



PANTALOONS FASHION & RETAIL LIMITED

[Formerly known as PETER ENGLAND FASHIONS & RETAIL LIMITED]

The Chairman's Address to the Shareholders of Pantaloons Fashion & Retail Limited at the 6th Annual General Meeting to be held on 23rd August, 2013 at Mumbai.

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Dear Shareholders,

It is a pleasure to welcome you to the 6th Annual General Meeting of your Company and the 1st one since listing.

Before going ahead with the agenda for the day, I would like to very briefly speak about the Company developments over the last year and the Indian Economic scenario.

India is amongst the largest and the fastest growing retail markets in the world. Retailing is one of the pillars of the Indian economy accounting for nearly one fourth of the country's GDP. Currently pegged at around USD 500 billion, Indian Retail Industry has a huge potential with the burgeoning spending power and rising per capita income in the country.

At present, the organised retailing is in its nascent stage and contributes to nearly 8% of the Indian Retail market. However, it is expected to grow much faster and will garner around 20% share by 2020 as indicated in various industry research. It is also pertinent to make you all of you aware of the fact that Apparel Retailing is the second largest contributor to the Indian Retail Market after food and grocery. Interestingly, in the organised sector, apparel retailing is the largest and the most penetrated segment.

It is against this background, your Company acquired the Pantaloons Fashion business, during the year under review i.e. 2012-13, post its demerger from Future Retail Ltd. (formerly Pantaloon Retail (India) Limited) under a court approved Scheme of Arrangement. On the scheme of arrangement becoming effective on 8th April 2013, all the net assets and operations pertaining to the 'Pantaloons Fashion' business of Future Retail Ltd. (formerly Pantaloon Retail (India) Limited), have been transferred, on a going concern basis, along with debt, to the Company.



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The appointed date of transfer was 1st July, 2012 and hence, from this date to 8th April, 2013 (i.e. the date on which the scheme became effective,) your Company was managed, in trust, by the Future Group. Accordingly, Company's financials for 2012-13 include nine months financials of Pantaloons business transferred to the Company with effect from the said appointed date, i.e., 1st July, 2012. Hence, to that extent, performance is not comparable with the previous year.

Further, pursuant to the aforesaid Scheme of Arrangement, debt of Rs. 1600 Crores at an interest rate of ~13% was transferred to the Company. With a view to optimize the Finance Cost, it was decided to reshuffle the debt portfolio. Accordingly post effectiveness of the Scheme, Promoters infused Rs. 800 Crore of Equity, your Company raised term loans of Rs. 600 Crore, Non-Convertible Debentures of Rs. 300 Crore and re-paid Rs. 800 Crores out of the transferred debt. The average interest rate of long term debt portfolio was brought down to ~10.2%.

Pantaloons is now a part of the Aditya Birla Group, a USD 40 billion Indian multinational. The Group has demonstrated capabilities of creating large scale profitable businesses from scratch as well as building leadership position in the businesses acquired.

The Group has a vast experience in promoting and growing consumer facing businesses and brands in the apparel as well as non-apparel sectors and in the process has gained significant consumer insights. Brands like Louis Philippe, Van Heusen, Allen Solly, Peter England, Idea Cellular, Birla Sun Life Insurance and Birla Sun Life Asset Management are among the leaders in respective categories. Among the most trusted business houses in India, Aditya Birla Group is well known for its corporate governance and financial management.

To briefly apprise you about your Company, Pantaloons is among the top 2 large format fashion retailers in India. Focusing on "Fresh Fashion" and catering to varied apparel and



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non-apparel needs of Indian consumers in a modern environment, 'Pantaloons' has emerged as a strong brand in the fashion industry over the past two decades. Pantaloons operates across varied categories viz., casual wear, ethnic wear, formal wear, party wear and sportswear for Men, Women and Kids. Non-apparel products primarily comprise beauty products, perfumes, cosmetics, leather products, fashion jewellery, footwear, watches, books, music, toys etc.

Across the segments, Pantaloons sells approximately 400 brands which comprises a mix of private labels, licensed brands and other External brands, wherein ~~more particularly~~ the Private labels and licensed brands contribute to approximately 50% of the Company's sales.

Your Company has one of the largest network of Large Format Stores with 70 Stores as on 31st March 2013. Together with 26 Factory Outlets, Pantaloons Stores cover about 1.7 million Square Feet. Pantaloons enjoys a pan India presence across all Regions with a strong presence in over 34 Towns.

Pantaloons' loyalty programmes viz., Greencard and Payback are one of its main strengths. Led by the strong customer connect of brand 'Pantaloons' and its loyalty programmes, the Company has around 3.8 Million loyalty customer base at present, one of the largest in the country. Further, Pantaloons has a diversified customer base, with Menswear and Womenswear contributing to 35% and 38% share of the total revenue, respectively.

The Company reported revenue at Rs. 1285 Crores during fiscal 2012-13 (9 Months). The Company opened 6 new Pantaloons stores and 3 Pantaloons Factory Outlets during the nine months ending 31st March 2013.

The Company posted earnings before interest, depreciation and tax (EBITDA) at Rs 129 Crore. Excluding interest income of Rs. 62 Crore on current investments, Pantaloons reported EBITDA margin at 5.2%. Gross margins were sustained but changes in the

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accounting policy, with respect to Lease rental straight lining, also lowered profitability. The depreciation was Rs. 54 Crore, including the Impact of change of some of the depreciation policies. Hence there was loss of Rs.69 Crore

We have already announced our results for the first quarter on July 30, 2013.

The Company has reported Revenue of Rs. 344 Crore and EBITDA loss of Rs. 5 Crore in the Quarter 1 of FY 2014. Though the Gross Margin was in line with previous trend, organizational building cost has impacted EBITDA. The Interest Cost of Rs. 36 Crore includes Rs. 5.3 Crore towards pre-payment penalty. After providing for depreciation of Rs. 16.8 Crore, there was net loss of Rs. 57.8 Crore.

Let me now briefly talk about our growth strategy.

Going forward, the Company's growth strategy includes:

- Firstly, increasing the reach and penetration across the country by opening new stores, refurbishment of existing stores, strengthening the brand "Pantaloon's" and enhancing customers' shopping experience.
- Secondly, augmenting its merchandise by adding new product categories, new brands and thereby improving Company's brand portfolio. The Non-performing brands will not find a place in our Stores.
- Thirdly, enhancing the base of loyal customers through our loyalty programme. We believe that as the company will grow in size and scale, economies of scale would accrue leading to better margins and returns.



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- ➡ And finally, focusing on our operating efficiencies and leveraging our human capital, which is critical in any consumer facing and service driven industry.

I would also like to very briefly speak about your Company's role as a caring corporate citizen.

At the Aditya Birla Group, caring for the underserved and underprivileged is a legacy and an unwritten diktat. Your Company is proud to be a part of this legacy. Your Company 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.

Now, I would like to take this opportunity to very warmly thank all of our employees for their contribution to your Company's performance. We applaud them for their superior levels of competence, dedication and commitment to your Company. I am grateful to our Bankers who have helped us by supporting our growth momentum.

I would also like to express our deep sense of gratitude to all of you, our shareholders. I look forward to your continuing commitment and support in your Company's onward march. Finally, I wish you all a very happy festive season.