



“Aditya Birla Fashion & Retail Limited Third Quarter & First 9 Months of FY21 Earnings Conference Call”

February 8, 2021



MANAGEMENT: MR. ASHISH DIKSHIT - MANAGING DIRECTOR, ADITYA BIRLA FASHION & RETAIL LIMITED
MR. JAGDISH BAJAJ - CHIEF FINANCIAL OFFICER, ADITYA BIRLA FASHION & RETAIL LIMITED
MR. VISHAK KUMAR - CHIEF EXECUTIVE OFFICER- LIFESTYLE BUSINESS, ADITYA BIRLA FASHION & RETAIL LIMITED
MS. SANGEETA PENDURKAR - CHIEF EXECUTIVE OFFICER, PANTALOONS



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Moderator:

Ladies and gentlemen, good day and welcome to the Third Quarter & First 9 Months of FY21 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, Chief Financial Officer; Mr. Vishak Kumar, Chief Executive Officer-Lifestyle Business; and Ms. Sangeeta Pendurkar, Chief Executive Officer-Pantaloons.

I want to thank the management team on behalf of all the participants for taking valuable times to be with us. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter and nine month'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:

Thank you. Good evening and welcome to the earnings call of our company. Let me first take you through the highlights of the quarter. This quarter saw a significant business recovery quarter-on-quarter as consumers came back to stores as well as bought heavily online driven by festive wedding seasons and with news around declining infection spread.

Our revenue grew 100% quarter-on-quarter versus Q2 FY21 and was 80% of last year level at the same quarter last year. The company delivered a consolidated EBITDA of Rs. 422 crores almost same as last year level despite lower sales. The strategic business transformation continues with work around enhanced digitization of front and backend and strong focus on innovation around creating products that are more relevant during these times.

We have accelerated our network expansion and launched more than 300 stores across businesses and formats in line with our strategic plans around entering smaller towns of India. Important to note that a strong case generation from operations during the quarter we have been pairing our debt consistently over the last few months with rights proceeds and preferential issue money. By 31st March 2021 we will reduce the net debt by almost 90% from exit of last year levels.

Now let me give you a snapshot of the financial performance of the company. I will begin with an update on Q3 2021. The revenues of the company were Rs. 2,076 crores which is 80% of the same period last year. Despite lower sales the consolidated reported EBITDA is at Rs. 422 crores which is same as that in Q3 last year. The EBITDA margin expanded by 400 basis points from 16.4% last year to 20.3% this year.

Profit after tax for the quarter is Rs. 58 crores compared to net loss of Rs. 38 crores during Q3 last year. The improved profitability is driven by superior product offerings, better discount management and relentless focus fixed cost control driving expansion in reported EBITDA margins. During this quarter, the total cost savings on account of employee cost, rent expenses and other expenses is Rs. 157 crores with this during the nine months period the company has reduced its fixed cost by Rs. 1,029 crores from its course base of Q4 FY20.

Another highlight of this quarter has been strong cash flow that the business had generated from operations amounting to Rs. 588 crores including reduction of inventories by Rs. 325 crores. As of today the net debt stands at Rs. 580 crores after taking into account the proceeds received from preferential offers and first call of rights issue.

Let me emphasize that we are confident that the margin debt will be approximately Rs. 250 crores. This is prior to investment in brand Sabyasachi. Further we expect to receive Rs. 250 crores from the final call money from our rights issue which is due in July 2021. These initiatives have substantially strengthened the balance sheet of the company enabling it to pursue this growth trajectory going forward.

I will now take you through the performance of individual businesses starting with our lifestyle brand business. The lifestyle brands reported 92% of the last year sales in its own retail channel this quarter which reflect a like-to-like de-growth by 17%. This is an industry leading performance and a testimony to the strength of our brands and their versatility to fulfill consumer requirements in all market conditions.

Secondary sales in the wholesale channel of MBOs and departmental stores is also estimated to be in the range of 70% to 80% of last year however the primary sales to this channel what control to ensure liquidation of existing inventory in the channel. Consequently we expect robust recovery of sales through wholesale channel in Q4.

Ecommerce sales continue to rise significantly for the division and our brands are available on all leading ecommerce platforms. Our deepening partnership with Myntra, Flipkart is expected to give a fillip to these efforts. I would like to reiterate that Madura brand is one of the largest ecommerce apparel players in the country. Store expansions, last quarter lifestyle brands commenced its aggressive store expansion strategy and till this quarter opened about 300 stores in the year.

PE rate continues to conquer newer markets crossing 300 stores milestone this year. Best is the success experience in these formats business is also taking its other brands to smaller towns in India. Q3 FY21 revenues of the division were Rs. 1,026 crores registering a de-growth of 21% over Q3 FY20. The EBITDA at Rs. 192 crores versus Rs. 224 crores in Q3 FY20 which is a de-growth of 14%.

The Pantaloons business, Pantaloons division has recorded its highest ever EBITDA margin level of 23%. Pre-IND-AS the absolute EBITDA even surpassed Q3 FY20 and margin expanded by 300 basis points. This was on the back of excellent inventory management and lower discounting leading to higher gross margins along with company's push to cut costs on rents, manpower and overheads.

Rent alone recorded a 75% pre-Covid level of sales. Mall stores are taking longer to recover than high street stores and similarly the metro and tier 1 stores are recovering slower than the others. The Pantaloons business took slightly longer to recover as it operates large format stores which opened relatively later than the life stores. Ecommerce continues to make strides growing 2.3 times in the quarter across our own Pantaloons.com and partner sites.

In line with this strategy to increase its private label share Pantaloons has launched new categories of home, sarees, bags and other accessories. Pantaloons opens 7 new stores during the quarter and expect addition of 20 to 25 stores in FY21. The revenues of this division were Rs. 811 crores registering a de-growth of 25% over Q3 FY20. The reported EBITDA at Rs. 190 crores versus Rs. 197 crores in Q3 FY20 with an EBITDA margin is now at record 23.4%.

And lastly, our other businesses which includes inner wear and international brand. The inner wear business continues to scale up rapidly and has reached 20,000 plus outlets at the end of December 2020. The revenues of this segment grew 24% over the same quarter last year. The ecommerce channel grew over 270% over last year. This was possible with the increased acceptance of our menswear and womens wear, Van Heusen innerwear and Athleisure with seasonal thermal wear.

We expect this business to show its continuous strong growth momentum. Global brands which consists of youth brands and premium and super premium brands. The youth fashion and premium international brands continues to witness a strong momentum. Forever 21 achieved 80% revenues over the same period last year. The ecommerce business grew by 3 times over the last year showing strong traction.

The business posted profits indicating a profitable growth path ahead. Similar results were seen in American Eagle where the business grew 42% over last year. The super premium global brands business segments which includes the collective and international brands also witnessed a sharp growth of 20% year-on-year with a strong profitability.

Our own ecommerce site thecollective.in recorded a 5 times growth over last year. Revenues from other business witnessed 7% de-growth over same quarter last year from Rs. 237 crores to Rs. 220 crores. Ethnic wear, Jaypore is 100% subsidiary of the company and has grown 15% over last year on the back of ecommerce sales in the categories it operates.



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The brand also opened its first ever store post acquisition in Bangalore. Shantanu & Nikhil opened 3 S&M big stores in Delhi and launched brand commerce website. Finally on the Sabyasachi partnership we at ABFRL believe that over the next few years ethnic wear is going to be an increasingly important category. The Sabyasachi brand though its emphasize on excellence in design and craftsmanship has set new benchmarks and captivated the imagination of the sophisticated global Indian consumers.

This is part of ABFRL's strategy to create a portfolio of brands that addresses the entire gamut of ethnic wear segment that is value, premium and luxury. 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 Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, we have seen across apparel companies, apparel retailers on gross margin and EBITDA margin positive surprise so last nine months has been extremely tough for the industry. So do you see two, three quarters of good gross margin and EBITDA margin continuing or this is short term? In the past we have seen sale season and discounting coming back strongly this time what is the sense you are getting?

Jagdish Bajaj: So thanks, Abneesh. See we had indicated I think very early on and we have repeated in several of our calls right through the year that this year the industry as a whole is using the opportunity to going down the inventory as you bring down the inventories the level of freshness initially comes down but over a period of time due to lower levels you are able to introduce fresher, newer inventory and that is what is resulting in gross margin improvements. I expect that trajectory to remain steady and improve in the near term.

On the EBITDA margin however it is a different story simply because of the seasonality that the industry has. You know it is industry operates with strong cycles on festivals and that is why Q3 always holds a very different performance. So there I would recommend that in terms of any indication one should look at same quarter performance previous year as a better reflection of it.

I think recovery as you have seen the sales recovery is still below last year. It is about 20% below across various formats little bit plus and minus and that is something that needs to come back for EBITDA margins to sustainably improve.

Abneesh Roy: Sir, second question on innerwear, yes, you are still seeing growth. When do you see the high growth coming back because now we are seeing the people going out and offices also starting in some measure? So you guys going much, much faster than the industry so when do you see that coming back?



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Jagdish Bajaj:

So I think innerwear is faster to recover primary reasons are two. One is it is a widely distributed category and wherever the distribution is through small format stores and multi brand outlets and the category being more basic and essential in nature these two have driven the category. This quarter we have recorded 24% growth. I think this is a strong sign and this will continue to grow as consumers keep coming out a little bit more.

The growth of Athleisure emergence of that as a category active wear and womens wear where we have just started a year back or so will be strong drivers for us. So I think you will continue to see improved growth trajectory as you look forward.

Abneesh Roy:

And last question. With mobility coming back do you see ecommerce leading shares and the physical store buying again come back? In FMCG for example companies feel ecommerce will still grow much faster than rest of the channels so structurally ecommerce will keep going? In your case what is the sense you are getting for next one year, two years?

Jagdish Bajaj:

Abneesh, it is similar because you see consumer shift to ecommerce is unidirectional democratic and I think is going to continue to improve over a period of time. In last eight, nine months because of the closure of physical stores perhaps it is somewhat exaggerated in terms of its contribution. It will come back to normal but there is no denying that the share of ecommerce will continue to grow.

And as more and more consumers become comfortable with the idea I think that trajectory will continue. So I do not think ecommerce the growth will slow on. I think growth will continue for next six to eight months perhaps a little stores will come back as consumers come back. The trajectory is a long term trajectory and that will probably continue to grow.

Abneesh Roy:

No, but how are you building that in your store expansion for example when we see USR they are changing and tweaking their store format expansion etcetera in your case if you could discuss for different stores how you are building this in your strategies?

Jagdish Bajaj:

So Abneesh, in apparel the markets continue to remain very under penetrated and that has been our cases for long time. I think as ecommerce grows so is the opportunity even in a physical retail and that is not going to slow down anytime soon. India is a very, very under penetrated market as far as apparel is concerned. Both segments have opportunity to grow and that is what will keep driving.

In terms of nature of stores clearly the concentration will have to be relooked at. The depth of distribution will have to be now taken to markets where previously most of the apparel physical retail was concentrated in top 70, 80 cities.

As you are seeing in our own presentation there is a renewed focus on tier 3, tier 4, tier 2 towns so new models will emerge which will take it but I think there is nothing to suggest that this



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point of time considering the level of penetration that organized apparel retail has. That dramatic switch is required at this point.

Moderator: Thank you. The next question is from the line of Ali Akbar Shakeel from Motilal Oswal. Please go ahead.

Ali Akbar Shakeel: I just wanted to first understand if you could share the split of our revenue growth that we are seeing in the urban as well as rural markets, I am just coming from the background that urban I cannot still understand is probably seeing the impact because of the work from home trends still continuing but rural probably has that fairly recovered given that all other discretionary categories across the country or other categories have rather recovered fairly well?

Jagdish Bajaj: So Ali, first let me begin in reemphasizing what I was telling Abneesh in the previous call. Unlike many FMCG and other consumption categories where the penetration over the years and I would say decades has got taken the categories to small towns and truly rural areas. Apparel distribution is still primarily 70, 80 cities most of the business happens. But your thesis still holds. The recovery is stronger in small markets versus the big metros and the difference could be for our overall revenue let us has declined in a format like Pantaloons by 25%.

Our smaller towns may have recovered to 85% levels while the big cities, big malls and large format stores may be operating at close to 70%, 75% level. So there is the difference in the two and that is also I would say the three dimensions. The level of city which is metro tier 1, tier 2, tier 3 there is a differential and very hierarchical growth. Mall versus high street consumers are still hesitant to walk into crowded spaces particularly malls and large stores versus small stores.

Small stores are finding it easier to grow at this point of time, consumers are more comfortable there versus large stores. So it is a combination of these three which is driving the overall recovery across markets.

Ali Akbar Shakeel: So just following up on that. So do you think we should recovering people fairly well or this should take little more prolonged way?

Jagdish Bajaj: I do not want to give specific estimates for Q4 but clearly the recovery is improving. You have seen the improvement from Q1 to Q2 to Q3. It is too early to say full recovery. I think that will be a function of how people feel confident about going out. So there may be a gradual path to it but it is a continuously improving trajectory as far as sales is concerned.

Ali Akbar Shakeel: Okay and just if you can share some color on the Pantaloons' margin profile? This quarter private labels has not really improved. Still we have done very good margin improvement. So you have obviously stated our previous targets of improving private label further. So does that remain intact and what kind of margin profile you expect now that you are doing much better margin even without the private label improvement that is playing out?

Jagdish Bajaj:

So I think Ali, you should look at Pantaloon's overall margins with the lens of two, three factors. One is the operating leverage which comes through same store growth for the network expansion. The second is the gross margin improvement where the share of private label does have a role to play and third is the cost initiative.

As far as this year is concerned lot of benefits have flown from two parts which is gross margin driven by lower mark downs, better inventory management which has been our focus as well as strong cost reduction. As you come back to a more normal situation both the operating leverage as we expand distribution once again and get back to more accelerated growth path as well as like-to-like coming back will perhaps become bigger drivers of it.

On your question on specifically about private label share I think we have presented that we have mentioned in our presentation that the private label share was actually very strong in Q1 and Q2 even in Q3 it was going very well. The only difference was we chose not to play big on winter wear and with our own brand and which is why the own brand private label share came down in quarter 3. It will come back to the accelerated path that we have set for the business. This was a tactical call that we took. There was fair amount of uncertainty around how quickly the market will recover in winter wear.

It is a very seasonal category and a mistake there would have cost a loss. So tactically we reduce the share of winter wear of our own brands and relied on external brands which is what has resulted into a lower share of private label but rest of the cost initiatives and marked down management has resulted into this outstanding performance for Pantaloon.

Moderator:

Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah:

First question pertains to difference in recovery between the wholesale and retail and lifestyle brand and also between lifestyle brands and Pantaloon's considering that lifestyle brands will be more impacted because of work from home and then last quarter or nine months?

Jagdish Bajaj:

So Tejas, thanks for the question. I will get Vishak in to answer the question between retail and wholesale channel for lifestyle brand but before that let me give you a quick number. See lifestyle brand is a very diverse in apparel retail if there is one portfolio brands which is diversified and geographically reasonably well penetrated though we see a large trajectory ahead is it is a lifestyle brand. Of a large network they have delivered 92% of the retail sales over last year which is a combination of 17% decline in like-to-like and the growth of store expansion.

This you must agree is the quarter of the lowest work from office scenario. If these brands have such strong power both in terms of pulling in consumers and ability to serve them in situations like this it probably is the single largest validation that you need to look for on how these brands will perform as the work from home sort of moves to back to office over longer period of time.



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Vishak, if you are there can you throw some light in the wholesale, retail business?

Vishak Kumar:

Sure. Look two parts to this. One is of course the wholesale channel has difference of primary versus secondary sales. So selling in versus selling out we have gone through these inventory reduction process in the wholesale channel. So the primaries are lesser than the secondaries. That is one part of the answer.

The second part of the answer is also about recoveries in EBAs or exclusive stores has been faster and stronger and also high streets and smaller towns have been faster in recovery plus the fact that in our exclusive retail we also have a very, very strong wedding business which has been very, very good. The casual lines, the new athleisure lines and so on there also have been extremely well-received by consumers.

All of these together and there were partial business where we reach last year's levels in retail. So at an overall minus 8% I think it was a very good opportunity to go beyond some of the categories where we were already very strong and to create new strengths which reflected that nostarity of these brands, Tejas.

Tejas Shah:

And Vishak, are we going back to our aggressive plan or healthy plan of expansion of lifestyle brands?

Vishak Kumar:

100%, absolutely. So as this last quarter also and I am saying this in fact we have already opened about 230 odd stores in this year. We will continue with that momentum and should be able to add another 100 stores at least this year and the momentum will continue through and through. There is a large opportunity in this country for all our brands and formats and we will continue with that momentum, Tejas.

Tejas Shah:

Second question is broader for the team. So Ashish, when we entered the crisis I remember you had mentioned that such crisis allows us to push our big reform agenda and today when we look back nine months and this quarter was resulted in any sign of recovery being there. Our balance sheets looks healthiest in last many years. Obviously we had equity dilution but still it looks healthier.

On business front you just spoke about how better inventory management cost reduction measures have also had. So which of this post good habits that the whole industry and the economy had to adopt will stay with us so that we remain fit for similar prices if any ahead in the future?

Ashish Dikshit:

It is a question, Tejas. I think last nine months has taught all of us in the industry several things but let me just highlight four or five points which in various forms will actually shape the way industry operates and particularly I can say for our company. One which is clearly change is it is our entire merchandizing product creation process. Last nine months we would not have

delivered these numbers if we were not agile and merchandize creation our brands will not prolific enough to be able to service customers new leafs as they evolve.

So that has led to a very consumer centric product creation process which makes our brands relevant even as markets keep changing. We do not get stuck to a formal wear or a casual wear or a wedding wear or something. So that is the first part which has given us strong confidence and has also shown team how to react quickly even situation. So I think that is something that we will carry away.

The second is digital acceleration is much faster. We were always on the path but I think the pace at which we needed to change and we responded whether it is the formal side, whether new sales channel models, whether it is video calling, whether it is reaching out to customers through catalogues, whether it is omni channel today in Pantaloons and Madura, very large network of our stores is fulfilling its orders from store inventory and not from ecommerce inventory. So that is and there are many internal processes. So I would say rapid digital acceleration.

The third piece is really the frequency and the timed process of going to markets. All our formats whether it is Pantaloons or Madura are responding creating we have moved to 12 season cycle. I think this has helped us tremendously because we are agile. We are going to market more often, we are creating products in line with the market and we are making less than the stakes because we are making more often and smaller calls and therefore there is a constant correction and that model while we have a beginning to build pre-Covid I think thus far have seen a superior execution as we go forward.

And as we look ahead, I think that will be a part of very strong and better advantage for us. The fourth thing is many of the fixed costs or surface which appears fix and many of them are indeed fixed but we have shown in crisis that there is a variability on fixed cost and lot of our operations are looking at how to variabilize which parts of the cost. And therefore I think as we go forward we have a fresh look at the cost structure as we go.

Obviously the exceptional times required, exceptional steps which we did but even going forward I think there is a variability of how we look at the entire cost structure that coming through. So I would say these are three, four things. There are many more as we go forward. The whole inventory peace the business has learned how to operate lot more efficiently and some of those learnings will go forward. But that is a long list of things.

So I think these are some of the big learnings that industry as a whole and our company in particular has actually adapted at times like this.

Tejas Shah:

And just one bit on that. So we are at a very striking distance of achieving that debt free status. Will we guide for that or that is not part of a final guidance that will work right now or focus on?



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Ashish Dikshit:

See our guidance is we have come out and Jagdish in his remarks as well as in our investor presentation we have given a guidance. We expect at the end of March with strong cash flows that we have seen over last couple of months in the business. We expect the debt to come down to Rs. 250 crores. We still have a final call of our rights issue of Rs. 250 crores coming.

Of course this is before the Sabyasachi transaction so in some ways we are coming to a very, very healthy debt situation. And over a period of time hopefully will continue to improve. I do not want to give call an outlook different from what we have already conveyed through our investor presentation.

Moderator:

Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman:

Couple of questions. Firstly in terms of trends after the festive season especially in terms of footfalls on volumes any sense you can give us how the quarter progressed and how we see January progress? And the second question I think in the opening comments you have mentioned that we have a deepening partnership with Myntra, Flipkart so what is this actually entailing is it that we are having more exclusive tie ups with them is it a differentiated portfolio? Any light on that will be great.

Ashish Dikshit:

So Aditya, on recovery as I had mentioned I think what I can say today is that it is a continuous improvement from Q1, Q2, Q3 you have seen how the trajectory of recovery has happened. The net recovery is of course going to depend on how consumers feel strongly about the vaccination and the number of cases which you yourself are witnessing is coming down.

I think there is a psychological point at which consumers will feel they are passed it. I think we have not achieved that point. We may be a month or a quarter or little bit more perhaps away from that but it is a strong recovery which continues to happen but it is not going to turn on one day together across markets.

As you saw in previous response in stronger in smaller markets, lesser in bigger markets which are now coming back but still behind the smaller markets. And some of it is format related so long answer Aditya but it is improving. It is not fully recovered yet.

On your second question on deepening partnership, the word deepening is with the continuous process. We have worked with all the ecommerce players, Flipkart, Myntra group being the largest fashion retailers and we having the largest portfolio of successful and consumer brands in the apparel industry. It is a strong partnership.

The deepening is happening on the omni channel collaboration that lot of us stores in a very large number in Madura as well as a large number in Pantaloons are now able to service and fulfill orders which are getting generated at Myntra and Flipkart. There are some of the



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deepening of that happening. And this is a continuous process so I think we will remain committed to be partnering some of the players as we go forward.

Very larger number of supply chain and technology integration processes are in the way and I think that is a more continuous process. We see the market will eventually move to the best of online offline and that is the mix that we will need to move towards.

Aditya Soman:

And just a follow up on your first point. I think some of the feedbacks we are getting from the market was that there was a drop off in volume in December. So you are basically saying that that is not I mean you are seeing a continuous improvement so would probably suggest that we are gaining market share?

Ashish Dikshit:

Aditya, I would say please remember apparel is the extremely seasonal category and therefore when the Diwali date shifts or Pooja happens earlier or later so lot of shortfall that happened in the month of December was with respect to November and this year November was at the peak of Diwali so like-to-like performance November was much, much different.

When I say improvement it is organic improvement happening. Month-on-month you will find one month being much better and another so November was exceptionally good because Diwali being there and all of Diwali sales being captured in that month and therefore December fell off that level. But if you look at a slightly longer term horizon you are seeing consumers coming back and it is a more organic process.

Moderator:

Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia:

Sir, my question is on the gross margins. We have seen fabric prices and yarn prices increased over last 4 months to 5 months. Would we need to take price increases predominantly in our private label where we are playing at a very sharp price point?

Jagdish Bajaj:

So I think you are right. There have been some increase at least from the cotton side and some of it will follow through another but cotton is the primary raw material for most of our products. We will have to see as we along because lot of what we are selling today is what we have bought over previous three to six months. As we go forward we will have to keep adjusting pricing to take care of inflation.

Obviously we will have to make sure that we will use our leverage as a large company to ensure that the prices are most competitive and therefore we should be able to lower the impact to a large extent as far as possible on that and that is the strength of scale and economies that we as a company keep.



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Ankit Kedia: Sir, my second question on the Pantaloons. In the opening remarks Jagdish sir guided 20 to 25 Pantaloons stores, would these stores predominantly be the people stores which we are transitioning to Pantaloons or we have fresh Pantaloons stores which we will open?

Jagdish Bajaj: So I will get Sangeeta in. Short answer to your question is, no. None of these are people stores but Sangeeta if you can give some flavor on how we are expanding this year?

Sangeeta Pendurkar: Yes, so we have so far opened about 16 odd stores and these are all stores across metros class 1 and class 2 towns and there are few stores which we took over from people but a lot of the other stores are really based on the market potential and because of the level of penetration that Pantaloons had in a particular city. So over the last few months in fact we have opened stores across Gujarat, we have opened stores in Lucknow, we have opened the stores in Goa.

We have also gone to small cities like Bardoli. So we will continue to expand in line with the potentials if a few stores that we took over is people stores are part of the expansion plans but there is a very strong pipeline as we look to step up our expansion in the months to come.

Ankit Kedia: And my last question is on the Allen Solly price which we are doing in tier 2, tier 3 markets post the success of Peter England Red. So would we also have Allen Solly woman and kids in the stores? Would the price points be lower like Peter England Red? What is the game there?

Jagdish Bajaj: Okay Ankit, first of all it is a pilot at this stage. We have done six stores. These six stores are men stores. The response has been extremely good. I think to extend the concept to women and kids again they will have to be piloted.

The kind of products that we sell, the kind of sensibility that we address might have to be fine tuned. All the malls which has opened one more growth opportunity for the brand and we will have to take it one step at a time on that, Ankit.

Ankit Kedia: And these are the smaller stores itself like Peter England Red in tier 2, tier3 cities?

Jagdish Bajaj: These are on an average about 1,000 square feet.

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

Mayur Parkeria: First question is a little broader on the Pantaloons side. So Ashish and Vishak, please do not take me wrong here but I think Pantaloons is taking away some sheen in terms of the improvement in the margins and the growth. I think it is a good sign just from an overall company very strong signal but where do you see the long term over the three to four years, can Pantaloons' revenue actually meaningfully be different in terms from the current levels.



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And where do these margin sustain because it is a very heartening performance over the last four, five years what we have achieved on Pantaloons and how do you see the next four years journey from here on? And congratulations on the Pantaloons set and the overall company also.

Ashish Dikshit:

So thanks a lot. I think Pantaloons has been a star turnaround performance. In last four to five years if you see the performance improvement trajectory has been continuous and consistently improving. Since Sangeeta had led most of it I will get her to talk about how she plans to take it forward. Sangeeta, if you can take this question?

Sangeeta Pendurkar:

Yes, sure. Thanks, Ashish. So in terms of Pantaloons, I think if you look at the last two, three years the big shifts that have happened are keeping in line the changing needs of the consumer. I think we have looked at changing our merchandizing strategy in line with the consumer expectations even pre-Covid bringing in a lot more freshness where we drop our merchandize every two weeks, strengthening the brand in terms of making the brands far more contemporary and modern if you look at our advertising over the last two years, if you look at the new retail identity that we have just launched, the strength of our expansion plans, store economics that we deliver.

All in all it tells us that as a proposition Pantaloons as a proposition both with the strong brand and the proposition which is now going stronger by way of omni channel strong digital transformation and the ecommerce play. We think this brand has the potential to get to many more towns and to be able to serve many more consumers. I think what we have now feel confident about over the last few years is a very strong proposition and a differentiated proposition from a product pricing and the value accretion.

And with this now behind us and a strong foundational model, we feel very confident that we are going to accelerate our expansion in the years to come and therefore serve many more consumers at that segment both through ecommerce and through our physical stores.

Mayur Parkeria:

Ma'am, we analyst community have a little lot of fondness for numbers. So I am not pinning you for that but just do you see a potential where we can double the sales in the four years cycle?

Sangeeta Pendurkar:

Yes, so if you look at our performance over the last few years it has been very consistent and there is no reason not to believe why we would not get to those numbers and double our business in the next three to four years. We have all the foundations in place. I think that is an accelerated distribution model and more number of stores with the right format and with the right proposition we absolutely.

And our margins too have improved if you look at our EBITDA margins over the last few years both the top line and the strong store economics our EBITDA itself have been strong. So we feel very confident of the Pantaloons' proposition going forward. In terms of the end consumer as well as the commercials to your point on the numbers.

Mayur Parkeria:

My second set of question is a little more bookkeeping. We have said that the innerwear business almost grew 24% in year-on-year so I understand earlier we used to have this bifurcation on the fast fashion and other business. The last Q3 of FY20 had roughly if we combine both these, these were even in the current presently it is around Rs. 237 crores of sales which is currently around Rs. 220 crores of sales.

In that the innerwear was closer to Rs. 150 crores and if that has grown 24% the other part which is the other segments of Youth Fashion the Forever 21, the globals all that practically just falls by 50% but the presentation says that it has grown even by your own word?

Ashish Dikshit:

Can I come in, may I help you? I think you probably have some wrong numbers for last year innerwear base, Rs. 150 crores is not the quarterly number, let me correct you. Innerwear has grown by 24%, our global brand business has grown. Only fast fashion business which is Forever 21 and American Eagle that has declined by about 10%, 15%. But the global brands have grown and innerwear has grown by 24%. Your base for innerwear for last year, those numbers are wrong. May be separately you can have a chat with Jagdish to get a better sense on that.

Mayur Parkeria:

My last question on the rights issue part. So Ashish, the entire objective, large part of the rights issues compare to use it for the debt reduction part, large portion based on the objects which were there. Why did we chose to go on a staggered money receipt like partly paid and over a period of almost spread over two, three quarters rather than just take it one and reduce the debt one shot? If debt reduction was there means just as what was the thought process behind making it a little more stretched capital inflows?

Ashish Dikshit:

So Mayur, these decisions are taken with a slightly long term view of how we want to fix the balance sheet issue that we have. Now you have the benefit of what has happened in past. Our debt reduction has come at a certain pace. The preference issue has come which has actually reduced the need to get debt in the equity in very, very early from the rights path.

It also ensured at the times when markets were down and outlook was very, very grim for fashion industry. We wanted to make sure that our existing investors who were sort of coming in at such low price at that point of time do not have to carry the burden at that point to pull in because some of them may feel because of this state of industry that they should not participate.

We are very, very confident of our future. We believe that we are very well positioned company with very strong outlook of building and very strong track record also. So we are very confident and we did not want to make sure that any of our existing shareholders feel that because of the uncertain situation they do not participate. And as far as the company itself was concerned we had a plan and which is not laid out as you are aware of other means of fundraising and it has played out very well for us.



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Mayur Parkeria: So no question and just a observation and last line from my side is most branded companies end up trading significantly to that sales numbers but we have despite if you remove the Covid period we were almost on track of Rs. 9,000 crores, Rs. 10,000 crores of sales and our valuations remains meaningfully lower.

I would urge the management and the entire teams to ensure that we maintain our balance sheet structure strong with the requisite margins and I think we have a great wealth creation opportunity here apart from the overall top line growth which we see. So thank you and wish the team all the best.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Ashish and Jagdish, pardon for me for this but I am still not able to identify or put in place the new margin under NDF, I heard Jagdish in one of his commentary where he said that Pantaloon's profit is higher than what it was pre-IND-AS level of Q3 FY20.

I was wondering that since you did refer to the comparable numbers would you be able to humor me by telling me that at the current quarter's margin how would it compare on a pre-IND-AS basis because I am sorry but that is still the number that I am able to relate with because 18%, 23% I am not able to place as to how good or how bad these numbers are?

Jagdish Bajaj: So I think Richard, just to help you go through that, you recall or if you can look back FY20 was an exceptional quarter 3 for Pantaloon's by more than Rs. 1,000 crores of sales and Rs. 100 crores of profit and that is what we have declared. I can tell you that our absolute profit which is EBITDA for this year in pre-IND-AS scenario is higher than last year while our sales has fallen. So that should give you a clear sense of our profitability in the business.

Richard Liu: And how does that fair for Pantaloon's?

Jagdish Bajaj: It is for Pantaloon's only because you were looking for?

Richard Liu: No, what was that for Madura?

Jagdish Bajaj: So Madura the numbers are little lower on pre-IND-AS basis in absolute terms over last year. There is the effect of IND-AS is relatively smaller there. The margin is from 11% odd closer to 11% last year same quarter is about 10.3%, 10.4%. So marginally lower. In Pantaloon's case both the absolute EBITDA is higher than absolute EBITDA of last year pre-IND-AS and because it has happened on a 20% sales decline the absolute EBITDA percentage is significantly higher.

Richard Liu: And Ashish, let us clean out a scenario where Covid strikes again etcetera but given what you have seen during the festive season and whatever you are going through in terms of the business

strength right now, do you think that FY22 will surpass what you have achieved in FY20 pre-Covid stock and in other words can we just assume that FY21 did not exist and we continue to build on FY20 two years out and that is how we should look at FY22 or you think that there are some collateral damage that Covid has done and your business you should not look at as a continuation from earlier times?

Ashish Dikshit:

So Richard, if you are asking me exact numbers I think I will hesitate to get into that zone but let me tell you. Our trajectory during FY21 was aim to build a better FY22-23. We see businesses in continuity in long term. If anything accelerated and double down our strategy in all the businesses you will see as Sangeeta indicated a much more accelerated Pantaloons' play going forward.

Madura never really slow down because they had the opportunity through smaller formats, smaller towns which allowed them to actually continue growing and as Vishak has indicated in quarter 4 onwards and for full year this year and you can see the similar trajectory going forward.

So I think our journey when you see FY19-20-22-23 you will be able to see more continuous improvement most of our struggling businesses have managed to find one solution or the other in terms of either viability or scaling down and therefore getting to the viability but our core businesses are doubling down on growth and the absolute numbers however Richard, we will have to be watchful and see when the absolute normalcy comes back and I think as long as there is mask, as long as there is a fear of virus continuing to some extent as an industry we will have to keep an eye on that.

So I would hesitate to put a number to FY22 but our direction is absolutely on the path that we were on. 2021 may have sort of disrupted that but recovery to a long term strategy and in fact acceleration of fulfilling some of them now that with the stronger balance sheet with much improved businesses in some of the places where we were struggling in now are near complete confidence in turnaround of Pantaloons.

And the last thing that you guys were once worried about whether Madura brands have the ability to sustain shifts in consumer habits. I think we have demonstrated it better than any time and give the results with good validation of that. So I think we feel very, very confident about taking this journey forward.

Richard Liu:

And last one if I may and I am referring to that slide on cost reduction versus Q4 FY20 and do not get me wrong I do not mean to demean any of the efforts that has gone into this particular achievement but if I look at the cost savings Q1, Q2, Q3; Q1 and Q2 was at the ballpark of Rs. 420 crores to Rs. 450 crores and that suddenly dips to about Rs. 150 crores. With the revenue back to a level that looking more normal. Any way to figure this out?

I know the rentals looks like it is disclosed in a slightly different way from what it was disclosed in Q1 to Q2 but is that the reason because even if I look at the P&L account for example the other expenses has gone up quite significantly from Rs. 250 crores to about Rs. 350 crores and so on and so forth and is there somewhere we can get more handle on this?

Ashish Dikshit:

So we will be happy to do that. I think we can do that separately but just to give you a sense. These are all cross measures which are linked to the state of the business. Q1 everything was down we were able to extract so you would if you were a landlord you would agree you would give me deeper discount in Q1 than Q2 than Q3 and so on. So similarly most of our cost measures are of two fronts.

One which we have negotiated and extracted from the operations which is with the third party, the landlords typically and other service agencies and which were in line with the sales reduction that we have happened as more normalcy comes back this number will keep coming down over a period of time.

The second part is the other discretionary fixed costs. Things like marketing it was okay to put it to a complete halt in Q1. There was no business, there is no point doing that. Little bit of came back in Q2. In Q3 we did spent on marketing and advertising and making sure that we reach out to consumers whether the nature of the marketing may have changed and therefore the total element of expense may have come down but over last year but it was definitely higher than what we spent in Q1 and Q2.

So as normalcy comes back a part of it will stay with us, a part of it we have learned how to variabilize, a part of it we have learned how to do without but definitely I think Q1, Q3 numbers were exceptional. Just in line with the way revenues were at that time.

Moderator:

Thank you. We will take one last question from the line of Ayushi Kakkaria from Aditi Services. Please go ahead.

Ayushi Kakkaria:

My question is that in the last few years that we have been spending a lot of money on remodeling the stores so if you could give some color on how much you would have spent on remodeling in the last five years?

Jagdish Bajaj:

I would not have the number right now. May be we can get back to you but to give you a sense we do not very frequently, first of all let us look at our retail network. The Madura side of the close to 85% of our network is franchisee owned and therefore if any remodeling is done, it is done by them. It is only in 10%, 15% so it cannot be I am surprised to hear what you feel that it is lot of expense.

It would not be very large. In Pantaloons we did that because we needed the brand to undergo a change and a part of the brand is retail and we had to do that but again this was not a very large



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number. We will continue to do that but absolute number I think may be separately you can reach out to Rahul and Amit and they will give you a better sense of that.

Moderator:

Thank you. As there are no further questions from the participants, with this we conclude today's Conference Call. Ladies and gentlemen, on behalf of the management we thank all 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 disconnect your lines now. Thank you.