and wellbeing have always been the top priority of the management. Considering the travel risk the entire setup of office is again being shifted back to work from home. Further we are in the continuous communication with the affected employees to help them and their families to cope with the situation. We have extended the CARE that is COVID Assistance And Emergency Response program to all of our (+35000) employees and their families. CARE envisages support for 24X7 doctors, medical consultation, testing, ambulance, home isolation, extended additional health insurance to cover home care, vaccination support and all other necessary awareness. We have already vaccinated close to 80% of our (+45%) age employee base and more vaccines will roll out in the coming months. We have also extended financial and other support to employees who fell victim to COVID-19. We expect COVID restrictions to be in place in large parts of the country for the rest of Q1 in varying degrees. The second wave according to many experts is likely to peak in end May. Return to normalcy will depend on the availability and ability to vaccinate large parts of the population in the next few months. Consequently, we expect normalcy to return by end of Q2 with the arrival of festive season and simultaneously the vaccination drive picking up momentum as is expected.

Keeping in mind these realities, the company has initiated appropriate cost cutting measures and optimal inventory ordering so that we have enough liquidity in our business. We are successfully



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demonstrated last year our ability to quickly calibrate our expenses and inventory management. We are in dialogue again with landlords and mall owners to grant us rebate on rentals.

Now let me give you a brief of our consolidate performance for Q4 FY21:

January and February saw good traction in terms of strong demand, both in our offline and online channels. However, the emergence of second wave during the latter part of March and consequent restrictions have impacted the performance of the company for the quarter. Sales in Q4 were Rs. 1822 crores, almost flat at last year level with only 1% reduction over Q4 FY20. The company delivered a consolidated EBITDA of Rs. 250 crores, a rise of 52% over last year levels despite similar restrictions toward the end of Q4. The net loss after tax for the quarter is Rs. 196 crores. However, this is adjusted for a one-time non-cash deferred tax liability of Rs. 69 crores and another Rs. 40 crores for capital gain towards reorganization of Sabyasachi LLP which is not attributable to ABFRL. Adjusted for these two amounting to Rs. 109 crores net loss is Rs. 87 crores versus 147 crores, lower by 40% from Q4 FY20.

During the quarter, company received Rs. 1750 crores towards equity that is inefficient of Rs. 1500 crores by preferential offers which we made to Flipkart and collecting first call of rights issue of Rs. 250 crores in January. Further we invested Rs. 520 crores for the partnership with Sabyasachi and Tarun Tahiliani. The e-commerce business growth was strong in Q4, grown by more than 90% over Q4 FY20.

Now let me take you through the full year performance for financial year FY21:

Sales for the year stood at Rs. 5249 crores, down by 40% compared to FY20. EBITDA for FY21 has been Rs. 628 crores compared to an EBITDA of Rs. 1277 crores in previous years. Net loss for the company is Rs. 736 after taxes compared to loss of Rs. 165 crores last year. During the year the company has reduced its fixed costs, rental, employee costs and other overheads by Rs. 1200 crores from its cost base of Q4 FY20. We could reduce our net working capital by Rs. 760 crores in this year. In the whole year the company received Rs. 2250 crores from equity which were used to repay debt and made investment in Sabya and Tarun Tahiliani partnership. At the same time the losses during the year were funded by reducing working capital which I highlighted as 760 crores. The net debt of the company stands at Rs. 654 crores, down by 74% from last year. In our Q3 earnings call we had forecasted our debt to come down to Rs. 250 crores before investment in new ethnic businesses. We ended the year with net debt of Rs. 134 crores against our estimate of Rs. 250 crores before ethnic investment, staying true to our commitments.

We have significantly ramped up our digital capabilities and our e-commerce operations. The digital channel sales have grown by 40% over the past year. We have also enabled close 1000 stores of ours with omni-channel functionality. We also continue to grow our physical network

with addition of more than 400 new stores and also rationalized network by shutting down close to 250 unwearable stores.

I will now take you through the performance of individual businesses starting with lifestyle brands; the revenue of the business for Q1 FY21 was Rs. 1000 crores, a de-growth of 6%. The EBITDA stood at Rs. 176 crores versus 164 crores in Q4 FY20. This resulted in an EBITDA margin of 17.5% compared to 15.3% margins in Q4 FY20, margin expansion of 220 basis point. Lifestyle brands reported an industry leading 8% growth on last year's sales in its all-retail channel this quarter despite the COVID impact. This is due to the rising share of casual product portfolio from 50% in FY19 to 55% in FY21. This stands testimony to the strength of our brands and their versatility to fulfill consumer requirement in all market conditions. Sales in the wholesale channel of MBO and departmental stores saw a declining, ending at 60% of last year. However, the primary sales to this channel was controlled to ensure liquidation of adjusting inventory in the channel, consequently we expect robust recovery of sales to wholesale channel when the situation normalizes.

E-commerce sales continue to rise significantly for the division, 28% growth over last year and our brands are available on all leading e-commerce platform. I would like to reiterate that Madura brands is one of the largest e-commerce apparel players in the country.

Lifestyle brand continued with its aggressive store expansion strategy, added more than 100 new stores in the quarter and more than 318 new stores in the year. After successfully crossing the (+300) stores milestone for PE Red lifestyle business has now piloted Allen Solly Prime across select markets. This aggressive expansion into newer Indian towns and cities has leveraged the company's strong distribution network into untapped market.

Full year, for the lifestyle brands YTD sales till 31st March '21 has been Rs. 2750 crores, 41% lower than last year. The EBITDA recorded is Rs. 340 crores and the EBITDA margin is 12.3%. Business significantly improved its working capital management and achieved revenues of Rs. 275 crores with an operating capital of just Rs. 430 crores. This reflects strong asset productivity and high return on capital for the business.

The Pantaloon business, the revenues of the division were Rs. 597 crores, registering a de-growth of 5% over Q4 FY20. The EBITDA however has grown significant increase of 54% from 56 crores in Q4 FY20 to 86 crores in Q4 FY21. Margins for the quarter were at 14.5%. This profitability was achieved on the back of excellent inventory management and lower discounting leading to higher gross margins along with company's push to cut costs on rent, manpower and overheads. Pantaloon e-com has grown significantly, recording over three times sales growth over last year Q4 level. Business has launched new categories of home, sarees, bags and other accessories and has also launched exclusive brands in women's ethnic wear. Pantaloon added three new stores during the quarter to its network of stores and had exit Q4 with a total of 340 stores adding 19 stores in the whole year. Full-year for pantaloon reported an annual revenue of



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Rs. 1859 crores, down by 47% from last year while the EBITDA stands at Rs. 270 crores. The EBITDA margin is 14.5, 8% which is lower by 120 basis points.

The business focused on working capital management and reduced its inventory by nearly 40% during the year. It achieved its revenue of Rs. 1859 crores with operating capital employed of just Rs. 248 crores, reflecting a very strong and fast improving capital productivity model for Pantaloon's business. This is in line with our vision to deliver ROCE in excess of 20% for this business also. Having a strengthened our balance sheet in FY21 we planned to significantly accelerate retail expansion of Pantaloon's network in coming years. We planned to open about 60 stores in FY22 in line with our long-term vision building a much larger and more profitable Pantaloon business.

And lastly our other business segment which include active athleisure, innerwear, youth western fashion and super premium brands. Revenues from this segment witnessed 36% growth over same quarter last year recording sales of Rs. 214 crores versus 157 crores in Q4 FY20. Active athleisure division revenue stood at 272 crores in FY21 and we increased our footprint with availability at (+28000) MBO outlets and 83 departmental stores and 47 EBOs. The revenues of this segment grew 56% over the same quarter last year. The e-commerce channel grew by 154% in FY21 over last year on the back of growing demand for comfort wear athleisure. We expect this business to accelerate its growth rate with enhanced profitability is the normalcy returns. The youth fashion and premium international brands continue to work profitably and bring in more freshness to their merchandise. Forever 21 saw an 7% growth over the same period last year. The business has consistently posted profits for last two quarters including Q4 FY21, indicating a profitable growth path ahead. Similar results were seen in American Eagle where the business grew by an astounding 70% in Q4 over last year. The super-premium global brand business segment which include the collective and international brand also witnessed a soft growth and have doubled the revenues year-on-year with a high single digit profitability during the quarter. Ethnic wear business segment ABFRL has now has one of the strongest and most comprehensive portfolios of brands across price points, consumer segments and occasions. ABFRL has made a constellation of partnerships with leading designers Sabyasachi, Tarun Tahiliani and Shantanu & Nikhil to add to its first investment in Jaypore.

Let me briefly cover the performance of ethnic business; Jaypore has grown phenomenally by 71% over last year in Q4 on the back of e-commerce sales in categories it operates. It has added to its portfolio in-home category, sleepwear, loungewear making it a more comprehensive and appealing proposition to its target consumers. The brand opened its first store post acquisition in this quarter and plans to open about 10 stores in the coming year. This network will compliment its strong online presence.

Shantanu & Nikhil:



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The revenue of the business this quarter grew by 12% YOY. Shantanu & Nikhil have opened three **(Inaudible14.39)** stores in the year and in the process of opening two more soon. We'll continue to have phased growth investment in this brand. Luxury ethnic partnership with Sabya and Tarun, Sabyasachi Couture as ABRFL works towards establishing Sabyasachi Couture as a global luxury brand house that truly embodies authenticity. We believe ethnic wear is set to scale rapidly to become an important part of modern Indian fashion.

The Sabyasachi brand aspires to take its global influence ahead through its artisanal craftsmanship and traditional techniques. Tarun Tahiliani we are foraying into premium men's ethnic wear by launching a new brand in partnership with Tarun Tahiliani. We expect the new brand to be launched by the festive period of financial year '22. These forays will propel ABFRL to be leading players in the large ethnic wear market. In conclusion in a very tough year the company has achieved the following. #1 strengthen the balance sheet and brought down debt by bringing in equity and optimizing working capital, #2 deepened our presence in India by going into Tier III-Tier IV and Tier V cities, #3 achieved best in class cost reduction in rent, employee cost and overhead including some permanent cost reductions, #4 increased market share in Lifestyle brand segment, #5 we have partnered with iconic brands to improve our play in the ethnic segment, #6 deepened partnerships with e-commerce players to make our ABFRL brand have a strong play in the fashion e-commerce segment.

Thank you. We will now take your questions.

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.

Aditya Soman:

The first question is on the overall business. At this point when do you expect a recovery to start? Are all stores fully shut across most of the country or is there a small proportion that is still open and then in terms of the business last year, any sense you can give us on how the innerwear business progressed in FY21? And also, you indicated that digital sales growth was 40% YOY. Any reason why this could not be higher?

Ashish Dikshit:

Your first part is about what's the state of network opening at this point of time. We have close to about 15% of network which is operating in last few days with some states allowing relaxation and few openings but this is limited to a very small set of stores and number. We expect further relaxation, Delhi has just announced from first sometime early in June, we see Maharashtra opening up a little bit, Karnataka also opening up after that. What we will have to watch for is what's the nature of relaxation and the speed of opening that these state governments allow because very often in past they have kept malls not part of the first opening and that typically delays a lot of our industry's opening. We will have to keep an eye on that. As of now it's only about 15% odd of stores which are open and a large part of them actually in just last few days.



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The second question was on innerwear. Innerwear is one of the few categories and part of our business. We have mentioned the investor deck which actually grew over last year. Despite the fact that Q1 and some part of Q2 was completely wiped off; that growth momentum continues. It's an organic long-term growth trajectory as we continue to gain market share. We are still very small as a part of the overall market but rapidly gaining ground. Over next year or two as we expand, we have got fairly good presence in the high throughput A and B quality, multi-brand outlets which is where our first attempt was. The next phase would be to go to the next chair of distribution which is beyond top 30,000 outlets-25000 outlets and that will be the next piece. In distribution we opened about 45 to 50 stores is what we operate with at this point of time which is exclusive stores. We think that's a large opportunity and this year you will start seeing progression on that. We think it's as we had indicated it continues to be a long-term growth opportunity and that momentum will continue.

On the e-commerce side our base of e-commerce as a partnership in B2B businesses where all the three major players and couple of other smaller players has always been very large and the effect of that, there's a base affect, we wish that business is growing. The Own Brand.com business which actually picked up momentum and the omni-channel business which started to pick up momentum from early last year; that's been growing. You have in the presentation Pantaloons has grown about 3 times, even Madura business or so Brand.com has grown about 1.5x to 2x.

Our Own Brand.com business obviously is growing much faster; partner business is growing well but that's on a large base because strength of our brand meant that we are very large players even before the COVID and that's really how the statistics adds up.

Aditya Soman: Just in terms of Own Brand.com what could be the contribution now of your Own Brand e-commerce?

Ashish Dikshit: Very-very small Aditya. So, still early days. Off the e-commerce business we have got to now double-digit of that but as an overall share it continues to remain small but the trend in last couple of months has been because it took us time to actually ramp up both the capability, digital marketing. It takes some time for consumers to move to Brand.com. We are seeing rapid acceleration in last couple of months and if last 3-4 months is anything to go by; it will become a significant business but you still have to see maybe a year or more before it starts to count on it.

Aditya Soman: On Pantaloons, even in 4Q we still haven't reached say 4Q level last year. Now is this because of the product mix that we have because if you look at some of the other discretionary names, we saw meaningful growth compared with 4Q last year which was already impacted for 10 or 15 days due to COVID.

Ashish Dikshit: I didn't get your question Aditya.



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Aditya Soman:

If I look at Pantaloons in the fourth quarter, we still declined a small number YOY. If I look at some of the other discretionary businesses, they have recorded very strong growth in the fourth quarter. So, what would be the reason for that? Is it the product mix or any specific type of products that did not do particularly well?

Ashish Dikshit:

I don't know Aditya what would you be comparing with but if you look at the industry so far, retailers and big box retailers have typically dropped in Quarter 4 between (-8%) to (-10%) same store growth. And that's been the case with Pantaloons also. If you look at all the other retailers same store growth will also be in the high single digit or early double-digit kind of thing. That's in line with it and that's primarily because if there is one segment where consumers were hesitant to shop, it is the large format stores. Also, large format stores particularly Pantaloons and many others are more mall heavy and that's the place where consumers have been little bit more hesitant to come to even in the months of October to December as well as January-February. I would not worry too much about it. This is more led by macro-factors versus anything inside the Pantaloons. Within the Pantaloons of course different parts of the businesses have performed differently. Women's ethnic wear is one category which is more occasion and going out led etc. Some of them has not done well but I think your broader question I would say the answer is more in the macro-factors of how consumers are shopping with respect to large format stores, with respect to malls.

Aditya Soman:

It would be fair to say that the stores outside the malls would have had a better performance compared with say the mall stores or large, very large stores and the big stores?

Ashish Dikshit:

Yes. I would say if you were to take three dimensions, size of the stores, smaller stores do better than the most of last nine-months have done better than larger stores. High streets have done better than malls and I would say smaller towns have done better than larger cities. So, depending on how your distribution is placed you will see differential results along these axis.

Moderator:

The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham:

First specifically on Madura you have detailed about the fact that you remain cautious on the wholesale channel and even giving details of how you curtail your inventory. What I wanted to understand is that when is it that we get the confidence that this channel will see the throughput that it used to earlier; considering it is one of the important channels for Lifestyle brands. I asked so also in the context that now with wave 2, do we remain cautious till the impact of this is totally gone and only then we look at getting this channel back to normalcy? I will come to my second question after this.

Vishak Kumar:

Nihal I think you will have to separate the wholesale part into department stores and multi-brand trade. A large part of department store re-opening will be a function of when the local governments allow the malls and the large format stores to re-open. To that extent as and when they start and they kick off, we should be off to the kind of business there as we have been strong

in. On trade or multi-brand trade we will have to see how small-town India is impacted by COVID and hence how soon it comes back to bouncing back. My own sense is that it should come back faster this time with the kind of vaccination drives which are happening and so on, it should bounce back. So, like Ashish said in the earlier question, a lot of it is going to be about external factors. As the COVID impact receives in the market, we should be able to get back to growth in all across channels and not just in wholesale.

Nihal Jham: So, it's purely a case of the MBO channel and as you believe that when is it that your payment ability won't be impacted that is when you want to do add-on and get this channel back?

Vishak Kumar: More than payment ability, it's throughput from these stores Nihal. Right now, in almost practically the entire country has been closed down. As the lockdowns are open and these stores open back, they will start selling and as they start selling is when their orders come up. It's more to do with when do their secondary sales pick up.

Nihal Jham: Second question was specifically on the balance sheet and our cash flows in the year ahead. This has been a good year in terms of as you have mentioned at least in terms of us seeing a reduction in working capital which along with the external infusion had in the debt reduction. In the year ahead the normal expectation would be that our working capital should normalize and potentially maybe the cash generation despite improved profitability may not be as strong. So, just your internal thoughts on it?

Ashish Dikshit: Nihal you are right to some extent that as the recovery and remember you will look at it in a full-year basis. I expect that by the time you hit Q4 of next year which is FY22 by then certainly the normalcy should have got stored, by that time we would have expanded our network, lot of wholesale customers would have come back and we would be looking like create a very different trajectory of revenue performance. And to that extent we will have to align our inventory in line with that. As you have seen our ability to actually quickly change, the kind of agility in supply chain and planning that we have built, our ability to quickly change our inventory levels in line with the market is something that we have demonstrated in good times and bad times. All of it last year was clearly a function of the choices that we had made. As we look ahead by the time the year ends in FY22, we are hoping that we will probably be in a situation where markets will be back to normal. Organic growth will be more or less back to where it used to be pre-COVID level and we would have significantly expanded our network. Jagdish talked about Pantaloons, 50-60 stores are trajectory. In Madura to open 300-400 stores will be another thing that we continue. I do believe that inventory levels will go back a little bit but our profitability will hopefully be able to off-set to a large extent that is. Now it's hard to predict sitting here but I will only give you comfort that we know how to navigate these things and simultaneously find the right balance in this and that's what we will do. Our overall debt level as Jagdish has said started at about 650 crores odd, after 500 crores of investments that we have made. We think that for the size of the business and profitability that we will be looking for FY23, we would be very

well placed even if we have to take slightly higher inventory to fund that growth. It shouldn't be a matter of concern in our mind.

Moderator: The next question is from the line of Abhijeet Kundu from Antique Stock Broking.

Abhijeet Kundu: My first question was in Pantaloons what have been the learnings during the year because in a year where your sales have been impacted across the board, retail sales have been impacted. This was a time where you could look back at your product portfolio or do some more things in your back end of operations. What have been the learnings there and which could be used to for ramping up operations or improving operations going ahead, one. And second is also in Pantaloons what we understand from other players is they have worked on lower inventory during the year and they have got a sense that with a lower level of inventory also good amount of efficient work could be done so they are working on that. So, what would be your thoughts on that essentially?

Sangeeta Pendurkar: This year has been a very insightful year for us. I think it has been a tough year, there is a lot that we have done as a business and my headline is that today as a business, the shape of our business is far better, the health of our network is far better and I will talk about few things that we have done. First your point on product. What we have been able to do is in terms of very quickly pivoting towards the needs that we saw from the consumer, we saw a **(Inaudible) 33.30** realization and as a business we quickly pivoted and tried to kind of serve our customers in the right stores and to serve the demand that we saw that came up. So, on the product two things, one is the shift in the demand. The second as Ashish mentioned there are a lot of new categories that we launched during the course of the year and we have been able to get reading on some of them, for some of them we still have to wait because we haven't seen a full season on that. So, Home is one category which became extremely important during the time of the pandemic because everything moves within the house. You are spending more time in your house than anywhere else or with anybody else and we saw good traction for Home category so that was the timely entry for us. As I said still very early days on some of those categories. So, that's on the product. Our big focus was on cash and cost last year. And to your other point before I come to cash and cost, I will finish two other points on the top line first. We did a lot to strengthen our operations in terms of relooking at our processes. We launched a lot of alternate channel facility as well so whether it was the social commerce channels that we launched in the store or the temporary stores, pop-up stores that we put up, we built muscles both on agility and on operations on alternate channels. That's been another great capability and learning for us and the third bit on e-commerce I would talk about on the alternate channels is on e-commerce. Again, our e-commerce as both division Ashish alluded, we have seen our e-commerce business grow 3X of where it was in the previous year. And in coming to cash and cost now, the bit on cost, it's been a phenomenal year for us with a significant reduction in terms of our rentals, significant reduction in terms of our overall overheads and we have managed to get to, for example our rent reduction is an excess of 30%, our overheads reduction is an excess of 15% and that led us to

delivering a upline-bottom line, that's what we have planned and we are able to deliver that. The third bit is in terms of the bit on cash and the big focus was we took some very strong decisions in terms of how we would restrict our buy and how we will optimize our working capital. We have been able to release a substantial amount of cash largely from working capital with a very tight inventory management and as a result today our inventory position is far better than where it was a year ago. The point that you were making you have seen other players deliver, we have done the same thing and lastly I would say on the network, we have also been bold, and we have shut a few of our stores where we believed either our rental negotiations were not kind of trending in the right direction or where the profitability was not good. A lot of these stores were also smaller stores, so we have made those decisions and also made our network far more healthier. I think learnings all across and we feel good about where we are at the end of the year with newer set of capabilities and with better health of the business.

Abhijeet Kundu:

Just a follow up on this. How much of the cost reduction that you have done during the year, could see a reversal once operations get back to normalcy? I mean how much of that would come back?

Sangeeta Pendurkar:

There are three big elements of cost. One is in terms of advertising and marketing and that based on the demand and based on way they forecasted mills that was a call that led to and lot of other learning has been in terms of very dynamic decision-making. Advertising we think we will definitely have in control. The other cost is on overheads and again here in the coming years we have done a few things which bear those cost benefits. There are others that we will need to address as we move along. As far as rentals are concerned which is a large part of our cost base. We had a good experience working with the developer partners and those conversations again this year I am sure they will be fair this year too as they were last year and we hope to get good savings this year too. We have a great track record from last year of having achieved or having being worked very relentlessly on this and I am pretty sure this year also. We believe this year though overall in terms of top line will be far better than last year. With the new capabilities that have we will also do everything possible to keep these costs under control. Lot of the cost more specifically to your question are cost that we see we have control of. The rental cost is something that we will have to discuss with our developer partners.

Abhijeet Kundu:

What we understand is from our channel checks, analysis, like April and May have though in April it was the major impact was in Maharashtra and Gujarat and other parts of the country had not seen that kind of impact optically. Still the local towns were such that operations were very difficult to continue. No one was visiting stores; local authorities were also closing stores left-right and center without any intimation. All these issues were there so anyway in that perspective it has not now, May and June have an impact but even during the April they were not limited to Maharashtra and Gujarat. So, there was a broader impact across India even during April and May. I am not obviously asking you any numbers just on the front end.



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Ashish Dikshit:

You are absolutely right. April was also quiet severely impacted.

Moderator:

Next question is from the line of Richard Liu from JM Financial Service.

Richard Liu:

Ashish, I just want to understand what you see, there are a lot of volatility etc. in terms of locking unlock etc. But let's say that this whole drama goes on for some more quarters and then we get back to let's say people get vaccinated by 1Q FY23 or 2Q FY23 or whichever that quarter is. For illustration's sake let's say just 2Q FY23. The moment things get back to normal the pandemic goes away mostly from the country. Do you think that the moment that happens your next four quarters revenue run rate would immediately get back to that 9000 crores numbers that you guys have before the pandemic? Or you think that the momentum is lost and it's going to take a long time to build back that 9000 crores based on your work?

Ashish Dikshit:

Two things first of all our base has moved up and one of the things that we are quietly doing and you follow us closely you would understand is that on one side while we are driving down cost and cash and strengthen balance sheet. On the other side we are investing for growth for times when recovery comes back and that's the strategy that we are going to follow in FY22 even more aggressively. In Lifestyle brands we will expand the (P) Red and Allen Solly Prime form has started to work. Jagdish has stated 50 to 60 stores at least in Pantaloons because we want to expand that network, we have taken this time to rationalize our network. First point very simply is that we are quietly building an acceleration base which is much higher than what we had pre-COVID which gives us a better chance to get back to those numbers and in fact higher numbers before. In terms of how quickly we come back to the base level, whatever that base is, what we have seen if last Q3 was anything to go by and you have seen that across multiple forms of discretionary category including the ones like ours which is even more discretionary; that consumers desire to come out, express themselves, celebrate, socially get together etc. have you been trapped for 6-9 months last year; it was evident that they come-out very strongly. This time it may start a little slowly, maybe in next a couple of months but as I think earlier Vishak and Sangeeta had indicated that we feel by festive time, a fair bit of recovery should start to come in. The vaccination gets to some level and definitely by towards the last part of this year we feel at the end of this year vaccinations done; we should get back to our trajectory which some ways get us back to what the base level of business is. I don't know if that answers your question, Richard.

Richard Liu:

Partly it does Ashish. Basically, what I understand from you is that with consumers locked up at home for so long and in a way habits change, lifestyle change etc. Let's forget about the new businesses that you invested in. I am just talking about that 9000 crores turnover that existed before the pandemic struck. Looking at the moment life comes back to normal, be it through vaccination or be it through the pandemic magically disappearing, that 9000 crores turnover is immediately there for you to earn the moment this pandemic is over. Is that the right understanding?



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Ashish Dikshit: I would say I mean using words like the moment that gets over it's going to be phased recovery but that phased recovery is going to start now in next 2 months not 6 months later. I would say however that we would get back to not just 9000 but slightly higher base very quickly as the consumers come back. Now when do you start counting that period is a matter of choice we can debate. I clearly see some recovery starting to happening from July-August and depending on the pace of vaccination you could see some surprises towards the end of this year which is October-November-December or in the quarter after that. But I do feel yes, I don't think other than time we would have lost the base level of business. In fact, if anything we have added more to it.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: I just wanted to understand for our e-commerce sales. What is the fulfillment model we are following? How much is fulfilled from nearby stores and how much is from like a central warehouse?

Ashish Dikshit: It varies and I will get maybe Vishak and Sangeeta they will have different answers. I will get them to respond to that. But obviously fulfillment from store is something that we have not opened up with all third-party e-commerce players as yet. That's selective and you will get a sense of that. For our Own business, that number could be fairly significant but just traffic coming directly to our website. Almost half of that can be fulfilled from stores but let Vishak if you can come in and Sangeeta if you can add to that.

Vishak Kumar: So, currently for example that number is almost zero because stores are all closed. So, we have very quickly changed our rule sets so that it's all serviced through central locations but it is a competitive advantage in the sense that we can deliver much faster to consumer, we can also provide a much greater assortment and also it helps us to create different regions specific speed of service. So, to answer your question it helps us and hence it is something which has been naturally scaling up. Like Ashish said it's gone up to in some brands (+40%) also and I think that trend should continue.

Ashish Dikshit: Sangeeta you want to mention how many stores and what geography we have covered and?

Sangeeta Pendurkar: As far as Pantaloons is concerned, there was this earlier question as well on the learnings and I was talking about agility and this is again another capability we built very quickly. About close to 200 of our stores are omni-enabled for Pantaloons. And this is for our Pantaloons.com business and part of that network is also for our e-commerce partners and therefore as Vishak was saying we are able to offer two things, one is a larger assortment to our customers and obviously a better experience in terms of service delivery. For us if I look at the total business and if I look Quarter 4, at this point of time the numbers would be quite different given that stores are shut at this point of time. I think for us more than half of our Pantaloons.com business is being serviced out of all the store network.



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Swagato Ghosh:

A related question is what are the margins for online sales currently given whatever mix we have for FY21 I am asking? If the margins are like any different from the offline margins doing what will get us to those margins? If it's better than like it's is better way how much any color would be helpful.

Ashish Dikshit:

Let me come in here Swagato. Our e-commerce margins with partners are at par if not sometimes better than offline. Offline you know margin varies fairly significantly depending on store rental productivity etc. So, some part of that happen. Our Own.com business, currently is slightly less profitable due to higher cost of customer acquisition. But we are also on the other side compensate that with as Sangeeta mentioned, close to half of that delivery we are able to service through nearby store which is a much cheaper way of servicing customer orders. Overall, at this point of time it's less profitable but that's a matter of scaling up. I think you all know that there is a certain gravity which is required to build lower cost of customer acquisition and as our traffic is growing as more customers are getting used to and familiar with buying directly from any of our Brand.com, I think that cost will keep coming down.

Swagato Ghosh:

On Flipkart and Myntra platform our brands growth, will it be in line with the other brands that are there or is there a reason that we can like outperform other brands by way of maybe the platform pushing our product because they have invested in our company. Can you just help me understand that a bit?

Ashish Dikshit:

So, two parts. I will get Vishak to give you some idea of performance, but clearly the partnership is a more financial investment which is an outcome of a deep existing strategic partnership. In no way is it expected that our brands get pushed up for some reason or the other or we give them any preferential treatment. That's not part of the deal. Our brands compete and win on the strength of what they have and that's really how we think it's going to play out. In terms of **(Inaudible) 51:38** therefore it will be purely on merit which would be function of strength of the brand, the proposition of products, the kind of delivery system and fulfillment systems that we have built up, the technology integration between the two partners, the large integration of stores that we have done with them. I don't know Vishak if you want to add something about specific brand performances or something else.

Vishak Kumar:

Absolutely, our equation with e-commerce aggregators has also evolved over the years and they are very-very sharp in defining common customers, figuring out how we can provide solutions for different customer cohorts. There is a lot of things that are on technology integration, service levels team and this is across all e-com aggregators and not every trigger Flipkart, Myntra business entities. So, it is something which I think and that's why our growth has also been at stroll across first partners and my sense is, it will continue to be like that and also must remember we have a bouquet of brands and different brands have a natural affinity to be very strong in different kinds of partner ecosystems. So, different brands have different shares depending on their kind of promotion power.



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- Moderator:** The next question is from the line of Vaishnavi from Anand Rathi.
- Vaishnavi:** My first question is on the ethnic subsidiaries loss that we have posted of I think around 24 crores during the quarter so how can we look at this number going forward? And the second is on the 1200 crores fixed cost reduction that we have seen in this year, how much of that would be sustainable?
- Jagdish Bajaj:** Ethnic business in the Q4 has subsidiaries the losses of Jaypore and Shantanu & Nikhil and 1 month for Sabya. Because of some transaction cost with Sabya a few costs have been added here around Rs. 5 to Rs. 6 crores. Otherwise, the ethnic losses are in a range of around 17 to 18 crores. Going forward based on the business plan as I explained in my speech that businesses now after collaborating with Shantanu & Nikhil and taking over Jaypore we have big aggressive plan, I think we will like to build up both offline and online. So, there will continuously be in to investment phase.
- Ashish Dikshit:** Vaishnavi, if you have look at different part of our ethnic portfolio, there are existing good businesses like Tarun and Sabya's business which are profitable, doing well these are Couture businesses. With Tarun we are launching a new brand and Jaypore in some ways is almost a new business. These two businesses to scale up to get to a meaningful size of 300-500 crores would require significant early investment and so therefore you will see losses in this business maybe first 1-2-3 years as we build these. But clearly, it's built around as we have clearly laid out our 4-5 years strategy it is built around building an ethnic business for 2000 crores; literally from scratch across 4-5 of these brands. So, you might see some bit of the losses, Q4 is especially soft tainted by one exceptional item. But most of what you would see as you look at annual and most steady state picture will come from rapidly growing the new brands that we are launching. Vishak, do you want to talk about the cost?
- Vishak Kumar:** Yes, so Vaishnavi it's quite simple. Let's assume that I was doing a business of Rs. 100 and I was paying let's say a rent of Rs. 10. If business becomes Rs. 50, our premise has been that till the time that the business is Rs. 50 the rent becomes the same percentage of sales and hence should be Rs. 5. So, that has been our entire premise with various landlords and other cost providers. That look we will have a pro-rata understanding on cost. So, to that extent when the business bounces back, you would actually be happy to pay the higher cost again or the original cost again and it would actually have a good impact on the bottom line as well because the business will have come back. So, it is in a while our cost some of it looks a fixed cost in nature, they are actually semi-variable cost, and our effort has always been to try and index them onto revenues. And we do believe that as the revenues bounce back, it's actually good when we will be able to pay the original costs again.
- Moderator:** The next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Service.

Aliasgar Shakir:

The first is on the competitive landscape. I just wanted to understand, you mentioned that we expect the bounce back to be quite strong and soon. So, how is the competitive landscape, have we seen the second wave impact being more severe on the smaller players and how are they delivering? Are we seeing any kind of shutdown of stores? My point is I want to understand do we see any tailwinds from a weaker competition that should actually allow us to drive better throughputs in our stores and kind of actually give us any kind of benefit from this COVID? As the narrative has been that the stronger player should actually see more benefits coming out of this lockdown.

Ashish Dikshit:

So, Ali, first of all I want to correct if we have given an impression that we see a very early recovery, I think all of us are living in the same world. We will have to wait for things to get better so if you got that impression, I would like to correct that. In terms of market share and the budgeted positioning, I think both on demand side and from supply side we are very confident that we are significantly increasing our share and strength in the market and you will see in all times like this the stronger brands get more preferred, consumers gravitate towards stronger brands, well-known propositions, familiarity and trust becomes important. That's one part you see category after category, I don't think I need to talk to you about it. What's more important in our industry is the supply side also. As a prolonged tough year like last year a few people had cash, few people could raise cash, many others had to scale down their business from scale of business, size of operation, portfolio brands etc. and so on so forth. To that extent those who have brands which are strong and ability to fund the growth and have an ambition around that, they will definitely gain significantly when the cycle is over and we are already seeing signs of that. It is not for any other reason that we continue to expand and indicate a much faster growth trajectory for our businesses. We are talking about 400 stores in Lifestyle brands, Pantaloons talking about getting back to its highest ever expansion of 60 stores kind of numbers. All this is built around because we are already seeing strong brands gaining shares and from supply side our ability to get onto that growth curve much quicker than rest of the players will also be important. And therefore yes, the weaker brands will perhaps take much longer to recover from that and there will also be somewhat and at least slightly disadvantage in consumer's mindset, mind also.

Aliasgar Shakir:

I just want to follow up on what Vishak gave an example on the previous question about kind of having a lot of your costs being indexed to your revenues. Would you say that there is any cost that you have kind of created savings which would have some level of permanency in nature and you would see kind of relatively better margins as you come out of COVID? Has there been any cost savings basically which would be permanent in nature?

Ashish Dikshit:

So, Vishak was talking about large cost of rentals but one of the things even in rentals what we have learned through this whole exercise is, how to build next set of stores, what kind of initial agreement should we have? So, there would be some of those learnings which will hopefully result into a more flexible model for us. But there are many other areas where use of technology

has significantly brought down need for parts of overheads whether its travel, organization, the activities that we were doing that we have decided or found that were not as productive. So, clearly when you do almost a bottom-up exercise in situations like this, it does leave you with some numbers on that. Won't be able to give you exact numbers but I think clearly whether it's overheads, whether ways of working, whether use of enablement of technology to reduce or just getting rid of some activities which were happening, greater effectiveness and productivity in things like marketing and even a base business model from store viability point of view, rental structure point of view some of those costs will definitely be much better off then and we were pre-COVID times.

Aliasgar Shakir: So, is it safe to assume that when you reach probably in a stable set base of (+9000) crores kind of revenues, whenever that is you would relatively have better EBITDA or whatever margins versus what you would be doing earlier?

Ashish Dikshit: Yes. That's what our hope would be at that point of time. We have had a lot of learnings around cost in this period.

Moderator: The next question is from the line of Ashish Kanodia from Ambit Capital Private Limited.

Ashish Kanodia: I just wanted to understand how the consumer behavior has changed while shopping online between say 1Q and 2Q when the markets were closed and then gradually into the 3Q and 4Q when the market opened up. So, when you look at the product portfolio which was selling online during 3Q and 4Q; was it more skewed still towards your utility product or did you see a higher share of demand coming from fashion products as well? That would be the first question.

Ashish Dikshit: Ashish, I will get Sangeeta to answer that question because Pantaloons best seller very large sort of breadth of product categories and price points from ethnic, western, men, women, kids', accessories, apparel. I think she has a better sense on what happens across product categories.

Sangeeta Pendurkar: If I have to re-plot the year, we saw different consumer trends post the first wave kind of receiving and as the store started opening. We saw a very high demand initially and a lot of pent-up demand for casual products and that's the way we all were at working from home so the wardrobes kind of changed significantly and we saw a lot of that behavior and we saw that reflecting in our categories. When men's wear we saw more casual clothes, we have a label called Agile where the sales kind of stepped up. Likewise in women's there's a label called Dreams; these are our private label brands. We saw that, that's the first trend that we saw. The second thing also I think Kids as a category has done exceedingly well for us and we know in case of kids' because kids outgrow, consumers have to buy clothes for kids and there is a constant demand that keep focusing and we saw an increase in kids as a category. When come to festive, we saw demand for festive coming back after a while. Overall, we see a rebalancing in terms of our categories with the casualization trend continues but in Quarter 3 we saw a demand for fashion products coming back. In terms of categories; men's and kids' we have seen over-

indexing versus where they were. So, it's been a shift in demand and as I said we have done everything possible to cater to read those demands very quickly in to cater to those demands. I hope I have answered your question. As of today, again things have changed but Quarter 4 we saw good demand for fashion products coming back.

Ashish Dikshit:

I just add one point to that which is on a wedding wear especially in the Madura segment. We have seen an amazing consumer response even in the small windows that consumers got to shop, they have shopped with a heart on wedding wear. So, I just thought I will add to what Sangeeta said.

Ashish Kanodia:

So, my question is more on the e-com side so when you look at whether it's a wedding or a kids' wear and when the market opened up gradually in 3Q and 4Q there's a demand online sustain, or did you witness a slowdown in online demand and basically this demand move to offline. So, what I am just trying to get is that when we think of whether it's a kids' wear or maybe a fashion-oriented product where look and feel your fit is more important those demands did you saw moving back from online to offline during 3Q and 4Q?

Sangeeta Pendurkar:

So, in terms of the demand on e-commerce one of the things we have done is we expanded our assortment very rapidly on that and we see while the demand in Quarter 2 was much higher for kids, we saw that leveling out between online and offline. But the overall pattern for demand was the same. Between e-commerce and offline if that's your question we saw a little bit of tempting of demand but I think we are back to seeing very heavy demand in the online segment once again. So, it's altered we also saw the same consumer now has become more comfortable shopping both online and offline and then offline is not a possibility. That's one of the big pivots we have seen in terms of the shift in consumer behavior; that consumers who had never shopped online have started adopting online channel very comfortably.

Ashish Kanodia:

When we talk about fulfillment from our stores, so in case of stores where you have a revenue sharing model and this online order gets fulfill from those stores. Does this order also become part of that revenue sharing model, so they pay a rent on those online orders as well?

Ashish Dikshit:

A simple answer is yes, but our relationships with our partners etc. are bigger, much larger overall business discussions and this is one of those many ingredients which go into that. At the end of the day the business has to make financial sense for us and it has to make financial sense for the mall partner. Some of these are transactional things they are worked out a bit more specific things, but the simple answer is yes, it is part of the revenue in the straw.

Moderator:

Thank you very much. Ladies and gentlemen that will be the last question for today. On behalf of the management, we thank all the participants for joining us. In case for 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.