"Aditya Birla Fashion and Retail Limited FY'16 Earnings Conference Call"

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MANAGEMENT: **MR. PRANAB BARUA - MANAGING DIRECTOR, ADITYA BIRLA FASHION AND RETAIL LIMITED**
MR. ASHISH DIKSHIT -- BUSINESS HEAD, MADURA DIVISION
MR. SHITAL MEHTA -- CHIEF EXECUTIVE OFFICER, PANTALOONS DIVISION
MR. S. VISVANATHAN -- CHIEF FINANCIAL OFFICER, ADITYA BIRLA FASHION AND RETAIL LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the FY'16 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the Company's management on the quarter's and yearly earnings performance followed by a question-and-answer session.

With us, we have Mr. Pranab Barua – Managing Director, Aditya Birla Fashion and Retail along with Mr. Ashish Dikshit – Business Head (Madura Division); Mr. Shital Mehta -- CEO, Pantaloons Division; and Mr. S. Visvanathan - CFO, Aditya Birla Fashion and Retail. 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 risk that the company faces. With this, I now hand the conference over to Mr. S. Visvanathan. Thank you and over to you, sir.

S. Visvanathan: Good afternoon, and welcome to this conference today. On behalf of all of us here at Aditya Birla Fashion and Retail I welcome all of you to this conference. I think we have already been introduced who are the participants here. So let me get on with the introduction of today's session straight away.

We are now here to present the results for year 2015 and 2016. Before I go to the actual results a brief view of what the market and how it has behaved in the last one year. 2015-2016 was challenging in terms of the subdued consumer sentiment that we had except in Q3 where there was because of festive season there was a little of upward movement in terms of sales.

Discounting and promotions remained at a high level throughout FY'16 particularly during the EOSS time and also during key festive periods. E-commerce companies continued to have year on promotions a higher level of discounting. Having said that, online shopping continues to grow rapidly as large number of consumer's particular young consumers are experiencing ease of shopping on their mobile phones combined with large variety at attractive discounts.

In terms of product and consumer segments women's wear both ethnic and casual denims have grown faster than the market while premium segments basically formal wear seems lower growth. All the above trends have resulted in higher growth in value fashion segments as more and more Indian consumers upgrade to branded experience of modern retail and fashion at affordable prices.

We see this trend continuing in FY'17 for some initial period of FY'17 also. Market we feel will continue to remain muted during the Q1 of FY'17 and probably the first-half of Q2 of

FY'17 we are not witnessing any great change in terms of consumer sentiment and market growth in this going forward in Q1 FY'17 also.

Coming now to the performance of ABFRL in FY'16, first, let me take the Q4 performance. Sales for this quarter was Rs. 1,442 crores which is a growth of 3% over FY'15 Q4 and EBITDA before one-time cost was Rs. 127 crores which is a decline of 15% over FY'15.

In full year FY'16 we had sales of Rs. 6,060 crores which is a growth of 11% as compared to Rs. 5,450 crores of FY'15. EBITDA at Rs. 409 crores and EBITDA before adjustment of one time cost Rs. 482 crores and there are one time cost of about Rs. 73 crores which related to merger related expenditure bonus and profit elimination as one-time issue. So if we add back to Rs. 73 crores the EBITDA comes to Rs. 482 crores for the year ended FY'16. There is a decline of EBITDA over FY'15 in terms of the overall company performance mainly on account of lower or more subdued revenue growth and on account of the onetime cost.

CAPEX for the year aggregated to about Rs. 200 crores comprising stores rollout, Omni-channel spent and maintenance CAPEX. On the borrowing front our consolidated net debt increased by Rs. 27 crores during the year to Rs. 1,829 crores and our gross debt to EBITDA before one-time cost stood at 3.8.

Coming now to the divisional performance MFL ended the year with a revenue of about Rs. 3,996 crores just short of Rs. 4,000 crores which is a growth of 7% over last year. EBITDA for the year was Rs. 365 crores. And in Q4 MFL revenues declined by 5% as we had a conscious decision to cut back on discounting and promotions and this has resulted in a lower revenue in this quarter but our gross margins have remained healthy and EBITDA for the quarter was a little above 10%. MFL continue to expand the retail network and now have 1,877 outlets with about 2.6 million square feet excluding value stores.

Pantaloons, Pantaloons ended the FY'16 with revenue of Rs. 2,164 crores a growth of 17% and EBITDA of Rs. 101 crores a growth of 34% over the last year. Q4 revenue was Rs. 534 crores and EBITDA of Rs. 31 crores. Q4 like-to-like growth was lower at 2.9% as EOSS was actually brought forward by us to December 2015. However, like-to-like growth for the period December to March period was healthy at 8.3% taking the annual like-to-like growth to 5.9%.

Pantaloons opened 15 Pantaloons format stores in Q4 and ended the year with a store count of 135 stores for the Pantaloons format. This helps increase our operating area from 2.2 million square feet to 2.6 million square feet. Pantaloons accelerates pilot on franchising the three more stores during Q4 and with that we have four stores which are run by franchisees for Pantaloons.

The first kid store was launched exclusive Pantaloons kid store was launched in Ahmedabad it is a 2,000 square feet store called "Pantaloons Kid".

Aditya Birla Fashion and Retail Limited continue to build it's through a diversified play across consumer segments price points and retail format through its portfolio of businesses across Madura and Pantaloons. As a part of our portfolio strengthening strategy we have made several important moves during this quarter. We have added a super-premium brand in Madura called "Simon Carter" it is a British men's wear brand. We are set to launch stores of Simon Carter in the coming year.

In a big step to build leadership presence in the fast growing women's fashion business we have signed an MoU with one of the world's most successful fast fashion brands Forever 21 to occur India business and get into a long-term franchisee arrangement for India.

In conclusion we remain very confident about our strategic direction for the business. We are investing behind growth through brand building, modernization, and expansion of the retail network. We will be focusing on value fashion business and through expanding the Pantaloons business while Madura will continue to grow through addition of retail stores. We have also signed on two nice brand Simon Carter and Forever 21 which will add to our portfolio strength.

Thank you and we are now open for questions.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have our first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on Forever 21. The sales growth in FY'16 has slowed down significantly versus FY'15, FY'15 it doubled versus FY'16 hardly 20%-22%-25% growth 22% growth so why have it slowed down drastically what was the reason for selling to you and if you could take us through how the profit metrics works? So is there any royalty to be paid how long is the contract could you discuss this?

Ashish Dikshit: Okay. Abneesh, this is Ashish here. As far as the past performance of Forever 21 is concerned it is difficult for us to comment on underlying reasons for financial numbers. But we have studied the brand and we think it has tremendous potential to grow rapidly. There were operating reasons why the brand was not fully realizing its potential and therefore we believe that together with our coming under our umbrella we will be able to take it to its true potential. The arrangement is a long-term arrangement it is a really long-term arrangement and it does involve paying royalty there are other details at this stage we would not be able to disclose because this is still a process which needs to be finalized.

Abneesh Roy: Sir, that is quite useful. My question on your current business obviously this has been a very tough quarter for many other garment players also, wherein business if I see Pantaloons this growth is very similar to the full year growth but in Madura it is extremely different so minus 5% for this quarter versus 7% for the full year. So is the consumer down trading and can you discuss the 142 new EBOs which you have opened how are they performing and your EBO size is now currently very large size 1,877 so, do you really need such a large EBO because most consumers now prefer to shop within the larger departmental stores. So why do you need to be now so aggressive on such a large foot print of EBOs?

Ashish Dikshit: Okay. So you have thrown many questions in that, I think the first question is on our growth in Q4 and intricate observation that is there down trading happening at consumer level. I think the fact is that there is greater value being offered by increasingly large number of value fashion retailers. Therefore, consumer is seeing value there. In times of lower economic activity and a general sense of things not being very good these are the times when discretionary items and particularly in the premium segment tend to suffer. We have experienced this in past and perhaps today's economic condition does reflect a part of that. Is it long-term, it is and how long will it last is a matter of anybody's guess but as Vish in his opening remarks estimated we think three months to six months is still further away from a true economic recovery. At which the resurgence comes back to brands and consumers spent more in the premium products get a larger share of that. In terms of our store expansion, you would notice that this year we have added 140 stores typically it is lower than the numbers we would have added last year. A part of it is the conscious call considering the overall market situation we want to more careful with expansion and therefore our numbers truly reflect that. On the average size of the store our brands have grown diversification product extension over last few year s and that has been the journey we should not forget in one quarter result that this is company where brands have grown at a CAGR of anything between 20 to early 20% for over last five years, last ten years and last 15 years. Therefore, the performance needs to be seen in context of how we have built our business over the years. We are mindful of the low same-store growth that we are experiencing and therefore, yes, we have been judicious about both the pace of expansion and the size at which the store but we do need a certain level of size to actually reflect the brand in its full completeness but over a period of time we will keep rationalizing and keep looking at what size is truly optimal for the overall reflection of the brand and viability.

Abneesh Roy: Sir, that is useful but one follow-up on that so, in terms of consumer preference are you seeing a big switch from EBOs to the MBOs and the departmental stores and so what is the way forward for your existing so, you said that you will definitely rationalize but if you share some insights into how the switch has been from EBOs to MBOs?

Ashish Dikshit: So I think see these cycles come and go as new channels come and then different competitive opportunities come for consumers also to choose, we have seen this phenomenon over a very long period of time when department stores came EBO came over a period of time now E-commerce has come. So I do not see irreversible dramatic shift in channel except one which is that over a period of time consumers will move online and therefore the share of online would definitely increase. What the market offers for us and the reason for EBOs to grow is large formats by nature are restricted in the geographies that they can reach and our EBOs provide us in the market which is so under penetrated and with such long-term potential to grow our EBO strategy allows us to take our brands far well and beyond where the department stores exists. EBOs also allow us to present our brand in completeness and entirety and therefore I do not think it is a choice ever between one channel versus other it is about exploiting the different channels that they present for unique features. There are times when department store or large format does well because consumer has large variety multiple occasion families can come for their broader usage and therefore that channel has sturdily on that point of view and we will continue to ride the benefits of that channel as we keep going forward we are the largest player with every single department store and therefore, we continue to see growth there. But our EBO strategy is also a strategy which is time tested over the long period of time and therefore, we should not react dramatically to six months - nine months of slow down on one side.

Abneesh Roy: Sir, one last question, Pantaloons the pilot project which is running in terms of franchise although I agree it is early days but if you could share some insights whether you plan it now across more stores are you taking it forward?

Shital Mehta: So, we are calling this is still a pilot so I think it is too early to say. So far it has been our first store around five months back the early signs are good and we intend to extend this pilot few more markets before we can take a conclusive call on how fast we need to accelerate the model.

Moderator: Thank you. We have our next question from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Sir, my question is on the ad spends we had an elevated ad spend in the last couple of quarters particularly in Madura when do we see this normalizing I understand the backdrop of sales growth being slow. So do we see the higher ad spends continuing through FY'17, that is one. And two for Mr. Visvanathan, can we have a revised CAPEX plan spend, targets, across the different divisions?

S. Visvanathan: Yes, while Ashish answer the ad spend I will give you the CAPEX thing.

Ashish Dikshit: So as far as advertising spends concern Chirag the issue was raised up last quarter three where there was a significant increase and our overall years for FY'16 is higher than FY'17 by you know reasonable amount. But this is something that we have done at the time when there was prevalence of online promotion discounting and there was a fair of reasonable commoditization of brands and we wanted to make sure our brand standout consumers buy us for right reasons and there is a reasonable visibility in that period of time. I think the overheating of the market in excessive discounting and promotion is something that is finding movement towards normalcy, we expect next year to be slightly better on that account and therefore, our advertising will come back to normalcy during the course of this year as we have said or indicated in the previous call as well.

Chirag Shah: Sure. And before we go to Mr. Visvanathan, I mean just a quick question to you, you did speak about the EBO strategy but sir, I mean just having reached a base of close to about 2,000 EBOs on a very three year to five year view what is the scope for penetration led growth in Madura on the EBO line.

Ashish Dikshit: I think, I have maintained it a for a long period of time remember when you say 2,000 you are taking about four formats or five formats it is not about one brand and so it immediately comes down to 300-350 per brand, you take the top five cities where each city has a potential of between 30 EBO to 50 EBO for per brand. Some of the cities like NCR already have that kind of penetration and as new malls keep going up suddenly you are talking about an opportunity to reach a much larger number outside top 10 cities - 15 cities where current EBO distribution is. So I think if you forget the short-term curves this opportunity we have to recognize is a continuous long opportunity where apparel at least the premium apparel and I would venture out to say even the value fashion apparel is hugely under penetrated. So it is plan which is a ten-year plan, there will be times when the market will see ups and downs and therefore we will have to keep adjusting our pace of growth but we are not seeing saturation if that is a suggestion. In fact, it continues to remain heavily under invested and under penetrated market in this category and you can look at that data compare to any other categories if you look at motor bikes you can look at consumer durables and I am not even taking to telecom and FMCG categories so that issue remains a long-term challenge but an opportunity for every player in the country and we will keep looking at that as an opportunity for each of our brands.

S. Visvanathan: So Chirag, coming back to your question on CAPEX current estimated CAPEX spent between Madura and Pantaloons would be about Rs. 300 crores to Rs. 325 crores.

Chirag Shah: Understand. And just one last question sir, on the tax benefit on goodwill write off, we have seen court case coming where argument around the fact that goodwill should be allowed as a tax benefit have we look at that particular case and do we intend writing off goodwill going ahead?

S. Visvanathan: No, see we are already in the tax what we do versus what we do in accounts are two different things. Tax we will claim benefit based on the case laws that are there.

Chirag Shah: Sure. But goodwill be tested for impairment every year and at this stage there is no need for any write off.

S. Visvanathan: Yes.

Moderator: Thank you. We have the next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: Sir, just want to know in this quarter specifically or you know for FY'16 as a whole do you think you would have lost some market share to competitors where if you look at Q4 numbers of some of the other brand competitors in the market place we would have done a phenomenal growth in their brands part of the business so, just want your comment on that.

Ashish Dikshit: So I think the good way to look at I mean, short answer first of all, is that this is heavily influenced by what you do during the End-Of-Season-Sale. And there is a way to get higher sales in that period it was our conscious decision to moderate that as an industry leader we feel that we if play that game over a long period of time it will shape the industry structure as well. It has affected our volume and value growth due to 50 hour of 90 days of this quarter being in End-Of-Season-Sale. To that extent yes, it is a fact that our revenue is lower than what many of the other players would have had. But the best way to look at is like-to-like I think most people have reported early single-digit between 0% to 3% like-to-like growth and our like-to-like growth was minus 6% so that reflects that level of difference that organic business has. I think does that answer your question?

Niket Shah: No, so my question was that in spite of higher discounting I presume discounting you know intensity was high for all the players in the market and your competitors would have grown at may be more than 25% with a significant amount of improvement in margins. So just trying to understand is there channel strategy much better where they would have increased their presence in certain channels where we would have lost out or something like that if you can just give some….

S. Visvanathan: No, so I think you should relook at the numbers, every competitor in industry has so far reported like-to-like growth not more than 2% to 3%.

Niket Shah: No, I am seeing on the top-line growth not on the like-to-like basis.

S. Visvanathan: Top-line growth can be acquired through new brands, new extensions, new tie-ups and a lot of inorganic method. That is an opportunity that will continue to remain as the largest player in the industry we will keep making strategic moves some of them which we have announce recent today. But that is a different discussion all together so, you would see over I think the way to look at it is you should look at Aditya Birla's Apparel Play which has grown at the rate of 30% over last five years. We will continue to find that trajectory back through new acquisition organic and inorganic roots. Some of which you are saying 30% is our last six years' growth and I think over a longer period of item we will find ways to grow that. That does not deter us what is important is that we maintain discipline to grow and keep investing in our brands, do not necessarily buy growth at short-term benefit and keep investing in the long-term properties which is what we will do.

Niket Shah: Sure, that is helpful. The other question was how much would have been discount higher for the full year in FY'16 over FY'15, on a consolidated basis? Discount as a percentage of sales I mean. The other one is if you can let us know what will be the retail store I mean what will be the store addition or square feet addition in Madura and Pantaloons for 2017?

Ashish Dikshit: Okay. For FY'17, okay. So for Madura we are looking at 150 plus retail store addition which is what we did this year. Pantaloons number would be…

Shital Mehta: We are planning to add another 50 stores.

Niket Shah: Five zero?

Shital Mehta: Yes.

Niket Shah: In FY'17 for Pantaloons?

Ashish Dikshit: Yes.

Niket Shah: Which will be a mixer of franchise and owned?

Ashish Dikshit: Yes.

Niket Shah: Okay.

Ashish Dikshit: But majority will be mainly owned only.

S. Visvanathan: Sure. And what would be the square feet addition for Madura and Pantaloons if you take 150 and 50 for Pantaloons?

Ashish Dikshit: So I think between 150 stores it is about 200,000 plus would be the square feet addition that we will do.

Shital Mehta: Yes, very similar so, I think around 2 lakh square feet for us as well.

Niket Shah: Okay, so 2 lakh each for Madura and Pantaloons, is that correct?

Shital Mehta: No, I think let me correct. I think the Pantaloons number is going to be closer to 5.5 lakh square feet to 6 lakh square feet.

Niket Shah: Correct, Yes, now it is correct.

Shital Mehta: That is a 50 store so around 12,000 square feet average.

Niket Shah: Okay. But I think the earlier one was 17,000 so I was…

Ashish Dikshit: Yes, now it is around 12.

Niket Shah: Okay. So the other question is the new accounting standards IndAS really comes in picture in Q1 so any major changes that we would likely to see on our revenue recognition or on the cost?

S. Visvanathan: See we have done review of our accounting standard and the policies vis-à-vis the IndAS, I do not think there will be any major impact whatever the useful life we have already adjusted in the depreciation which you have seen in this quarter. And therefore, I do not think you will have too much of impact.

Niket Shah: Sure. And on the synergies part between Pantaloons and you know Madura, you think we are now at an inflection point of really kind of seeing the most of them in 2017 and 2018 as we go forward.

S. Visvanathan: Sorry, can you repeat that question?

Niket Shah: On the synergies between Pantaloons and Madura, right with most of restructuring and everything behind now do you think we are at an inflection point as far as you know margins is concerned and you know better profitability from the consolidated.

Management: Yes, I mean that is nothing to do with synergies it is the individual businesses themselves will be driving better margins and better cost efficiencies. Wherever synergies access in terms of backend, in terms of IT finance et cetera it is an already in progress and a lot of it has already been actually achieved so there will be wherever it is possible we will do it but individual businesses will have their own plans for cost efficiencies and improvement in margins.

Niket Shah: Sure. And what would be our target for Forever 21 and Simon Carter store expansion for the next two years.

S. Visvanathan: Simon Carter Pranab you have to take.

Ashish Dikshit: So Simon Carter we would begin by having two stores - four stores in the first year and depending on the exact location because the brand needs to be position well so we will start with a pace of that nature. Forever 21 is a slightly different story the brand has been around in India. It already has 12 stores and it is extremely successful so we are more confident of adding further stores. I think at this point of time our plans are not fully ready and therefore we cannot reveal at this stage but you will see a far greater aggression in as…

Niket Shah: So those 12 will incrementally come to you right because now you got a licensee or those are excluded from?

Pranab Barua: No, the entire business as exits will come to us.

S. Visvanathan: Just coming back to the question that we did not respond to earlier to you, discount percentage has moved by about a little access of 200 basis points for the full year basis. The point I was making in my comments was regarding Q4 Madura discounting where for premium brands we have taken a discussion to come down on discounting over previous year and therefore, that was the earlier point I was making about discussion on Q4. there was a 300 point to 400-point reduction in discounting only limited to Madura brands but on annual basis on a consolidated basis company saw about 200 points increase in discounting.

Niket Shah: Sure. And now it will be above 50% of close to that number.

S. Visvanathan: No, not at all.

Niket Shah: Okay. So it is much lower right?

S. Visvanathan: Yes, it is in 20's.

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

Richard Liu: Can you help understand the nature of the premises lease period straight lining that was there and also if you can help me understand what is the rationale of doing the depreciation and premises lease adjustment this time rather than all these having being done at the time when the whole restructuring and merger exercise when it was taken which I guess just about a year back.

S. Visvanathan: Yes, so first let me release a rational because that is important for you understand. When we took over Pantaloons we took over a running business which is demerged from the Future Group and was taken over by us. At that point of time we were new to the business and were also trying to undergo large box retail how it operates so, we followed all the accounting policies that Future Group followed as far as depreciation is concerned. For the last two years of operation and also in the recent phenomena if you can see new competition has entered the market, there is a need for Pantaloons to start refurbishing its stores at a much earlier time frame then what was envisaged before. Our current estimate in the useful life of the assets based on the experience of the last two years where as you would notice an accelerated depreciation being provided in the books for stores that we are getting refurbished. We had a detailed review of this and realize that having a store useful life of fixed assets beyond six years did not help because at the end of the six years we felt that complete revamp of the store needs to be done. So that is a primary reason the experience we had over the last years of running this retail the competition that is coming in and the need to keep our assets contemporary and relevant. So therefore we decided on a policy of six years and having taken that decision we decided to immediately act on that and enforce it in this quarter itself.

Richard Liu: I mean why did that have an impact on the rental expenditure for the year? I mean I would assume is that line item more about the rent that you pay for the premises. Actually what I am trying to understand is this versus about Rs. 170 crores to Rs. 180 crores per quarter of rent that is usually incurred. So that item felt to about 130 and then you gave a note I think note nine on this, so I was just trying to understand this transaction.

S. Visvanathan: See when you change the useful life the rent straight lining gets impacted on you get an impact on the rent selling and you get an impact on the depreciation so both have to be done simultaneously. See when you do rent straight lining it is over the useful life of the assets.

Richard Liu: Got it. And the other thing is regarding this Rs. 31 crores of merger related expenses that you called out as exceptional. I recall this number to be about Rs. 5 crores.

S. Visvanathan: Yes, see I tell you the reason is there are Rs. 25 crores of stamp duty which got adjudicated recently and initially understanding was that it will get capitalized but eventually we took an opinion from the auditor and they said this has to charged off in the books.

Moderator: Thank you. We have the next question from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishabh Chudgar: Sir, just a couple of questions from my side one is can you give us some details on the profitability of Forever 21?

Ashish Dikshit: At this stage we are not in a position to reveal more but we see over a medium-term in our own estimate it will settle down to the kind of profitability that good value fashion retailers deliver. We do not know where that number would actually settle but I think give us a six months to nine months of understanding this business well enough to give you a forward forecast or some sense of profitability around that.

Rishabh Chudgar: Sure. My second is you know on the new accounting regulation one of the questions that we often come across is the fact that the process that we all sort of use with you know some of the large format retailers such as Shopper Stop and all which is sale on consignment or a sale of return basis you know generally would not be able to be recognize as the sale until and unless the final sale gets done as per the new accounting regulation. Am I right in my sort of thought process and will that have an impact on the revenue as well as the inventory numbers going forward for the company?

S. Visvanathan: You are right in your thought process and we are in the process of evaluating it but just to reassure you most of our contracts are not on SOR basis and I don to think there will be major impact.

Rishabh Chudgar: Okay. And generally what is the inventory level that you would have with say that large format retailer on a days of sales basis?

Ashish Dikshit: So I mean this is really a question on how much inventory do they carry as a business. Typically, large format retailers for any business carry between 16 weeks to 20 weeks in various forms and arrangements. In our case most of it is bought out by them but there are arrangement with which is a complete concession model there is buy and sell model there is sale so, multiple format. But as far as we are concerned our arrangements are clean on that. Department store themselves declare different forms of their inventory holding on their books or otherwise and that depends on the individual contract that they have with different brands.

Moderator: Thank you. We have our next question from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Sorry, I got actually a little late. Just wanted to understand what was the reason why we changed the discounting strategy what was the hypothesis behind it and where are we going from here for that purpose?

Ashish Dikshit: I think hypothesis is that over a period of time brands generate profit through charging the premium on their products and discounting as a philosophy is always working against that as industry gets more competitive over a period of time discounting obviously will increase and that's what happen around the world but what we are experiencing right now in India is a short period of phase where E-commerce companies have started a much higher level of discounting promotions and that has led to a short-term impact in the way consumer consumes products at full price. As an industry leader and with people who hold India's largest brands in the portfolio. Our attempt has always been to look at it and address ways by which we can get higher share of our sales for full price and not accelerate this downward war towards increasingly higher discounting because once we also participate in the journey I think most of the players will also will have to match and keep out matching and out muscling each other. So that is the long-term belief and long-term faith in the short-term it has impacted, it impacts the revenue which did in this quarter we expect this not to growth away go quickly so it may last may be for a quarter or more or may be another three months to six months. But our long-term belief in creating healthy business and also enabling industry to create an environment in which we compete on real consumer values of product proposition is really the attempt that all brands must do and should do. There would be short-term pressures on everybody but I think what we are undergoing right now is really accelerated and perhaps exaggerated impact of discounting.

Mithun Soni: So from the industry when we talk to people the full price sales is somewhere in the range of 67% to 70% for us is it better than that or is it almost in line with the broadly in line with the industry?

Ashish Dikshit: No, it is broadly in line with the industry. I think it is not just a function what is the first price sale it is also a function of what price do you sell the remaining and that number it is going up and that is what is actually continuing to pull down.

Mithun Soni: But when we what we see the online part the online discounts what is being offered on the online is now more or less what we see flattish or in line with that of the offline so from that perspective it should not be so much about trouble or is it really different when you are operating at the ground level?

Ashish Dikshit: See there are two things I things I think one is what is the intend, second is what is reality on the ground, two things have happened one is the extent of promotions have travelled from two times the year to almost perpetually round the year and that is something you just need to log on to any website or walk into any retail stores to figure out. So one is the extension period of discounting and second is the extent of discounting. It is right that it is there is a greater sense of realization that nobody makes money in this process therefore hopefully things will get better but I think it is in combine to us to also start taking steps in that direction in our own stores in our own brands and that is what we are doing.

Mithun Soni: My second question is with respect to the Madura brand so, there are some of the brands which would established brands like and some of the brands which will be incubating for example when Van Heusen women category and Allen Solly kid category. So between the if we take category wise is the growth more or less we have seen across the board or are some segments where the growth is much-much poor where the, we are still in an incubating phase and the losses will be a little bit more. Can you throw some light qualitatively as to difference between the establish and the young brands?

Ashish Dikshit: So establish brands which are main line men’s wear parts of Allen Solly, Van Heusen, Louis Philippe and Peter England are extremely robust in the shape of their business. Their growth currently is challenged by the overall market and that is why you see the overall company growth being what it is but they are strong, they are profitable, they are very robust and they can easily endure these times of pressure and come back very strongly. The other parts of the business, we have women's wear business in Van Heusen and Allen Solly. We have kids wear business in Allen Solly, we have new formats like People and there is a small business of international brands collective now these business I would call are smaller gestating businesses. They experience higher growth but on a much small base and they are yet to achieve profitability in fact almost all of them are the ones where we are investing and therefore there is an overall loss of profit arising out of what investments we are making in these businesses. Apart from that, we have also have been investing in our E-commerce business as well as our omni-channel investment so these are all areas that we are investing in to create future drivers of growth. Our core part of the business remains robust and is very steady.

Mithun Soni: So is it fair to say that the core the establish brands the EBITDA margins if we take the industry benchmark should be in the range of mid-teens while whatever is the difference is towards investing, towards the new brands and that is why the actual EBITDA is lower particularly in Madura?

Management: Yes, absolutely.

Mithun Soni: Okay. So is it possible just suggestion or request if you can share the breakup going forward in the establish brands revenue and EBITDA and investing on you know the young brands which are less than two years or three years old, it gives us a little bit of more understanding as to where is the investment and how much of the investment is going towards these new categories so it gives us a little flavor as to how things will pan out over a period of time?

Ashish Dikshit: That is a fair suggestion we do not do it today but we will consider it going forward.

Mithun Soni: The extra expense what we have done in the Pantaloons which is the amortization…

S. Visvanathan: I think you are talking of the depreciation based on the useful life of the assets, right?

Mithun Soni: Yes.

S. Visvanathan: Full and final, it is complete I do not think we will have any more coming out of this.

Mithun Soni: Okay. So this one is only for this quarter that is about 100 odd crores or whatever?

S. Visvanathan: Yes.

Mithun Soni: Okay. And one last question, we the Madura if we see the brand registry, EBITDA margins in general use to be in the range of 12%-odd. In our earlier calls also we had indicated that we would like to be there this will include a mix of both these establish as well as the incubating brands. By when do we expect to reach there in any ballpark flavor can you give that is one. And the second, when we are opening about 150 to 180 stores in Madura, are we seeing any excessive risk of cannibalization of the sales from the existing stores? These two questions please last.

Ashish Dikshit: So second question is easier so I will answer that first. There is an inevitable cannibalization that results when new mall or an important location get establish in any market. The choice for every player is do you want to be in the new happening place or do you want to avoid cannibalization. The choice that we end up exercising is innovatively to move to the place where we expect the future revenues be higher at times we keep the other place also going because profitability wise that store continues to remain profitable and investment has already made. It therefore on paper looks like same store growth is depressed but creates a larger market and a more profitable business in entirety so yes, there is a business of cannibalization that happens in important cities. Having said that a large part of our growth is coming from the theory of under penetration that we see in the market and a significant part of the investment as well as new store expansion comes out of those markets. So it is a mixture of both but there is partial cannibalization that relatively….

S. Visvanathan: No, I will just like to add to what Ashish said, when you are talking about the discussing of cannibalization we have examples around the same street in a city we have two stores of the same brand less than a kilometer from each other and when the second store was opened while the sales of the first did not grow at a like-to-like of the earlier 8% to 10% it still grew at a like-to-like of 4% to 5% and the entire turn of the second store was incremental to the first store in the same street. So overall if you look at the sales from the same brand for those two stores was much higher than when we had single store before and this story repeat itself in many other cities also where we have stores pretty close to each other. So while there may be a depression in terms of the like-to-like our experience has shown that the overall turnover actually grows when you open these stores.

Mithun Soni: But you would be managing the ROCs the stock turnovers the inventory turnovers at the store level that….

Ashish Dikshit: Yes, absolutely.

Mithun Soni: That should not be getting affected.

Ashish Dikshit: No,

Mithun Soni: And my first question with respect to the 12%-odd EBITDA margins?

Ashish Dikshit: So I think as you can make out mathematically it is the function of where the growth is coming from that number is definitely achievable but when will it come and the timeframe in this all will be one function of the state of the market at this point of time you know the way market is perhaps it will be anybody's guess when the market picks up and start looking better. Second, it is also a function of level of investment that we will do and the number of initiatives that we have so, it is always a combination of being able to achieve opportunities that Indian market offers in terms of growth and new segments and combination of therefore overall underlying sentiments in the market. It is not when it will be achieved, it is actually function of what other opportunities we are chasing and how much investment we will have. Having said that we have set ourselves that we will keep looking at marginally increasing it but as and when the opportunity of the kind of that we for example have announced today they come we will make sure that we are not losing out on the long-term growth potential.

Mithun Soni: But you know if we see for the full year, the average has come down quite a lot so, can we say that about 10.5% to 11% EBITDA margin is still something we should aim for in this coming financial year including the incubating as well as the established brands put together because somewhere we will have to put a line that okay, this is the amount where we should be able to we willing to burn out because without putting a lot of pressure on the existing business also. is there some sort of plan you have or how much you would like to burn on the new brands and new products new categories?

Pranab Barua: Yes, obviously have a plan for each brand and we are very clear what the intention is, so if you ask me, if you ask me what should be the Madura range, I think it should be +10% for sure but it depends on the market condition as well and that will depend only where we land up. So intention is certainly to be above 10% that is for sure but will depend and the market conditions. Obviously we have plan for each brand and therefore we watch the growth, we watch the profitability of each brand but that is an indication I could give you at this stage.

Moderator: Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: I have a few questions on my side one, is pertaining to the inter-segment profits, the two questions here one, – if I remember correctly it was about Rs. 32 crores in the last result you have given and now it is Rs. 26 crores so I would….

S. Visvanathan: Yes, there is a movement in this quarter first thing though we have reported the year-end number.

Abhishek Ranganathan: Correct, that explains it so, I just wanted to get a sense of how should we read this for FY'17?

S. Visvanathan: I think FY'17 only has an incremental changes coming now this is one-time effect where we moved Madura into Pantaloons and therefore, we have to make these adjustments for the stock held by Pantaloons and Madura margins on that. Going forward will be the incremental sales and movement between the two brands would actually impact and that would not be very high.

Abhishek Ranganathan: Yes, that should move largely in line with the SSG and the new stores added in Pantaloons.

S. Visvanathan: And also the presence of Madura within Pantaloons as Pantaloons grows and increases the share of private brands and it own private labels its decision to keep Madura brand on where it make sense and where it does not make sense it depends on that also.

Abhishek Ranganathan: Okay, fair point. Sir, the second point is on the depreciation I know you have already had a quite a few questions on this, but I have a couple of questions if I look at your numbers in FY'15 you had Rs. 92 crores of accelerated depreciation in FY'14, you had Rs. 14 crores of accelerated depreciation. Now this is over and above that I cannot get that as to what was the earlier accelerated depreciation for that in that case because I thought that was again to factor in a more aggressive or a more depreciation policy which would encompass a shorter life span.

S. Visvanathan: So you see there are two aspects to it the first, the earlier accelerated depreciation was created because when we took over and we started refurbishing the stores we had a choice of looking at adding on more CAPEX in the store when we knew that the existing fixtures in that store were not capable of delivering the revenue that is required. So we have to take a call to accelerated depreciation for a limited purpose of those stores and for certain set of categories of CAPEX. If you look at our depreciation which we have charged now we have taken the entire stores network of Pantaloons and decided that asset useful life is only six years based on our experience of the last two years and therefore this Rs. 100 crores charge comes from the entire store network of Pantaloons where the useful life has been reduced to six years from whatever we were doing earlier.

Abhishek Ranganathan: And sir, what was it earlier, if I may ask.

Management: It was close to about nine years to 12 years.

S. Visvanathan: And in some cases even longer based on future based on the Future Group policy. Basically it was our store lease life assets are being depreciated without regard to the fact that you need to refurbish probably it was valid in those days when there was less competition but today it is no longer valid.

Abhishek Ranganathan: Fair point, sir. So just to understand the earlier actually the depreciation was whatever you incurred for…

S. Visvanathan: Wherever we refurbish the store to the extent that the earlier CAPEX was not useful and we had to provide an accelerated depreciation to recognize that, that CAPEX useful life is over.,

Abhishek Ranganathan: Okay. So basically that was just to write off the assets which you…

S. Visvanathan: That is right.

Abhishek Ranganathan: Okay, got that. And the inventory I guess I want to understand we have almost I see your number today we have got on piece of cost you have a 180 days of inventory, it seems a slightly above what you would ideally want to operate. Just wanted to get a sense of is it because of the fact that the quarter did not go as well as we expected it to or is it that we are building it up for the forthcoming quarters.

Ashish Dikshit: Combination of both but clearly a part of it is because our estimated growth did not in the period December to March so part of inventory is increased on account of that.

Abhishek Ranganathan: So last I have is on the Forever 21 franchisee. In your earlier Analyst Meet also you had mention that you would ideally prefer a joint venture over a franchisee. However, this time around you have taken a franchisee just wanted to get thoughts on that.

Ashish Dikshit: So it is function of structure that is available and our size of opportunities so, we see this is a very-very large opportunity and it has a very strong strategic fitment with our portfolio and eventually you have to discuss and find the most meaningful arrangement in the partner.

S. Visvanathan: And also just to give you see one of the reasons we prefer a joint venture is basically because this allows us to have a longer-term arrangement with the partner for distributing for licensing in India. We have been able to achieve the same objective through this process, so one of our objectives of joint venture having a long-term arrangement where the partner is also achieved through this process.

Moderator: Thank you. We have our next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to understand the Pantaloons store addition you said 50 stores would there be a margin impact that would come in Pantaloons because of that and secondly, sir wanted to clarify the reduction in discounting season is what has been one of the reasons you are highlighting that impact should continue for two quarters, right, I want to just clarify that part.

S. Visvanathan: See before the Pantaloons what we are saying is the market will remain subdued for the next two quarters is our understanding and we do not expect to see a great upsurge in our sales in revenue for the next few quarters.

Shital Mehta: Pantaloons I think you are right in saying that I think when we open large number of store they do take 6 months to 12 months before it stats generating traction but we believe that combination of many initiatives which we are taking particularly in terms of how do we expand our own private brand portfolio which sort of adds to the margin expansion hopefully that should be able to negate that impact and eventually we should be able to hold on to the margin if not improve and at the same time scale up the business by adding this 50 stores.

Avi Mehta: So even in the near-term you are saying that we have in the margin wise were comfortable the sales which will depend for FY'17 is what kind of sentiments are there.

S. Visvanathan: Yes, that is right.

Moderator: Thank you. Ladies and gentlemen that was our last question for the evening, on behalf of the management we thank all the participants for joining us. In case of any further query you may please get in touch with Mr. Rahul Desai or Ms. Niralee Nagda. You may now disconnect your lines.