



PANTALOONS FASHION & RETAIL LIMITED

CHAIRMAN'S SPEECH

7th ANNUAL GENERAL MEETING

AUGUST 27, 2014

Good Afternoon Ladies & Gentlemen,

On behalf of the Board of Directors, I am delighted to welcome you all to this Seventh Annual General Meeting of your Company. Thank you for joining us.

I trust the Notice convening this Meeting and the Annual Report for the year 2013-14 has reached you on time and so, with your permission, I shall take it as read.

In my speech today, I would like to take you through a brief update on the economy and market situation, your Company's performance during the financial year gone by and the outlook for the current year.

Market Situation

As you aware, the GDP growth has slowed down and for the second consecutive year the growth rate remained below 5%. The economy has been sluggish largely on account of high inflation and interest rates which affected consumption and investment. Under these circumstances, the Apparel and Fashion Industry has experienced subdued consumer sentiments and consequently imparted discretionary spending.

Going forward, I expect a modest recovery in the Indian economy, driven by a stable government, revival of global economy, moderation of inflation and implementation of recently approved investment projects. I am sure consumer confidence will be back sooner than later as the new India story unfolds.

Despite the subdued growth, the long term growth potential of Indian Apparel industry remains intact. By 2020, the organized Apparel sector is projected to grow from USD 20 Billion to USD 27 Billion presently. This will be mainly driven by a young and growing middle class with rising disposable income and clear desire for "looking good" and fashionable.

Management control of Pantaloon's Fashion and Lifestyle.

Ladies and Gentlemen, it is my pleasure to inform you that post the Scheme of Demerger becoming effective on 8th April, 2013; your Company acquired the management control of the "Pantaloon's Fashion business".

Your Company is now an integral part of the Aditya Birla Group, a USD 40 billion Indian multinational. The Group's presence in the retailing business is one of the largest in India addressing almost 70% of the organized retail market. The Group is among the leaders in Branded Apparel retailing through 'Madura Fashion & Lifestyle', Fashion retailing through 'Pantaloon's' and Food & Grocery retailing through 'More' Supermarkets and Hypermarkets respectively.

Specifically looking at Pantaloons, your company is among the top three large format fashion retailers in India. With a singular focus on 'Fresh Fashion', 'Indian-ness' and 'strong Store Brands', it has emerged as a leading name in the fashion industry over the past two decades. Our target audience is the aspiring Indian who wants to move up the ladder and enter the world of Brands & Fashion, while still looking for accessible price points. Your company is uniquely positioned in the market offering exclusive brands, fashionable and contemporary merchandise at affordable prices in a modern retail ambience. It is a recipe for success.

Fiscal 2013-14

Fiscal 2013-14, being a transition year for your company, brought its own challenges. Your Company attained revenue of Rs. 1,661 Crore. Growth was muted mainly on account of merchandise availability due to transition issues, as well as weak consumer sentiments. Gross margins improved, driven by better product and brand mix. EBIDTA at Rs. 39 Crore was affected by low sales growth, as well as increase in people costs to rebuild the organization. Your Company incurred a loss of Rs. 188 Crore. This was mainly on account of two aspects:-

- 1) Higher Interest cost on account of our present outstanding debt and capital structure;
- 2) Higher depreciation due to alignment of the life of the stores and accelerated depreciation on account of refurbishment/closure of stores.

The picture of your company's achievements during the year is beyond what the numbers paint. I am pleased to inform you that your Company has navigated through the transition period effectively and is laying down a strong foundation for the future. The highlights of the key initiatives taken during the year are:

- Strengthened the Organization by adding key executives across critical functions viz., design, merchandise, finance, human resource etc;
- Launched 14 new stores to expand customer reach to 81 Pantaloons stores. Our target is to reach 100 stores mark in fiscal 2014-15;
- Effected 22 **store refurbishments and** 100% store re-layouts of 1.5 million square feet of retail space to drive walk-ins and like-to-like stores sales growth;
- Successfully **launched 3 new brands** viz., Byford, Alto Moda and Chirpie Pie and started retailing Madura brands in Pantaloons stores. The response has been impressive;
- Created **new merchandise** for Spring Summer season 2014 (SS14) and Autumn Winter season 2014 (AW14), to be sold in fiscal 2014-15;
- Created an **entirely new vendor network** for SS14 and AW 14 to ensure timely delivery while ensuring high quality standards and cost targets;
- Initiated **transition to a new IT system.**

These initiatives are aimed at making Pantaloons a future ready organization. Hence

while the initial investments have strained the bottom-line, the real benefit will reflect in the years to come.

Let me now very briefly speak about the action plan for this fiscal.

Your Company has laid out following action plan for the current fiscal to drive its vision of strengthening its market position as one of the biggest fashion retailers in India:

- Accelerate retail expansion to drive top line growth;
- Improve productivity of existing stores to boost like to like sales growth;
- Refurbish 20 more stores to ensure that all Pantaloons stores offer consistent retail experience across India;
- Optimize product portfolio to significantly expand gross margins;
- Offer on-trend merchandise to appeal to a wider range of customers;
- Create 3-4 new brands to further strengthen our portfolio of exclusive brands;
- Strengthening of the balance sheet will also be a key focus area.

In a very short time, we have executed our portfolio strategy and it has enabled us to expand our Gross Margin by more than 3% in Q1.

I am very pleased to share that in the first quarter of FY15, the Revenue of your Company grew by 12% to Rs. 386 Crore as compared to last year, driven by 8% like-to-like retail sales growth.

We are hopeful of capitalizing on the good start and delivering significantly better financial performance during this fiscal, as we continue to invest in building for the future.

On a different yet connected plane, I am pleased to reiterate that as a Group, we are committed to the principles of inclusive growth and to synergizing growth with responsibility.

Your Company is proud to be a part of the Aditya Birla Group legacy and endeavors to bring in inclusive growth that will be channelized through the Aditya Birla Centre for Community Initiatives and Rural Development, of which, Mrs. Rajashree Birla, is the Chairperson. We have also initiated committed actions in the direction of setting sustainability targets for ourselves and our early projects focusing on energy conservation and minimizing waste are on track to deliver on their planned milestones.

Pantaloons is in its development stage and we believe that our continued efforts coupled with our strong values system, people and processes, will soon make it a “Model organization”.

On behalf of your Company's Board, I would like to thank all our stakeholders and business associates and the Central and State Governments for their continued support and guidance.

We are beholden to all of our employees for their tenacity and commitment to the growth of your Company.

Last, but not the least, our deepest gratitude to each one of you, our valued shareholders.

I look forward to your ongoing support.

Pranab Barua