"Aditya Birla Fashion and Retail Limited Analysts & Investors Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Special Analyst and Investor's call for Aditya Birla Fashion and Retail Limited. The call is being organized by the management of ABFRL to update you all on the recent transactions that the Board of ABFRL approved yesterday. Through this call the management wishes to update you all on the transaction and address your questions on the same. Please note that this is not an earnings call and hence no questions pertaining to the current quarter performance of the company will be taken.

From the management of ABFRL we have with us Mr. Ashish Dikshit – Managing Director, and Mr. Jagadish Bajaj – CFO. They will conduct the session and take your questions. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. I now hand the conference over to Mr. Jagadish Bajaj to give his opening remarks post which we will move into the Q&A session. Thank you and over to you, sir.

Jagadish Bajaj: Thank you. Good afternoon and welcome to this call. It gives me immense pleasure to inform two important events. Number one, completion of preferential offer of 7.8% equity to Flipkart Group today and strategic partnership with India's largest design brand Sabyasachi. First, I'm very pleased to update you that board of ABFRL in its meeting today approved allotment of shares to Flipkart Group company pursuant to receipt of Rs. 1500 crores to ABFRL accounts with allotment of shares FK Group will hold approximately 7.8% equity of the company. Second, I would like to inform that the board of the company is today a prudent investment of an investment of Rs. 390 crores for acquisition of 51% of stake in India's largest designer brand Sabyasachi by signing a definitive agreement.

Let us keep the deal in context of ABFRL's growth and portfolio strategy. Number one, Indian apparel market presents large market opportunity, currently at US$ 70 billion the industry is expected to reach 100 billion by FY25. ABFRL has presence across all consumer segments and price points. It also has legacy of building strong brand, commands a formidable market position. In recent years we have entered potentially effective new segments to create new growth engines.

Talking specifically about ethnic space; in FY19 onwards company identified branded ethnic as the next big opportunity, ethnic currently forms 30% of overall apparel and is expected to grow rapidly over the next 5 to 10 years. ABFRL kick-started its foray into this space by making two small investments into distinct segment last year. Building on the same strategy company now propose to invest into the largest designer brand Sabyasachi.

Would like to update you briefly about the brand Sabyasachi; Sabyasachi is India's largest and most influential luxury designer brand with strong Indian roots and global appeal. The brand spread in categories such as apparel, accessories and jewelry is a strong franchisee in India, the United States of America, United Kingdom and the Middle East. The brand has adorned more than 50,000 brides since its inception, and it is the Indian brand of choice for global and Indian celebrities. The brand Sabyasachi is also an undisputed piece of aspirational ownership in US$24 billion Indian wedding market. The success of the brand is also in its immense malleability providing a huge opportunity to build and ensemble of offering across product categories and consumer segment.

In terms of business performance, the brand is a top line of 270 crores in fiscal FY19 and '20 and has been consistently operated about 20% EBITDA margin for past 3 years. The funds will be used by the business to build upon the current luxury brand, build an accessible lifestyle business and around institutionalizing manufacturing and design capabilities. Now for ABFRL this acquisition is in line with our long-term strategy of building a formidable ethnic wear portfolio of brands to position ABFRL as a significant and serious player within the largest and one of the fastest growing apparel segments. This will accelerate the company's strategy to capture a large share of ethnic wear market through a comprehensive and effective portfolio of brands across key consumer segments, usage occasions and price points. We are real to partner with the brand Sabyasachi in our journey to create a formidable ethnic play.

Let me close by updating you all on our balance sheet situation. As you all are aware, we have started financial year with a debt of Rs. 2500, with the inflow of Rs. 1500 crores from Flipkart and rights issue collection of Rs. 255 crores out of 1000 crores. The rights issue collection of Rs. 750 crores, out of Rs. 1000 crores issue size, our debt at the end of March '21 will be approximately Rs. 400 crores before investment in Sabyasachi. This illustrates our commitment to strengthen our portfolio and our balance sheet. Thanks a lot, and we are happy to take your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Tejas Shah from Spark Capital.

Tejas Shah: When we spoke last in the second quarter call, you were looking to focus on revival of the business debt reduction through external funding and internal accruals if possible, so were we parallelly actively looking for opportunities in ethnic space or because of pandemic we got this opportunity and we thought of capitalizing on it?

Ashish Dikshit: So Tejas, we have been talking about our long-term strategy with the consistently for a fair bit of time. We entered the ethnic wear market in FY19 and with two small investments which we wanted to grow into significant businesses. As we got into pandemic, we obviously reassessed our strategy and we held back some of our expansion plan for the year. You know that we have managed to significantly strengthen our balance sheet during the year and as the normalcy was beginning to come back which perhaps may take a little longer as we go forward. But we clearly saw an opportunity when such outstanding brands and partnerships become available and we have therefore chosen to move forward at this point of time. It's a reflection of as Jagadish said we are parallelly moving on both sides, one is to continue to pursue the opportunities which we think will create long-term value for our shareholders at the same time significantly strengthen our balance sheet plus position. He has indicated the strength of our balance sheet as it's likely to land at the end of March and I think we feel very confident that it's a good time to make this investment.

Tejas Shah: So the best wishes are with you but when we look at the empirical evidences of inorganic growth attempts in the second and within our company also in the recent past in terms of F21, the growth story has not been smooth and we have failed to see many success stories or easy success stories in the sector. So, what gives us confidence that this brand or this acquisition particular has potential to bug the trend and scale it profitably for us?

Ashish Dikshit: So Tejas, you will have to rejig your memory a little bit more. Pantaloons is an acquisition which has created value, Madura itself is an acquisition over a period. Remember Forever 21, which you are talking about was a very different business which was struggling a loss making at that point of time where the challenge was to turn it around which we have managed to do remarkably well, the business which is losing 40-50 crores in 3 years has broken even. So that's a turnaround story. The investment in Sabyasachi is a totally different situation. It is a brand which is consistently delivered more than 20% EBITDA, generated cash right through its history. One of the most outstanding return on capital and cash generated over long period of time. So, I don't think it's fair to compare the investments of different times, they have a different strategic role at different points of time. As far as this investment is concerned is going into company which is extremely profitable, a brand which has no parallels in India and very few outside India in terms of its appeal as an Indian global brand, as a player which commands significant premium and yet has so much long-term potential in the chosen segments at this place. We are very excited about its growth. This is very different from some of the other acquisitions which we have made.

Tejas Shah: I can understand that what Sabyasachi brings was in terms of our ethnic portfolio. But was just thinking from Sabyasachi's perspective, what he brings to the table because this is an extremely niche brand, our capabilities are more on institutionalizing brands. So, what are the plans, do we want to take it mainstream or it will remain niche?

Ashish Dikshit: Each of the brand Tejas, has its own position in the market and they address different needs, different market segments. While you can extend brands and Sabyasachi itself is a beautiful brand which is extended itself from apparel to designer jewelry to accessories as it has built its equity over a period. It cannot be taken to every possible segment. So, it's not that we want to take a brand and position it somewhere else. I think the opportunity in the place that it plays itself is large enough. In terms of what this partnership brings is a very strong brand, a great creative person and team which has build this brand over a period of time, along with us which brings management, stabilization, building strong processes, capital, execution ability to scale it at a very different level and elevate the brand to help it achieve its maximum potential I think that's the spirit with which we should see, neither should we try to change our business, nor should Sabyasachi become a different brand from what it is today. I think it's a combined strength that the two partners bring which will allow the brands to fulfill its maximum potential.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal.

Aliasgar Shakir: The first question I have is we have made three acquisitions in the ethnic space, before this we have already acquired Jaipur and Shantanu and Nikhil. So what I wanted to understand is you could have probably acquired any one of these brands and extended the product profile towards e other categories, I mean I just wanted to understand the strategy between investing in three separate ethnic wear brands.

Ashish Dikshit: Just to give you a perspective on apparel market in size. Indian apparel on the Men side in the formalwear segment is about $15 billion, ethnic wear is about $17 billion. Over last 25 years we have built four brands which subsequently expanded from Men's formal to casual wear to other categories and it's a combination not individual brand which allows us to fulfill various needs, price points, segments, usage occasions. Similarly, if you look at ethnic wear market which is by far much larger than the entire Men's market that we are talking about, it is a market which has multiple needs. At a base level there is a traditional value affordable market which is best served by Pantaloons and at some point, of time if one of the Pantaloons brands needs to be taken out, we will do that. So that is the market at the value of the ethnic wear. Above that is the market which is premium market which is equivalent to where we have Louis Phillippe, Van Heusen and Allen Solly and we have three large brands, each one of them 1000 crores and growing and establishing equity. In that market we have Jaipur which we have just acquired about a year and a half back. Unfortunately, we couldn't really grow it during the COVID period because within six months we ran into this crisis. If you look above that is where the larger piece of ethnic market is. Like most other segments and it's important that I highlight this, the ethnic wear is the only market where Indian brands own the luxury end of the market. You don't see in many product categories. There are very few products segments in this country which are large and Indian brands have a space in the top end of the market which is bridge to luxury or luxury segment. And this is where first we acquired Shantanu and Nikhil which is predominantly a menswear market. Its small play women's and we took their help and with their brand we extended it into a Pret line which is I would say bridge to luxury. Again, men focused brand, which is for people who go to wedding, not the groom themselves, but the cocktail, the visitors, and so on and so forth. That's where the Shantanu and Nikhil and SNN play. Sabyasachi brand is associated with the largest segment of the market which is women wearing to an Indian wedding and that is the largest market. Jagdish talked about the total size of the market being $24 billion. And this is where Sabyasachi is the leading brand. It has created tremendous premium. It's a very large market, and it's unlikely to go away. And in fact, the brand that this market has the largest appeal, as you can make out, because wedding is very important to Indians. Wedding occasions are sort of perpetual and it has an appeal right across the world. So, in that sense don't look at ethnic wear as one market. In a narrow market like men's formal wear our strength comes from building four large meaningful brands. Ethnic market similarly offers us opportunity to create a bridge to premium luxury brand which we have not been able to, or no Indian brand has created in any other segment for that matter. It also has an opportunity in premium where Jaipur will play and scale itself. It has a men's wear, a market at the Pret side, which is where the SNN, the Shantanu and Nikhil brand will play. And at the bottom end, of course, we have Pantaloons which has a significant play in this. So, you have to see it, Ali, as a portfolio. Our intent is large because it is the largest market which we have entered after 25 years in existence in this industry. We are entering the largest part of this market and we will play it out exactly the way we have played out in other parts of the market where there is space for multiple brands to create significant equity and market presence.

Aliasgar Shakir: This is very useful. Thanks for this detail explanation. Just one quick follow up, since you mentioned, your keenness to grow in this space, where do you think, we have somewhere about $500 crores, give or take between these three brands today which is like less than 5% of our overall revenue. So, given this kind of a focus that we have where do you think we can be in about 3-5 years with these three acquisitions? And can Sabyasachi which is probably predominantly in the women ceremonial category, but it's a very-very luxurious brand, could also cater down to a slightly lower price point or you think that market is still not tapped by us and we will probably require maybe an additional category creation over there?

Ashish Dikshit: So, Ali, each brand has certain elasticity to which you can stretch and create extension. I do not know what lower means, but from luxury it's hard to bring the brand too far down. And remember the luxury market India is a very nascent stage. I think next 5 to 10 years you will see a very strong growth in market as the economy improves, the consumption increases, as more people get wealthier in life and aspire for better things. So, there is an opportunity where this brand exists. Of course, we will look to extend the equity of the brand. Sabyasachi himself has extended the brand very beautifully in last three years into a designer fashion jewellery which has become a good adornment for a bride along with her bridal wear. The accessories which is bags and belts and shoes are very early stage of infancy. So, there are many opportunities in where this brand is playing by extending across product segments. And there are few other product categories. Of course, with time we will build scale and that's where to the previous question that Tejas was asking, we will add ability to scale this by creating extensions and perhaps a little bit more accessible parts of this business. But they won't be very different from where the brand is.

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

Nihal Jham: My first question is when you read up of what plans Sabyasachi has and that's been in the public over the last one year, that there is a thought, as you said, of extending to jewellery and a lot of other segments. So just as a perspective this 400 crore infusion would that be enough at least for the next 3 years or it could be incrementally more investment would be needed as we end up figuring what are the incremental businesses that the brand could expand into?

Ashish Dikshit: Nihal, from our current projections and the plan that we have made with Sabyasachi and we have worked very closely on that. We don't think the business will need any infusion of capital for next five years. The reason is not because we don't have ambition for this business, because the reason is there is substantial capital to begin with that, we are putting in the business and the business itself is extremely, don't forget the business generates strong cash flows. It is one of the most profitable brands in the apparel industry in India.

Nihal Jham: And just taking off from some of the questions earlier asked also that in terms of the ethnic wear currently we have three brands, Jaipur, SNN and now Sabyasachi. Now when you create your positioning matrix and even in terms of gaps do, we see the need of potentially any other brand to service the entire ethnic wear market or we believe that these three brands more or less help capture the entire market opportunity?

Ashish Dikshit: See the way we have segmented the market Nihal is, we have looked at, of course men and women and multiple price points. If you look at on the women's side, we have Pantaloons and its brands at the bottom end of market. Jaipur is one brand artisanal in terms of its taste and therefore it is a little bit more premium. And above that is where Sabyasachi's brand will play. On the men's side, both Shantanu and Nikhil at the luxury end and SNN which is the pret brand that is launched is playing on the luxury to bridge to luxury end. We would look to fill other segments which is the men's wear side of the ethnic market and as and when there is any update on that, see this is a long-term strategy, please remember, Nehal. This is something at least we have been sharing with you for at least two years in every call, in every presentation, our intent to be a significant player in India's largest market because we believe our ability to build brands now a good understanding of this category initially through Pantaloons and subsequently through the other two acquisitions that we made and our understanding of market, we strongly believe that it's a market which could be very-very large for us. So, as we go forward, we look to fill these opportunity gaps in a selective manner and move forward with that.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: Just a couple of questions on the acquisition itself. Can you tell us more about what the total store account for this will be say five years down the line? Like what your strategy is regarding online versus offline? And talk a little more about how you would develop this internationally given that a large part of the brand's sales come from overseas. So, this is one part of the question. And then secondly in terms of the brand itself what would be the input from the current management and relative to what will be the input that ABFRL provides now that ABFRL will be majority owners.

Ashish Dikshit: Thanks Aditya. In terms of stores as we had announced the brand has five stores in India and most of its revenue come from those stores. It also has presence in a few luxury multi-brand outlets in India and sells in small ways from couple of chosen international luxury multi-brand outlets. The strategy in terms of expansion is, there is an opportunity to test international markets and we will obviously test one, go carefully and then build strength around. This brand has tremendous equity wherever there is a large rich successful Indian diaspora exist. So, whether it's New York, whether it's Bay Area, whether it's London, whether it's Dubai, and we'll make a beginning and we'll see how it grows. Currently close to 40% of traffic on the brand's Instagram pages or websites and other digital engagement, nearly 40% of that comes from the US and another 20% to 25% comes from places like UK and Middle East and so on. I think there is an inherently large opportunity there, as we look at next five years perhaps, I mean it's early to say, we are still sort of learning the full controls of the plan. But it is likely that we will probably have three to four international stores in five years. Our international domestic store count, which is 5 may probably go to 7, 8, or maybe 10. Remember this 250-crore business to 275 crore business which came in FY20 came out of 5 stores and few MBOs and little bit through direct sales. So, it's a very high throughput brand and you don't need to open too many stores to get the revenues unlike other brands that we have in our portfolio. In terms of online it's a very strong pull. The brand has very carefully nurtured equity for digital consumers. Doesn't have too much of an online sale, but it's more engagement and desire that is built around that and that's really how the luxury brands have positioned themselves. Over a period, we will build online exclusive channel and build on that also. I think the equity of the brand makes it easy for brand to be extended into that. In terms of the role that we will play, we are very-very sure that Sabyasachi brand has been made and carefully nurtured over the last two decades by one of the finest creative minds that this country has seen and a very good brand builder. What we would provide is management support to help him focus on areas that he wants to invest in which is to grow the creative aspects of the brand, ensure that the quality, takes the design, remains true to his vision. And we are able to help him execute it by providing execution supports both at the backend, which is building sourcing capabilities, investing in little bit of infrastructure at the backend, enabling business development in the front end, ensuring governance for the organization as it grows and scales. So that's really the kind of role that we want to play. And I am sure over a period it will be run as one business where both parties are able to infuse their individual competence and that's really how we see it. It's a best of both worlds that we both aspire to build, and it'll be largely built around the creative genius that Sabyasachi has.

Aditya Soman: And just one follow up on that. Is there any debt at Sabyasachi that you'll have to take on?

Ashish Dikshit: See, I think Aditya, Jagadish has given you a sense, our rights issue was1000 crores out of it 750 crores would have come by this year end 500 has come to 250 more is to come in next 15 days. We have today received 1500 crores from our preference like share issue to Flipkart. At the end of March our estimated debt prior to this transaction would between 350 crores to 400 crores. So, we would be extremely strong to be able to take this on. Current infusion that's coming from Flipkart will be sufficient, very easily to take that.

Aditya Soman: My question was, was there any debt on the Sabyasachi book that you would have to take?

Ashish Dikshit: No. It's been a consistent cash generator and therefore never had to take debt.

Moderator: The next question is from the line of Vaibhav G from SBI Life.

Vaibhav G: I wanted an understanding on the overall thought process, probably at the time when we last spoke about our dilution and rights issue as well as raising money through Flipkart, you were a bit, I mean, I felt that we were clear that we are not looking for much on the inorganic side as of now. So, what gives us comfort in terms of, because it's still, we think that we are out of woods, but is there a clear visibility that our cash flow generation or the business as such is in very good shape to continue and generate cash on a consistent basis, because still we feel that in the earlier calls also we are talking about there can be hiccups and there is still no clear as such visibility that things are out of woods. So, what's your take there and how do you think on those lines?

Ashish Dikshit: Vaibhav, let me say the following, I would not comment on current state of the business. This call is not supposed to do that, but I think its sufficient indication to you when Jagdish stated that we feel our balance sheet which started the year with 2,500 crores of debt is headed towards a 400 crores of debt situation. That was the projection that we have, and we are feeling reasonably confident towards that. And therefore, also post the difference between your earlier conversation which has been in Q1 or Q2 would have been, we have indeed got both the 500 crores first round of rights. 250 crores to come in next 15 days, the final sort of date is tomorrow, and we have also got 1500 crores. So there has been significant strengthening on the balance sheet and as a long-term player in this industry with proven unique and perhaps the only company which has built multiple brands in various parts of the market, turned around businesses we were talking of Pantaloons, Madura brands built over a period of time, turnaround of some of those brands, we feel strongly that current situation once the balance sheet gets stronger it does offer us at times opportunity which will be hard and rare to come by. It is one of those exceptional opportunities that come once in a while and this is one of them and therefore, we chose to move forward. We obviously have factored in everything that you're mentioning. We feel very strongly about strength of our balance sheet to be able to execute this.

Vaibhav G: On the second part so we are taking 51, so how does this, in future also we will stick to that majority ownership and that is how it will continue or are there some milestones through which we want to take over the entire company and continue with it because Sabyasachi as such becomes a very single man or brand kind of a thing, so how do we ensure that things remain in the control and there is no second competing thing which comes up?

Ashish Dikshit: I think the nature of arrangement is such that it gives us the exclusive rights to go on and raise our stake over a longer period of time. Please remember these brands require the founder's vision and creativity to do maximum justice while we can add value on the side. The maximum value gets generated and both parties with the best together. It is in our interest to ensure that the current founder and the creative owner of the brand stays for a long period and that's really how it's thought, but there is no space for anybody else to come in without an agreement from our side. So, it's a very deep partnership and meant to build probably the finest and one of the best luxury brands coming out of India, if not the only one over the next 10-15 years and we do require both partners to work very closely on that to happen.

Moderator: The next question is from the line of Richard from JM Financial.

Richard: First one is broadly on the line of what was asked just prior to this and can we now conclude that balance sheet shape need not be too big an area of focus or concern for us as outsiders because you will always have the Birla Group reputation support and we can thrive through whatever difficulties and funding etc. that should come up in the future. In light of this should we as outside observers stop pampering our thought processes because unlike most commoners in the business world, ABFRL need not ever worry about wanting a debt free balance sheet etc. because funding is never going to be a concern. Is that the right way to think about it and while on this, in your previous answer to Vaibhav where you stated that 2500 crores debt in the beginning of the year has gone down to 400 but my humble submission is that, that reduction is not through own accruals right but it is through an external fund raise, at what I think was an extremely intrinsic value diluted price?

Ashish Dikshit: Richard fair questions, both ones. First, I think we have always said so and maintained that being part of an Aditya Birla Group Company in a market where the company Aditya Birla Fashion is a pioneer and leader in Indian branded fashion. Having said that we are just starting our journey in terms of the headroom that is available, the capability that we have proved over a very long period of time and the portfolio of businesses that we have and we intend to build. We have a very large headroom for growth available over next 15-20 years and the benefit of being part of a group like this is that this is an issue that we don't have to worry about as long as we keep making sure that we are running the business well and managing situations both in terms of capital productivity and business efficiency. I would therefore double down and would like to comfort you that this should finally settle any doubts in anybody's mind that if the company takes a debt for short period of time either due to need for the acquisition like what happened in Pantaloon's case or exceptional once in 100 years situation like what we went through in this where fashion industry has got specifically impacted. I don't think our long-term journey is going to get, we are very strong sponsorship and support from the group as well as other investors. Of course, there are times when you don't get the valuation and the fair value that you think you have, and which is why at one point of time we moved out and got a preference share issue done. But what we have established during this period and I would like to reiterate we are in a position, pivotal position to take a very strong business profitable and value creating over a long period of time. We can continue to expand, both the existing businesses and add wherever there is strategic portfolio addition possible and we will be able to manage our balance sheet hopefully through internal accruals that you are rightly suggesting but even as and when there is any need for fund is required, I think we are very strong parentage and that should comfort all investors.

Richard: I think you said a lot in this regard but pardon me for this. It is my shortcoming, but I am not able to visualize what you are trying to create by putting together all these various small-small disparate brands into one basket? What's the big picture here and how do you create a harmonious ethnic business of size and scale and of the kind that the larger Indian middle-class cohort can afford because we are after all a country of masses and not classes?

Ashish Dikshit: Richard, opportunity is in all. If you were to look at only one market and try and create only one brand, there are many other players who do that. We think we have the capital, the skills, the management bandwidth and the patience to pursue multiple opportunities, we have proven it over last 25-30 years. Let's look at your own question. The Indian wedding market is a very - very large market, largely driven around bridal wedding. Sabyasachi is once in 30 years-50 years brand with the strength and power of the brand. You cannot call it small, isolated, assorted business. It has potential to be one of the largest brands ever to come out of India. It's not small, it's not insignificant, it's very influential and it will be a very long run. It is just that in its history of its journey today, the brand may look small; it's still 275 crores last year. As we mentioned it has multiple dimensions of growth, the luxury in India will grow. There is opportunity to create a slightly more accessible range. Jewelry Sabyasachi brand has entered only 3 years back, it is already showing tremendous traction. Accessory business has just started, that's on product portfolio. On geography, the brand has strong re-call presence and admiration globally, presence is only in India, so we selectively had that opportunity to build it outside India over next few years. I wouldn't agree with you Richard that these brands are, some of them are at different stages and life and remember we are talking of the single largest market segment in Indian apparel industry and this is the only place where perhaps India can build a luxury brand and a very profitable one in that. But in terms of your question and portfolio, the way we have looked at it I think the business has opportunity on multiple sides. We will, as you are rightly suggesting that our plain sort of premium and sub-premium could be larger. We will patiently build that, look for the right opportunity. We are currently nurturing organic development of our new brand inside Pantaloons, in the premium women side we will take it at an appropriate time and build, take it outside. What I want to make sure that our ambition and strategy is not a combination of dis-assorted brand; it's a comprehensive and carefully laid on strategy. The opportunities present themselves at different points of time in different ways and we will have to act on them as and when they do. In the meantime, we will continue to nurture the organic part of our business.

Moderator: The next question is from the line of Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia: Initially one clarification, you mentioned that Indian wedding market is about $24 billion if I'm not wrong?

Ashish Dikshit: Yes, that of course includes everything that goes in the wedding.

Kunal Bhatia: If I am looking at the ethnic side of the business, just to extend the question which the previous participants asked. Sabyasachi if we consider, it is about a 274 crores brand at the moment which in terms of the pure, if you consider the overall ethnic not even a 1 percentage market share. Taking that into account and at this point in time wherein we are in a space of reducing our debt going in for this acquisition; what is the focus or what's the thing we had in mind in terms of taking this brand to what level of growth or a revenue perspective over the next 4-to-5-year period? If you could give some thoughts on that.

Ashish Dikshit: First Kunal let me clarify something. When we say size of the market please remember the top end of the market will always be the small part of that market it doesn't cover and so in terms of the luxury designer wear brands, Sabyasachi is perhaps the largest and by far the biggest brand in the portfolio. We will continue to grow it perhaps at (+20%) rate, we will have to discover it as we go along whether the growth rate is 20%-25% or so and that may take us some time to get a better sense of what kind of projections we can make on that. It's a journey, it's a very strong initial starting point and we have multiple levers to exploit as we build on the equity of this brand.

Kunal Bhatia: In terms of the margins which you mentioned were about at 20% EBITDA and my sense would be since it's an ultraluxury brand so it would be a very high gross margin kind of a business. Do you believe that even in terms of the operating margin profile this number could be a much higher going forward if the scale is expanded?

Ashish Dikshit: I wouldn't want to Kunal at this stage get into the details of the numbers, the top end and the bottom. What I do know is that the brand has delivered this kind of profitability over the sustained period of time. As I was answering previous question, it has generated strong cash every year and funded its growth and still had cash reserves and therefore I think it's too early for us to start figuring out the exact levers of profitability and further improvement in profitability but fair to assume as market grows on that segment, the brand's ability to generate premium and also its scale generating operating leverage will only improve as time goes.

Moderator: The next question is from the line of Ankit Garodia from VEC Investments.

Ankit Garodia: If you could throw some light on the transaction. Are all these 398 crores secondary, is there any primary infusion and of course the roadmap forward are we looking at becoming a 100% shareholder basis milestone? And second would be while some of it has been answered earlier, if you could throw some light will Sabyasachi be involved in even as in advisory role in helping us in some of our ethnic wear?

Ashish Dikshit: Two questions, I think your first question was around primary and secondary. At this point we are working through the scheme of arrangements into that. There will be a substantial investment which will go into the primary of the business and that's why I had indicated the business in our projections despite reasonably robust plan of growth will not require fresh infusion capital at this stage in our view in next 5 years because the business itself is cash flow generating so that's on that part. As I had mentioned in the previous plan our long-term strategy is to over a period of time invest and increase our share but that will happen over a longer period of time. Sabyasachi will definitely be involved and run this business because we believe that the best arrangement which allows maximum part. I don't think with the potential of just this segment and this brand that we would like to distract and take his attention on the other parts of the business. We have always built businesses, always. Our brands and our businesses are built with dedicated management, focus and attention. That's why we don't compromise or cross optimize or cross subsidize both in terms of capital and management infusion. So this will be run as a brand with large potential opportunity, with full-time commitment from Sabyasachi and our management team which will be totally focused on this business. That's how we run every one of our brands and the businesses.

Ankit Garodia: Given that the business of Sabyasachi is cash flow generating and has enough cash reserves and doesn't need cash then what are we infusing the primary for, given that the expansion is also restricted to may be opening another three to four stores in the next 5 years?

Ashish Dikshit: There would be these stores are international stores and some four-five stores in India. The stores are more expensive than regular stores being a luxury player. We also will put some capital in terms of strengthening the back-end capability in terms of both expansion as well as adding new facilities as the jewelry and accessory part of the business grows so it will require all that.

Moderator: The next question is from the line of Aman Vora, an Investor.

Aman Vora: Can we have some light on the Sabyasachi numbers for current export and the Indian market?

Ashish Dikshit: Export numbers today are small while the demand and aspirations are very high but because there is no store outside India, it's our judgment that a lot of international travelers who come to India buy it, there is a very strong following that the brand has outside and it is reflected in few exhibitions and sales that Sabyasachi is participated in Dubai, New York. He has had exhibitions in places which are luxury department stores in the US and affiliations in Middle East which is Dubai which has given us extremely strong reason to believe that there is a business possibility there but in today's term the business is very small outside India.

Aman Vora: As a company, do we have any aspirations of becoming a net debt free company anytime in the future?

Ashish Dikshit: We have aspirations to serve our consumers well, we have aspirations to serve our shareholders well and create a large business out of the opportunity that apparel business offers. It's a market which is in early stage of infancy in terms of conversion to ready to wear at the lower end of the market and growth in the premium and the upper-premium segment. I don't think we need to set our objectives around things like zero net debt. It's easy to achieve as you have seen. Even before this if we had not made any of the acquisitions, for last 15 years our Madura business has been cash flow positive business. I think it's a question of where you set the scale and what's the ambition for the business. Indian apparel market is $100 billion; we are less than $2 billion in our revenue. We perhaps are one of the strongest players in terms of the portfolio, management, our understanding of consumer, design, supply chain. I don't think we will be doing great service to our shareholders and the opportunities if we do not combine strengthening balance sheet with a portfolio which does justice to the opportunity.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: If you could just give us some idea, I am not looking for exact numbers but whatever color you can give in terms of the cost structure of Sabyasachi, the 20% EBITDA margin, is derived from what kind of gross margin and what are the main costs which going to because with this kind of scale they are doing probably 30-40-50 crores per store of turnover so things like rental etc. or store running costs are very-very minimal and with the high gross margins at the high price point should dictate 20% EBITDA margin seems to be rather on the lower side. What am I missing in this story, if you can just give some idea? I am not looking for exact numbers or anything.

Ashish Dikshit: You are right unlike conventional businesses because the throughput is so high, the store costs are not as large as they would be for businesses which do lower throughput per store. But the assumption that all high price luxury brands will have disproportionate margins is not always true, they have strong healthy margin but lot of it gets ploughed back into product, product development. Remember jewelry has a different margin structure, apparel has a different margin structure, accessories have a different margin structure. Even gross margin is a blend of all this. As the business grows and the operating leverage comes hopefully store rentals in luxury businesses, that threshold perhaps you will be able to cross is our sense, that often is not the largest cost or as significant as cost as it is a mid-premium segment. Most of the cost lies in the product and operational overheads of the company. The first one will deliver improvement in terms of gross margin as the brand creates and gets into richer markets, there are certain segments and the second one will come through scale over a period of time which is currently very small.

Percy Panthaki: You haven't decided the proportion of primary and secondary in this transaction, is it?

Ashish Dikshit: No, we have, it's part of our structure. At this point we are not disclosing the full details of that, we are still trying to figure out based on the business plan. We have agreed on a principle of shareholding and that's how it will flow. In our sense the primary should be between 70 to 100 crores and the rest will probably be into secondary.

Moderator: The next question is from the line of Mayur Parkeria from Wealth Managers.

Mayur Parkeria: First is the initial comment and I am thankful to the investor team also for allowing us to ask the question because quarterly calls are just impossible to get through despite holding the company shareholding for 4-4 years. So, thank you for giving an opportunity to ask. I was just linking your comments on the opportunity to service the customer on a scale runway which you have in terms of apparel, completely agree on that side and connect that with the shareholder wealth which you plan to create. Apart from the top line growth, the shareholder wealth is a function of all, in a single way to say is a function of a significant improvement on the return on capital employed. Just some back of the envelope calculation, for us the capital employed for this overall this segment is closer to now 660 crores, 400 plus 250-odd; if I remember well and even if we want to make 20%-25% ROCE which is much lower than our traditional Madura ROCE which on a normal course could have been achieved. We are looking at EBITDA of or a cash EBITDA of close to 150 crores. At a 20% margin or a 15%-20% sustainable margin. What I'm trying to come to is will require a closer 2000 crores of turnover on this. What do you think is the timeline when we can look at this kind of a scale on this ethnic side?

Ashish Dikshit: You are right Mayur, I think two parts let me say. There are two parts, one is intrinsic return on capital on some of these businesses particularly the Sabyasachi business is exceptionally high. Of course in our case as a company because we are making an acquisition and therefore there is a goodwill involved, it will take longer time to play out for us and therefore it might be 4 years or 5 years by the time the numbers look the same but you know, I know that fundamentally the business is generating that kind of returns and cash flow. The brand business as we have seen ourselves having build brands in 1990s which are creating cash flow for 25-30 years now; are a very long-term perpetual cash generation. Growing inorganically does for the short period of time, reduce your return on capital but then it unlocks the value over a very long period. I think some of them are a function of time as we see, if you look at, even this investment if you look at a 1-year horizon you will probably argue that return on capital will not be, if you look at 5 years, they will start to look very good, if you look at longer, they will be even better than anything that Madura has delivered because the return, the EBITDA margins are much-much higher than our core business, twice of that. We have to balance both profitability, cash flow, balance sheet with the timing horizon that we are looking for the business and while I am not talking of a very long-term but 3 to 5 years at least is a fair time in which the business should start delivering reasonably healthy returns even post goodwill and acquisition cost.

Mayur Parkeria: Over the last 3 to 4 years, we have understood now fast fashion has been, the segment of market where a very large opportunity is there and continues to be there. And I think we have played it phenomenally well through the Pantaloons and to some extent, casual plus fast fashion through Peter England through Forever 21, which we tried, which is still there or even the Pantaloons, which has been a very successful journey and that is one segment with actually moved the needle for the company from taking it to an almost eight and a half crores now. If from this size onwards, don't mean instead of putting this kind of money into this segment while I understand your aspirations on ethnic and the market opportunity, but don't you think a fast fashion was a segment where we could have put in looked at some kind of a more opportunity which could have delivered a better returns from the company perspective and also made it a very large for us.

Ashish Dikshit: No, I think you have a fair point in terms of the market size and opportunity, you probably mean the value fashion, which is the more affordable fashion that indeed is the largest opportunity. I think there are view is that we have made, we perhaps have one of the strongest brands that this country has seen in the value segment, which is Pantaloons. Some other businesses may have built more skill, but there is perhaps no other brand, which is as familiar as comfortable and a business model, which is constantly improving. Our aspirations of pantaloons are large. We are both improving the business, enhancing the quality of brand, increasing scale and we see our largest growth opportunity in the long term coming from there. And we will continue to invest in that. I don't think we are making choices where we would compromise either on Madura or on Pantaloons before we make other pieces. Having said that as I started, sometimes you have to look at opportunities holistically, just as value fashion has created the big shift for ABFRL in the last five years with Pantaloons. Similarly, is the opportunity to create a plane the ethnic wear in lower ender market scale comes typically through retail brands, which you increase at Pantaloons at 350 stores. And as I keep saying, the opportunity is much-much larger. On the branded segment, typically it comes from brands which have their own distribution and the portfolio brands, like what you've seen in Madura will create the value. And that's the part we are on. We think we have both the ambition, the support of shareholders and the opportunity to execute on both. And that's why we are on the spot.

Moderator: The next question is from the line of Bimal Sampat, an investor.

Bimal Sampat: Congratulations on getting into a new segment altogether. Now this new segment is obviously, it will be higher margin then our existing listings. So, are we thinking on the lines of Titan, something like in the next five-seven years, after we grow this ethnic, we can get into a lot of accessories? I mean, Titan can be a role model for us. Are we thinking on those lines? I mean, what is this thing of getting into ethnic, because there is a lot of scope in your Men’s and value fashion?

Ashish Dikshit: I think you are right; we have a lot of opportunities in apparel segment, we remain focused on the apparel segment. We have been for the last 30 years focused on single definition of the market. It is what, Men-Women and Kids where to love to look good. And that's been what our play, whether it was initial days Men's formal or Men's casual or subsequently best in Women and now ethnic Women's wear. Of course, over a period different parts of the market grow differently, ethnic wear market for long time was more unbranded with very few opportunities. The designer segment was very-very small. So, we have seen the opportunity emerge. We think just as in the Men's wear in 90’s and 2000, branded clothing took center stage. That's what will happen in the Women's wear both in the western and ethnic wear side and that's really what we'll play. We will continue to expand access cities and other things which are related to fashion and that is our definition of the market. We are not looking at anybody else's example because we have followed the strategy for 30 years now. We have within apparel segment, wherever we see the opportunity to create new brands where the markets are emerging, where a premium can be created, we have entered that and that's how we have entered Women's Western wear, Men's Athletic athleisure, Men's innerwear and now Women's ethnic wear in last 2 years.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Jagadish Bajaj: Thanks a lot, dear shareholders for participation into this call. We will see you again once we announce our Q3 results, till then, goodbye.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Aditya Birla Fashion and Retail Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.