Aditya Birla Fashion & Retail

Transcript of Fashion & Lifestyle business Analyst Meet held on 16th September 2015

Management team:

- Pranab Barua – Business Director, Apparel & Retail business
- Ashish Dikshit – Business Head, Madura Fashion & Lifestyle
- Shital Mehta – CEO, Pantaloons Fashion & Retail Ltd.
- S. Visvanathan – CFO, Apparels & Retail business
- Ashish Adukia – Head, Corporate Finance, Aditya Birla Group

Ashish Adukia: I welcome all of you to the Fashion & Lifestyle business Analyst meet. Focus of the meet will be on the fashion business of the Aditya Birla Group which is in three to four months' time will become an independent entity, currently it resides within Aditya Birla Nuvo. So we have a presentation out here which will be taken up by the team who manage the fashion business and well-versed with the ground realities. You will hear some really good insights about the business, about their strategy to grow the business. So we will have about 45 minutes of presentation and we will follow it up with about 45 minutes of Q&A. The presentation will be uploaded on the website, it has actually already been uploaded on the website, but even the transcript of the meet today will be uploaded on the website for all of you to refer.

Just to introduce myself, I am Ashish Adukia, I head the Group's Corporate Finance which also includes Investor Relations apart from other streams. So I will just walk you through the transaction and then I will hand over to the management to walk you through the Fashion & Lifestyle business.

Currently as Aditya Birla Nuvo stands, it has financial services vertical which includes Life Insurance, AMC, NBFC as the three big businesses and there are other smaller businesses of financial services as well. ABNL holds about 23.28% in Idea Cellular so it derives a lot of value from there. The third vertical, which we will focus on, is Fashion and Lifestyle and that primarily constitutes the Madura business which sits as a division of ABNL and part of it sits in a 100% subsidiary Madura Lifestyle which includes the Collective and Planet Fashion pieces and Pantaloons sits in a listed subsidiary of Aditya Birla Nuvo, where it owns 72.62%. And then there are other divisions in ABNL. So ABNL really is a diversified manufacturing cum services kind of conglomerate in Aditya Birla Group. So there is Jaya Shree Textiles, there is agri which includes primarily urea and other trading business, there is Rayon and insulator businesses which are divisions of Aditya Birla Nuvo. So the transaction which we are talking about is carving out the fashion business which contributes to 21% of ABNL's consolidated revenue and about 9% of EBIT. What will happen is that Madura division will get demerged from ABNL, Madura Lifestyle division will get demerged from ABNL's subsidiary, Madura Garments Lifestyle Retail Co. Ltd. Both these pieces will get demerged into Pantaloons Fashion & Retail Ltd. And as a result of that, the shareholders of ABNL will get direct shares into PFRL. The 72.6% stake held by ABNL in PFRL will get diluted to about 9% due to the relative valuation. So the eventual holding in the Pure Play, Fashion and Retail entity would be - 9% will be held by ABNL, Aditya Birla Group will be 51% and the Public would be about 39.84%, the ratios are already in the public. We have already convened the shareholders and creditors meeting and received requisite approval. The court order is pending, so in about three to four months, I would assume in December – January, is when we are expecting the listing of these shares.

I would like to invite Pranab Barua. He has got over 40 years of experience in retail space, wealth of experience. He has been associated with HUL, Reckitt Benckiser, Brooke Bond. Also he was a co-founder of Trinethra and he has been with the Aditya Birla group for almost nine years, now. He heads all our fashion and retail businesses and he is a Business Director of all those verticals. So I would request Pranab to take the charge from here and walk you through the presentation. Thank you.

Pranab Barua: Thanks Ashish. So from my side, good morning, and welcome. So the way I want to do, I will talk for about 15 minutes and then Ashish who is the CEO of Madura, will take us through Madura and Shital Mehta – CEO of Pantaloons will take us through Pantaloons.

I will start with the Group. There is a very clear vision and set of values. The vision says, to be a premium global conglomerate with a clear focus on each business, it sounds like a oxymoron with a conglomerate like Aditya Birla Group but truly there is a huge amount of focus in each of the businesses that we are in. Either the Chairman himself has a monthly review, a very detailed monthly review or we have a mechanism called the Business Review Council which also does that, so a great degree of focus on each business from the Group's side. Obviously our mission is to deliver value to our customers, shareholders, all our stakeholders. Now I will talk about the values.

I want to start with a statement that Mr. Birla has made, he has made a number of statements on value but I have picked up one of them and there he talks about that our values are non-negotiable, he believes that the great and long lasting businesses are never built on the quick sands of opportunism, if living by our values means perhaps growing at a pace slower than we otherwise would have liked so be it, so that is very clear who we are. We have five values that the Group lives by and therefore obviously the Aditya Birla Fashion and Retail Business will also live by and does live by. I will spend a minute on each of them.

Integrity is essentially, in all spheres, not just about intellectual integrity, but being able to authentic, be credible, not take credit for someone else's work and so on and so forth. So integrity is extremely important, it comes through at every level.

Commitment is about delivering on the promise, we do not make commitments lightly, we talk about making plans, pressure testing out those plans, piloting things, and commitment therefore we are very proud that we have done our homework.

The third is Passion which is described as energized action, it basically means we should enjoy what we are doing, we should be appreciated for what we are doing, you appreciate yourself what you are going and that brings a certain degree of energy and that positive energy then spreads to a much larger audience.

Seamlessness is about working in teams, whilst we have empowered individuals we also have empowered teams and essentially it means that more and more we need to work together because there is no one single function or one single individual who can deliver the outcome, so it is more and more important that we work together.

And the last one is speed, and speed is not about just being fast but being proactive, thinking through, looking at the future, understanding trends and so on and so forth, so be proactive as far as speed is concerned.

These are the values and we try to live with these values day in and day out.

Now I will talk about the industry fundaments. I think most of you would be aware of these broad trends but for the sake of completeness, let me take you through two or three high level things. One is the GDP growth, I think all of us expect the economy to grow above 7% surely, and there is some prediction that if some action is taken on the promises being made by the Government we could easily hit 8% level two years from now. So the economy looks good and we do believe that this will continue for quite some time to come. As far as the demographics are concerned, very clearly India has a young population and for the apparels business, it is very important and therefore very positive. The fashion business is all about youth and so we are very happy that we have got a very young country and the opportunity lies ahead of us. With the economy growing at a good pace, we also have a large number of consuming class coming into being. As you can see the projections, up to almost 60%-65% of the country’s population will be in the consuming class by 2020.

The overall apparel market, as we estimate, is currently around USD 60 billion approximately, estimated to go up to around USD 100 billion by 2020; these are broad numbers, depend on which report you are reading, but by and large this is a reference number for growth, currently 60 going up to 100. Well importantly, one should see what we call the organized market or the market which is with all the top brands or Modern retail. Modern apparel retail is going from about USD 16 billion to around USD 37 billion in next five year, so that is very large. What is driving this? Obviously the first driver is low penetration and as the economy grows and more and more people will come into the consuming class, the per capita consumption so to speak will improve tremendously. As you can see from the chart, the per capita apparels consumption is extremely low in value terms compared to even China. And the overall trend of the consumers, I'll try to capture this very quickly, essentially apart from formals the casual wear business is growing, so as you can see most of you are sort of casually dressed except for us who are formally dressed. You can refer to numbers and studies, casual wear is increasing faster than the rest of the apparel market. The other trend that is happening is the women's fashion business both western wear as well as fusion growing faster and you can see that in the Pantaloon stores how the western wear is growing and how the fusion brands are growing. The other segment that is evolving very rapidly is the value fashion not only with Pantaloons but there is Reliance, Max, etc those really driving the market there and many of you must have been hearing about the ecommerce revolution which is happening, loads of money is being pumped in. Apart from this, India is seen as a major growth destination, so a lot of international brands are coming in at different price points for men, women and now children wear as well, both the luxury brands as well as bridge to luxury and premium brands are coming. So market is visibly competitive and flooded. All are seeing the same opportunity that we are seeing.

A bit of history on our apparel business, it started with the acquisition of Madura Garments in 1999 and the business grew quite well. Then in 2012-13 we acquired the Pantaloons business from Future Group and now in 2015 we are bringing these two businesses together. As you can see there has been a consistent performance across both Madura as well as Pantaloons and we are landing up with about ₹ 5,500 Crore of revenue in last year FY15.

A little more detail about the businesses. If you will combine the two businesses we will certainly be the number one pure play fashion lifestyle company, as I said our combined revenues will be around ₹ 5,500 Crores. We have very strong brands in Madura and our top four brands in terms of consumer MRP sales are over ₹ 1,000 Crores each of them, so very large brands. Almost 5 million square feet of retail space - largest fashion network in India. We operate across over 185 cities and towns and we got about 6,000 points of sale and 1,850 exclusive outlets, it is a very large network that we have.

So if I were to describe Madura in two minutes, I would say that it has India's leading fashion brands which are Louis Philippe, Van Heusen, Allen Solly, Peter England – all are very strong brands, growing rapidly and the consumer base is increasing year-on-year. We have an extensive multi-channel distribution network. We are as strong in trade or department stores as we are in retail, so very strong network. We are going to establish global supply chain, very strong in-house design and product development centers and a very good track record of financial performance. So that is Madura in a nutshell. Ashish will talk about it in little bit more detail.

On Pantaloon we have got one of the largest fashion retailers in India. It is a unique business model, unlike many of the other large format stores, it is a branded play that we are in and about 55% to 60% of the brands are actually our own brands - private label brands - some of them are extremely strong especially in the ethnic area. We have recently launched a number of these private labels in the men's wear women's western wear, denim brands and casual wear brands. We believe this is a very-very positive model that we have and we have got positive results coming through. When we bought the business we had about 68 outlets, we ended up with 104 last year and the numbers will keep going up as we go forward. Pantaloon is a very good fit with our portfolio, it spans not only men's but also women's western, women's ethnic and kids - a large kids business, Very large loyalty base of 4.5 million consumers who contribute to 60% of our sales, that's Pantaloon.

This slide visually depicts the spread of our business across the country but more importantly if I were to look at the omni-channel initiative the questions will come about what we are doing on the ecommerce side. We honestly believe that we are actually at the advantageous point, much stronger position than many of the other players including ecommerce players, so we will be able to combine both online-offline channels more effectively than anyone. So whether you discover our brands online or offline, explore them, select and buy and will be able to do the entire process either offline or online.

The management structure will remain same post consolidation. Ashish Dikshit, sitting here, heads Madura, S. Visvanathan is the CFO of the business, Shekhar who is not here is Chief Human Resource Officer, NP Singh is the Chief Information Officer, Saurabh Khedekar who is sitting in the audience is the Head of Strategy and Investment Relations and Shital Mehta on my far left is Heading Pantaloons.

So with this short presentation I will hand over to Ashish to take us through the Madura Fashion and Lifestyle.

Ashish Dikshit: Thank you Pranab. As Pranab started by introducing Madura as a business which was acquired by the Group in year 1999 and he showed you how during past 15 years there has been a consistent growth across the business. On a slightly shorter look from last five or six years the business has been growing between 20% to 25% every year, a CAGR of close to 22% over last six years. Our EBITDA has been consistently improving but for a short period immediately post the financial crisis when liquidity in the market took the toll on the business and industry as a whole. Post that our business has seen sharp improvement. EBITDA margins have been improving and absolute EBITDA has been growing at a rate of almost 36% CAGR over past five years. You can see EBITDA percentage over last five years has grown from close to 8% to almost 12.5% that we ended with last year. We have been a company which is very focused on capital employed in the business, and particularly this industry requires a very sharp eye on working capital which forms a large part of the capital employed in the business. We will talk about our model, we have run a very sharp capital efficient model on all aspects of our business and you can therefore see the dramatic increase in the return on capital that we have achieved over the last five or six years, it will continue to grow as we move forward.

Our business is very simple, at the heart of our business are our powerful brands. This business has been built on these brands over last 15 years. Most of these brands are household names, very familiar to Indian consumers, have created sharp and distinct positioning and over last four or five years particularly we have even deepened these brands by expanding them into new categories, segments and therefore the brands have not remained static. So there are stories of brands which came in 90s and did not really scale up and withered down in mid-2000s. Our brands, as you can see in chart, as lately as last three or four years have been growing at fairly rapid pace despite challenging markets. A part of that is attributed to our philosophy of continuously and deeply investing in brands. It is a well balanced portfolio with large part of our business lying in the mid to premium part of the business. Louis Philippe and Van Heusen at the top followed by Allen Solly and Peter England; which are by far the largest brands in the segments that these operate.

What we have also been doing, and the right hand side of the chart explains to you how we have been leveraging these brands, both renewing as well as leveraging these brands into new consumer segments, new product categories. So the share of the conventional mainline business that these brands had five years back has reduced from 72% to 55%, the reason for that has been not that that business has not grown, it continues to grow at a good pace. The fact is that we have leveraged and extended these brands into many new parts of the businesses as consumers have evolved, as markets have evolved – into jeans, younger sports version, accessories etc. That in some substance has been the heart of our strategy. The other part of our strategy is how we have exploited and reached out to this large Indian consumer population that the world talks about. We have reached deeper, faster, wider in a very smart way in trying to reach the consumers at a cost which business can afford and in a manner that is delightful for consumers. So it was a large wholesale business 10 years back, as the retail revolution came to this country we converted our business to a balance of wholesale and retail, however we have been cautious in terms of the size, the models that we have used and therefore our retail has continued to add to our profitability instead of being detrimental as may be the case in businesses you would see around. In just past five years, our business has moved from close to 40% odd of retail to now almost 45%. Large department stores have also grown fast. We have created deep partnerships with department stores, we work very closely with our partners and you will see right through our business models. And therefore we have extended our reach and leveraged the growth that the department stores channel has had. Share of our trade business, which comprise of the multi-brand outlets business, may have come down but it continues to remain an important part of our business because this takes our brands to consumers in farther cities, who would not otherwise be reachable through other channels. It gives us a good quality low cost distribution model and it leverages the entrepreneurship that this country has built in terms of trade partners taking the business forward.

In sheer numbers, we have close to 4,000 trade outlets; shop-in-shops which are department store outlets are close to 3,000, our exclusive brand outlets just in last five years have almost doubled from 700 to almost 1,800, more than 2.5 times. And it is a balance of consignment versus buy and sell model, consignment model is where the company keeps the inventory and buy and sell model where the exclusive retailer keeps the inventory.

So quickly, one chart to fundamentally share with you the philosophy on which, the foundation on which this business is built, as you can see it has been a strong business, we have been market leader in the country for a very long period of time. We not only have leading brands, we have very profitable business and we have run it very-very efficiently. So in this slide, there are just four or five points which I would like to highlight, which have been part of our success. One and foremost is, we keep consumers at the heart of our business, it is often said but we have delivered it over last two decades by shaping our brands, by creating new products, by taking consumer feedback, we are running a very large program called mission happiness in our stores for customer feedback. If you walk in to any of our stores there is feedback monitor. In just nine months we would have received almost a million consumer feedback; that is the scale at which we are listening to consumers. And that is not limited only to the brick and mortar store, we are listening to consumers voice in digital media as well. We have created in-house listening center, so very deeply centered around what our consumers are telling us and we think that the whole ecosystem is therefore more sustainable, more resilient and is likely to be dynamic and will move as consumer trends move.

We believe, unlike many other players in the industry, that eventually consumer buys brands and therefore our investment in brands and focused strategy around the select brands has been at the heart of our business, and not creating a portfolio of 10, 20, 30, 40 brands. Every single one of our brand is a very long-term property and we believe in it and treat it as an asset and a treasure and there has been a consistent renewal of our brands, positioning through advertising and retail store openings, stores look, communication, product portfolio, merchandizing, breadth and depth of each of the brands has been consistently growing. As you saw a part of our business close to 45% comes from retail, we have not just merely expanded retail we have invested very deeply in creating retail excellence. We run something called Aditya Birla Center for Retail Excellence, all our front end staff go through a very rigorous training program, there is adequate investment at the backend and IT and which is what has allowed our retail business to grow without pulling down the margins at the company level, as has happened to many other people who have tried to grow rapidly in retail. Our brands are famous for designs and merchandizing. We are deep investors, have consistently been over last two decades in the whole infrastructure, capability, culture and people which are required to build a leading design and merchandizing business. We also know that when you run apparel business which runs into 10,000s of SKUs, close to 6,000-7,000 locations, stock lying all over, trends changing differently, we need to have a very strong IT system both in terms of understanding customers as well as tracking the supply chain and being able to respond and therefore our entire business is built on solid foundation of IT, manufacturing and supply chain and a very coordinated approach towards leveraging the technology piece to drive our business excellence forward.

And finally as you know fashion is a business where the real assets are brands but the people who drive these brands are really the people who make a difference. Madura Fashion & Lifestyle has always been the best tractor of talent in the industry, the most seasoned and experienced apparel professionals have always emerged from this company and that is something we continue to invest in and treasure and grow over the period of time.

So that is really six pillars of our success so far. Thank you.

Shital Mehta: Thanks Ashish and Good morning Ladies and Gentlemen. To begin with, let me just to run you past the rationale which we had at the time of the acquisition of Pantaloons and what we saw in the business. First and foremost we saw Pantaloons as one of the great brand, a brand which pioneered the entire revolution as far as the modern retail is concerned in the apparel sector by bringing consumers from the street to the store and that is how the brand is sort of famous for and that is the first and foremost reason which we looked at Pantaloons.

Other thing which we really looked at in Pantaloons is that it was a brand which was at the sweet spot of the market, it has evolved over the last two decades and couple of years back when we saw it was very well positioned given it's affordable fashion positioning and therefore when the Indian market is exploding how to combine the fashion and brands along with the value and that unique position it had because of its own private brands business that we saw as a great lever for opportunity and growth.

Third thing which we looked at from the geographic perspective, while it was a brand which was extremely strong in east where most of the players were not present we saw that the pan-India presence was there and the acceptance was there and we saw tremendous opportunity of expansion as far as the rest of the three zones are concerned, not only from the pan-India perspective and the zonal perspective but we also saw that it was a brand which resonates with the consumers in the Mumbai, Delhi, Kolkata kind of markets and at the same time markets like Zirakpurs and Bilaspurs and the Hublis of the world. So we saw that opportunity of expanding pan-India as well as penetrating deeply into the Tier-II, Tier-III towns through Pantaloons was a great opportunity, that we saw at that point in time.

Overall I think it was a strategic fit in the portfolio. If Madura was essentially a brands business as Ashish was explaining, operating out of the small format into the premium end of the market essentially led by men's wear, then on other side Pantaloons was a big box format led by women's portfolio, operating at the value end of the market and that is where we really saw that if these two entities were to come together then it really would fortify the position as far as the Aditya Birla Group in Fashion and Retail is concerned.

The road map which we had was very clearly in front of us when we took charge in the April 2013. Of course the first year was all about organization building and ensuring that the transition is smooth and the business continuity is maintained. I think for the benefit of the people who may not be aware, it is important to realize that the fashion has one year lead time, so when we took over in FY14 actually FY15 in an essence was the first year of operations as far as our products are concerned, the first year our new products came in was FY15, we had very clearly laid out that FY16 is where I think our journey towards the growth will start and FY17 and beyond is where I think all the levers will come in place which will really scale up the Pantaloons business.

A brief about what happened in the year one when we took over. I think we had very clearly four tasks which were cut out. First and foremost was to really look at our existing network, how do we start expanding that but more importantly we saw that there were large number of stores which were very-very profitable but which were in the need of overall refurbishment and renovation, so that was one program which we ran very-very successfully. Second was about merchandize, now the product came in FY15 but we had to sort of put that in place, putting up the entire fresh new design studio with almost 40 odd designers which are capable of churning out thousands of designs every season, so that is a task which also happened in the year FY14. As far as the vendor network is concerned, we have a vendor network which is as large and fairly diversified as almost 250 odd vendors. Almost one-third of them were to be put in place which were completely new vendors from the point of view of quality and cost parameters, which we have to put in place. And overall as you would know the entire organization in HO was built from scratch, almost 300-odd people were recruited, a lot of effort went in the year one towards the organization building. So I think these are the four programs which we run in the year one.

What happened in the year two, which was the last year, which was purely the first year of our real business operations, there were four aspects which we really paid a lot of attention to. Firstly, kick starting the entire expansion program a lot more aggressively, just look at it what we have been able to achieve in FY15. At the time of taking over, we had a run rate of opening one new store almost every two months, what we have managed to achieve is a new store opening every two weeks. I think that is a fairly rapid expansion we have sort of put in place. Secondly and very-very crucially the margin expansion program, on account of the vendor network which we have built in and the portfolio mix. Various levers were put in place and we achieved some fairly unprecedented 3% margin increase as far as the gross margins are concerned which is very-very unprecedented. Overall portfolio we saw that there were a lot of gaps, six new brands were launched. I will talk about those brands as well. We saw that there were white spaces in our overall portfolio and hence six new brands were launched in FY15 and lastly I think is the IT system. So we migrated the entire business from the legacy systems and put in place on our own IT environment. In some substance I think you can see the early signs of results coming in place, last year we grew our top-line by 11% but at the same time we grew our EBITDA by close to 90%, so I think that was the first full year of operations, as far as the business is concerned, when all these levers were put in place and it started paying dividends.

If I were to give you a snapshot of how our portfolio looks like, on the chart you can see on the left hand side you have the revenue mix by category and you can see that almost more than 42% of our business is women's wear led making Pantaloons India's number one women's branded apparel retailer. There is no retailer which by revenue sells as many women branded apparels as we do, we have a very strong men's business as well but fundamentally we are led by our women's business. We have close to 10% of our business coming from kidswear and we have strong plans to lift that. As far as the non-apparel business is concerned, as we go forward, we are really looking how do we optimize that from the strategy point of view. And really even in non-apparel, create some of the product categories which are strategic fit to our overall portfolio and get into the private brands. That is almost 14% of our business as of now. Bottom side chart, you can see where the margin is coming from. Women's wear not only from the revenue perspective, but even in terms of rupee margin at a gross margin level, is a driver which is even more profitable than any other business segment. So about 45% of our rupee gross margins came from women's wear.

On the right hand side of the chart, you will see the zonal split, I was talking about east, which is more than 30% of our business in terms of revenue, but look at it from the bottom-line, it is an extremely-extremely strong business, 45% of our store contribution comes from east and it is a zone which we completely dominate. At the same time we see a tremendous opportunity to really replicate the success in the rest of the three zones, if that is something which can be achieved in the east. Given the brand acceptance, I think we see there is an opportunity to expand in the rest of three zones as well.

On the right hand side what you see are brands launched over the past two years and I am now combining some of the brands which were launched this year, so we have actually put in 10 new brands. Six of these were launched in last financial year, we launched one in the spring summer 2015 and as we speak three brands have been launched in the month of September itself. Just to give you a sense of the men's brands we launched -one is Byford. We saw that in Madura, you would have seen in the chart which Ashish was talking about, almost 16% of the men's business is now coming from the men's sports segment which was not existing five-six years back. In Pantaloons as well, we saw that there was a gap in that segment and hence we launched brands here. Given that we dominate in the ladies ethnic space, we just launched the men's ethnic brand called Indus Route, that is a white space which we identified. Further down you can see there is a plus size brand Alto Moda, again it is kind of a blue ocean, very-very less competitive but huge opportunity, hence we have expanded there. We also tied up with two international brands, we have taken the long-term license for Candies New York and Izabel London. Candies New York we launched last year, Izabel London is something which we just launched few weeks back, so overall I think all the 10 areas where we saw merchandize gaps, we launched new brands. Wherever there was an opportunity existing, be it men's business, denim or western business or ethnic or the kids wear, we have sort of launched these brands and these will start paying dividends as we go forward.

In one bird's eye-view if you were to look at the portfolio, this is how our overall portfolio looks like. On the extreme two left columns which are there these are own portfolio, overall 30 consumer segments are catered by our own brands, there are 24 brands but these caters to 30 different segments. Left hand side is the one which is sort of inherited, second column is something which we have completely built up over the last couple of years, and between these two alone we are generating 56% of our revenue. On the third column is where the Madura brands are and when we are saying 56% of our revenue that does not include Madura's business in Pantaloons, so that 56% is just Pantaloons exclusive brands which are there. And the last column has the external brands. Given that we have some of the heritage properties which are large, we also have a play of the premium brands as far as the external brands are concerned. In each of the segment the brand which is marquee and really has strong consumer traction, we still keep in our stores. So that is how the overall portfolio looks like.

Though the last chart, let me share, if I were to share at a high level what is the formula, what is the strategic thought which we have in terms of where to play and how to win. Just to sort of take you through that, in terms of where we are going to play, we have very-very strong portfolio as far as women's consumer is concerned, we are really working towards not only to dominate but make it as an absolute destination plan as far as women is concerned, so that is one stream which we are working on. Having said that we see the tremendous opportunity on our portfolio as far as men's casual is concerned, be it sports, be it denim, be it many other facets of casual wear, so that is something which we are working on and to that effect whether it is SF which is a denim brand, whether it is Byford which is in the sports, whether it is Urban Eagle those brands have been launched to really fortify our position as far as men's casual segment is concerned.

Kids apparel, last year you see that it was just 9% of our business but the fact that more than half of consumers who are walking in are women and we have a very strong portfolio in women, we believe that Kids wear is an adjacent market which is very-very sort of low hanging fruit and kids apparel is something which we are going to really-really focus on. So it is the same consumer who is coming in from the women's apparel perspective, will have up sell from the kids apparel section. And the next line is the ladies footwear and hand bags line, so that is another business which we are sort of making an entry, so that with a single consumer how do we encircle all the adjacent business segments - that is going to be our thought process as far as the product portfolio is concerned. All that will also mean that as far as our own brands portfolio is concerned from mid-40s we have already started crossing mid-50s and I am sure that journey would continue for some time.

I have explained you about the overall opportunity in terms of geography as well as the town class. We believe simultaneous opportunity to expand our reach in many more towns than existing. Also at the same time we see that there is a lot more opportunity in penetrating further deeper in to the towns where we are present. So that is a program which we are putting in place. So from a geographic perspective, be it reach or penetration or both we are sort of working on it. So that is where we are essentially going to play as far as the distribution and product portfolio is concerned. All that is fine, but how do we feel, why do we think that this will work and what are those levers which will make us win in the market place, these are the five levers which we have put in place. One is, the overall proposition, there is absolutely no player in the market because essentially if you see the Indian market in apparel is concentrated in two areas - either you have players which are operating at the value end of the market, essentially clothes which are at the lowest possible price and on the other side you have branded business which is expensive. So there is no other business which is working on offering this branded fashion at an affordable price and that is something which makes us an absolutely unique proposition in terms of business model and that is one of our fundamental reason why we believe we will win. Secondly, increasingly you will see the pace of growth is lot more in the women's apparel side as well as women's accessories. The fact that we are absolutely number one there and that consumer connect is so deep that our ability to leverage that for up-sell in kids wear and the footwear and hand bags business comes in place; given that connect we will be able to win over that consumer and we are confident of that.

While these are the two hard facts and probably somebody can even think of replicating that, but what is absolutely difficult to replicate is this entire thing around the brand Pantaloons given that it has pioneered this entire modern retail concept and particularly by offering this kind of compelling value proposition it has created a complete resonance and it stands for its inclusive experience, it stands for Indianness. And that is something which a lot of people keep asking, there are many more players which are entering in, there are international brands which are coming in and so on and so forth but ability to, not just offer product and the price but ability to connect with the consumer and particularly when you go down to the Tier-II, Tier-III, Tier-IV towns, the ability to connect matters. Given that we are an Indian concept that is something which is completely unique to Pantaloons and very-very difficult to replicate. To give you just a sense of that, I think I keep talking about this, that even if it is a spring summer, you will see that if you go to the smaller town, you would see that most of the players whether Indian or international actually communicating as spring summer 2015 or 2016 is now in store, but you would see that Pantaloons communicates that Pantaloons is now celebrating Poila Baishakh. And the ability to do that and connect with the large Indian consumers particularly at the value end of the market makes Pantaloons proposition very-very unique. Fourth is the CRM program, if you really include the new enrolment which we have now, in excess of

70% of our business comes through the CRM program, that makes it one of the best run CRM program. And the last is first mover advantage, if you really go five years back and go into the history, be it Guwahati, be it Allahabad, be it Rajkot, be it Kanpur, no matter which city you look in five years back, seven years back, 10 years back Pantaloons was the first to sort of move in with a big box format and our ability and that is where I think the entire advantage comes in, our ability to connect with the consumers as well as seek the much favorable rental kick in. And I think that advantage will continue. So those are the five levers which we believe will help us execute and allow us to succeed in the marketplace.

Now I request Vish to take over. Thank you.

S Visvanathan: Thank you Shital. What I will do is I will quickly take you through pro-forma consolidated numbers. These are not consolidated accounts, these are just arithmetical adding of the two businesses as of March 2015, the P&L account and the capital employed statement. This does not have any accounting treatment, this is just to give you an idea of the size and scale, so just read it only to the extent of a pro-forma addition of these two businesses – Madura and Pantaloons.

So as we had said earlier in our presentation, that it is a turnover of about ₹ 5,500 Crores for the combined business as of March 2015 with an EBITDA of ₹ 532 Crores, so fairly a large business, I believe amongst the largest in India today and very profitable at the EBITDA level. That is the simple message from this slide, that it is about ₹ 5,500 Crores of revenue business with ₹ 532 crores of EBITDA. And this is profit and loss account, the only point I would like to make here is we have inter-segment eliminations done here and EBIT which is again an arithmetical addition of the two businesses, net of elimination, is about ₹ 268 Crores for FY15.

Pro forma capital employed, we have over ₹ 2,200 Crores of capital employed of which about ₹ 1,200 Crores is goodwill which is sitting in Pantaloons balance sheet. And the only other significant point I would like to make is the total debt as of March 2015 would be about ₹ 1,800 Crores which is the existing Pantaloons debt of about ₹ 1,300 crores and ₹ 473 odd Crores debt which will get transferred from ABNL along with Madura being demerged and being brought into Pantaloon. These are just broad numbers just to give you an idea of what size are we talking about and these are not consolidated accounts, these do not have the treatment of goodwill which we think will be recognized eventually, so this is it. Now I request Pranab to come back and close with the summary.

Pranab Barua: So as we look forward to this new merged company, I think, however well we have done in the past, the opportunities ahead of us are much bigger and this last slide tries to highlight to you the areas of strength that we currently have, the emerging focus areas which are casuals, denim etc. and the new areas which are coming up which are fast fashion, kids and even the super premium. So this is a huge opportunity, each of the markets are growing faster than the average market size and I think we are very well positioned to look at this market with great hope.

Why do I say that we are well positioned, we have put five key points. I think we have got a strong portfolio of brands, both Ashish and Shital have given you a flavor of that, we believe strongly in the brands business and we believe that we have got strong brands in the market and we believe that we are very well segmented in each consumer segment and therefore we think we will succeed. We will continue to invest behind them in the manner that ensures that it keeps growing and it stays relevant to the consumer. The second one is our capability, to exploit the distribution opportunity and this is both in the small format in Madura, in the trade channels as well as the large formats. So huge opportunity which both Ashish and Shital have just talked about.

We are very well positioned from omni-channel strategy point of view. I think with our network of stores bringing seamless experience across offline and online frameworks, which I think most of the ecommerce companies are also looking at, that now we are very well positioned, already we have got one-half of the equation well covered through strong offline presence and the second half of the equation is being looked at and we will be probably rolling that out in the next 12 months or so. I talked about the large white spaces available so we have to make those choices.

And I cannot stress enough about the last point that we got a very strong experienced talent inside the organization, great depth. We have provided leaders to the industry. In many of these other apparel companies actually most of the leaders have come from Madura, we have still got a very strong team.

So I think these five key points that I make summarizes that we are very well positioned for the future and are ready for it. So that is it, thank you very much.

Ashish Adukia: So now we will open up the floor for questions. I would request that whoever is asking the question to quickly identify yourself, it will be useful for us.

Abneesh Roy: This is Abneesh Roy from Edelweiss, I have two questions. Sir first question is on your new businesses - kids and super premium and luxury. Could you talk about how you see the market size three years, five years down the line? I mean kids section we have seen two-three failures earlier by other players, so it is a great market but it is a hyper competitive market and we have seen failures by other players earlier. So how confident are you that you can scale it up in the next three to five years?

In India if you see the luxury market and the super premium market in most of the consumer segments is very small and it is a five, 10 years down the line only these can become big like China. So my question on super luxury and premium is, where do you see in three years how big a market and how do you see the market share and if you could elaborate the margins in super premium, luxury how they compare versus your current margins?

Pranab Barua: Okay, let me attempt the answers. Let's take a look at the kids market first. We believe it is somewhere in the region of ₹ 10,000 Crores to ₹ 12,000 Crores but mostly not in the organized segments so to speak. There have been just two players who have been there with mixed results. We believe we got the kids business in

Madura with Allen Solly, which is doing reasonably well, this is the premium end of the market, we are doing about ₹ 150 Crores, just tip of the ice berg. But more importantly we also got a large kids business which is approximately around 10% of our Pantaloons business which actually is around ₹ 200 Crores. The way the kids market is growing, even inside a store gives us great hope that there is an opportunity out there, such a large market, hardly any organized players in the market. So that is one part of it. The second part is that if you travel around the country you find that apart from the top towns there are no real presence of kids stores in the rest of the country, so this is white space opportunity for us. Now in terms of margins, the kids margins are slightly lower than the others but I think we have to create a financial model, it is the size of store, the rent that we pay. As we all know that in retail if you want to expand you have got to get the business model right, look at the throughput in the store. So we can actually make a lot of money in retail if you get throughput in spite of lower margins. So that is what we want to do, pilot it out and then test the markets, different sizes, different towns and we will make a business plan around it but we need to go behind that opportunity that is what we are saying. How fast we will move, how quickly we will grow, will all depend on the kind of success we find in kids apparels. So that is on the kids side of the business, I hope it answers your question.

On the luxury and super premium, I think the market is still extremely small and as you are probably aware most of the luxury brands which have come into the country, have been by and large through the franchise route, which basically means Indian partner has really put the money behind the stores and these are basically mono-brand stores and margins are what a normal franchise margin they would get. However, I think it is a market of the future, I do not know whether it is going to be two years, three years or five years, people talk about China and how big the market has become and indeed if the economy is growing the way it is growing I think that is an opportunity out there. It is not a very large market right now but with loads of brands coming in, with consumers sort of uptrading I think that is a big market again. So that is something that we will also look at but that is not our top most priority at this stage.

Abneesh Roy: Sir my last question is, on omni-channel every retail company has plans on it, so could you quantify some numbers as to how much is the CAPEX you plan to do that, any timelines you can share? If you see globally in some of the best companies omni-channel contributes almost 10% to 15% in terms of the revenues, in your case what is the target you have from a three year, five year perspective?

Pranab Barua: I think I would leave the question of CAPEX out for the time being. What we are actually attempting to do through this omni-channel exercise is a very seamless operation between offline and online, therefore when you say what could be the size of business which omni-channel could contribute is 100%. What we are really saying therefore, well not 100% but 50% will be the share of all the retail business which will be on omni-channel. What I am really saying is that you cannot differentiate between online and offline. You can place the order in the store, have it delivered at home, you can browse online and collect it in the store, you can browse in the store and buy online and so on and so forth. So essentially that is the target that we have set for ourselves that all our retail businesses will be omni-channel business, that is really what we are targeting. Investments, we are working it out, we will roll it out in the next, as I said, six to 12 months, the rollout program is starting, we are currently working out the details. So I would not share the CAPEX numbers just yet, still to be worked out, it depends on the speed of rollout and so on and so forth.

Jitendra Gohil: This is Jitendra Gohil, I am from Credit Suisse Private Banking. I had couple of questions but I think one of my question has already been answered. But one is, we are seeing significant margin expansion in Madura and also the ROIC has been phenomenally higher, can you just share your thought how you have achieved this transformation and can we see this to continue or is it because some supply chain benefits or due to cotton prices falling. So what exactly lead to the significant expansion and can we see this continuing?

Ashish Dikshit: So the largest part of our ROIC improvement has really been the rapid scale of our business, the sheer leveraging of small business when it grows, if you look at the numbers it has grown from virtually ₹ 1,000-odd crores five years back to last year revenue of ₹ 3,700-odd crores, so there has been a fairly large operating leverage effect that we have had. So that is first part. The second part is, clearly as Indian consumers are experiencing brands and increasingly the affinity for brands is increasing the overall ability to pay price at higher price point, higher margin is increasing. So there is an element of richer product mix that country as a whole has achieved and I think that is a trend which is likely to last over a much longer period of time, consumers are increasingly looking for superior richer products and that inherently gives strong brands an opportunity to create a richer product mix in the portfolio. And third, the way we drive our channel performance, individual channels become more and more profitable because the productivity improves. It is like, for retail channel per se, if your stores grow faster, if you manage your cost well it starts becoming profitable. So that is coming from the operation of individual channel. There is indeed a small benefit that scale brings on the cost to the product but I would not take that out to be a very large part of our overall plan, of course as company grew and now with a combined entity there is a leverage of cost which comes through the sheer scale of the business but that is a smaller part of the whole equation.

On the capital employed part; so really there are two parts of capital in the business, one is the fixed part which is retail fixtures, CAPEX, etc, the other is the working capital part. As far as the fixed capital is concerned, which is where a lot of fixed capital goes for the companies which are expanding in retail; if you look at our retail expansion model, because of our strong brands and because of our relatively smaller formats, between 1,500 to 3,000 square feet is most of our stores and sometimes even smaller, a lot of franchisees want to invest in it. So we get close to, if you look at past five years period, close to 70%-75% of incremental retail stores have been added through some form of partnered expansion. So that keeps the capital decoupled from the revenue side of it; because our own capital that is going into the business purely from the CAPEX part is limited to the extent of owned stores expansion. The second part is working capital and that is something that we have worked very hard in terms of improving our inventory turns, the debtors management with all the channel partners as well as the payable cycle, so that is constant operating practices which have actually delivered into this kind of return.

Jitendra Gohil: So what is your working capital cycle if I may ask, in days?

Ashish Dikshit: So overall working capital for us is close to about 14% to 15% of our revenue.

Atul Mehra: Hi, Atul Mehra here from Motilal Oswal Financial Services, just a couple of questions, one on Madura. So just wanted to get some sense in terms of the company operated stores, so what would be the profitability like when you open your own stores and I believe 25% to 30% of all incremental stores also going forward will be the company owned and operated stores, so what is the kind of margins that we would be doing in company operated stores? That is on Madura. And another follow-up that I had on Pantaloons is, in your presentation you spoke about the margins and profitability in the west India business being half of that in the east India business, so what are the kind of exact reasons for that and what are the differences in terms of micro market that you look at which perhaps are responsible for the difference as well as outlook going forward on both of these regions?

Ashish Dikshit: So on the first question on the company operated store, I presume you mean company invested stores in terms of fixtures. See our philosophy on how we look at any store on who should invest in the CAPEX is very simple, at the first level we would like to leverage the entrepreneurship that exists in the country and strong franchise that our brands have. So typically we have franchisees available for most of our stores. Second, there are some strategic stores that we want to open because this it is an experiment, new sub brand or some really strategic store that we want to invest in ourselves to monitor for a variety of reasons. So that becomes a secondary part of our overall business strategy and it is selectively done. Now is the investment or returns different? You all know that in retail profitability and returns are function of rent and throughput, whether I put the capital or franchisee has put the capital really does not matter. Also the fixed capital compared to the overall sales and revenue is a smaller component of return in most of these businesses. Therefore statistically there maybe difference between what is delivered in one quarter or one year from one such kind of stores to other kind of stores, but fundamentally it is not a function of who has invested in because returns from a store are clearly function of only two, three things, margin in our business and the kind of business we run are fairly predictable and clearly consistent across all businesses. So it is a function of what happens in that particular store and is completely independent of who has invested in that store. So a short answer is, our profitability does not vary based on our model choice, in fact it varies more on the store choices that we have made.

Shital Mehta: So just to answer your question, see east if you really look at it the profitability comes from fundamentally from the rentals. Compared to any other part of the country the rentals are much lower in the east and the brand Pantaloons was launched in the east, so that is a reason where you have a disproportionate advantage in the east. So I think we are working on two things, one is, (A) how do we continue to sort of extract more and more out of east by making that more dominant part of our business and therefore penetrate a lot more deeper in to east, so that is one kind of work which is happening. Second is, given that there is a rent to revenue and rent to sales productivity, as Ashish was saying which eventually decides our profitability in rest of the region, it all comes down to fine tuning store model. So we are working on that as well, so from a one or two store model now we are working on actually almost four different store sizes and given that the rental is what it is, how do you adjust size of the store and rest of the store costs eventually to sort of get more out of the same store. So that actually applies to not only west but also to north and south. So that is a work which we will have to do because one will have to live with the reality that the rentals are higher and we will have to fine tune our region store models to up the profitability in rest of the India. But having said that, east will always remain disproportionately more profitable business given that the brand Pantaloon is embedded in the east deeply and the east fundamentally is our relatively lower rental region.

Atul Mehra: And just if I may ask, one follow-up on Pantaloons. So you have this very large portfolio of private labels within Pantaloons which are sold inside the store only and not to any third party stores to any extent I think, so is there an opportunity to leverage these brands by getting into the wholesale model like you have in case of Madura? So given that this merger would happen now and the synergies on the distribution also on some of these elements could play out, so is that an opportunity at any given point in time for Pantaloon brands?

Shital Mehta: As of now we are fully focusing on our own retail business, that said, the fact that, as you may be aware, we are now working on how do we take our business online and we have started working with some of B2B partners. So you would find that whether it is the Flipkarts or the Myntras of the world, you would see that some of our brands are being available there; but there you retail as a Pantaloons format. So besides offline retail, we have already kicked in our B2B online business, so our brands will be there, but besides this as of now there is no plan to really look at any other thing.

Jignesh: Hi sir, Jignesh from Nirmal Bang. So we have almost 1735 EBO of the Madura, so if you see, out of these about 350-360 are owned by the company and in my memory south has contributed around 35% of the revenue of the EBOs while we have almost you can say 650 plus franchise mode EBOs where we sell onsite which contribute to less than 12% of the revenue. So is this more to do with aggressive of us in running the EBO or franchisee slightly weak in running this, why there is a lopsided sales with 300 store contribute to almost 35% of revenue and 600 store contribute 12% of the revenue?

Ashish Dikshit: Sorry, can you just explain the question again?

Jignesh: You were saying, we have close to around 350-360 company stores where we invest on the rental and I think this contribute to around one-third of the revenue of the EBOs while we have close to around 650 outlets which are run by the franchisee where they put both investment in the fixtures and you can say capital outlay and everything and consider inventory model rather than the consignment model which contribute around 12% of the EBO revenue.

Ashish Dikshit: So I did not get fully your question but let me respond to what I think you are asking. There are three models that we have and models depend also on two dimensions, one is who has paid for stock and what is being run as a consignment. So first is there are buy and sell stores which a franchisee opens as exclusive brand stores exactly as per our requirements for individual brands, for consumer the experience is same as if it is opened by the company but it is completely invested in rent, in fixed assets, in inventory by the franchisees, these are called buy and sell stores. That is the smaller part that you are talking about, we primarily use that strategy in markets where we either do not have experience, these are smaller markets, we do not have access to manage inventory or understand the market extremely well and franchisee is better placed to actually leverage that opportunity and we therefore allow him to manage the whole thing. The large part of our business is the consignment business where the inventory is on our books and we manage the inventory because managing inventory at an aggregate level is optimized better and with better IT systems, with integrated view of the whole inventory, we believe the entire supply chain is more effective and inventory management as well as consumer experience from merchandized point of view is more effective. Within these consignment models there is a small part that we invested which is the company invested stores that I was answering to in the previous question, a larger part are the stores where inventory is managed by us but the operations and the capital which is a fixed asset, is invested by the franchisee. Now as we go to smaller towns you will see more and more buy and sell stores because in those towns it is a local entrepreneur who has a better sense of the market, knows what you should buy and so on and so forth. While our own retail expansion will continue to go through consignment model out of which a small part will continue to be company owned stores, a larger part will be the franchisee stores in consignment model as well.

Jignesh: So that's what I am coming to, so roughly out of 1735 stores, buy & sell stores which you want to open in Tier-II, Tier-III or small towns is roughly around 650 number of outlets, so almost you can say close to 30% of our outlet population, but these contribute to only around 12% of the revenue?

Ashish Dikshit: No, the reason for that is first of all these are smaller markets, second, fundamentally these are smaller stores and I do not know where you have got the numbers but irrespective of that buy & sell is a wholesale business where recognition of revenue is net of trade margin or mark downs which we offer to franchisee, hence base is lower. Where as in consignment business, the total revenue booked is what the consumer pays. So it is a combination of this, I do not have the numbers right now to verify whether it is 12% but yes it is a smaller part of the revenue.

Jignesh: Second thing, if you talk about significant part of improvement in ROCs on account of working capital reduction, you can say there were years where absolute amount of working capital is reduced in 2010 or 2011 and partly because we have achieved a good terms in terms of our creditor days which you can say increased by close to around 50%. So when you speak from the vendor side, since its creditor days has increased by, or you can say for him receivable days have increased by 50%, whether he is compensated with a high margin or his ROC overall dealing with Madura has reduced in last four to five years?

Ashish Dikshit: So see it has not happened in one day, so these kind of programs that are partnered programs that you work with your vendors over a long period of time, so it is not an overnight story which happens on one day due to some treatment and some policy. It has been a continuous endeavor to work with partners, to create this kind of cycle, it is not an unusual cycle in the industry, around the world if you look at most large brands and retailers typically these are the kind of creditor cycles that industry works globally as well.

Jignesh: And can you throw some light on your supply chain, when was the ERP installed in terms of order replacement cycle and the number of SKU how it is reduced in couple of years because inventory churn has increased from 1.4x to around 2.5 to 3x now.

Ashish Dikshit: So I think maybe we can separately share you some of that details in the interest of time, but at top level our ERP was invested as long back as 15 years back, we were the first apparel company to move to a complete end to end ERP in 2001, we have not stopped at that, we have continued to invest into newer forms, so five years back we invested in retail ERP which is a front end ERP and now as Pranab talked about we are moving towards investment in the omni-channel system. So the entire visibility of supply chain through continuous investment in IT has improved the visibility and that allows superior management and better control over the business. And that's what has resulted into the kind of inventory churn improvements that you just talked about.

Jignesh: Last question, if you will allow, on the Pantaloons side, if you talk about in terms of fashion and everything, in terms of number of SKU, variety, design we have improved a lot, but if you talk about the core strength of the product…

Pranab Barua: Can you speak a little slowly again, say again.

Jignesh: So if you talk about the Pantaloon side in terms of number of design, variety, fast fashion we have done a remarkably well job since we acquired. But if you talk about core strength of the product, I have done a small survey on almost 20-30 users, they mentioned that the product quality has deteriorated a lot in last two years, for example I have spoken to one house wife who purchased 10 garments in last to last month's sales, she says out of 10 garments one was defective and she checked at home out of 10 garments one T-shirt was having a hole and the second T-shirt which she used within first wash color faded away. So though collection wise we have improved a lot but in terms of core strength wise and product quality have we slipped on?

Shital Mehta: I am surprised to get that feedback, so I would in fact connect with you offline, to find more details about it. But otherwise let me tell you that I think that's precisely the dimension actually we have worked on which is one of the reason that almost one-third of our existing vendor network is new. And it is a very large network, in fact when we took over we renewed that entire part of the network essentially because we wanted to ensure that the product quality standards are improved not just maintained. And that is where we got in the products specialist into it. We have a very-very strong quality cell which is continuously looking into it, because once you are in retail all the consumer complaints go back to the store very quickly and then it sort of comes back to the quality cell. So we are seeing that there is actually a remarkable improvement which is happening in the quality dimension. That said, it could be an individual case and we deal with each one of them very-very seriously and I would definitely like to probably know more about that particular specific case from you. But at an overall level I can assure you that actually that is a dimension where we have made huge improvement.

Tejas: Tejas from Spark Capital, just wanted to start with Ashish, since you gather a lot of data from your customers and you have a good customer feedback system, just wanted to understand what is the customer profile in terms of socio economic class for Madura and each profile of your customers?

Ashish Dikshit: So first of all Madura itself is a very diverse business and you can see from our presentation that starting with people at the bottom, which is the smallest newest brand that we have - Peter England going up to premium Louis Philippe and at the top we have very small luxury collective business. Each of the brands attract slightly different set of consumers, sometimes they are very similar in classical definition of socio economic class but there are internal drivers or motivators on why they want to wear a particular brand and which is what the branded business is. But essentially if you were to simplify, a large part of our business comes from mid to upper class Indian consumers. Male consumers contribute to large part and women's wear is still a small part of our business, kids is still a small part of our business. So at the heart of our business is the middle to upper middle class Indian consumers, in top 100 plus towns which constitutes most of our business, 70%-80% of our business. Having said that, our brands have different propositions and different product categories so you may not be able to buy let's say a suit from Louis Philippe but you may buy a shoe or you may buy a tie or something else, so a lot of consumers keep moving in and out based on the propositions of the brands.

Tejas: Okay. So in that regard there is a gap in your portfolio which perhaps luxury or bridge to premium or luxury as we call it, would you be open to get into licensee arrangement with any of the foreign brands who are willing to come to India or you want to continue the same home grown model for yourself?

Pranab Barua: I think broadly speaking our preference is to invest along with the partner, so ideally we would love to have joint ventures rather than just be a franchisee. Having said that, if there are no options we will look at it because that is a segment that is evolving and I think we should not ignore it. We have made the first initial steps and I hope we will get to one or two brands in the offering, so we will invest behind it but it is not likely to be the biggest investment that we will make there but we will play there that's for sure.

Tejas: And if you can help us understand Ashish what would be end of season sale contribution in overall sales for Madura as a percentage?

Ashish Dikshit: I think if you look at the seasonality of a business at very top level, our first half versus second half; there is obviously a slight bias towards the second half for two reasons, lot of festivals happen in the second half of the year and second is there are more expensive products like winter wear and suits which gets sold in the second half more versus the first half, so there is split between these two. Within that each season if you look at the contribution that you receive from end of season sale ideally is about close to one-third of the overall volume, slightly lesser in value.

Tejas: And do you provide for that upfront in your numbers?

Ashish Dikshit: Yes.

Tejas: And what that percentage would be?

Ashish Dikshit: No, so I do not know what you mean by provide for it, we have a policy on how we treat our old stock and there is a provision which is continuously made on an ongoing basis, there is also the cycles change season on season so there are good seasons where end of season sale is typically between five to six weeks which is why in value terms it comes to about 25% of our overall business.

Tejas: And lastly a structural question on the industry how dynamics are playing out, we are seeing that distribution is getting consolidated in fear of modern retail at least in urban centers and even in Tier-II, Tier-III cities we have seen that high streets are getting converted into more modern retail format. In that backdrop MBOs used to be the most profitable channel for the industry at large and now MBOs are losing market share. How do you see and the terms of trade are actually I won't say not profitable but they bring along a certain risk in non-MBOs format because consignment, SOR basis and all. So just wanted to get your sense on how do you see this, the terms of trade from here on will structurally be challenging for the industry at large as modern retail picks up in the overall distribution pie?

Ashish Dikshit: So I have been in this industry now for 17 years, and this question was raised 15 years back, 10 years back, 5 years back, I have presented to you the share of our business how it has grown. India, if you look at India as a whole it is emerging not just in Delhi, Bombay, not just in Jaipur but smaller and smaller place, this phase in which we are in this country all aspects of business will continue to grow. I think sometimes in early 2000s when department stores started to come and retail was new, people had written off this MBO business wholesale channel. Surprisingly, Indian entrepreneurs, small retail MBO shops have actually not just survived but many of them have transformed themselves and managed to grow. I think while the larger story is true and is reflected in our numbers, our own belief is that the pace of change because there is so much change happening in smaller parts of the country as well will be almost as gradual as you have seen in our numbers in terms of share of business. So I think it is too early to write-off, there is a very large of Indian consumption population, market is still, as Pranab talked about, hugely concentrated at the top unlike telecom, unlike many FMCG and durable companies. And apparel has a very-very long way to go as far as distribution and therefore multiple channels are concerned.

Tejas: And just last question, in consumer durable companies we have seen this practice of discounting the receivables to improve their working capital cycle, by any chance do you resort to that kind of practice in your business?

Ashish Dikshit: No, you must remember who our customers are, 45% of our business is retail, so that is a straight retail business. Our wholesale business consists of large number of smaller MBOs which is another 24% of our business, so even the opportunity for discounting is not there because you cannot discount such large number of small multi brands businesses which are like that.

S. Visvanathan: And also just to clarify, our typical terms of trade with our wholesale partners is we try and collect the money as early as possible, there is no question of giving extended credit and then trying to discount the bills to get the money.

Nihar Shah: Sir, Nihar Shah form Enam Holdings, I have a couple of questions. We have seen fast fashion grow pretty significantly, Zara has entered India and done pretty well and we have H&M also entering India. Does Madura Fashion have a play in the fast fashion segment and what are you doing in terms of the fast fashion segment and in terms of priority, since a lot of questions have been asked on the luxury and the bridge to luxury market where would you see the next scale or expansion into the fast fashion or into the upper bridge to luxury sort of markets?

Pranab Barua: I think broadly if you give me a choice I will certainly look at fast fashion and having said that there are two ways to look at that, one as Shital was explaining the whole Pantaloon piece I think we are going to position sharper both in both in terms of price and as well as fashion, so that will take care of some of these evolving needs of the consumer. Parallely, we are looking at the fast fashion market, it very clearly requires a brand as well so we have to look at brands, what is the opportunity there. Certainly a focus area for us and we should look at it and we are looking at it, what evolves I cannot say right now but that is a focus area. As far as the super premium luxury brands are concerned or segment is concerned, as I said, I think it evolves slowly but over a period of time I think it will become a substantial part of the business, right now we will be playing there not as aggressively as some of the other areas.

Nihar Shah: My second question is, correct me if I am wrong but we do not seem to have a consolidated loyalty program across all the different brands across Pantaloon as well as the Madura brands, is there an opportunity to sort of have a consolidated loyalty play over there because that could help get a lot of synergies across the different businesses?

Pranab Barua: Yes, I think Pantaloons has got a very strong loyalty program, it is almost now at around 4.5 million members. In Madura I think each brand has their own loyalty program, we are looking at how to bring it together, we are also looking at the idea behind or investing behind big data analytics and so on and so forth, that is part of the plan when the company comes together.

Niraj Mansingka: Niraj Mansingka from Edelweiss. Wanted to know about Madura, it is predominantly a men's brand and what is the strategy that you are planning to get into the other areas like women which you believe will be fast growing and how do you see the breakup of the revenues of men, women and child wear from now to say five, six years from now?

Ashish Dikshit: So you are right, our business is predominantly men's wear business, having said that we have two brands which have been in women's wear and have taken sharp niche positioning so Allen Solly and Van Heusen are women's wear brands, the overall market on the side of premium women's wear had been relatively small but from the supply side there has been a lot of new players that are coming in and therefore interest is growing. So we have multiple strategy, the first strategy is to scale up our women's wear brands through more dedicated standalone women's wear retail. Currently much of our retail was actually a combined retail and at that stage the independent stores were not so viable, there was not enough gravity around it to build a viable business but in last three or four years we are beginning to see that. Going forward, therefore one part of our strategy is to accelerate women's only stores which will take our women's business much forward. The second part is women's wear, industry as a whole is seeing large trend of fast fashion as you heard last time and as Pranab mentioned, that is one area that we are looking at how to approach it, what route should we take, but that is another area that we look at. It is about 5% of our business as of now, difficult for me to predict a number to it, we want to grow at standalone but on 5% will it become 8% to 10%, may be, but it clearly won't become 20% in a short period. So it will grow faster than our rest of the portfolio but I think because the weight of men's wear business, which is also growing very rapidly, is so large that it would not be a dramatic shift in the share itself.

Niraj Mansingka: Sir another question on the revenues and realization increase in the last few years, please give your thoughts on this. Inflation has been one of the reasons also because of which the revenues might have grown, with inflation rate coming down do you see the revenue growth rate moderating slightly for your entire brands as a whole for the next five years?

Ashish Dikshit: So I think there are two aspects of it, one is inflation leading the cost side factor and therefore what it does to the ARP or the average revenue and so on. So while there is a positive influence on that side when inflation is high but you must remember from consumer side that it is not a great story because consumer obviously wants and you would also want consumer to be in greater mood for disposition in terms of spending in categories like us. So I would reverse that around and I would say low inflation environment are actually good for our business because consumers ability as well as disposition towards spending is much higher and better.

Niraj Mansingka: And how much would have been the volume growth in the last three, four years CAGR?

Ashish Dikshit: See, volume growth is definitely lower than value growth because inflation has added to that, I think a larger part of a growth would have come from value increase per say versus the volume increase and I would not have the exact number, we may be able to share with you separately. But that is also not coming from inflation, it is coming from overall premiumization and movement towards brand in the country. If buying ₹ 1,000 shirt was an occasion driven thing 10 years back, ₹ 2,500 shirt five years back, you yourself as a consumer have seen how consumers are upgrading and getting to more premium products. So it is not just price increase it is the richer product mix which is actually driving the value growth across entire industry. Remember Pranab presented the overall apparel organized market is still almost one-fifth or just about one-fourth of the total market. So there is a huge shift which is not coming from value-volume game but it is coming from richer product mix, consumer is seeking superior products and buying more of superior products at higher price point which is driving a larger part of the story versus same product price going up.

Abhishek Ranganathan: Abhishek Ranganathan from Ambit Capital, I have few questions. One is that, fundamentally once this business gets consolidated we have two pieces here as Madura and Pantaloons, how different are their supply chains and how would they actually stand as integrated piece as an entity?

Pranab Barua: People have asked me a lot of question around synergy, around the sourcing, procurement and so on and so forth. This is not about that, this is about the growth opportunity that is in front of us, we will look at some of these issues but my own personal view is that when you look at a brand the end to end is the way to look at a brand. Not saying this is what we will synergize and this is what we will make sure that the supply chain is integrated at the back end. For example, women's brand would be completely different from kids brands and similarly as Shital was talking about the kind of products that Pantaloon will be producing, we are trying to bring prices down and not take it up, while in Madura we are trying to premiumize the product. So therefore it has an impact on the supply chain and procurement, so that is not the area of focus, I think area of focus must be in the front end and we will do ride the way, through the value chain we will take the right decisions, that is what we would do.

Abhishek Ranganathan: Actually what I was alluding to was not the synergies but the fact that both are different models.

Pranab Barua: That is what I am explaining, that is how we will manage it. For example, even in Madura we will have some brands which are completely in-house manufactured because that is what we want, because of the quality and so on and so forth. And some brands we would actually have a part of it outsourced, obviously under our supervision but outsourced. So each brand has its own sourcing strategy and the procurement strategy and supply chain strategy.

Abhishek Ranganathan: Secondly, you mentioned about fast fashion and something which you will address in Pantaloons and I just want to understand that what aspect in Pantaloons and secondly with the amount of brands which we already have in Pantaloons and we intend to add it with a significant number of brands. So is it that we intend to focus on certain brands or this large bouquet of brands how does it actually fit in the entire piece of positioning some part of Pantaloons as a fast fashion offering?

Shital Mehta: Let me just first address on the number of brands, while I was talking about addition of 10 brands, it is not that the format has now more brands than what it earlier used to have. What we have done is essentially, there were brands identified, when we do the portfolio analysis, which were not performing as well as we would have liked it to, lot of external brands which we used to deal with. So we have got rid of some of these brands and those spaces have been released for brands where we saw that there was an opportunity and that is how the brands were created. So I think overall portfolio in terms of number of brands have not really undergone change, it skews now lot more towards our own brands and that is because we wanted to work on how do we increase the productivity. As far as the fast fashion is concerned, which Pranab was talking about, as we go forward our intention is that how do we offer consumers on one side amazing fashion and another side wow price, how can we do that and we have a distance to travel I must say that but I think that is the journey which we have embarked on last couple of years and if we can really do that and then I think there are a lot of things about how do you increase the frequency of collections, freshness, etc. Today I think the whole country operates in spring summer and autumn winter, can we break that into four seasons, can we break that into six seasons, so I think that is a journey we will keep working on and that is what Pantaloons is going to address.

Abhishek Ranganathan: And Pranab you mentioned that you need a brand for fast fashion so is that something which you need to acquire or build?

Pranab Barua: No, we currently have a brand called People which is there, so we are looking at opportunities whether to build on that platform or to build separately which means look for a brand which we could acquire or partner, different models are being evaluated as I answered earlier.

Amnish: Sir this is Amnish from Prabhudas Liladher, sir my question is regarding the Pantaloons format which you acquired three years back. Now where we stand today the company has given an EBITDA margin of around 4%, two years back it was I think negative 0.5% or something. Now if you look at this journey of your acquisition, today are you satisfied with the way it is panning out, have there been any negative surprises on the way because today if we look at the various parameters whether it is your rental cost, whether it is your man power cost it is perhaps the heighest in the entire retail industry. So where, how are you satisfied with the progress so far and where do you see this panning out in the coming few years?

Pranab Barua: I think there are two or three questions in your question so let's try to look at differently. First of all the question is, are we satisfied with the progress, it would be very arrogant of me to say we are very satisfied, we are not satisfied therefore it is a long way to go. In Shital's presentation if you saw there were four stages built up and that is actually to manage the expectations from everybody. The idea was when we took over the business it was in bad shape and we bought it because of the portfolio of brands, the pricing points and basically for the brand, so therefore it would take time to build it up again. The first year it was actually to look at all the drivers of the business whether it is store upkeep, renovation in the store, getting training and people in place, whether it is the whole area of product, design, vendor network, all this had to be placed, you saw within a very short time we improved margins by 3%. It is not possible if we do not work backwards into the vendors and supply chain so on and so forth. So there is a huge amount of hard work that has gone in there and we believe we have laid the foundation, we are now looking for growth coming year and then scaling up. So the model that we have put in place, give or take, we are mostly in line with that. So are we satisfied? No, I would love to go faster. But in going faster we need to build up the fundamentals like Madura has done during its long history of 20 years, I mean Pantaloons has just started, we have had it only for two years, this is the third year and in this kind of a market you need to plan one year ahead for your product and so on and so forth, it takes time. So short answer is, we want to do much better than what we are doing. Where will the margins land up, the EBITDA margin that you talked of 4%? I think it can be substantially higher, I would not give a number to that but we are working towards improving the entire business. Also apart from improving profitability we have to keep an eye that we have to go for growth so there will be certain brands where we will be driving growth, certain brands we will be driving profitability so that overall we build a very strong portfolio of brands in the company.

Amnish: Sir what has been the negative surprise in the acquisition? Because in acquisition there are some always you can say the grey areas, some negative surprises, something which you had not expected when you acquired this company?

Pranab Barua: I think that has been well in the past, I now have tried to forget everything about that now you are reminding me again. But honestly speaking, the areas that we were concerned about when we got in to the business was actually about inventory and therefore we focused a lot on the inventory issue prior the due diligence, everything was about the inventory. And I would say we are pretty satisfied with what we did, give or take a little bit of old stocks here and there, but by and large I think we were pretty okay in inventory. I think if I were to say not because of surprise but we knew that we would have some areas, some of the leases for example, we knew that in due diligence that some of the leases will come up and we will lose them, we are going to fight for the leases again. So that is an area that is always open, even today as we go into the future, leases are there which we need to look at. The whole area of the vendor supply, I think that is something we did not fully judge but we were very quick to react, so we put a supply chain team in place and quickly moved up because the concentration of the vendors was mostly Mumbai based so that did not give us that kind of quality as well as cost efficiency around that, so we moved quickly. So that is an area that I would say that we were able to spend time on. There were some people issues. And I think we have to take the good with the bad. So all in all I won't say too many surprises.

Amnish: And sir just last piece, today if we look at the consolidated Aditya Birla Fashion & Retail you are having ₹ 18 billion of debt on your balance sheet, so if you look at the various retail models generally in this kind of industry where now you are having your Madura Fashion which is relatively less capital intensive, it is a faster running model with higher returns and Pantaloons model which is more capital intensive and low return ratios because globally even this kind of model does not give you more than 15%-20% returns. So are you look at some kind of a deleveraging down the line from internal accruals or will there be some equity dilution which the company will have to do in future?

Ashish Adukia: Maybe I can take this question. So I think the leverage level would be very comfortable in the pro forma entity as well, and as you said Madura is cash generating so with the internal accrual itself we would be able to actually pay down this debt aggressively so you really do not need any equity infusion. In fact we will have a problem of cash to invest rather than having problem of debt in long term.

S. Visvanathan: See, currently our projections show that we have a debt of about ₹ 1,800 crores which we took over at the end of March 2015, and if you look at the combined capex of the business we will be in a comfortable position to service this debt and also fund our future expansion through our organic expansion route. We will find out if we need any more funds at an appropriate time if we do any inorganic acquisition which may call for a higher requirement of fund. So at that point of time we will take an appropriate call on how to structure that acquisition and what kind of funding we need for that, but currently we are comfortable with our balance sheet and that it is probably one of the reasons for this merger. Thanks.

Ashish Adukia: So I think we will probably close this session. And if there are any further questions, I am sure there would be more specific queries, there were some queries on numbers, etc, as of now Romi and Saket they are part of the Investor Relations team of ABNL. There is also Vish of course who is available. As I said that once the entity is listed formally I think there will be more formal structure of Investor Relations which you can reach out directly, but as of now I request to through ABNL through Romi or Saket you could direct your questions. So thanks a lot for being in numbers out here, it was a very interactive and good session for us.