



ELEVENTH AGM OF ADITYA BIRLA FASHION AND RETAIL LIMITED
CHAIRMAN'S SPEECH

This has been a landmark year for your Company where it reaffirmed its position as a leader in fashion apparel & retail business in India with more than a billion dollars in revenue and a market capitalization of over two billion dollars.

What's even more noteworthy is that your Company achieved this feat in a rather sluggish market, still reeling under the impact of demonetization and short-term upheaval arising out of implementation of GST; the two economic events that traded short-term challenges in lieu of the long term benefits for transforming Indian economy.

Your Company prides itself in building some of the strongest & most distinctive brands in the country across consumer and market segments. This has been possible only through continued focus on understanding the consumers and building world class products meeting their fashion needs.

Your company scaled up these brands by making them accessible to millions of Fashion aspiring Indians by building the largest distribution network spread across 11000 points of sale. With over 7 million square feet of retail space across more than 2,500 exclusive brand outlets, ~4,000 Shop-in shops in Department store chains, ~ 5000 multi brand outlets & engagement with leading e-commerce players, your Company has the widest brand reach in India, amongst its peers in the apparel industry.

I would like to share highlights of your Company's performance during the year, however, before I do that, I would like to spend a few minutes talking about how the Indian and World economy has fared over the last year.

The growth for the world economy, for 2017, as forecasted by, IMF, that is the International Monetary Fund was projected at 3.8% vs 3.2% the previous year, a gradual improvement, which indicated that the cyclical upswing working since 2016 has continued to gain momentum. IMF remains bullish for the future as well. It has forecasted growth of 3.9% for both 2018 & 2019.

IMF has a favorable outlook towards India's growth potential and has retained its GDP growth forecast for the country at 7.4% in 2018. It also estimated that the Indian economy would grow by 7.8% in 2019, making it, the world's fastest growing economy, both in 2018 and 2019.



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As I mentioned earlier, FY 2017-18 was a landmark year for Indian businesses due to implementation of much awaited GST. Your Company believes that this move has created an organised & seamless ecosystem under singular tax regime which, in the long run, is expected to benefit both consumers and companies alike.

Now, let me share with you some key trends playing out in the Global Apparel market:

Global apparel market is close to 2% of world GDP, that is close to around 3 trillion \$, out of which, Europe, USA and China, the largest markets, hold more than 50% of the market. Also, what's interesting is that Europe and US comprise only around 11% of World population, while their combined apparel consumption share is about 40%. This clearly indicates that per-capita expenditure on apparel in these markets is very high and underscores the large headroom available, for growth, in per-capita apparel consumption for other emerging markets as well.

The apparel market for India is expected to grow at CAGR of 9% from USD 50 Billion in FY 2017-18 to nearly USD 65 Billion in FY 2019-20; backed by greater purchasing power leading to higher discretionary spends, better access to products, higher brand awareness, rising urbanisation and increasing digitisation. The past decade has been a validation of this journey as the share of organised apparel retailing swelled from 14% in FY 2007 to 24% in FY 2017-18. Organised retail has not only captured new and incremental demand, but has also successfully shifted the demand, away from unorganised retail.

I would like to draw your attention to some imminent demographic shifts.

In 2010, 31% of India lived in urban areas, this rose to 33% in 2015 and is estimated to further rise upto 37.5% in 2025. With urbanization, the working population will grow as well. In the next 10 years, approximately 122 million Indians are going to enter work force, which is about 20% of India's current work force. This strong urban influence will travel to rural areas as well, driving up their consumption; more importantly discretionary consumption.

Morgan Stanley, in its report titled "India's Digital leap", pointed out two other major catalysts – Firstly, increase in consumer credit penetration, which will grow at 17% CAGR over the next 10 years as the younger population becomes less averse to debt and Secondly, rise in non-food expenditure, as food expenditure in India as per Consumer Price Index basket weights accounts for 47% of total expenditure, which is one of the highest percentages globally and is expected to go down as per capita income rises.



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All the above factors, highlight the strong demographic and economic reasons that will drive per capita discretionary spending going forward. With overall increase in income and consumption over the next few decades, the per-capita apparel consumption will also surge, creating, immense growth opportunity for apparel players in India.

Alongwith an opportunity to leverage on an exploding per capita consumption, the market is also witnessing a big shift in the way consumers experience brands. In my view, that's the single largest factor that is going to redefine the new age consumption phenomenon.

More and more consumers are becoming digitally savvy, which means that they are using digital as medium to interact and transact with products and brands. This has transformed their shopping journey from a single point transaction to a multi-modal process cutting across offline and online touchpoints. As this unravels, it is opening up a large opportunity for fashion brands to occupy higher share of consumer's minds, enable themselves to evolve with their changing needs and create more engaging and premium offerings – thereby taking accretive steps towards becoming larger, more relevant and hence timeless.

If I look at the last fiscal, there were three key factors that explain the overall growth in the industry. First - the value and mass fashion players have aggressively expanded their presence across tier 2&3 markets, second – India continues to be an important destination for international brands and many foreign brands have entered and increased their presence in the country and third - the continued and rapid growth experienced by ecommerce players.

Let me double click on these factors -

The rapid expansion of value and mass fashion players is backed by India's consumption story. The NSSO rural consumption survey has been showing a continued trend towards more urban consumption pattern, with more discretionary vs need-based spends in rural and urban markets. The expenditure on clothing, durables and consumer services is growing much faster than average growth experienced in last decade

These markets are constrained by high price sensitivity. However, the growing aspiration to own brands and increasing discretionary spend are driving growth in these markets. As a consequence, though Tier 1 cities still continue to dominate



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overall consumption, rest of the country has been transforming quickly and upgrading from unorganized and unbranded play to a brand hungry and relatively more organized markets. These changes in consumption pattern are also moulding the supply side – recent statistics show that within the next three years, the total organized shopping space in rest of India will be higher than that in the top 10 cities combined.

International brands are seeing a huge potential in the Indian market, as reflected in increase in new exclusive store counts in the last few years. They are also reincarnating themselves in line with the Indian markets by tweaking their products and price points, to become more desirable for Indian consumers.

E-commerce continues to be a business that is creating enormous scale by adding markets, consumers and product categories. The business, however, is still marred by high discounts and event driven sales, albeit, with a sharper focus on chasing long term profitability. This profitability focus has -marginally waned off the disruptive impact that the e-commerce players had on traditional offline players till a few years back., thereby fostering a conducive ecosystem for both offline and online players in India to partner and grow the market together.

Now let me take you through your Company's performance for the financial year, 2017-18. With a turnover of Rs. 7181 Crore in FY18, revenues grew 8.2 % over the previous year. EBITDA for the year was Rs.501 crores, a 5% growth over the previous year of Rs. 476 crores. The Company more than doubled its profits from Rs. 54 crore in FY17 to Rs. 118 crore in FY18.

This is an outcome of sustained focus on building our brands, strengthening our distribution network and driving systematic cost reduction initiatives across our businesses. The performance is a validation of our consistent efforts towards building a large and growing business.

Detailed discussion on the performance of your Company has been captured in the Management Discussion and Analysis section of the Annual Report for FY17-18.

Your Company has been at the forefront of the branded fashion story in India and we will ensure that we keep doing things that will help it retain its leading position. As I shared earlier, Indian market is ripe for huge growth in the fashion industry and your company is aiming to fully captitalize on this opportunity. Your company has a deep understanding of the changing market and consumer segments and has built its long-



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term vision in line with the same. We have identified 5 key themes that will define our strategy going forward. I would now like to share them with you in more detail -

1. **Our Portfolio Strategy:** Your company has constantly evolved its portfolio in line with the emerging consumer trends and market opportunities. The first lever, thus, is to continuously enhance our portfolio, not just in our core brands, but also across new and emerging market segments. The new additions/extensions to our portfolio has been in line with our long term strategy of having a brand portfolio that aligns with consumer segments of the future.

Your company can now proudly claim to be serving, almost the full spectrum of customers, usage occasions and product categories through the wide range of its offerings.

Your Company continuously identifies emerging segments in the market and seeks to enhance its play through a combination of brand extensions, new product launches and strategic acquisitions. The portfolio has been strengthened with inclusion of Forever 21 in women's fast fashion, American Eagle in Casuals and launch of men's innerwear under the brand Van Heusen. We also expanded our play in super premium segment via partnerships with Ted Baker, Fred Perry and Polo Ralph Lauren.

Going forward, your Company will continue to explore further growth opportunities in the above segment and fast emerging segments such as womenswear, casual wear and super-premium categories.

2. **Building Strong Brands:** The second lever is to continuously invest behind brand building, product design and store experience to enhance the appeal of our brands with consumers. Your Company will continue to adopt newer modes of engagement with its customers and create strong associations to strengthen its brands. Our consumer-centricity framework, that forms core of our brand building mission, is based on continuous research, big data analytics, real-time feedback from retail outlets and a constantly growing loyalty programme. These initiatives ensure that we hear our consumers well and build our brands in line with their expectations.
3. **Expanding Reach & Distribution:** The third lever, is our capability to build and serve a vast distribution network which is supported by an agile design and supply chain cycle. Your Company has been growing rapidly through its multi-



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channel distribution strategy and is now present in more than 750 cities. Your Company intends to continue building reach and penetration through physical stores, alongwith establishing a strong Omni-channel play. Your Company sees tremendous opportunity in the vast Tier 2, 3 and 4 markets of the country and plans to aggressively expand presence across these markets through appropriate business models.

4. **Digital Transformation:** The fourth lever is the digital transformation of Your company – both Internally in the way it runs its internal systems & processes and externally in the ways it approaches and interacts with the customers. The digital transformation journey of Your company will enable it to be well prepared to respond quickly and ably to rapid changes that are going to take place in this space.

Consumers today are digitally influenced, which means that as the consumption pattern becomes a function of digital intervention, every consumer business, including fashion retail, will have a significant role of digital media and commerce in its existence. The advent of digital has raised expectations of customer experience and put a higher value on convenience, price and personalisation. In simpler terms, it means our consumers would want more options on products, would need flexibility to choose across physical and online stores and would eventually expect the brands to know them and their preferences and recommend products that suit them.

Your Company recognises this trend and has commenced its journey towards ensuring internal transformation and external market readiness. It has taken firm steps towards usage of Data analytics, In-store digitisation and digital marketing to ensure shift in ways of doing business. While our Mission Happiness initiative has helped us create a digital profile of our customers and stores through consumer data analytics, our omnichannel rollout across more than 700 stores has paved way for comprehensive in-store digitization across our entire network. The digital architecture is built around a strong analytics framework, which gives a singular consumer view across physical and digital mediums, assisting in faster decision making.

5. **Our People:** The fifth and perhaps the most critical lever is our People Strategy. The vision of your Company is to Drive a High Performing and Customer Centric Culture with Happy and Value oriented Employees.



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“The Biggest Brands and Best People” is the philosophy that drives ABFRL. We strongly believe that - it is the people behind the brands who have made the Company what it is. It is this belief and an endeavor to continuously develop talent that has led to Your company being a preferred employer for professionals in the industry.

Your Company has a diverse workforce of 20,000+ employees with 50% women employees and with 53% of its employees in less than 30 years of age group. It continues to embed Aditya Birla Group Values of - Integrity, Commitment, Passion, Speed and Seamlessness within the organisation through well rounded value conversations between managers and employees

I would take few minutes to talk about one of the important parameters of our business, that is the Sustainable business practices

In our quest to become a sustainable apparel and retail brand, we progressed into the second phase of our sustainability journey i.e., Sustainability 2.0 with a 2020 Roadmap. Under sustainability 2.0, we are relooking at our value chain i.e., upstream, own operations and downstream, with a focus on stakeholder collaboration, product stewardship and customer centricity. This strategy is aligned with the Aditya Birla Group sustainability framework of ‘Responsible Stewardship’, ‘Stakeholder Engagement’ and ‘Future-proofing’. The manifesto for our initiative, called ‘Re-Earth’, is to give back more than what we take from our ecosystem. Some of the key highlights of this initiative include:

- We invested Rs. 9.6 Crore in the energy mission, which has enhanced energy productivity and enabled a shift towards renewable energy. Against the target of reducing consumption of grid electricity by 2%, through energy efficiency initiatives such as LED installations and enhanced operational efficiency, our collaborative efforts resulted in saving of 3% electricity i.e., 27.20 lakh unit (KWh) of energy saving. This further resulted in reducing our carbon footprint by 2230 tCO₂
- Our water strategy works toward achieving water neutrality across our all facilities, by 2020. This year we had set a target of recycling 60% of consumed water against which we have recycled and reused 54%
- We achieved Zero Waste to Landfill across all our facilities
- We carried out a launch of sustainable product lines focusing on the environment, which use agrowaste based dyes, sustainable raw materials such as modal, tencel and bamboo-based fibres and use of traditional prints such as Ikkat, Kalamkari and Ajrakh.



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- Our initiative, “Help Vidya Write”, has been ongoing since last 6 years. In FY 2017-18, we supported More than 4000 underprivileged students across 25 government schools.
- We are compliant to the World Business Council for Sustainable Development (WBCSD) Pledge for Access to Safe Water, Sanitation and Hygiene (WASH) at the Workplace
- Our employees have volunteered in various initiatives such as blood donation, health camps, eye camps, cancer screening camps etc. and have invested more than 15,000 man hours from their personal time
- We have partnered with SVYM to provide vocational training for rural and tribal youth to improve their livelihood, with a special focus on girls. As of March 2018, Close to 250 girls from tribal families were trained in tailoring.
- Safety has always been one of our key focus areas and we continued to work towards our goal of achieving ‘zero severity level 5 incidents at workplace’. I am proud to state that there have been no fatalities in our operations so far.

Being responsible in the present, makes us sustainable in the future. Your Company hopes to create a future-ready organisation, which pre-empts imminent challenges, addresses the needs of all stakeholders and continues to be a preferred partner for doing business.

Thank you for being a very important stakeholder in this journey.

My dear members, Today it gives me immense pride and satisfaction that your Company, which you have nurtured through for more than 20 years, has established itself as an eminent institution in the field of fashion and retail - An organization, that owns the most iconic brands that every Indian across age groups aspires for, an institution that's credited as a fair and trustworthy business partner by its vendors and an employer that's known to offer an engaging and fulfilling career, thus becoming an employer of choice for every promising talent in the retail industry.

Today, I shared with you our performance over last year, but more importantly, I shared how we as a team look at future of ABFRL . How we sense, identify and evaluate opportunities and how we adapt ourselves to leverage them.

On behalf of the whole management team and our respectable board members, I also take this opportunity to reaffirm our conviction on the future prospects of your Company and believe, beyond doubt, that it is primed for sustainable and profitable growth over the next many years. The opportunity that lies ahead is huge and Your



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company, by building upon its core strength and acquiring newer fortes, is well placed to steer through this trajectory.

I would also like to convey my profoundest gratitude towards team ABFRL – its for their relentless efforts & unwavering dedication that Your company has achieved such success, created a strong culture and become a formidable organization.

Finally, I would like to take this opportunity to thank all our partners, shareholders and other stakeholders for their constant support in this journey.

It has been a privilege to address you all here today. I wish you the very best.

Thank You !