



## CHAIRMAN'S SPEECH

### TENTH AGM OF ADITYA BIRLA FASHION AND RETAIL LIMITED

(formerly known as Pantaloons Fashion & Retail Limited)

to be held on 23 Aug, 2017 at 3 p.m.

at Swatantryaveer Savarkar Rashtriya Smarak, 252, Veer Savarkar Marg, Shivaji Park, Dadar (W), Mumbai – 28

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Ladies and Gentlemen, it is my pleasure to welcome you to the tenth Annual General Meeting of your Company. I, first and foremost want to take the opportunity to thank you for your continued support through good times and testing times, and I am immensely proud to share with you that your Company breached the billion-dollar mark in sales to become India's first billion-dollar pure play fashion powerhouse.

ABFRL is at the forefront of the Industry with some of the largest and most iconic brands of India, reaching customers through more than 7,000 points of sales. With 6.2 million square feet of retail space across more than 2200 exclusive brand outlets and operations in more than 750 cities in India, ABFRL has the largest brand footprint in India.

### **Economic and Industry Background**

Before I go any further, I would like to spend a few minutes talking about the economic and industry backdrop.

For much of the year, the Global economy was subdued. The economic growth numbers slipped from 3.4% in the previous year to 3.1 %. Developed economies continued to show sluggish growth while the emerging markets grew at a healthy 4.1%. India continued to be the fastest-growing major economy in the world with estimates showing a GDP growth of 7.1% for the year. Global Financial Institutions such as World Bank and IMF continue to be positive about India's economic outlook.



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The much talked about demonetization of 500 and 1000 rupee notes did create a temporary negative impact on consumer demand, but the market bounced back to normal towards the end of the year.

The implementation of Goods and Services Tax (GST) with effect from July 1, 2017 has created a common market for goods and services, improved tax compliance and governance, thereby creating a favorable ecosystem for business growth.

### **Demographics & Shifting Consumption Trends**

As per a recent Morgan Stanley report, India has the largest millennial population of 407 million as of today. It is estimated to grow by another 100 million by 2020 which will be a major factor to drive India's growth and make it one of the largest economies of the world.

This is a population which is well educated, has access to information and the latest trends, has growing disposable income and a strong desire to upgrade their lifestyle and embrace change. This is the population that provides an unprecedented opportunity for your Company.

A significant shift is also expected in the income distribution in India over the next decade, with the share of affluent (HH income >INR 1 million) and elite (HH income >INR 2 million) outpacing the growth of the lower income strata households. This is expected to translate again into higher disposable income, spending power and growth trends in consumption. The strong growth of luxury and super premium brands in fashion and accessories is testimony to this.



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India is estimated to be the third largest consumption economy by 2020, leapfrogging Germany, UK and Japan, behind only USA and China. Total Consumption is projected to grow from USD 1.4 trillion in 2016 to USD4 trillion in 2020.

The Retail sector will benefit directly from this consumption growth story. Retail is expected to double from USD 630 billion in 2015 to USD 1.2 trillion by 2020. Apparel and fashion, being the second largest retail segment after food and grocery, will gain disproportionately from this consumption boom.

### **The Apparel Industry**

The Apparel industry has evolved rapidly over the past few years driven by the growing millennial population, a plethora of choices, rapid urbanization, the rise of Ecommerce and entry of international brands. Shopping behavior is evolving rapidly and digital influence on fashion, be it in online purchases or online research has grown 5 times since 2013. A staggering 40-50% of branded spends are already digitally influenced, and this is estimated to grow to 60-70% by 2020. This roughly translates to approximately USD 25-30 billion of business.

Almost 70% of India's population lives in over 7500 towns and 6 lakh villages. With rapid urbanization on the rise, consumption levels of this population will also increase as they adopt a new sense of fashion in line with latest trends. This population will be the Gen-next customers, who will make first-time selections in branded apparel and accessories.



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Ecommerce is witnessing rapid consolidation, creating unprecedented scale and gaining deep access to markets and consumers. This creates an opportunity for strong brands to partner with Ecommerce players and enlarge their consumer base.

International players in the premium and mid-premium segments are pursuing a clear strategy of expansion and have even adjusted price points to suit the Indian market.

The Indian apparel retail is however still highly unorganized, with various estimates pegging the share of unorganized players anywhere between 70-80%. Reforms such as GST and a heavy push to digitize our economy will bring fundamental changes in the apparel retail market and will provide further boost to organized fashion retailers.

### Company Performance

Now let me take you through your Company's performance for the year. With a turnover of Rs. 6633 Crore in FY17, revenues grew 9.9% over the previous year. EBITDA for the year was Rs.476 crores, a healthy 17.5% growth over the previous year of Rs. 405 crores. The Company turned profitable in FY17 with a PAT of Rs. 45 crores.

This is a result of sustained focus on our brands, our distribution network and a war on costs across our businesses.

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



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## **Strategy for Growth**

Your Company is extremely well-equipped to not just adapt, but fully capitalize on the immense opportunities that come with the changing landscape in India. We are in a strong position today and I would now like to talk briefly about a few levers that will drive our success.

1. **Portfolio of Brands:** The first lever is our wide portfolio of brands serving the widest range of consumer segments and fashion needs for various wearing occasions at multiple price points.

Your company can proudly claim to be straddling the full spectrum.

For example,

- Our formal Brands, **Louis Philippe** and **Van Heusen** meet the fashion and quality aspirations of the upwardly mobile generation of achievers whilst **Peter England** satisfies the needs of the discerning customer at the early stage of their careers.
- **Allen Solly** our casual work-wear brand continues to inspire the new age mind set consumers with different and innovative interpretations of “Friday Dressing”.
- Your company also made a significant strategic move this year by launching the **Van Heusen innerwear**. The quality and the innovative product range has been well appreciated by the market. The initial



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launch in South India has been very encouraging and it is now being rolled out in the North and West regions.

- Our Fast Fashion Brands **Forever 21** and **PEOPLE** lead the way for edgy fashion for the young women of today who are totally tuned into the global fashion trends.
- **Pantaloons**, our “Value Fashion” player, caters to the widest range of wearing occasions for the entire family. The exceptional value offered, in terms of Indian fashion and quality, has made it one of the fastest growing brands in the country.
- Our high end multi-brand store, **The Collective**, selling luxury and “bridge to luxury” brands is witnessing extremely strong growth.

As the economy grows, this country will demand luxury and premium brands. Our endeavor is to build a strong portfolio of brands that would help your Company establish and maintain a leadership position in this space. Towards this goal, your Company acquired the India rights for high fashion super premium international brands like **Hackett**, **Ted Baker**, **Simon Carter** and **American Eagle**.

Thus, we can genuinely claim that your company has the strongest fashion portfolio in India covering the largest customer segments, catering to all buying occasions and offerings across the fashion pyramid.



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2. **Reach & Penetration**: The second lever, is our capability to drive distribution wide and deep to ensure our Brands are in easy reach of our consumers, whether they are in big metros or in small towns. Our Brands are currently available across 750 cities and towns either through direct or indirect distribution.

We will continue to expand our reach by adding more than 1 million square feet of retail space annually.

Partnership with the Ecommerce platforms is also providing us with an unique opportunity to penetrate deep into the smaller towns.

3. **Digital Strategy**: The Internet is fundamentally changing the shopping behavior of our consumers. According to a BCG/ CCI study, there will be 270 to 300 million digitally influenced consumers by 2020, further rising to 400 to 450 million by 2025.

Your Company is developing a comprehensive digital strategy, as a third lever, to respond to this accelerated change. The key elements of our strategy are around:

- **Digitizing our stores** to ensure
  - full visibility of our inventory across our network. This would help our consumers always find what they are looking for.
  - deep consumer engagement by providing information and advice on latest trends and move to selling “looks” rather than just products.





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- **Omni-Channel capability:** This will provide our consumers a convenient way to browse and shop seamlessly across our stores and our brand.com sites. Additionally we are providing “Click and Collect” and home delivery solutions to make shopping with us a very convenient and enjoyable experience.
  - **Customer Centricity:** We are using digital platforms and analytics to understand our consumer and serve them better. As this understanding matures, your company would be equipped to treat each and every customer as a Segment of One and offer tailor made solutions to suit exactly what he/ she requires and provide a much superior experience.
4. **Our People:** Finally, the most important lever without which none of the above would be possible – our people. All our employees, including our 10,000 factory workers and 8500 front-end staff, have shown exceptional dedication and lived by our values of commitment, passion, speed, integrity and seamlessness. They drive innovation, excellence in execution, customer centricity, organizational agility to adapt to situations and any task at hand with great rigor. Your company has career progression plans for each of its employees and places strong emphasis on developing its intellectual capital as a sustainable competitive advantage. With a motivated team, we believe that the whole organization can achieve much more than just the sum of parts.





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### Sustainable practices

In continuation with the Aditya Birla Group vision to become the leading Indian conglomerate for sustainable business practices across our global operations, FY 17 witnessed good progress across all the sustainability mission related initiatives at ABFRL. This was aligned to the 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:

- Achievement of 33.1% energy reduction (electricity) from FY 13 base.
- Action plan to achieve water-neutrality in our own facilities by 2020.
- Achievement of our target of Zero bio-degradable waste to landfill for all facilities.
- Launch of product lines focusing on the environment, through Eco-Resins, Herbal-dyeing and Easy Wash along with implementing cluster development projects for sourcing of crafted artisanal fabrics.
- The impact achieved through our community initiatives include educational support to around 20000 students, sustainable livelihood for around 500 youth; providing health and sanitation facilities for over 5,243 individuals across 57 villages and 54 schools. Our employees have dedicated over 9,500 hours of volunteering.
- Launch of the 'Sanjivani' program - a structured HR process that takes a woman from home to the shop floor in just 14 days.
- 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.



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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**

My dear members, today I shared with you some insights on the evolution of the fashion and apparel retail industry and your Company's strategic thinking to continue its growth momentum. We have great opportunities lying ahead of us, and with the support of all our stakeholders we will make the next year a great one.

I take great pleasure in acknowledging with gratitude the support extended by our partners, shareholders, banks and all our employees.

I am sure you will share the confidence and optimism that I have, for a wonderful future for your Company. Once again, it has been my privilege to address all of you.

Namaste and Thank You !