



“Aditya Birla Fashion & Retail Limited Q3 FY 2020 Earnings
Conference Call”

February 06, 2020



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MR. VISHAK KUMAR -- CHIEF EXECUTIVE OFFICER
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MS. SANGEETA PENDURKAR -- CEO (PANTALOONS),
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Moderator:

Ladies and gentlemen, good day and welcome to the Quarter 3 FY 2020 Earnings Conference Call of Aditya Birla Fashion & Retail Limited. The call will begin with a brief discussion by the Company's management on the quarter's performance, followed by a Question-and-Answer Session.

We have with us today Mr. Ashish Dikshit -- Managing Director; Mr. Jagdish Bajaj -- CFO; Mr. Vishak Kumar -- CEO (Lifestyle Business); and Ms. Sangeeta Pendurkar -- CEO (Pantaloons). I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. Please restrict your questions to the quarter's performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

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

Jagdish Bajaj:

Good afternoon, and welcome to the earnings call of our company. I am pleased to report that this quarter has been one of the finest quarters in terms of all-around performance for the company.

Your company has posted a very good set of numbers despite the general slowdown and tepid consumer sentiment in the economy. The company has grown its revenues by 12% this quarter to Rs. 2,562 crores. I would like to highlight, that this growth is on top of a very strong 23% growth achieved last year in the same quarter or its previous year.

EBITDA margin has increased from 8.2% last year to 8.9% for this quarter, recording the highest ever quarterly EBITDA of Rs. 227 crores. The company has also made its maiden century in quarterly PBT by notching up a PBT of Rs. 111 crores. It would be pertinent to note that this has been achieved by all-round improvement. But as LTL, across all our business segments have shown stellar growth.

During this quarter, we set yet another record by opening the highest number of stores in the quarter ever. We opened 150 stores across our business segments, reinforcing our confidence in the growth potential of our businesses.

This quarter, the company has adopted the new lower corporate tax regime, which will help company to save cash flow for next two years. Accordingly, the company has to remeasure its deferred tax assets, which has a one-time impact of Rs. 106 crore in Q3 and Rs. 130 crore for Y-T-D FY 2020. But for this change, the reported PAT would have been Rs. 73 crore for Q3 and Rs. 125 crore for Y-T-D FY 2020. The company has been able to consistently deliver a strong performance due to its continued drive in product innovation, increasing its store network,



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building new retail brand identity, increased marketing and advertising efforts, more digitization and customer centricity.

I will now take you through the performance of our individual businesses, starting with Lifestyle brands business:

The Lifestyle business has grown its LTL this quarter by a very impressive 15%. The business continues to grow its E-commerce channel strongly, registering a growth of more than 45% during this quarter. The overall revenue for the business grew by 14%, riding on a stellar growth of approximately 30% in its retail channel.

The Lifestyle business continues business model transformation through a 6 season cycle to 12 season cycle by digitizing its product creation and go-to-market operation through the recently launched Digital Trade Show System. This model aims to deliver fresh assortment in line with market trends while simultaneously reducing the design risk for the company and its potential markdown liabilities. The ongoing season, Spring - Summer 2020, is the first full season for this model and we expect to realize its benefit in the next 12 months to 18 months.

Coming to the results for this quarter:

Lifestyle brands recorded revenues of Rs. 1,295 crore, a growth of 14% over Q3 FY 2019. The comparable EBITDA for this quarter is at Rs. 138 crores versus Rs. 132 crores in Q3 FY 2019. The EBITDA margin at 10.7% are temporarily impacted due to pressure in wholesale channel caused by continuous consumer shift to higher quality retail environment.

The business has responded to this structural shift in the market by aggressively expanding its own retail network through its predominantly franchisee-led business model. These measures will not only accelerate the growth trajectory of our Lifestyle brands and help them realize their complete potential they will also set foundation for improved profitability as this network matures with time.

The Pantaloons business during the quarter reported revenues of Rs. 1,083 crores, registering a growth of 13% over Q3 FY 2019. You will recall that the same quarter last year had both the festive season and the End-Of-Season Sales too, during which the business has recorded a growth of 28%. The LTL growth for the quarter is 4.9%, which again should be seen in light of 17% LTL recorded in the same quarter last year. Pantaloons has achieved its maiden quarterly EBITDA century and closed highest ever margin of 10% during this quarter, the EBITDA at Rs. 109 crores versus Rs. 88 crore in Q3 FY 2019, which is a growth of 24% without taking IndAS adjustments.

This quarter's performance further reinforces the consistent and all-round improvement in the quality of our business over the last three years. The key strategic levers of this transformation



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are improved design aesthetics and product quality, refreshed brand imagery through enhanced marketing investment and superior retail experience. These consumer facing shifts are backed by building shorter and faster product creation cycle, smart planning system and an agile supply chain.

Next, we move to the Fast Fashion business:

The transition of the People brand into Pantaloons store brand is currently underway. The initial response has been very encouraging, and we expect to complete the migration by end of this year.

In Forever 21 business – our consistent focus on rightsizing the operations and improving its interesting profitability is yielding results. We have started work on local sourcing for the brand, the benefit of which we will start to accrue in the coming year.

The Fast Fashion business has reduced its EBITDA losses for the quarter from Rs. 12 crores to Rs. 4 crores. At Y-T-D level also, the business has halved its losses from Rs. 27 crores to Rs. 13 crores.

Moving on to our other businesses portfolio, which includes Innerwear and Global brands. Innerwear business continues to scale up rapidly and has reached 20,000 outlets at the end of Q3 FY 2020. The revenues of this segment will continue to grow aggressively as we build a strong proposition across men's and women's innerwear, athleisure, active and loungewear segments.

Van Heusen innerwear is now a well-established player in the market and we will continue to capitalize on the growth momentum that we have created in last two years. The rapidly increasing scale is beginning to improve our product margins, although the business will require further scale up to achieve profitability.

Global brands:

Global brands business continues to do well, both in collective and our mono brand business. Revenues from other business in total witnessed 39% growth over the same quarter last year from Rs. 106 crore to Rs. 148 crore.

Lastly, let me briefly update you on the status of our newly invested Ethnic Wear business:

As we had indicated that we plan to transition Jaypore from a pure online player to an online plus offline player, we plan to add few more stores in Q1 FY 2021 and will expand the network by opening eight stores to ten stores later in the year.



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The brand Shantanu & Nikhil continues its strong couture business. The business plans to open its first store in Q4 FY 2020 and will expand the network by opening five - six stores in FY 2021.

The net debt of the company as of December 31st, 2019, is Rs. 2,243 crores, this is Rs. 71 crore more than Q2 FY 2020, primarily on account of Rs. 66 crore funding to ESOP trust to buy company shares.

Summing up:

This quarter's commendable financial performance and its tough market conditions reflect Company's strong competitive position in the Indian apparel market and validates our strategy of a broad display across key market segments with focus on a strong brands, wide distribution and our ability to drive continuous improvement by constantly refining our business model to deliver a consistent long-term performance.

Thank you. And we are now open to the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on innerwear. Last two quarters, the Y-o-Y growth was 67%. It seems there is some slower growth this quarter. So if you could discuss what was the reason? And how is the market leader in terms of say, support to the trade channels in terms of working capital, etc.? And are you also being forced to respond to that? So could the profitability come under some risk? There has been a Rs. 21 crore loss run rate in this segment. So could that loss increase because of all this?

Jagdish Bajaj: So Abneesh, no, we continue to drive for growth, which is on of course, a much smaller base because we are a relatively new player. Our business performance continues to remain strong. As far as policies are concerned and pressures from channel and liquidity, look, we have been in this industry for 25 years across a whole portfolio of brand segments. We understand how wholesale works and we do not shift our policies due to any short-term pressures. On the profitability in this segment, what you see in the other business is, I am sure, you are aware of is a combination of all our businesses put together, which is international brands, the collective, the super-premium brands, innerwear and a few other small businesses that we are, so innerwear is part of it. I do not see any dramatic impact on its profitability versus last quarter.

Abneesh Roy: And growth. Last quarter, you had given the growth 67% in innerwear. What is the growth this time?



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Ashish Dikshit: Yes. So the growth remains strong. The reason we have not given specifically the growth because it is still a very small part of the business and I think there is just too much focus on that just one number. We will probably give at the end of the year the consolidated number for this.

Abneesh Roy: But fair to assume below 50% in terms of growth?

Ashish Dikshit: I said we will give you a number, consolidated number end of the year.

Abneesh Roy: And my second question is on Ethnic. So you have given the numbers for Jaypore and Shantanu, Rs. 31 crores revenue and loss of Rs. 10 crores. So what is the plan in terms of scaling up? Are you benchmarking against Manyavar, which is the gold standard here? So would you expect to catch up in terms of the product portfolio and eventually long-term even in terms of retail expansion, etc.?

Ashish Dikshit: No, not really. I think these brands are positioned very differently. Their sort of price positioning strategy is very different. And therefore, they have their own path. As Jagadish mentioned that our immediate short-term objective is to open between six stores to ten stores in each of these brands over next eight months - ten months, and we will see how that business grows from there. Both these brands are far more premium and have a very different product portfolio.

Abneesh Roy: And sir, last comment on E-commerce, that has always been the fastest growing channel for you. In terms of share of business, it was high single-digits. So in terms of growth, if you could discuss, is there any slower growth in E-commerce? We are seeing a very similar kind of pricing now being across both physical and E-commerce. So is that impacting the growth rate here?

Ashish Dikshit: I do not think so. I think we may not have specifically called out the number. But our growth rate continues to remain high, highest clearly. But I think it will be in excess of 40%.

Moderator: Thank you. We have the next question from the line of Aditya Somani from Goldman Sachs. Please go ahead.

Aditya Somani: So first question, so there is a clear discrepancy in the growth between retail and wholesale. And this has been something that we have seen for the past couple of quarters. So any sort of call on when you expect wholesale growth to sort of return? And is there a shift in channel in terms of why you are selling more directly through your own channel rather than wholesale? Is there any shift like that in structure?

Vishak Kumar: Yes. I think, Aditya, you have observed correctly. In fact for the entire industry, the small MBO business has been under a lot of stress. There is pressure on liquidity in that channel. So that is clearly one dimension and we are dealing with it to the extent that we have many partners with whom we work. So we are supporting that channel as much as we can to help them to grow. Separately, we are also accelerating our own EBO growth, which is as you would have noticed



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grown significantly, we have put up a huge number of stores. In fact, in this quarter alone, we would have put about 130 stores. So that continues very strongly. What we have also done is to support the MBO channel. As like Jagdish was saying a little earlier, we have moved to a 12 season model, which allows for our trade partners to consume inventory as they sell. So it allows them to right stock their inventory and just get the right kind of inventory much closer to market. That has a short-term impact on primary sales for us. But it is the right thing to do to help the market to grow. Finally, to answer your question on how soon do we see this channel growing, we do not know and it is also not just one homogenous set of retailers. There are very different kinds of retailers with their own challenges. All I could say is we are doing a lot of things to help them to grow, 12 season is one of them, a lot of local merchandising and things like that to help this channel grow. But it is under some stress at this point of time.

Aditya Somani: I think just following up on that. What extent do you think in this quarter or in the nine months was the impact of basically a scale down in inventory in the channel? Or any way you can break that out or an impact just of sort of lower sales by the time?

Vishak Kumar: Yes. So it has affected sales. The thing is that our secondary sales in the market continue to be strong, okay? We are clear market leaders there. So it is the primaries, the retailers tighten their stocks because we have given them the option to do so.

Aditya Somani: Fair enough. And any number you want to share on secondary sales?

Vishak Kumar: I do not know. But it is not as good as our retail. Clearly, the consumer preference for exclusive stores has been stronger, okay? So that is reflected in their numbers.

Ashish Dikshit: So Aditya, there are two factors, which Vishak is talking about. One is the structural shift as consumers move to more better form of retailing. And only some of the retailers, multi-brand retailers, trade customers are able to upgrade themselves. And therefore, there is a shift away. The second is the liquidity issue, which affects any channel partner. And that probably is more temporary whereas the first one is relatively more structural.

Aditya Somani: No, that is very clear. And it is good to note, I mean, obviously that shift towards your own sort of stores is positive. And secondly, on Pantaloons, the store adds for the first nine months has been a little below of sort of guidance for the full year. What will be the guidance for the full year at this point?

Sangeeta Pendurkar: Yes. So on expansion, I think as we have strengthened our model, of course, first, on versus what we had indicated for the full year, we have said 50 stores to 60 stores. We are on track. We should be close to about 55 stores to 60 stores for the full year. So we stay on plan on that. And as we are now more confident of some of the foundational shifts that we have made in our business and the way we will be able to see how we accelerate this agenda going forward.



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Moderator: Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: First question is for Vishak. So Vishak, you mentioned that your expansion is the way forward. And even if I see the nine month run rate, 160 stores for nine months. So is this a strategic shift led by value migration happening in that direction? Or are we seeing some other trends also for this direction?

Vishak Kumar: So clearly, answer is, yes. There is a strategic shift here to move to a stronger retail model. And this is across account types, okay, big cities as well as through small towns. So that is clearly there. What we have also been able to do is to unleash the power of entrepreneurship through a lot of partner franchise stores. So Madura, as you know, has always had very strong partners in the market, okay? So we have been able to strengthen that further, allow a lot of people who are either doing multi brands or some other businesses to be able to put up stores for us in many towns and they have been able to do that very successfully. And as word of mouth keeps getting stronger on the success of these stores, it becomes even easier to put up more stores. So clearly, the growth lever of adding more stores, penetrating deeper into catchments and markets is there. And there is a lot of opportunity there as we go along. In each of our brands, we have been able to create a viable retail business model, which allows stores to be profitable for partner and for us So that is there as a directional trend, Tejas.

Tejas Shah: So we converting our distributors to MDPs is that part of the strategy or that is exclusive to this one?

Vishak Kumar: I am not sure what context that is, Tejas. I will have to understand that better separately. I do not know.

Tejas Shah: No, I will take it offline. Second is when we see the working capital efficiency of EBOs versus wholesale, is it same or because wholesale, you have much more bargaining power and because you are dealing with very smaller people. And over here, I think one guy will have five shops or six shops, franchisee stores. So is the bargaining power in terms of working capital efficiency enough here?

Vishak Kumar: Okay. Tejas, first of all, look, there is a difference of consignment stocks versus buy-and-sell stocks and so on. But eventually, it is success with consumer, okay? If you have an assortment, will succeed with consumer, if you have merchandise rotation, which creates freshness for consumer, any business model can be made to work. The advantage we have got with our current model is it is an intelligent model. So the quality of assortment that we put together goes through a lot of data analytics, okay? We have got tools which allow us to fine tune store configurations for each store and then replenish every day based on what sold the previous day. So some of these things are superior models, which help us to make the retail more viable.



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- Tejas Shah:** Okay. And any reason for margin contraction in Lifestyle brands this quarter, Y-o-Y basis?
- Vishak Kumar:** It is like Jagadish explained, it is primarily the shift, the wholesale trade is all said and done are very profitable model for us, okay? So there is a dip in that channel, actually, it is the singular reason for the small dip.
- Tejas Shah:** Sure. And lastly, on Pantaloons margin, so congrats on double-digit margins for the first time. But the usual drivers of private label are SSG being higher. They are not that there actually to suggest such a sharp expansion more. So what are the factors which are actually contributing to this nonlinearity here?
- Vishak Kumar:** Tejas, I will get Sangeeta to respond to you. But let me just start by telling you that for last four years, our margins have moved from 4% to now 7% - 7.5%. We literally tripled our profitability. And it has happened without a dramatic shift in private label in terms of share nor a dramatically high same store growth. And we have discussed those reasons over the calls. So you should not be surprised, therefore, an even better performance without dramatic shift on those two drivers. But I will get Sangeeta to answer what is driving that improvement in profitability.
- Sangeeta Pendurkar:** Yes. So I think, first, our endeavor has been to drive our same store growth and our same store growth, as you have seen again Y-T-D if you look at it is one of the highest that we have ever seen in the recent few years. And some of the key drivers of this as we have discussed on several calls before is our consistent focus on understanding our shoppers and making our merchandise a lot more relevant to them both from a value equation standpoint, improvement in product aesthetics and design language, making sure that our planning model significantly improves. We have now nationally rolled out a platform for planning, which allows us to allocate our stocks better at a store level, the investments that we have made in the brand. So on the private label agenda, yes, we have probably been a little slow. In this quarter, you specifically see a shift because again because of festive, where we do see a preference of shoppers moving more in favor of the non-private label. But on an annual basis, we are pretty much holding our numbers versus last year. And now that we have got our basic model right, we hope to then deliver a better performance with a shift in our private label portfolio going forward.
- Moderator:** Thank you. We have the next question from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.
- Vaishnavi Mandhaniya:** So on the Madura Lifestyle brand, so if we see like the channel wise sales mix, which for this whole year, if we look at the nine month average, right, it actually moved more towards retail versus wholesale, which the reasons that we have stated before, the business liquidity and all. So basically, what impact can this have going forward on the margins and on the working capital front and basically in Pantaloons? That is the first question. Second question on Pantaloons, what can we expect to be the trajectory in the margin expansion going forward?



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- Vishak Kumar:** Okay. Vaishnavi, I think it is a good question. A, is there a shift in weightage towards retail? The answer is yes. But our retail model is a sound profitable retail model. So as we scale up retail further, we should be all right on margins, even when the weightages are much higher for retail. B, the trade channel is a very important channel for us. We will continue to do all that we can to support that channel and strengthen that. So that will also continue, all right? So there is the one-time perhaps correction of inventory that people are going through with our 12 season model, which helps actually to make that channel more robust. There is a lot of liquidity pressure in that channel, which hopefully over the next few months should ease. And as that happens, we should look forward to being able to squeeze that better as well.
- Vaishnavi Mandhaniya:** One-time inventory correction, what happened in this quarter that did not happen?
- Vishak Kumar:** Look, correction is, I do not know if that is the right word. But basically, retailers are learning to buy tighter, okay? And once they connect to that base, after that, yes, we are just allowing them to become more full based in the way whatever they have sold the previous month, they are able to order that for next month.
- Vaishnavi Mandhaniya:** Okay. Right and on the Pantaloon's?
- Sangeeta Pendurkar:** Yes. On Pantaloon's, again as you have seen that, as Ashish mentioned that over the last few quarters, eight quarters and over the last two years - three years, we have consistently improved our margin. Our endeavor will be to continue on that trajectory of improvement. At this point of time, we would not like to put a number. But directionally, our efforts will be to continue to improve on the base that we have created.
- Moderator:** Thank you. We have the next question from the line of Amit Purohit from CGS-CIMB. Please go ahead.
- Amit Purohit:** Just on this Pantaloon EBITDA margin performance, so while you discussed earlier also with respect to the initiatives that you have taken, which is other than the private label and the SSG. So is it safe to assume that some of the new stores probably, which have been opened over the last two years, three years, they have been much more profitable than the earlier stores that is driving and the new stores, which are getting opened, are breaking even faster and that is why this margin is dent has been seen or it is purely overall cost rationalization What should ascribe it to?
- Ashish Dikshit:** I think if you look at it over a medium period of time, we have three drivers which improve retailers profitability. One is the gross margin improvement and that come from both increased share of private label. But sometimes, even non-private label, if you are able to improve the sell throughs then the rotation improves with that. Markdown management is another lever, which is invisible to external world, but it is an important lever because poor inventory management results into lower full price sell throughs result into high markdowns. So these two are the drivers



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for gross margins. And in Pantaloons case, it is the second which has been improving year-on-year that is driving the improvement in gross margin. A lot of it, it which flows back into EBITDA. The second thing is the leverage of scale on the fixed cost of operations. As you know, we have been growing this business 14% - 15% year-on-year, both a combination of like-to-like but even through expansion. And that is been driving the fixed cost leverage. So the combination of these two. On top of it, the like-to-like is obviously also a function of price premium that you are able to generate, the kind of customer traffic, which is now beginning to play only this year. Because if you go back a year back and a year before that, the same store growth numbers were low single-digits. It is only now that we are consistently able to deliver reasonable like-to-like performance. So a combination of a stable same store improvement. Improvement in gross margin, primarily driven by better planning, assortment management and lower markdowns and leverage of fixed costs are the three drivers, which are driving this.

Amit Purohit: Okay. And just on this initiative that we started in the beginning of the year, which is shorter and faster rollout of new products, now is that -- will roll out to all the Pantaloons stores? Or is it to select and we are rolling it out the across?

Sangeeta Pendurkar: No. That is all across and we have gone live with it, and significantly improved the freshness in our stores. And that is one of the factors that is contributing to our consistent growth.

Amit Purohit: Yes. So I mean we do -- the launch is almost once in 15 days, in a fortnight, right? Is that the right to say?

Sangeeta Pendurkar: Yes. So we have a percentage of freshness going in. So there will be something fresh that comes into the stores every fortnight. And that is how, it flows through the season.

Amit Purohit: Sure. And I mean just what will be the general industry standard? I know, I mean, you are employing on yourself. But what would be the industry or regular LFS or large detail format stores would be doing this?

Ashish Dikshit: I do not think we would comment on individual players. But to give you, first, a sense that this is not a function of player or the format, it is also a function of the kind of location that it is. So if you are operating in South Bombay (Mumbai), you will operate with very different level of turns or South Delhi or big metros. As you keep going down, the turns reduce, but your profitability improves because your cost leverage is higher, the overall retail expenses are lower. So it is a constant sort of variation. And the variation is very wide between these two numbers. So it is a function of how your network is uniquely positioned between high throughput markets, medium throughput markets and the low throughput markets, which actually defines what is the overall turn of the inventory for the system.

Moderator: Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.



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Tejas Shah: Just one follow-up for Vishak. Vishak, when we started this year, honestly, the target of 350 plus store look very ambitious. But now we see, you could be very well achieving this and in this quarter, you managed more than one store per day opening. So in the current environment, when our economy is in so bad shape, how are we able to recruit new franchisee partners? So that is first. And second, is this recruitment of existing brands, some other competitive brands, reviews are coming into our fold or these new people to the trade all together?

Vishak Kumar: Okay. So thanks, Tajes, but I can now say I told you so. So we were quite confident of expanding. And the basic reason for that is the unit economics. Once the store model is viable, scaling up, it becomes easier. And especially with partners, what tends to happen is it is a small world. So once you create proof of concept, once you create successful stores in various kinds of pop-stratathen the word spreads fast and people open. It is a mixed bag in terms of composition of we, at Madura, have always tried to strengthen relationships with existing business partners. So many of them have opened stores, have multiple stores, there are partners who opened 10 stores - 12 stores this year with us. But there are also new people. Like we have got a college professor who has moved to running a store in Dindigul. We have also got people who are having multi brands have added one more store with us and some which are shifting from competition brands to us. So that is an assortment of all various kinds. And we have a reasonably robust method of training their teams, getting the standards of franchising and so on, so that the consumer experience is good when we do this.

Tejas Shah: Sure. And usually, this kind of ramp-up is seen by consolidation in some form because the earlier stores also sees that progress and the P&L one year. So let us say, out of the 350 stores, first 100 stores would have had first Diwali of after four months - five months. So how do you respond? Do you believe that this new unit economics, which you are talking about in this sector and it is now skewed as much as possible?

Vishak Kumar: Tejas, we have been in this business for more than two decades, okay? So it is not like these are the first stores we are opening. So it is just that we have accelerated the pace of expansion. So stores existed last year, year before and many, many years before. I have opened stores in 1995. So it is just the pace of expansion and what is helping in that is I think there are new markets that we are going into. There are more viable formats that are coming up, and that is what is driving the faster pace of expansion. We have also strengthened the kinds of assortment that we have got, which help us to make retail even more viable. For example, a very, very strong wedding driven suits line makes a retail very, very viable in a lot of markets and so on, depending on the kind of catchment.

Tejas Shah: And lastly, what is the initial response to this digital workflow? How is trade picking it up?

Vishak Kumar: Two parts to it. There is a part which is about being digital, okay. And there is a part which is about being more frequent, which is to move to 12 times a year. So clearly, 12 times a year, people really like the idea, okay? It helps make them more close to market gives them a lot of



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flexibility to see what is selling. Because most people can get a very strong sense of what will sell next month, okay? So that clearly has helped them. On moving digital, people are learning to get used to technology. We have also gradually improved the experience, when you go to a basement of somebody's office is in a basement, net connectivity is low, those kind of things. We have also fine tuned our way of booking this and so on the digital system itself. So my sense is that might take another couple of months to get fully streamlined. But the conceptual, really, the retailer loves it.

Moderator: Thank you. We have the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: I had a question on innerwear. So just a basic question, innerwear sales, which we report are they primary sales or are they secondary sales?

Ashish Dikshit: Primary sales.

Mayur Parkeria: Okay. And can you give some color on how the secondary sales are shaping up in terms of both menswear and innerwear? Will that be much different than the primary numbers?

Ashish Dikshit: No. I think we were initially launching it about two and half years back. At that stage, the brand was new, familiarity was less. And therefore, there was more primary than secondary. But in the last two years, secondaries have caught up because, as you can understand, retailers only allow those products to survive in their cycle, which have the rotation and customer traction. So now these are well established. The product has found traction. The brand was always considered good in premium. Our significant product differentiation helps us stand out. At the tertiary level, which is the consumer offtake and consumer repeat, that is the cycle that we are now undergoing now that customers have started to buy exclusive for three months - four months - five months. And we are beginning to attract that also through different mechanisms and there also, our indicators are pretty good.

Mayur Parkeria: Okay. Sir, secondary sales and tertiary sales, what is the difference?

Ashish Dikshit: So secondary sales is when distributors sell to retailers and the retailer sales to consumers, that is tertiary sales in this channel system.

Mayur Parkeria: Okay, okay. So the tertiary sales pickup is the cycle has just started to play out?

Ashish Dikshit: No, it is been around. Our products have been selling for two and half year, Mayur. So the cycle is very strong. This is also a category in which consumers buys more often and therefore, a very large number of consumers that have sampled, tried it, come back and so on. These data are more difficult to get in an environment like this. But we have our own selected systems of tracking some of it primarily to understand their feedback. So it is a system where if your tertiary



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does not work, secondary would not work, if secondary does not work, primary does not work. So it is a very straightforward system, which you can run for three four months without it. But you cannot run it for all three years.

Mayur Parkeria: The second question, one on the Pantaloons side, while the Pantaloons growth was like-to-like of 4.9% is definitely good in the light of the previous your head seen a good 17% like-to-like growth. But given the like-to-like base, none of the two years of growth, two years of addition which had come in the stores expansion, are you, as a management, a little disappointed with 5% growth or the recent growth rates which are coming? Should not be that a little more, given the scale of brand new stores which were added?

Ashish Dikshit: No. There see multiple levers which are getting played out. The stores which are getting created are on one side, beginning to get their first, second, third year. Similarly, stores which are 15 years old are getting their 17th year. So it is a combination of how that base is moving. Also, it is a mix which shifts season-to-season, primarily due to share of private, for example, this quarter, the share of private brands has dropped a little bit. That has also affected the rotation in that period. Now 5% growth on a 17% growth, I do not think we should be disappointed.

Mayur Parkeria: Okay, okay. Last one, financial question from my side to Mr. Jagdish. The rent expenses are a seeing huge volatility since the time we have shifted to this IndAS situation. Last quarter, Rs. 100 crore, now Rs. 150 crore, so any color on why there is a big volatility? Before, that was Rs. 120 crore. So what is driving such volatility in the numbers in terms of the quarterly movements?

Jagdish Bajaj: No. Actually, if you see the comparable number from the table, the rent expenses have gone up and that is primarily linked to the rising share of retail. And the expansion of our network.

Mayur Parkeria: But sir, quarter-on-quarter, Rs. 100 crores just moved to Rs. 150 crores?

Jagdish Bajaj: Quarter-on-quarter?

Mayur Parkeria: Yes. Last quarter, Q2...

Jagdish Bajaj: It is linked to sales, network expansion and all. If my sales are more, franchisee commission will also sit in there. The retail sales are more so therefore, the rent, it parks in rent expenses.

Mayur Parkeria: The franchisee commission?

Jagdish Bajaj: That is right.

Moderator: Thank you. We have the next question from the line of Alok Shah from Edelweiss. Please go ahead.



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Alok Shah: Two questions. One is that with respect to, as you mentioned, about having favorable store economics in an EBO format. Now is that also coming because you have a higher throughput from the E-commerce channel. And if yes, then the pace of store expansion should continue to remain quite strong, especially in Tier-II, Tier-III cities?

Vishak Kumar: Alok, they are almost not connected. The E-com business is I would not say fully independent, but it is fairly independent from the EBO business. The EBO business requires physical space, physical store viability to be found and so on. The E-com business, as you know, has been growing at its own pace with the large players, E-tailers who are driving that growth. What we have insured, in fact, like somebody was saying a little earlier that we have parity on pricing, parity on discounts and so on, so that the consumer gets the same price experience across various channels. So to that extent, it really does not affect, the one does not affect the other.

Alok Shah: So the fulfillment of E-commerce is not really happening through the EBO channel, is it?

Vishak Kumar: Okay. Yes, that is a new development. Where, in fact, we have been early pioneers in terms of fulfillment through stores. But it is still in very early stages. The E-tailers are also fine tuning models. We are also improving the quality of integration of systems and so on. We have done pilots. But it is still in its early stages there. But you are right. It can be a huge competitive advantage to have a strong, well penetrated EBO network from which E-com customers can also be serviced.

Alok Shah: And secondly, was a bit more on the bookkeeping side. With respect to this deferred tax asset that has been there this time around, so what would be the effective tax rate for FY 2021, if you can please give some guidance around it?

Jagdish Bajaj: FY 2021 and FY 2022, we will not have any tax. But since I have deferred tax, as per the new rate, 25%, I have to charge it, linked to my profitability.

Alok Shah: Okay. So it is just a one time...

Jagdish Bajaj: It is onetime but the remaining assets with rising profitability, I am going to consume these unabsorbed losses with the raising profitability. So the marginal rate could be the recently defined corporate tax rate that is 25%, net current tax.

Alok Shah: There was some from the previous quarter, but the full recognition of that has been in this quarter?

Jagdish Bajaj: Yes, this is only one time because when it is 35% to 25%, you have to rewrite your assets.

Moderator: Thank you. We have the next question from the line of Aliasgar Shakir from Motilal Oswal Securities. Please go ahead.



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- Aliasgar Shakir:** I had a couple of questions on Pantaloons. First question is on your throughput. So revenue per square feet has remained the Rs. 8,000 - Rs. 8,500 range and now that, I mean, we are seeing improving SSG. How will you look at this throughput? And what level do you think should be comfortable on all targeted levels? Or I mean, how are you looking at that as your economics of the business and better profitability?
- Ashish Dikshit:** See, let me first start by telling you this has limited correlation with profitability. As I was explaining earlier, throughput is a function of location. We have stores with 15,000 - 18,000, and we have stores at 4,000 - 5,000 or so because if you are operating in a lower throughput areas, you also pay lower rental. And sometimes, it is a lot more profitable compared to very high throughput stores where you also are paying higher rentals and profitability is a question mark. So as your know our long-term strategy of Pantaloons is to be able to address a very large part of Indian middle-class population, which reside both in metros, Tier-I, Tier-II, Tier-III, Tier-IV cities. We are constantly growing in the markets that we exist, which has top 100 markets - 150 markets. We are also entering newer markets, which are the smaller cities, which are equally profitable, as discussed earlier. But sometimes come with lower productivity. And therefore, the numbers is a function of what is the mix of the markets that we are carrying.
- Aliasgar Shakir:** In that context, just a quick follow-up. So these 55 stores - 60 stores that we are looking to add, would you have any broad understanding in terms of how much would this be in the top-tier cities or smaller cities? Or this will be spread across?
- Sangeeta Pendurkar:** So a few of these stores have been opened in metros, but a large number of these stores would be opened in Tier-II and Tier-III towns.
- Aliasgar Shakir:** Okay. So is the composition changing because of our increasing store going lower down the tier?
- Sangeeta Pendurkar:** So over the last couple of years, two years - three years, we have obviously been expanding our distribution footprint in Tier-II, Tier-III towns. But as and when there is an opportunity where we believe we can drive penetration further in existing cities, we continue to do both. So the composition, yes, is over a period of time, marginally changing as we continue to expand. And that will be the case. But at the same time, our metros continue to be our large contributors to our business.
- Aliasgar Shakir:** Got it. So that is what explains, I mean, sort of reducing or sort of flattish throughput that we would be going more down the tier? Okay.
- Ashish Dikshit:** Yes, the productivity is lower in smaller markets, higher in higher markets because they are more prepared.



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Aliasgar Shakir: Got it. Second question, on your private label, I am not sure if I missed this, I just want to understand. So where are we, I could not find it on our presentation, but where are we in terms of our current private label mix? And we have been earlier calling out that we want to increase it to about 70% - 80%. Does that target remain? Or are we looking to expand it even further?

Sangeeta Pendurkar: Right. So as I have stated before, it is there in the deck and we have indicated the percentage versus last year, we have, almost Y-T-D at a Y-T-D level, held the numbers. As you said, we have been slightly slower here versus what we would have liked. In quarter two - quarter three, you also see a little bit of shift, as I said earlier, towards non-private label preference from a brand standpoint. Our stated intent still remains, we also clarified it at every point of time. And we have indicated this number. This is again, it will take time. Our intent is still the same. We are accelerating this agenda. Our first focus over the last 18 months was to get our fundamental business model right, which now, we feel a lot more confidence of. We are also launching new categories as we speak, a new private label brand, as we speak. So we launched a brand, a label under the name of Candies, which is slightly more high fashion and targeting the younger audience that has gone into our stores just starting September, and we should see a full year impact of that in the coming months. We also have the integration of people, which starts in the month of February now. So people will get into 60 stores to 70 stores of Pantaloons in the season, as we have started the season. New categories during the course of the coming fortnight, we are launching in a few of our stores, we are launching home as a category, which is, again, a bet that we have taken because we believe for our shoppers, home is now an integral part of fashion and the way consumers like to do up their homes. They are seeking items which indicate the status and fashion questioned. So our label called Living Scapes is what we are launching, and all our home products would be under this label. We are also launching sarees starting this season in about 40 stores to 50 stores under Rangmanch label. So we started our agenda and our intent remains the same and all efforts are on to accelerate this.

Aliasgar Shakir: Okay. This is very useful. I still could not find the amount of private label mix this quarter, if you could just call it out?

Ashish Dikshit: It is 61 for the quarter, and I think 62 for the Y-T-D nine months period.

Sangeeta Pendurkar: 61. For the Y-T-D nine month period

Aliasgar Shakir: And we plan to take this up to about 75%, if I am not mistaken?

Sangeeta Pendurkar: Yes. This is, like I said, this is a journey that we have started on and it is something that we attempt to accelerate. It is not something, obviously, that will happen in a few months but it is a concerted effort that we are accelerating.

Moderator: Thank you. We have the next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.



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- Vinod Bansal:** A couple of questions. One, on the Pantaloons, what would be the private label contribution the new stores that you are opening now say this year, Y-T-D?
- Sangeeta Pendurkar:** So depending on where the stores are, our private label contribution as we go down the pop-strata, we see the contribution to be higher versus our national average. But as I mentioned earlier that our stores that we are opening, we continue to open larger stores in some of our metro cities and smaller stores in smaller towns and it is in excess of 70% - 75% in our smaller stores.
- Vinod Bansal:** And the larger metro city stores, what that number would look like?
- Sangeeta Pendurkar:** So in metro cities, it, again, varies based on the type of stores, it changes anywhere between 60% to 65%.
- Vinod Bansal:** Okay. The other thing, you have been talking about the improvement in gross margins led by inventory markdowns being lower this year. Could you share some numbers on what is your full priced sales through? And where, if you would like it to be in the medium-term?
- Ashish Dikshit:** So Vinod, we do not share these numbers at this operational level. But suffice just to suggest, the movement is from early 50's to early 60's.
- Moderator:** Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Sir, I just wanted to understand what would be your CAPEX needs for FY 2020 and 2021? And when we are talking about the store expansion, bulk of the store expansion under the partner or the franchisee mode?
- Ashish Dikshit:** Yes, you see, a large part of our small format expansion, which is the Lifestyle brands and other few other small formats, is mostly through franchisees with the extent of 75% to 80%. Pantaloons about 75% to 80%, on the other hand, is our own capital. The overall capital in the business that we expect to invest this year in form of CAPEX would be about Rs. 350 crores to Rs. 400 crores and that is the trajectory we see even going forward.
- Pritesh Chheda:** And what would be your operating cash flow post the working capital for the nine months?
- Ashish Dikshit:** You have the numbers, Jagdish?
- Jagdish Bajaj:** I do not have readily number because balance sheet, I will give it to you separately.
- Pritesh Chheda:** Okay. My observation here is considering the Rs. 400 crores CAPEX, and if your debt has not increased much, is it that you have further brought down your working capital?



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Jagdish Bajaj: See, as I explained in September quarter that my net working capital company as a whole has gone up primarily on account of two - three things. Firstly, it is in line with our overall sales plan. Number two, the MSME regulations has impacted us in terms of our creditors payout, better increased my net working capital. And during this quarter, my cash flow, as you were asking me, I told that my debt during this quarter has gone up by Rs. 71 crore, primarily, it is coming in from the net working capital and the ESOP investments.

Pritesh Chheda: And lastly, I want to check, we are running at 3x debt to EBITDA for quite some time.

Jagdish Bajaj: Yes.

Pritesh Chheda: Is there a plan or mention to bring this number down, do have any focus on this number? Any thoughts there, sir?

Jagdish Bajaj: See, for the last three years, we contended our debt in the range of Rs. 1,900 crores to Rs. 2,000 crores and we were slower in our growth, with confidence coming into our business model, as I was telling you in my speech that our profitability is raising. So yes, debt-to-EBITDA is more than 3x and the target it to remain in this range, below 3.5x. So I know debt driven growth is not good. But we have to grow and our earnings are supporting us. So financial indicators are good.

Pritesh Chheda: Okay. So you are comfortable with this 3x that will...

Jagdish Bajaj: Yes, I will say below 3.5x, 3.5x is good.

Moderator: Thank you. Ladies and gentlemen, this was the last question. Thank you very, 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.