“Aditya Birla Fashion & Retail Limited Q2 FY-22 Earnings Conference Call”

November 08, 2021

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Mr. Vishak Kumar – Director & Chief Executive Officer (Lifestyle Business)
Ms. Sangeeta Pendurkar – Director & CEO (Pantaloons)
Ladies and gentlemen, good day and welcome to second quarter and first half FY22 earnings conference call of Aditya Birla Fashion & Retail Limited. The call will begin with a brief discussion by the company's management on the Q2 FY22 performance followed by a question-and-answer session. We have with us today, Mr. Ashish Dikshit – Managing Director; Mr. Jagdish Bajaj – CFO; Mr. Vishakumar – Director & CEO (Lifestyle Business); Ms. Sangeeta Pendurkar – Director & CEO (Pantaloons). I want to thank the management team on behalf of all the participants for taking valuable time to be with us. I must remind you that the discussion on today’s earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. Please restrict your questions to the quarter and half yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. With this I hand the conference over to Mr. Jagdish Bajaj. Thank you and over to you, sir.

Good evening and welcome to Q2 earnings call for our company. Let me take this opportunity to first wish you all and your family a very happy festive season. The quarter under review show a phenomenal recovery after the first quarter which was dented due to COVID second wave effects. The demand come back has been very encouraging, which set the stage for a strong festive. Consumer footfall showed a sharp rebound in the second quarter as the COVID restrictions were relaxed across the country and malls and high-street stores opened up except in few states. Smaller cities across lower tier towns witnessed a very fast paced recovery of business. The excellent recovery in sales across brands and channels from the slump in Q1 stands testimony to the increased appetite of consumers to spend on fashion footwear and accessory. The e-commerce traction has continued to outpace itself, added well by a growing Omni-channel trajectory.

Now let me give you a snapshot of the financial performance of our company. The revenues of Q2 are close to 90% of pre-COVID levels indicating a much faster rebound in sales versus what we saw at the end of first wave. The recovery could have been even better, but for delayed restricted opening up malls in a few states where our stores are operating. The revenues for Q2 FY22 have doubled to Rs. 2,054 crores compared Rs. 1,028 crores in Q2 FY21. The recovery momentum continues to be strong, and the businesses have exceeded the pre-COVID levels closer to the festive period. Alongside increasing footfall in our stores, our e-commerce continued to grow by 74% compared to last year. The overall revenue of H1 FY22 was Rs. 2,866 crores, which is 65% recovery over pre-COVID levels and 112% over H1 FY21. A swifter recovery in revenue ahead of costs resulted in a turnaround EBITDA performance for this quarter posting an EBITDA of Rs. 338 crores recovering from the negative EBITDA posted last quarter and a growth of 142% over last year. Losses at PAT level to a turnaround from losses of Rs. 352 crores in Q1 to Rs. 5 crores profit during this quarter.
I will now take you through the performance of individual businesses, starting with our lifestyle brands. Our lifestyle brand business has posted a 92% recovery at the back of consistent quarter-on-quarter industry-leading retail performance, strong Omni-channel revenue jumped 3x over last year and a rapid rise in its e-commerce businesses. This performance is a testimony to its strong brands that have remained relevant for their customers in all times. Lifestyle brands have continued to innovate and reinvent their product portfolio, increasing the share of casual wear in its portfolio. In addition to its Van Heusen Denim Flex, Allen Solly Tribe to build its casual wear portfolio. This quarter Louis Philippe also launched its range of premium casual wear under the brand Louis. These sub brand extensions continued to make our brand stay contemporary, with their evolving consumer needs. In line with the same strategy of diversification into newer segments and categories, we are glad to announce that Peter England is soon going to venture into Kids wear offering excellent product for value conscious customer. As you are aware Kids wear comprises of 12% of overall apparel market growing at 5.9% CAGR and it's mostly unorganized. Through the PE and AS kids we have formats, we will create a strong foothold in this space and gain well from the unbranded to branded segment.

On the digital front, the business continued building on its transformative journey, returning the focus on delivering a delightful shopping experience to its customers. The on-website business grew 2.5x over last year numbers suggesting a strong customer affinity for our brands and a seamless shopping experience through our website. We are making critical investments in announcing the website experience in partnership with global players. We feel this would add significantly to our scale on brand.com in the long term. E-commerce revenue of business almost doubled over the last year levels. On a path to build one of the largest fashion Omni channel play in the branded fashion business, the company expanded the Omni-channel coverage to more than 1000 stores across all our brands for both own as well as partnered e-com together. Our hyper-local and buy online shift from a store have rendered encouraging results this Q2, reinforcing our faith in these innovative models. Our brands are now in process of extending these models into newer markets, servicing an even wider customer base. While the business gradually built its digital mode, it has not slowed down its offline expansion. The business added 140 new stores this quarter, mainly through the franchisee route, which reflect the confidence our partners have in us. The brands continue on their aggressive expansion strategy into deeper pockets of India, to cater to the needs of consumers in the vicinity of their homes. The PE Red stores have grown significantly adding 36 more stores in H1. Building on the successful pilot in Q4 last year, Allen Solly Prime continued with its expansion with 18 more stores. During the quarter, the business recorded revenues of Rs. 1,156 crores and posted an EBITDA of Rs. 188 crores with EBITDA margin at 16% this year, versus 17 in FY20 in the normalized period.

Moving on to Pantaloons business, Pantaloons business this quarter recovered to 73% of its pre-COVID performance. This should be seen in light of higher mall share of this business, which is approximately 58% coming from mall business. Extended shut down in markets of UP, Maharashtra and Bihar where Pantaloons has a relatively higher share of business vis-à-vis other
retailers and also new retail identity related renovation across 6 large stores, but for these specific factors the recovery in Pantaloon would have been much higher, while the stores reduced operation gradually the business continued its acceleration across the digital channel investment into highly targeted digital marketing campaigns. Additions of e-commerce specific product lines contributed significantly in driving much higher traffic to the e-commerce channel. Pantaloons remarkably accelerated its e-commerce presence with revamped pt.com experience, alongside remarkable sales performance with partners, E-commerce website as well. Pantaloon has expanded its omnipresence across 250 plus stores in H1 amidst very positive consumer feedback. Signaling the start of the recovery journey Pantaloon has reignited its expansion plan for this year by adding 7 new stores to its network in the preceding quarter. The business also re launched its 6 iconic stores, 4 in Kolkata and 2 in Hyderabad with a renewed and reinvigorated retail identity, which garnered great excitement from its customers. Let me assure you that we are well back on track to at 60 plus stores during this fiscal. In the month of October itself, we set an internal record of shots by launching 12 Pantaloon stores in 12 consecutive days of the month. As we move forward, our plans are to rapidly accelerate this expansion to more than 100 stores every year for next couple of years. Pantaloon has significantly stemmed on its private label portfolio this quarter through new launches in women's Ethnic and Active Athleisure and Loungewear category, as well as strengthening its previous offerings. This pujo-sale has been blockbuster performance compared to pre-COVID with 91% overall recovery and with the closing run rate of pujo-sales being ahead of pre-COVID levels festive of FY20. The Pantaloons business has achieved revenue of Rs. 665 crores for the quarter and posted EBITDA of Rs. 125 crores versus EBITDA of Rs. 71 crores last year, H1 sales are at Rs’s 885 crores compared to Rs. 451 crores last year.

Other business segment continues with its outstanding performance for more than 6 quarters now post the outbreak of pandemic. The portfolio comprises of 3 business lines, Innerwear, Active wear and Athleisure business under Van Heusen brand, Youth Western Wear brand namely Forever 21 and American Eagle and Super Premium Western Wear business under collective and other mono brands. During this quarter, the entire portfolio had posted at 12% growth over pre-COVID with size of operations of revenue of Rs. 1000 crores on an annualized basis with EBITDA margins of 10%. Innerwear and Athleisure business continued with its aggressive momentum that it displayed all through this pandemic consistently building on the same momentum. The business this quarter grew by 41% over last year, the products are now available across 23,000 plus trade outlets and over 54 EBOs. Business is well on track to achieve its aggressive expansion target of adding 50 more stores this year. E-commerce posted significant growth over last year with the scale of business growing 71% over last year, the businesses looking to aggressively expand its trade and EBO footprint with a stronger presence on the e-commerce channel as well. Youth Western and Super fashion, including Forever 21 American Eagle and Super Premium brands have kept their growth trajectory form throughout the first half of FY22. Revenues of Forever 21 have grown to 1.5x of last year sales and have recorded 73% recovery to pre-COVID levels. American Eagle has doubled its sales over pre-
COVID levels and is EBITDA positive now. Forever 21 has piloted franchisee led expansion model across towns in India, gaining strong traction. The Super Premium brands have grown by more than 60% over pre-COVID levels alongside continued acceleration in e-commerce. Our own brand.com channel TheCollective.in continues to perform well with 4x growth and continues on its journey to become the India's leading luxury shopping portal. Ethnic business, we have executed our comprehensive strategy to build a complete portfolio of strong ethnic wear brand, across multiple locations and price points. Our earlier acquisitions, Shantanu Nikhil has grown 3x over last year and Jaypore grew 1.5 times over last year. The Jaypore business continued to do well online, in parallel we are building our offline presence and have plans to open 60 stores during the next quarter. With the acquisition of Sabyasachi, the revenues have grown to Rs. 58 crores in all ethnic subsidiaries. Sabyasachi has opened a new jewelry boutique in Dubai during this quarter.

I am pleased to inform you that we also launched our premium women’s ethnic wear brand Marigold Lane to address the large mid-market ethnic wear opportunity in women’s ethnic market.

Furthermore, the new men’s ethnic brand under partnership with Tarun Tahiliani will be launched this month. As we are giving, finishing touches to the stores and go to market plan.

Our ethnic brands have laid down a strong foundation and are now set for accelerated growth plan. We expect to add more than 100 stores next year in our ethnic business portfolio across brands, starting from Q3 of this year.

Our consolidated net debt as on 30th September 2021 was Rs. 873 crores, lower by Rs. 327 crores from June 2021 in view of the sharp business recovery. As the festive draws to a close the net debt has further reduced and as on today, the debt is approximately Rs. 450 crores. This reflects strong cash generating capabilities of company. We hope to continue to generate a strong operating cash flow, which will be used for accelerating growth of our businesses once the economy start recovering fully.

To conclude the festival season sale has brought about a complete recovery to pre-COVID level of sales, and some markets have been surpassed the pre-COVID performance with the most diversified play across large segments of the apparel market and a portfolio of very powerful brands, ABFRL is uniquely set to leverage the emerging consumption opportunities in coming quarters and years ahead. Thanks a lot, and we are open for Q&A now.

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

**Aditya Soman:** Firstly, you mentioned that you’d seen almost a full recovery in sales during the festive season, now will this apply to pantaloons as well? In other words, would sales have exceeded or equal
pre-COVID levels? And the second question is on these new businesses particularly, Innerwear and ethnic wear can you give us a sense of the absolute size of the businesses and where we stand on profitability for both of these?

Ashish Dikshit: On the recovery part, I think as Jagdish had mentioned, towards the end of the festivals what you are seeing here is a Quarter 2 performance which is obviously impacted by July and August as well. But if you look at Puja to Puja, Diwali to Diwali even Pantaloons has recovered completely to the pre-COVID levels.

On the second question about new businesses, I think cumulatively, if I were to combine all businesses put together, we are clocking something like, just let me try and get the numbers. Our quarterly businesses are close to Rs. 250 crores. That's about a run rate of about Rs. 1000 crores as we speak. You must remember, most of our new businesses are almost at infancy just to give you a sense. We expect Innerwear business to continue to grow at 40-50%. It's just got to a reasonable platform, our ethnic wear business is very early, we had held back expansion of Shantanu, Nikhil and Jaypore and you'll probably see about 10, 15 stores this year and another close to 25, 30 stores next year may go Lane, Jagdish spoke about the new ethnic wear brand has just got launched. Tarun Tahiliani Association is leading into a men's premium ethnic wear line. The first of which stores is going to get launched in later this month, we expect to launch about 50 stores in next 12 months. So, lot of these are set for very rapid expansion. Overall, if you look at it, just an ethnic wear will probably launch close to 100 stores next year, Innerwear we will continue to write on this trajectory. So, from a 1000 crore annualized run rate at this point of time, we are very hopeful that this will be up for a much larger trajectory very soon.

In terms of profitability at this point of time at all businesses put together at this point of time, they have just broken in all other businesses put together. You can see from Quarter 2 EBITDA performance, other businesses which does not include ethnic. All of them combined together have delivered a post-IndAS EBITDA of about 10% in the pre-IndAS EBITDA which is break-even plus. In ethnic subsidiaries, we are just marginally ahead and a small loss in that business because we are in investment phase, but this is a journey that we are very confident will soon be a profitable journey.

Aditya Soman: Just on the Innerwear bit. Can you give us a sense whether we are gaining market share, in the premium space or is it just that the premium space itself is expanding and as we expand our presence?

Ashish Dikshit: Our sense is we are gaining market share. We have grown very well every quarter, right through this COVID period and continue to do that. It's hard to predict, but if you look at, I mean, if I were to talk about just this quarter, we have grown close in excess of 40% for this quarter. We'll have to wait and see how others have grown, but our sense is in a full recovered quarter will perhaps accelerate this growth rate. 40 to 50% our sense is we are gaining market share in this space. They're still very small though I think that must be noted.
Moderator: The next question is from the line of Tejas Shah from Spark Capital, please go ahead. There is no response, we move on to the next participant. The next question is from the line of Nihal Jham from Edelweiss, please go ahead.

Nihal Jham: Three questions from my side. First is, just to understand better on the margin part of it, what is very clear is that at least the e-com share is something that is significantly increased, whether you compare it to last quarter pre-COVID or even versus last year and still our gross margins are more or less similar to what they were pre-COVID. Anything that is worth highlighting there or maybe something to get further details and a related question to that is that despite the recovery still being at around 75% for Pantaloons, the margins are obviously much better off than even what they were even pre-COVID as you highlighted. What are the kinds of measures that we have taken, that is leading to this kind of performance? And is it something that is sustainable? I'll come to the other two questions after this.

Ashish Dikshit: I'll give you a quick response and then call in Sangita for most specifically on Pantaloons. On the gross margin level, you're right. Even though the share of e-commerce has grown, but as retail share has also continued to grow and you can see the mix change that's happening in the lifestyle brands, far more starkly. Our gross margins have continued to improve. A part of it is also because, as we have learned to operate with leaner inventory, fresher turnarounds, we are clearly able to reduce the markdowns. That's a phenomenon which is across all businesses, of course, at ABFRL you must remember that it's a mix of businesses between lifestyle brands, Pantaloons, Innerwear, and other businesses which actually also affects the margins, but at a high level, our gross margins have improved because high share of retail and lower markdowns almost consistently across all businesses. On Pantaloons overall margin, I'll get Sangeeta to come in, but suffice to say that we have kept our costs completely lined. Even before that, what I would like to recall, is that Pantaloons has been a sharply increasing profitability curve, even before COVID, the organic business performance has been significantly improving every quarter. Some of it has got hidden due to COVID period and therefore you're not able to see the trajectory of improvement that’s clearly, it will become more obvious as recovery happens, but fundamentally it's a high-quality business, which is, continuing to improve. Sangeeta would you want to come in and talk about, margins in Q2 at a similar level last year, despite lower sales?

Sangeeta Pendurkar: Yes, I think three points that I wanted to make in terms of what's really contributed to this. First is in terms of certain actions that we took last year. In terms of what contributed to the margins. We used actually Pantaloons period very effectively to make some very bold decisions in terms of how we managed our inventory last year and actually helped us in terms of improving as lockdowns in terms of reducing them. I think that's one big contributing factor to this, and therefore, as Ashish alluded to this, we have been on this journey of creating a better-quality business with a better health of the business. So that's the first part. Second, I think versus FY20 our private label share has actually improved and that is on account of a slew of actions that we have taken in terms of new category launches that Jagdish alluded to. So, that has helped us as
well. And third is our strong cost control measures across every single cost line. We have taken many of those last year, so those contributed this year, whether it’s occupancy or whether it is in terms of how we managed our overheads in the front line, etc. So, I think that caused led by lockdown and other line items into share of private labels, I think are the two factors that have contributed to this.

Ashish Dikshit: So that’s helpful. I just had one follow up that this includes somewhere the rentals we were getting in terms of as how we are reflecting the margin, is it fair to assume that that is the component maybe that gets reversed in the future and the other aspects that you’re highlighting is something that will sustain?

Sangeeta Pendurkar: Yes. But our rental base is, for example, this year with better sales, it's in line with sales. It's obviously not as low as what we got last year, so it is in sync with sales and we feel very confident about scaling up this business as long as we are able to keep our rentals in line with sales, I think we are very confident of delivering a business which is healthy in terms of its margins and in going forward.

Nihal Jham: My second question was I had this clarification as a part of a press release. You were mentioning that we expect our debt to stay stable for the remaining part of the year and while I think it’s already down by around Rs. 400 crores just in a month itself since the quarter has ended. Just how should we look at it?

Ashish Dikshit: Sorry Nehal, you made some point about debt being stable in the second half. Is that what you said?

Nihal Jham: I'm saying that's something I picked up from the press release. I'm not sure.

Ashish Dikshit: There are two things which are happening. Fundamentally the business is exceptionally strong and as markets are coming back, our cash flow generation capabilities visible. Remember, this was the trajectory in FY20 also before we got into the COVID, and we have used the in-between period actually to raise capital to lower debt as well as to use some of the cash generation to acquire. Now, as we get into the next phase of growth, we will obviously be able to expand our business much faster. Jagdish has indicated, the accelerated pace of Pantaloons expansion with 12 stores opening in 12 days and indication of 40 to 50 stores in just next 4-5 months and with an objective to score, open about 100 odd stores while 20-25% of it will be franchised stores. A part of it, a significant part of it will be own stores. Similar would-be trajectory for ethnic we ar business. We have acquired some very precious and very valuable brand properties. These now need acceleration in growth, which we had held back, whether it's Jaypore or Shantanu Nikhil or Sabyasachi or the new menswear brand that we are launching or the women's wear brand. We will balance our expansion in line with the cash flow. I think the short point that Jagdish was making is that the business's organic capacity to generate cash is very, very high and our growth
we had held back for last 18 months, you will see a very different trajectory on growth side, as we start to play out the game in next six to 12 months.

**Nihal Jham:** I just have one last question that if you could, share casual wear for lifestyle brands for this quarter and the last quarter of launching?

**Vishak Kumar:** Not very different. It's from a Q1 to Q2 perspective, not too much has changed. All I can say is that, both lines have grown, casual wear continues to grow at especially the Athleisure side, the smart casual wear they've grown well. Having said that we've also seen a very strong lift of the wedding business and the festive lines. So, I would say similar percentages. More than half of our business, 50 to 53% would be casual. It's not changed too much between the two quarters.

**Moderator:** The next question is from the line of Jiten Doshi from Enam Asset Management, please go ahead.

**Jiten Doshi:** Firstly, Ashish and team, many congratulations for an extraordinary performance in challenging times. I also wish to compliment your entire team for one of the best presentations annual report with great transparency for the investors and some wonderful ESG initiatives covered in that, many compliments for that. I also just have one question on your working capital, how sustainable are your current levels of working capital?

**Ashish Dikshit:** So, first of all, thank you Jiten Bhai for the appreciation. We are continuously working on several parts of our businesses and a part of a feedback that we take from investors is to improve transparency of reporting because we are multi segmental businesses and a lot of investors have sought greater clarity.

**Jiten Doshi:** One of the best in corporate India, I would like to tell you that.

**Ashish Dikshit:** Thank you, sir. On working capital side, I think if you look at it our individual businesses, our net working capital ratio in Pantaloons will be high to mid-single digits as a percentage of sales and that's very sustainable. That's something that we delivered in past, we will continue to do that. In Lifestyle brand business because business is increasingly turning retail and at this point of time 75% to 80% of the businesses is retail. Even then the number of NWC to sales will be early double digit, 13%-14% and we hope to bring it down as we go forward. And if you net it off against the deposits that we get on security, the number would probably be even lower. So, I think the level of NWC to sales are very-very strong and competitive by any industry benchmark. And where we are operating, we are very confident we will continue to operate. Of course, what will happen as we go for better times because the future revenue growth rate assumptions change as we start to open more stores and start to like a more optimistic view of the business as it's playing out, some of those numbers will marginally worsen, but not materially and would not significantly be different from where they are today.
Jiten Doshi: My, second question pertains to a presentation that was made earlier sometime back pre-pandemic by Chairman, highlighting the future for the next five-year vision. Of course, that was pre-pandemic. Do those numbers still hold good or are you still chasing those targets both in terms of growth and profitability and also the return on capital employed which was a very high benchmark that you all had set in the journey earlier.

Ashish Dikshit: So short answer is, absolutely yes. I think, while this last six months may have set us back. From current year performance I don't think our view of even immediate future has changed. And it's pretty much in line with what we have said. We will come back towards the beginning of next year and give a status update on everything that we had said before. And I am reasonably confident that we will, if anything, positively surprise.

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

Tejas Shah: I have three questions. My first question pertains to general consumer sentiment and demand environment. Obviously, the kind of headlines that we have seen in the last 15-20 days have been very encouraging and it's actually heartening to see that recovery is happening, but a lot of it was actually expected because the kind of base that we have created for industry at large, retail in particular for last 18 months, this recovery was kind of expected, if it would not have come, it would have been a major disappointment. So, Ashish just wanted to understand from you, how are you reading the consumer sentiment? Is it just a pent-up or you are seeing a sustainable recovery that we can build on from here for the next two quarters and beyond?

Ashish Dikshit: Tough question, Tejas. You have put me on a spot. I would have to say, unlike you, recovery has somewhat positively surprised us. We remain tentative and worried about a third wave coming in and impact on at least some parts of the country. But clearly, I think the circumstances have turned out to be far more positive than what we had imagined internally. Would it be a once time thing versus a sustainable thing? I think it's a sustainable recovery. If you go back and look in context of where we were in FY20, I think most parts of the economy has started to come back. There may be a little bit of exuberance which is excessive at this point of time for a very short period, but I don't think there is any sign that this recovery is either artificial or a onetime thing. I feel we are headed for a more democratic, natural growth that economies like us should see.

Tejas Shah: Second question pertains on Madura Lifestyle brands. So, we are seeing this divergence and recovery felt for a while between wholesale and retail within that portfolio. Now, Vishak just spoke aggressive expansion on the retail side as well. So, is it that our wholesale partners are actually migrating or graduating to become a retail channel partners and that's why we are seeing capital also from that part of the channel getting deployed or getting redeployed on the retail side and hence there's a structural change in the business model?
Ashish Dikshit: I think they are both temporary and structural changes. Vishak will be able to elaborate maybe at a greater length on that. Vishak, you want to come in?

Vishak Kumar: I think Tejas, at one level as far as the wholesale partners are concerned, please understand that there is a lag between primary and secondary sales. While secondary sales would have caught up in the last couple of months, there is a bit of lag for primary. So, that would explain fair amount of the delta in wholesale numbers that you would have seen. The larger point you are talking about is, is there a shift from wholesale partners moving into retail? It doesn't shift, they add on and when they add on, they are adding on more to exclusive retail. So, lot of our multi-brand partners have become a franchisee for exclusive stores. We continue to deal with them in their multi-brand outlets as well, but the pace of growth is much larger and exclusive stores. COVID has changed some of that and hence you see the numbers starkly for the wholesale part. But the reality is even before COVID, there were a lot of our business partners who were putting up exclusive stores along with us.

Tejas Shah: And purely from capital efficiency perspective we have taken a lot of pride in past also in wholesale channels, they are our source of fund and the way we have actually developed that business over the last two decades. So, how do you see that business? Obviously, as of now, we are saying it is transient, but where do you see the future of that business let's say 2-3 years down the line in our overall business plan for Lifestyle brands.

Vishak Kumar: Absolutely right. The wholesale business has been our strength, continues to be that, to the extent that that network grows, our shares will only grow within that. And we have some of the best operating systems to manage that channel. For example, even in the peak of pandemic with a digital trade show, we were able to take orders from retailers without even having to do a physical visit with them. So, some of these things we have been ahead, we are able to give them 12 drops in a year, so every month is a fresh season. We have been able to create many things which are very-very multi-brand retailer friendly. We also have very-very strong relationships with the business partners. So that's something which continues. Having said that how much of more new multi brands will come up in this country? Unlikely that that piece will be very high in the trade segment.

Ashish Dikshit: If I can just come in, Tejas. In terms of the working capital impact on trade versus retail, I think, the way our retail channel is structured its extremely working capital efficient. Most of our retail and lifestyle brands is through franchisees. Our stock at value is covered by deposits and security to a large extent if not fully and our debtors are practically one day. So, you can imagine it's a very high NWC positive network. So don't worry about it. Don't have a concern that if we grow in retail our working capital will get affected adversely. In fact, it's very well managed.

Tejas Shah: And just one technical part. When we bill from retail it shows up only when retail offtake happens or when we bill it to the franchise?
Ashish Dikshit: When consumer buys.

Tejas Shah: And the last one pertains to Pantaloons. We spoke about very aggressive target of 100 stores per year. Usually, this kind of expansion also requires a lot of backend investment in terms of supply chain. So, if you can speak on that part of the business as well.

Ashish Dikshit: Sangeeta, if you can come in but just very quickly Tejas, this has been a part of our plan and we have made necessary investment in the backend, in teams and everything else. I think Pantaloons was about to sort of express itself just before the COVID hit. You know the trajectory we had started to hit. The COVID has slowed down the growth trajectory, but our quality of business has further improved. Sangeeta talked about several private label brands. We expanded into new categories, sarees, home, launched new casual wear portfolio, the store experience has significantly experienced. If any of you have not seen Pantaloons new stores, I would advise you seriously to have a look at it. So, now is the time really to express and take that business to its true potential. Sangeeta the question is about, are there other aspects that we need to invest in to support this growth.

Sangeeta Pendurkar: Tejas, as Ashish said we feel very confident that we are well poised for that acceleration given the journey we have been on in terms of addressing some fundamental challenges that we have in the business historically.

Moderator: Ma’am sorry to interrupt you. Your voice is not coming very clear.

Sangeeta Pendurkar: And I think from everything that we have improved, whether it is our product (Inaudible) (41.09), we have alluded to improvement in the private label share, the new categories, etc., that Ashish talked about. I think that gives us the confidence and the improvement in the margins that we have seen that now we are kind of ready to really scale this business up with everything being in place. We need to obviously think about what capabilities to get to that level of expansion with great agility and therefore investments being made in terms of building an organization and deliver this in the front end. So, whether it's in the business development team, whether it's been our people who actually create the stores and the backend in terms of the supply chain. Looking at consolidating our vendor base and creating the right kind of warehousing model, I think all of it, every element in our value chain whether it's at the back end or the front end is gearing up for this expansion. But I think the timing of it is absolutely right, given where we have got into the business and I think if we invest in the organization in the right manner, there's no reason why we should not be able to deliver it. I hope I have answered your question, Tejas.

Moderator: The next question is from the line of from Ankit Kedia from Phillip Capital. Please go ahead.
Ankit Kedia: My first question is regarding the government's proposal to increase GST in value fashion, sub Rs 1000 from 5% of 12%. Given the increase in yarn prices, we would have taken some price hike as well or do you think the industry can pass on this price increase to the consumers?

Ashish Dikshit: Ankit that deficient increase GST rate is still under consideration. As an industry we are representing to the government to show them the impact that it has on the lower end of consumers. But having said that, I think if it does happen and it happens on cost on top of the raw material inflation that we are seeing, there would be no choice I think for the industry as a whole but to pass on a significant part of it. Obviously, there will be efforts to improve efficiency, but I don't think there's a choice but to pass on that increase.

Ankit Kedia: My second question is again on Pantaloons and ABOF. We have launched ABOF after 2 years exclusively on Flipkart group. And Pantaloons inventories are also now available only on the Flipkart group outside marketplace. Is it a conscious decision to move value fashion products only on Flipkart group and not on any other marketplace?

Ashish Dikshit: What happens is typically Ankit we get different level of response from different marketplaces for different brands depending on the customer profile. We need to consolidate where we see maximum value. And unlike brands which are relatively narrower in terms offering, something like Pantaloon has a very large range of offering. And therefore, to get maximum play, we need to integrate very deeply with them and that's really what is being done. As far as ABOF is concerned, it's a brand which you know we have resuscitated in some manner in last 18 to 24 months. It was lying dormant, but we realized that it has a lot of equity and we have created a value fashion play on that. Right now, it is being tested on one platform. It doesn't stop us from taking to other platforms as we scale it up.

Moderator: The next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My questions are slightly from a medium-term perspective. So, one on the debt, how do we see the net debt part moving considering that we in our business had rounds of equity raising, had rounds of leverage and deleverage. And associated question, incrementally when we expand our network, is it more asset-light or it continues to have your own stores? And my third question is are there any more wide spaces in our portfolio which needs an acquisition?

Ashish Dikshit: A quick response and Jagdish you can come in and throw more light on that. On the medium-term debt level, I think we stand where were. Jagdish had made this point earlier, we had made it in the investor call that for medium to long-term we want to keep debt level between 1 to 1.5 times EBITDA. In all likelihood we will do better than that, but we keep ourselves some sort of boundaries in which we want to play with. And that's the first remark but that's on medium term level. Your second question was expansion. I think, as you know Madura part of brand side, which is small store format is 80%-85% and increasingly more through franchise route so that remains capital light. On Pantaloon side, we are at about early twenties as far as franchisee share
of the total new business is concerned. That number may grow as we grow fast but it is nowhere likely to be anywhere close to 50%-60%. We would like to keep it between 25% to 30% at a medium level. So, to that extent that part of the business will continue to. But remember it's a high ROCE, high capital return business from a single store economics. We had demonstrated that in an investor call and therefore as long as we have access to capital within the bounds that we have set for ourselves for debt, we would like to invest in that, and Pantaloons will remain 70%-75% of stores coming through our capital.

Pritesh Chheda: Wide spaces in your portfolios, if any?

Ashish Dikshit: I think in terms of big wide spaces, we have covered ethnic wear which was one third of the market. And we have made significant gains as you know multiple brands are being launched as we speak, few acquisitions have happened, that remains a large space in which we need to grow. Our casual wear portfolio will continue to keep looking for opportunities if anything in that side. On the menswear side, we don't see a scope. We are very-very strong and therefore, I think to that extent it's about growing the new spaces as the markets evolve.

Pritesh Chheda: Just on the first answer which you gave about debt. How does it match with our FY26 vision which was shared let's say a year from now? It was shared on March 2021.

Ashish Dikshit: Our debt projection, I am just reiterating what we said then. We remain committed to that as a longer-term trajectory. Currently we may end the year with a forward-looking debt to EBITDA ratio which is much better than what we may have thought about for the short period. But I think on an average, as Jagdish had mentioned in the previous call, 1:1.5 is what we have indicated as our medium-term goal. And that's very much in line with what we have said in FY26 projections also.

Pritesh Chheda: What is our usual maintenance CAPEX that we need to run our setups?

Ashish Dikshit: Not much. I think it would be a small part because we have factories with gross fixed assets of less than 100 crores. So, there may be a small part that goes there. Our stores require little bit of refurbishing every year but that would be only on the Coco part of the stores and that typically the stores have life of 5 to 6 years in small format and 7 to 8 years in the bigger format stores.

Pritesh Chheda: Any guess as a percentage of your depreciation?

Ashish Dikshit: Jagdish, should you have any sense of that?

Jagdish Bajaj: I could not get it. Can you repeat the question please?

Pritesh Chheda: Maintenance CAPEX as a percentage of depreciation?
Jagdish Bajaj: Actually, our maintenance CAPEX is even smaller than the regular CAPEX.

Ashish Dikshit: It will be much much smaller. I don't think we have large maintenance CAPEX.

Moderator: The next question is in line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: My question is in regard to Pantaloons. While we are looking to aggressively to expand to 100 odd stores every year. Do we see a scenario where the margins in the near term might get diluted? Because these stores might take some time to catch up to the system changes number and hence a short-term dip in the margin could be coming in?

Ashish Dikshit: Gaurav, just to give you a sense, if you are talking of EBITDA margins we have demonstrated in past. Our EBITDA margin grew from 4.5% to nearly (+) 8% in a pre-IndAS period as we expanded our network. So, which could mean only two things and we have tried to cover it in our investor deck in a greater, Pantaloons stores are profitable from year one. The Four Box ROCE, which is incremental capital to incremental EBITDA is in high double digits. And there is a lot of leverage over the fixed cost of operations which is the corporate fixed costs of overheads, of supply chain, warehouses, advertising, etc., which further gives the operating leverage on that. So, our experience so far is expansion has brought about expansion in margin and we expect the same journey to continue.

Gaurav Jogani: My other question is with regards to the Marigold, the brand that has been launched under the space under Pantaloons. So, the sales there would be clubbed under Pantaloons or would be separately shown under ethnic side? How this will be done?

Ashish Dikshit: At this stage, it's because mostly inside Pantaloons stores, it is getting reflected within Pantaloons. It just got launched month and a half back. As we go forward and expand our business outside, we will take it out as separately, count it, what happens inside the Pantaloons with line Pantaloons and what happens outside can be reported separately as ethnic. I think it's too small for us to separate at this stage.

Gaurav Jogani: The last question is with regards to the ethnic foray. It has been very heartening to see that it is already at an EBITDA reported level, it's already a big profit. But how do you see the trajectory going ahead as we expand there?

Ashish Dikshit: There are two businesses which are in very early stages. If you see our Jaipur business, we had acquired in FY19 and by the time we had got control over the business, fully understood the dynamics, and started to expand, we hit COVID. So that is a business that we now have a fairly good understanding, control, and confidence about. So, that would expand over the next 18 to 24 months rapidly. And therefore, that will require a little bit of investment in early first two years. Similarly, our men's ethnic wear business, we think it's a very large opportunity. When we launched that business, we had announced in the transaction call that we want to build a 500-
crore business in 5 years with 150 to 200 stores and that is the second business which will require. So new businesses which are starting from zero and rapidly scaling up will incur losses for first two years at least. The existing ethnic wear businesses are quite profitable. So that's not an issue at all.

Gaurav Jogani: By existing you mean Sabyasachi and the ones that you already sell through your stores at the Pantaloon ones, do you mean that?

Ashish Dikshit: So, the businesses like Sabyasachi, Tarun Tahiliani, etc., are profitable businesses and those will continue to generate profit. I think where we will have to invest first few years are the businesses which we are either starting or have to scale significantly, which is primarily Jaipur and the men's ethnic wear brands that we are launching.

Moderator: The next question is from the line of Sarvanan Vohra, an individual investor. Please go ahead.

Sarvanan Vohra: I have a very simple question which was on our e-com strategy. During the investor day and in the successive calls we had spoken about having a consolidated app or a website where you would have all our brands. So, are we looking at that right now or sometime in the future?

Ashish Dikshit: Mr. Vohra, that is a work-in-progress right now. As we speak, we are developing the underlying technology and consumer experience pieces of that. At the first stage, this super app of brands will carry 4 or 5 brands and see how consumers are able to get combination of rich individual brand experience and yet the ability to move across brands and that's something that will perfect. I think it'll take us another 5 to 6 months before we hit the market with that. But that's our medium-term strategy which you would understand that as a company which has some of the most desirable brands from consumer point of view and a large portfolio with us, this will create quite a traction for consumers when they are looking for meaningfully powerful brands with wide portfolio and that's really the plan. We have a separate plan for Pantaloons which operates in a different segment and that's really how our strategy for e-commerce is.

Sarvanan Vohra: And just a little bit in strategy for the inner wear segment and please correct me if I am wrong. So, our innerwear is more towards the premium women wear segment. So, are we planning to keep it that way or do we have separate plans to expand quickly in the men’s inner wear, how should we look at that?

Ashish Dikshit: What we have is a fairly decent and fast-growing men's inner wear business on top of the women's business which actually got launched subsequently. Our women's inner wear business is still yet to fully scale up. Over the next 12 to 18 months, you will see a rapid growth on that. The men's wear will continue to grow. If you look at the inner wear segment, it is not just inner wear, it's inner wear, it’s athleisure, it’s active wear and therefore we feel that for any healthy living men or women this can create a destination retail concept. Next part of our growth strategy will be to build exclusive stores where you can buy inner wear athleisure, active wear, lounge
wear, sleepwear from one brand in one place and that would be a compelling proposition from consumer point of view, and we will grow that. So, it's not limited to either women or men and both parts of the portfolios will grow.

Moderator: Thank you, ladies, and gentlemen, we'll take the last question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: I just had one question in terms of what was the discounting in this quarter on an overall basis vis-à-vis last year during the end of season sales kind of a period?

Ashish Dikshit: I won't have the exact number. We will try and pull it out. But I can tell you right away it is much lower than last year as there was really no need to discount. Even last year was lower than the year before. So, that's a testimony of how we have managed merchandise at these points of time and overall discounting across businesses. And you can see the reflection of that in the improved gross margins for this quarter over the same time last year.

Kunal Bhatia: Just to add on to the question which was asked earlier. In terms of this gross margins, so when we come to a normalcy kind of a period, do we say this, say a 100 to 150 basis point of for raw material cost going up again going forward?

Ashish Dikshit: I think we had answered that. Our endeavor would be, and I think this is not a choice that industry will have any other way when the organic material wide cost inflation hits you, I think we will have no choice but to take price increases at this point of time. We are not sure what will be the final extent of the price increases. We will have to take as some of the raw material side is still evolving. But let me just assure you, as we had demonstrated in case of rent when the situation came, our leverage, our strength of our brands allowed us to get best possible situation on that. Same would be on the sourcing side. However, if the situation continues, we will definitely take price increases to account for it.

Kunal Bhatia: My final question, what would be the ballpark CAPEX figure for the current year and next year?

Ashish Dikshit: Maybe about 400 crore around that, 400 crore or so.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of the management we thank all the participants for joining us. In case of any further queries, you may please get in touch with Mr. Rahul Desai or Mr. Amit Dwivedi. You may now disconnect your lines. Thank you.