



CHAIRMAN'S SPEECH

NINTH AGM OF ADITYA BIRLA FASHION AND RETAIL LIMITED

(formerly known as Pantaloons Fashion & Retail Limited)

to be held on Wednesday, September 7, 2016 at 3.00 p.m.

at Ravindra Natya Mandir, PL Deshpande Maharashtra Kala Academy, Near Siddivinayak Temple, Sayani Road, Prabhadevi, Mumbai-400025

Ladies and Gentlemen, it is my privilege to welcome you to the first AGM post the integration of Madura Fashion & Lifestyle with your Company.

In line with Aditya Birla Group's vision of being the leading player in each of its business areas, ABFRL, today is India's largest pure-play fashion and lifestyle entity, with over 2100 stores spanning across 5.5 million square feet, and reaching out to over 13 million discerning customers.

Before I go further, I would like to spend a few minutes giving you a snapshot of your Company's performance for the year ended March, 2016.

The year under review was a muted one for the apparel industry with most players recording low growths. Subdued consumer spending impacted the apparel sector. Despite this challenging economic scenario, your Company recorded a revenue of Rs. 6060 Crore with an EBITDA of Rs. 409 Crore, making it one of the best performing companies in the Apparel sector. Detailed discussion on the performance of your Company has been captured in the Management Discussion and Analysis section of the Annual Report.

I would now like to talk about the deep beliefs and competencies on which we run this business. As the country's foremost player in the branded apparel sector, we have led the way for over 25 years now, and continue to be relevant and aspirational for our consumers even today. This would not have been possible without the strong foundation of a values-driven culture and an equally strong consumer-centric philosophy, at the core of your company's operations.

Home to five of the country's most iconic fashion brands and as the pioneer in the industry, your Company draws on award-winning in-house design and product development capabilities, retail excellence and nine state-of-the-art



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manufacturing facilities backed by a seamless global supply chain.

Looking ahead, I would like to talk about four themes that are integral to the future of your company. I believe these would help us navigate through the deep fundamental changes that the consumer world is seeing today. Most of these changes are of an irreversible nature, which means every organization will have no choice-but to adapt, and adapt fast, to continue to be successful in the future.

Let me share with you the four key themes:

- First, the Evolution of the Market and its impact on our portfolio,
- Second, the rapidly changing consumer, and the need for a digital transformation of your Company,
- Third, our unwavering belief in our Brands, which is our greatest source of strength,
- And finally, our thinking on Sustainability as a source of competitive advantage.

Key Theme No. 1

The first theme I would like to focus on is the rapid change in the Indian market. Both the pace and quantum of change we are seeing today is nothing short of revolutionary. There are three structural aspects of the Indian economy which are key to understanding the ongoing evolution in India's fashion market.

The first structural aspect is the increasing disposable income in India, bringing unprecedented growth in the number of consumers of branded products across the entire price spectrum



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Research indicates that households become regular consumers of branded fashion once their income crosses the threshold of Rs. 5 lakhs per annum. Households with incomes greater than that are set to grow from 6.4 crore in 2015 to a projected 13.7 crore households in 2025, which is a decadal increase of 114%. The fact that India's economic growth is being increasingly driven by the services sector, means that the rise in the upper income segments is estimated to happen at an even faster pace.

The second key structural factor impacting the Indian market is the staggering number of young people. India is the youngest country in the world, having more than 570 million people below the age of 24 or an estimated 770 million in the age group below 35 years. More than China, which has 450 million. More than USA, which has 110 million.

We know the young of India come from, across income segments. The current generation of the youth, those between the ages of 15 and 35, is known as the Millennial Generation among brand marketers across the world. Market research indicates that the Millennials have a much larger wardrobe than did earlier generations of young people. With the younger Millennials, the teens and the youth, fashion is fast. They buy often. They buy cheap. They discard early. With them, trends change not by season or month, but by the week. This is not surprising in a connected world, where they are instantaneously impacted by myriad of influences from local, regional and global trends.

As they get older and join the world of working people, the Millennials graduate to more premium brands, and evolution of fashion knowledge and sensibilities grow at an unprecedented pace. They now satisfy their need for variety by indulging in large wardrobes that cater to different occasions-



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formals, informal work wear, party wear, ethnic, casual wear, sports wear, Dressing UP, Dressing DOWN - the list is endless.

The third structural change is the massive evolution in women's fashion. As more and more women join the workforce and become more fashion conscious, the women's wear segment is booming.

Our Business thinking and Portfolio Strategy take these structural changes into account and reflect the major trends I mentioned. From Value fashion brands of Pantaloons catering to the entire family's apparel needs – both western and ethnic to top quality work-wear and lifestyle brands of Madura Fashion for men for different occasions and income levels, from the iconic global Brand F21 for young girls to super premium and luxury Brands like Simon Carter, Hackett & Collective, we have, one of the most comprehensive portfolio of Brands that ensures we are in a position to satisfy the continuously evolving needs of the Indian Consumer.

Key Theme No. 2

Let me now talk about Second Key Theme which is "the changing consumer". This is primarily led by the extent of digitization that is happening around us and how deeply it is integrated into our daily lives. From ordering groceries to our daily commute, from ticketing to movies, from utilities to banking, from astrology to match-making, there isn't a single aspect of our lives that the digital world has not touched.

After books and music, Fashion is the most deeply penetrated e-commerce segment. By 2020, India is expected to generate \$100 billion in online retail revenue, out of which \$35 billion will be on fashion alone. Online apparel sales are set to grow four times in the coming years.



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Consumers expect their brands to keep pace with global trends and offer infinite variety and choice. Along with expectations in the product area, the Indian consumer expects much more from every shopping mission. They have now come to regard a shopping experience that meets global standards and superlative customer service, as table stakes.

So, how is your company gearing up to meet these challenges? If there is one area that I am particularly happy to share with you, it is about the nature and scale of our response to these changes.

A key component of our growth strategy is the use of technology in widening our design palette, crunching our studio-to-shelf times, and increasing the effectiveness of our retail channels – both new and traditional.

The first of our initiatives is our **state-of-the-art Knowledge Management** Centre in Bangalore: a creative technology-enhanced hub that is run by a multi-disciplinary team working in close collaboration with national and international experts and market leaders in related fields.

The second, one of the most important elements of our digital transformation, is our on-going **Omni Channel** initiative. What does this mean? Simply put, this means the consumer will have a seamless experience as he/she interacts with our brands whether offline or online. This would necessitate, quite literally, every single product that the company has produced in a season to be available on demand, irrespective of physical location. We plan to achieve this by providing Virtual Stores in each of our physical stores. You will be happy to know we have enabled this in 90 of our stores in Bangalore, and will go live in another 325 stores by December. Initial results already show incremental sales ranging from 2% of store turnover on an average, to 5% in a few cases!



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With most of the brand discoveries now happening through digital platforms, we have completely revamped our **Brand E-Commerce sites** and enabled them to be omni-channel. Not only that, we are in the process of integrating all our services in physical stores like Loyalty, Alteration, Exchange and Returns, into our websites.

Our drive behind Omni Channel will have the most far-reaching impact. Imagine a shopping experience that involves the best of both physical and digital – all focused in providing you a completely seamless experience. Tomorrow, you could be placing an order on any of our sites, pick up the order from a store; or book an appointment online for a physical trial at a store; or even return an item you bought from a store, through our online channel. Virtual trial rooms in our stores will record individual customer's specs and preferences, have these digitally transferred to their phones, and the customer can place their next order online using the same specs - the possibilities are endless.

Finally, we are deepening our relationships with major ecommerce players through **Marketplace or B2B models**. This will allow our leading Brands to reach a much larger set of consumers. The importance of these partnerships cannot be overstated, given the tectonic shifts in shopping preferences of consumers

Key Theme No. 3

Having spoken of the structural changes in the market and the rapidly changing consumer, I now want to focus on our Brands which is the Third Key Theme.



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At ABFRL, we believe we are in the Brands business. This is at the heart of the enterprise we run, which is why we believe our business is channel-agnostic, giving us the latitude to adapt as necessitated by changing trends and environments.

Tomorrow's leading businesses will be those that create and own intellectual capital. Brands are a manifestation of intellectual property. They package knowledge, consumer insight, product innovation, technology, quality, trust, value etc. This allows Brands to create a deep emotional bond with individual consumers which results in long lasting relationships.

We are deeply cognizant of the fact that consumers invest in long-term relationships with brands. They treat brands as they would treat people, with thoughts, emotions and feelings. All brand relationships, very much like people relationships have a sense of irrationality on which they are founded. This is what is referred to in marketing terms as Brand Love. Our business is founded and run on this fundamental principle, which is why we invest deeply in our brands.

From the point-of-view of the investor, brands offer great value in terms of profits and capital appreciation. While brands require investments to build and nurture, they offer high scalability through pricing power and market and portfolio extensions.

Also, from the societal point of view, the presence of home grown brands in the domestic and global markets is indicative of a mature economy that has the capacity to meet high quality standards and meet the needs of the highly demanding consumer. I am happy to share with you that most of our Iconic Brands today bring in revenues in excess of Rs. 1000 crore....there is no parallel in India.



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Now let me share a few words on our Iconic Brands:

Louis Philippe is undoubtedly the crown jewel in our portfolio of brands, and is aimed at individuals who have high expectations of themselves and their role in society. With its unflinching focus on craftsmanship and sophistication, it today symbolizes excellence. With its extension into LP and LP Jeans, it has reached out to that profile of the younger audience that values the very same facet of excellence.

Van Heusen's purpose is bring Fashion into the boring world of corporate sameness.. Van Heusen is Power Dressing personified. This Brand allows our consumers to make the right impact and is targeted at ambitious, no-nonsense professionals, who carry themselves and their work with panache. With its extension into Sport and Youth (through Vdot), VH has extended its connect with different types of consumers and age groups.

Allen Solly uniquely straddles the hybrid space between formal and casual. The pioneer of the Friday Dressing concept, it spawned a whole new genre of dressing down for work. With its extension into Sport and Jeans under the SJC label, the brand is today well placed to take advantage of the cross-over phenomenon. We believe Allen Solly allows consumers to express their different feelings through 'exciting' dressing for work or play.

Peter England is where it all begins for any professional in this country. The role the Brand plays in inducting young professionals into the corporate world cannot be overstated. With its feet firmly rooted in time-honored values of honesty and integrity, this brand gives a solid anchor to the young professional yet provides him with the confidence to soar into the world of endless possibilities.



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Pantaloons is the leading Value Fashion player and is one of the fastest growing Brands in the country with a crucial USP compared to the many international fast fashion brands already present in the Indian market. Its fashions are contemporary, but with an Indian DNA and soul, catering to women and men, (both ethnic and western,) as well as Kids. Pantaloon's purpose, its very existence, is to introduce the now-blossoming Bharat into the world of brands and fashion.

And finally on the brand portfolio, we have taken a big leap in the fast fashion market by acquiring the India rights of **Forever 21**. This iconic brand has singularly redefined women's fast fashion in a global stage. We believe that with the incredible value and fashion that F21 provides to young girls we have another Iconic Brand in our Portfolio.

Key Theme No. 4

Our Group Chairman, has articulated a clear sustainability vision for the Group, which is the Fourth Key Theme.

By 2017, the Aditya Birla Group endeavors to become the leading Indian conglomerate for sustainable business practices across its global operations, balancing its economic growth with environmental and societal interests.

In line with our Chairman's vision your company has integrated Sustainability into its long term business strategy by working on the three pillars of the Group's Sustainability framework namely, Responsible Stewardship, Stakeholder Engagement and Future Proofing.



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Your company considers its responsibilities towards society and environment as integral part of its long-term strategy and has launched an organization-wide program, called 'ReEarth'. The essence of this program, is the commitment to give back more than we take from our ecosystem. As part of 'ReEarth', your company has initiated 9 missions across Energy, Green Buildings, Carbon Footprinting, Water, Waste, Sustainable Products, Packaging, Safety and CSR. We have set internal targets in each of these missions with clear responsibilities, timelines and outcomes

Under the Energy and Carbon Footprinting missions, we are working towards reducing specific energy consumption, reducing Greenhouse gas emissions, and increasing the use of renewable energy.

We have taken the Water, Sanitation and Hygiene Pledge, called WASH, of the World Business Council for Sustainable Development and is committed to providing safe drinking water, sanitation and hygiene across all its locations

As a Founder Circle member of the Sustainable Apparel Coalition, we have carried out the Higgs Index self-assessment for our brands, in-house factories and our products, and is being further extended to our suppliers as well. This will enable us to measure environmental, social and labour impact of our products throughout the value chain.

On the critical matter of Safety, we have released a 'safety policy' in line with ABG's framework to manage and ensure 'no fatal accidents' in the workplace and working on building a culture of 'Safety First' among employees

CSR has always been at the core of the Aditya Birla Group and it continues to be a vital aspect of the culture of ABFRL today. Our CSR initiatives are focused



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on Girl Child Education, Health & Sanitation and Skill Development, which we believe will help the communities become self-reliant in the long run.

Our initiatives in education cover 36 villages, touching the lives of 18515 beneficiaries, most of whom are girls. We aim to empower girls by addressing critical issues around their enrolment and retention in schools, and provide them with the necessary support to help continue their education. During the year, we also facilitated the construction of 350 toilets in these villages and in the homes of tribal girl-children

In the area of Health, our objective is to create healthy communities. Our work covers over 64 villages around our factories in Karnataka & Tamil Nadu. Your company has over 1.14 lakh beneficiaries from our Health camps & Pulse polio programs.

We actively encourage our employees to be socially responsible, through volunteering. During the year, over 1000 employees across a number of locations have volunteered to causes such as teaching children at Schools, conducting Health Camps, Blood Donation, Tree Plantation, and Swachhata Abhiyan - amounting to nearly 4500 hours of volunteer time. It is our mission to inspire and encourage each and every one in the organization, so that we do our bit to give back as much as possible to society

In conclusion, I want to state that ABFRL's purpose is to make People look good and feel good. We believe with this simple thought we can double the size of this Company to US \$ 2 Bn by FY 20. I hope I have been able to give you a good insight into your company and our strategic thinking. Once again, it has been my privilege to address all of you.



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I take great pleasure in acknowledging with gratitude the support extended by our partners, shareholders, banks and most importantly, all our employees including the 8,500 front-end staff and 10,000 factory workers.

Through the Madura Fashion and Lifestyle lens, let me say Thank You and through the Pantaloons lens, say Namaste!