



“Aditya Birla Fashion and Retail Limited  
Q1 FY24 Earnings Conference Call”  
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**Moderator:**

Ladies and gentlemen, good evening, and welcome to the First Quarter Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the company's management on the Q1 FY24 performance followed by a question-and-answer session.

We have with us today Mr. Ashish Dikshit, Managing Director; Mr. Jagdish Bajaj, CFO; Mr. Vishak Kumar, Director and CEO, Lifestyle Business; Ms. Sangeeta Pendurkar, Director and CEO, Pantaloons.

I want to thank the management team on behalf of all the participants for taking valuable time to be with us. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed careful in conjunction with the risks that the company faces. Please restrict your questions to the quarterly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

With this, I hand the conference over to Mr. Jagdish Bajaj. Thank you, and over to you, sir.

**Jagdish Bajaj:**

Thanks. Good evening, and welcome to the Q1 earnings call of our company. Let me start with the highlights of the quarter by setting the context for industry during this period. The consumption slowdown that the discretionary category started to witness post festive last year continued during this quarter as well. In such a challenging environment, the business posted growth over last year driven by performance across our established businesses added by new business additions that we made during the last year.

It is important to note that amidst this continued challenges in the demand environment, our performance has been driven by rapid and agile responses to the changing market conditions, along with effective execution of our growth strategy through brand building, network expansion, category extensions and portfolio enhancement.

Now I will talk about financial performance of our company for this quarter. The company delivered revenue of INR 3,196 crores, which reflects a growth of 11% over same quarter last year. Our stand-alone revenue grew 8% over last year, reaching to INR 2,987 crores. The company achieved a consolidated EBITDA of INR 353 crores with 11% margin, our stand-alone EBITDA margin stood at 14.2%.

EBITDA for this quarter was impacted due to subdued sales, along with high fixed cost and accelerated marketing investments. Consolidated margin was further lower by aggressive growth investment in subsidiaries, mainly TMRW, which was not in the base last year.

The company's consolidated PAT was negative INR162 crores. This also includes a negative impact of IndAS 116 on the net profit. Our store network is now over 4,000 stores, spanning across the total retail space of 10.9 million square feet. We have also continued to ramp up our digital capabilities and enhance our omnichannel play, as visible in our e-com performance where our sales grew 12% Y-o-Y. Our digital portfolio got augmented with the addition of TMRW brand that continued to build value through strategic and operational improvements.

I will now take you through the performance of our individual businesses, starting with Lifestyle brands. Quarterly revenue for the segment was INR1,594 crores, which is 5% higher than last year. EBITDA stood at INR 292 crores, reflecting a growth of 10% Y-o-Y. EBITDA margin stood at 18.3%, an expansion of 80 basis points over last year.

For the quarter, retail channel remained resilient with 2% growth over last year while wholesale segment saw a robust growth of 20% Y-o-Y, led by growth in trade and departmental store business. We also have reached a significant scale in our women's wear business, in Van Heusen and Allen Solly brands, where the size of the business is upward of INR 400 crores on a full year basis.

The 4 lifestyle brands continue to enhance their leadership position in the market through focused and sustained product innovations, new category extensions, which include ambitious bets on non-apparel categories and investments in marketing and brand building.

Let me talk now about youth Western fashion brands which consists of American Eagle and Forever 21. American Eagle witnessed yet another quarter of strong performance with 49% revenue growth over last year, led by strong distribution expansion and attractive product proposition for our customers.

The brand added 3 new stores to the network and is now available at 40 exclusive brand outlets and more than 65 departmental store doors. Forever 21 continues to work on improving its operating KPIs and scaling its network through asset-light expansion.

Now about Reebok. Fully integrated with ABFRL now, Reebok is off to an encouraging start this year with quarterly revenue showing a growth of 43% over last year. This has been achieved at the back of 11% L2L added by an aggressive footprint expansion of 10 new stores this quarter, along with strengthening its departmental store collaboration and marketplace partnership. We are confident that Reebok will be another large and profitable addition to the repertoire of 4 brands within the Lifestyle Brands portfolio.

Moving on to the Pantaloons business. I would like to recap how post-festive last year as the discretionary consumption slowdown, we observed the first sign of slowdown in the value part of the market, mainly in the lower tier towns. The impact still continues this quarter as well, impacting the performance of Pantaloons.

Pantaloons recorded quarterly sales of INR 1,030 crores with an EBITDA margin of 13.4%. This quarter's margin was affected by lower sales in the difficult market conditions which created an adverse operating leverage on a large network of stores, we expect the margins to improve as the market recovers.

The network expansion journey for Pantaloons continued with 3 new stores added during this quarter, ending with a total of 434 stores. Pantaloons continued to expand its private label portfolio with new launches filling distinct spaces. Further, our value brand Style Up continue to expand its network with 5 new stores opened during this quarter.

Let me now speak about Innerwear business performance. The business in Q1 FY '24 posted a retail L2L of 3%, despite slowdown in outerwear segment. During the quarter, brand strengthened its reach to exit with 32,700 trade outlets. The collective and other super premium brands witnessed a sharp growth of 16%, with 16% L2L growth over last year's same quarter.

Ethnic businesses this quarter achieved a revenue of INR134 crores and has grown 33% year-on-year. Businesses continue to invest in brand-building initiatives and new store openings with net additions of 12 stores during the quarter, which led to margin getting impacted for this quarter.

So this actually grew 18% Y-o-Y led by strong performance in jewelry and accessories segment. The new Mumbai store launched in April is witnessing good consumer traction. Staying committed to its ambitious expansion strategy, our men's premium ethnic wear brand Tasva, is now available in 58 stores across more than 30 cities.

Jaypore continues to expand its store network with additions of 2 stores during the quarter and now with presence in 20 stores. Shantnu and Nikhil posted growth of 20% over last year's same quarter, with bridge revenue growing to 1.6x over last year. The portfolio is now well balanced between Couture & Bridge. House of Masaba added 3 stores to the network and posted 32% revenue growth over last year.

By capitalizing on the strength of our robust performance brands and their diverse category extensions, our ethnic wear portfolio is poised for accelerated expansion.

Let me update you on the TCNS transaction. As you already know, ABFRL board has approved the acquisition of 51% stake in TCNS Clothing Company Limited through a combination of share purchase agreement with founder promoter and a conditional public offer on offer.

The purposed acquisition is on track and under progress. The company has received requisite approval from the regulatory authorities and is in the process of commencing the open offer.

To conclude, despite challenging in near-term -- challenges in near-term, we expect the market to rebound in second half of the year following the festive period. As the industry recovers, we remain committed towards expansion of our retail network strengthening our brand, leveraging our strong consumer base and delivering our value proposition. Thank you, and we are open to questions now.

**Moderator:** The first question is from the line of Nihal Mahesh Jham from Nuvama.

**Nihal Jham:** Sir, the first question was on Madura. Despite the negative LTL, the margins have improved. So is that maybe a moderation in the sales and marketing or anything to do with the channel mix, just to clarify?

**Vishak Kumar:** Largely driven by cost reduction initiatives. We knew that it's going to be a less number of wedding dates quarter, etcetera. So there was a lot of preparation on cost reduction. So that is primarily why the margins have been strong.

- Nihal Jham:** And that is mainly the sales and marketing or overall a mix of everything.
- Vishak Kumar:** No. Actually, on advertising, we spent pretty much in line with our normal quarter trends. So it was in other expenses that we were able to tighten.
- Nihal Jham:** Understood. My second question was on the TCNS acquisition, not related to the quarter, was that from a, obviously, a decent amount of time has passed and I think TCNS also recorded -- reported a bit of a muted performance in Q4, while the quarter is not a reflection, but just wanted to understand incrementally any further comments on how we plan to turn this brand around in terms of the growth? It would be helpful if you could just comment on that.
- Ashish Dikshit:** Nihal, this is probably a bit premature for us to talk about it. Let the process complete. We, of course, have our thoughts around it, and that's why we have moved forward with this acquisition, but too early for us to comment on it.
- Nihal Jham:** Sure, Ashish. Final question was if you could give the debt number and also the expected losses both on Tomorrow and the Reebok business for this year? And I'll come back in the queue after that.
- Ashish Dikshit:** So Reebok, we don't expect any losses. Reebok is a profitable business on a full year basis on...
- Jagdish Bajaj:** Debt on 30 June net of cash is INR2,100 crores.
- Nihal Jham:** So, this net debt was INR 2,100 crores. Sure.
- Ashish Dikshit:** Yes. As on 30 June.
- Nihal Jham:** Okay. And the losses from the Tomorrow business for this full year?
- Ashish Dikshit:** For full year basis, this probably will be in the range of INR80 crores to INR100 crores.
- Moderator:** The next question is from the line of Varun Singh from ICICI Securities.
- Varun Singh:** Sir, my first question is on Pantaloons. Given 17% retail expansion is very healthy, but still 1% revenue growth and -8% SSG, I understand that, I mean, the discretionary slowdown impacting the business, early EOSS etcetera. But still, given we have cut down on our store addition guidance also in previous quarters, and I mean, sir, you wish to share anything with regards to - do you think there is a need to change our overall approach towards the business with regards to private label, et cetera, which is now currently 63%, 65-odd percentage in the store. Anything you wish to share over there, sir, given several quarters of underperformance in Pantaloons compared to peers?
- Ashish Dikshit:** I'll just get Sangeeta to respond to that. Yes.
- Sangeeta Pendurkar:** Yes. So if you see our performance and if I just take you back a few years in terms of how we've looked at the Pantaloon strategy. While this quarter and the last 2 quarters have been a bit of an aberration with the economic slowdown.

You heard Jagdish talk about it. And I think the industry is faced with the same issues. Overall, when we looked at our private label strategy and the overall strategy a few years back, we had seen a significant improvement in terms of our performance, our private label strategy in terms of strengthening our private label, improving the price value equation, launching new categories putting in new labels to occupy the white spaces that exist in our portfolio.

In '19-'20, if you recall, we had done a lot of those actions, and they yielded some really good results. In fact, if you see our margin in FY '20, keeping the COVID years aside, even in FY '23, the first 9 months, our margins were very good margins. I think it's post Diwali in November, December that we've started seeing a slowdown.

I think we feel very confident of our strategy and our proposition. Private label portfolio continues to improve significantly. I think we hear that feedback from consumers all the time. Equally, in terms of improving our store experience, the fact that we put in a new retail identity, new branding we see those stores performing relatively better compared to the rest of the stores in the network.

So I think in terms of our strategy, be it private label or overall Pantaloon's strategy, we stay pretty confident in sanguine. I think these last 2 quarters are more mired with the fact that there were 2 aspects that are really the cause for this. So one is the general macroeconomic slowdown. And two, you also saw some yarn price increases, which impacted again the entire industry during '21 and '22.

With the yarn prices settling down, we've had a chance to correct the prices of our private label, and that gives us even more confidence that our price value equation, if anything, will be better in the quarters to come. So we should look at these 2 quarters differently. If you look at our performance in the first 9 months of last year, our margins have been very strong. These 2 quarters, because of the reasons I explained, our growth and therefore, our margins have got impact.

**Varun Singh:**

Understood. I mean more than the worry on margin revenue -- higher revenue growth should be adding towards kind of more excitement. But having said that, I understand price value equation that you talked about, and I'm more than hopeful that, that should work.

And my second question is, again, in Pantaloon's, like the total number of stores that we have around 434, what percentage of stores will be more than 3 to 4 years old?

**Sangeeta Pendurkar:**

What percentage -- yes?

**Ashish Dikshit:**

So if I look at it, we'll give you the exact number, but if you look at it last year, we added net of about 55 stores. And in the prior 2 years, because there was COVID period, we would have added respectively maybe 30 stores a year kind of number.

**Sangeeta Pendurkar:**

Right.

**Management:**

So in last our network was -- okay, so in last 3 years, we have added 120 stores.

- Sangeeta Pendurkar:** Yes.
- Varun Singh:** Okay. Got it. And sir, just a last question that in ethnic wear business even though revenue growth looks very much healthy, but losses -- EBITDA losses have mounted significantly. So if you wish to talk about how should we expect this number to pan out on a steady-state basis? If you then give us some understanding on that front. That's it from my side.
- Ashish Dikshit:** Okay. So in ethnic wear businesses, this quarter was particularly compounded by the fact that the wedding dates were fewer. And as you know, a large part of ethnic wear business, not the regular ethnic wear, but most of the design ethnic wear, including Tasva which is a recently launched concept, is largely related to wedding dates and a wedding consumption.
- So that period has seen very few wedding dates last quarter, and that has affected the performance of ethnic wear. This quarter, it was also compounded by a big launch that we did where Sabyasachi's largest store in India and Mumbai was launched, and there was, therefore, one-time large marketing investment to promote the launch of the brand in the store.
- So these 2 are of slightly exceptional nature. I think going forward, Tasva is the only one which business, which will require loss funding for first few years. Rest of our businesses are profitable in ethnic wear portfolio on a full year basis as they play out.
- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.
- Gaurav Jogani:** So my first question also is again with regards to the Pantaloons business. So while we agree that the last few quarters have been challenging in terms of the overall demand. But at the same time, we have...
- Ashish Dikshit:** Can you speak up a little -- your voice is breaking. Can you speak up...
- Gaurav Jogani:** Hello? Sorry, is this better?
- Ashish Dikshit:** Yes, much better now.
- Gaurav Jogani:** So my question is with regards to Pantaloons again. I mean I do understand the fact that Pantaloons has been impacted because of the slowdown that we are seeing over the past 3 quarters. The only question here is with regards to the margin like what we have done for Madura, we have been able to save costs there. So are there any initiatives or strategies that we are implementing to at least control the cost in the interim until the demand kind of pick up?
- Ashish Dikshit:** So if you see the performance over the quarters, I mean Q4 was similarly affected by similar phenomena -- and our margin had fallen quite dramatically. We have taken sufficient measures and therefore, the improvement in margin from Q1 over Q4 reflects large part is the cost saving that the cost-related efforts have done. But I would also call out and say Pantaloons is a larger fixed cost business, rental being a pure retailer, rental being a very large cost in running store operations. And therefore, there is a limitation to what extent can those costs be brought down. But efforts are on. And as you can see in the shift of expenses of profitability between these 2 quarters itself.

**Gaurav Jogani:**

Yes. Sure, sir. Sir, also in the event when we are seeing this overall slowdown in the overall fabric consumption and we are kind of continuously adding stores as well at the same time. So is there any thought given the fact that our debt is already around 2.1 million right now, net debt that is. So maybe we can go down slower on store expansion rate in the interim and maybe once the situation gets better and the business starts contributing profitably again, maybe then we can expand the store again? So any thoughts on that front?

**Ashish Dikshit:**

We have 2 kinds of expansion models. One is our own capital and second is franchisee-led. As you know, many of our established brands are able to get a lot of franchisees to invest in that, and that's been the primary driver of growth. So that part of the business is not really constrained by that.

In fact, that has been practically free from capital-related issues as far as growth is concerned. There is a part of the business, the new brands that we are launching Pantaloons, about 70%, 75% to 80% of stores, which are largely capital-led. And there, we'll moderate as we go along. We had indicated our Pantaloons expansion, which was 60 stores last year.

We've talked about 35, 40 stores. To that extent, some of it is factored in. But remember, store expansions are long-term projects, typically a store lease itself is 9 to 10 years in many cases, 12 to 15 years. So we don't want to also alter that dramatically for 1 quarter here and there.

So our largest strategy is built around the thesis of consumption in this country, our ability to build strong brand, our understanding of apparel supply chain and ecosystem and ability to build large capital efficient models in the business itself. We're, of course, going through a phase of rapid investment through portfolio expansion and acquisition of new brands, which we've done in the last 3, 4 years. So we acknowledge the stretch on the balance sheet. But I think as far as operating businesses are concerned, we see the large runway. We'll continue to grow them through this period. Wherever there's a slight moderation required like this year, we are doing that already.

**Gaurav Jogani:**

Sure, sir. And just one last bit on the ethnic piece from my end. Sir, how would you rate your performance so far in the Tasva piece? Do you feel the business model is now perfected and we can now expand it very rapidly, we have been doing 7, 8 stores earlier. Still, the template isn't still fine-tuned and maybe we can go a bit slower on the expansion, first get the template right and maybe we then grow aggressively thereon?

**Ashish Dikshit:**

So as we have said in last -- from the time we have launched -- last year, we added close to 50-odd stores. We expect to add another 40 stores this year, roughly. And I think -- as far as the performance of the business is concerned, we'll have to see one good festive period. There's a lot of learning as we are expanding and experiencing there is a great amount of consumer feedback.

We are learning from that. We're constantly improving that. But I think by the end of this year, where we would have seen a 1 full wedding period, which is likely to start in second half of this year and have had a reasonably large sort of geography through which we have experienced it. We will decide how to moderate that pace or increase that pace. But at this point of time, our



plan to open 40 stores is what we have said in the beginning of the year and we are sticking to that.

**Moderator:**

The next question is from the line of Sameer Gupta from India Infoline.

**Sameer Gupta:**

I also have a question on Pantaloons, but this is slightly a elongation more or less like a strategic question. Now since acquisition, we have definitely scaled up this brand, improved return metrics. But so far, we've not really seen a good year of LFL growth performance. If I look at sales per square feet metric right now, it is standing below 8,000 and for a value fashion brand with lower gross margin,

I mean, this probably is among the lowest when you compare it with other value fashion retailers. So any thoughts here? I mean, in the current context, there has been only increased competition that the likes of Reliance and Zudio, even Shopper Stop is now entering, so what is your take? How do you look at improving the sales throughput metric here if that is a KPI that you look at all?

**Ashish Dikshit:**

We look at many KPIs, and I think you've mentioned some of them. But I think we'll be missing the bigger picture if you don't look at the ones that matter. The ones that matter are return on capital and EBITDA margin. When we took over this business, as I said, our long period of time, not short period, long period of time, we consistently improved margins, got to 17%, 18% EBITDA margin before COVID. In 2019, 9-month margin was 17.5%. Even last year, 9-month margin was 17.5%.

As Sangeeta explained, last 2 quarters have been sort of slightly affected. And we have achieved all this on a very low capital-employed base. Our overall capital employed in a INR 4,000-plus crores business is between INR 400 crores to INR 500 crores. So it remains a very strong business in terms of returning capital in good times, of course, unfortunately, both during the COVID period and subsequently, in the last 2 quarters, the market hasn't been very supportive at this end of the market, and that's reflected in our last 2 quarter performance.

But I would call out our H1 performance last year was about 18% EBITDA margin. We run this INR4,500 crores business at INR 500 crores of total capital employed. So I think it's a fairly good attractive proposition. As we come out, you will see. Currently, we are experiencing negative operating leverage in times like this. The same situation reverses when markets pick up, and we expect the second half of the year to reflect that.

**Sameer Gupta:**

Just a follow-up, sir, here. So when I look at improvement in return profile over the years, has the low LFL growth been an output of that strategy where we have let go of formats or let go of some loss-making dead stock -- higher dead stock kind of problems -- and it's a reflection of that? Or LFL growth -- I mean, among the 3 pieces, LFL growth is 1 piece that we haven't delivered and rest 2 we have delivered, so it's okay?

**Ashish Dikshit:**

So I think I would again say focus on what truly matters. In a country like India, where there is a constantly shifting retail landscape. We're building new store, markets are shifting from one place to another. Sometimes old stores are very profitable and yet, you need to ship trajectory. In a business format like Pantaloons, where there is a large number of sort of 15, 20 years of

store addition that has happened, there is always a pressure when some markets which are evolving into new markets.

Therefore, LFL sometimes truly doesn't capture the overall picture. Also the sales productivity number that you called out is primarily as a function of geography that you operate in. So we don't look at sales productivity as a common average across industry. We look at sales productivity in the relative market that we operate and what are the competitive sales productivity in those markets.

And all this, therefore, becomes very nuanced sort of numbers. And therefore, the primary thing, which is EBITDA margin, capital employed, return on capital employed are primary drivers as far as we are concerned. Intermediate metrics sometimes may tend to sort of give pictures, which is not clear.

**Sameer Gupta:** Got it, sir. Very helpful. I'll move on to the next question. So I'm looking at these other businesses in Madura. And basically, this is collective American Eagle, Forever 21 and the innerwear athleisure business. Apart from Reebok, there is not recently acquired portfolio here and Collective this quarter has also done well. So I was just wondering why this portfolio should be a loss-making portfolio even at post Ind AS EBITDA level?

**Ashish Dikshit:** So innerwear and F21 are 2 businesses, which -- for different reasons, but just to mathematically complete that story, are the 2 businesses which are not profitable for the quarter, and that's really why that number is showing there.

**Sameer Gupta:** But sir, we have been running these businesses like for 6, 7 years now. I mean isn't these -- haven't the reached a scale where we're still investing, but they should at least give us some return on money or no, we have not reached the stage at that -- at this point?

**Ashish Dikshit:** No, I think we are still further away from as far as innerwear is concerned in terms of profitability. But I would also say this is 1 quarter. But even on a full year basis, we haven't come to that stage. Forever 21, again, it's a business where we haven't really got to a point of -- we are not investing in terms of growing that business. And a large part of that business is also affected by the value end of the market. But these 2 are the businesses which are actually pulling down the margins in that segment.

**Sameer Gupta:** And the rest of the portfolio is not enough to lift the overall margins of the second because collective -- I mean...

**Ashish Dikshit:** Reebok has just started. So Reebok is just sort of breakeven stage at this point of time. We expect it to become profitable going forward on a full year basis most definitely. So collective is the one which is -- which has to carry the weight of this, which is not sufficient for this quarter.

**Moderator:** The next question is from the line of Ashish Kanodia from Citi.

**Ashish Kanodia:** Sir, the first question is, when you talk about the consumption slowdown and given that your presence across price points and across brands, is there a difference in demand momentum at, say, a higher price point versus, say, a lower price point? But I mean, it's partly reflective in

Pantaloons' like-for-like number. But even within Pantaloons or within your Madura brands, do you see a difference in demand momentum where the premium end continues to do well and maybe the lower price points are struggling a bit more?

**Ashish Dikshit:**

Ashish, yes, the difference exists, but if I were to go back 2 quarters back, we were quite clear that the premium end in the market, and if we look at a longer trajectory over the last 12, 18 months, the premium market was almost resilient to the point of not being affected at all by the economic situation around.

I would say that, to some extent, has somewhat changed. There is a challenge as far as value segment is concerned, it continues and has actually deepened in last couple of quarters. The premium end also is not fully insulated from it. But a large part of that reason is also linked to the wedding dates during this period and a lot of premium clothing at least for us, both in ethnic wear business and in lifestyle brands is linked to wedding dates, and that's why to that extent, you find muted growth even in Lifestyle segment, which otherwise would have been much higher.

And to that extent, I think there is a difference across this. The really high end of the business, obviously, is less affected. The businesses like Collective. But then I would say even the designer businesses, which are more wedding-related, have seen the pressure as far as this quarter is concerned. So wedding primarily affecting the premium end of the market, while overall economic slowdown has affected the wider market, which is the mid-market and below.

**Ashish Kanodia:**

Sure. And secondly, on the lifestyle brand, anything which has changed in the wholesale part of the business because that seems to have certainly picked up. So any change in that part of the business?

**Vishak Kumar:**

I think the business has continued to grow. So 3 factors, Ashish, which come in. One is that last year base, the recovery was a little less so in our business with department stores. This is on that base, so that growth is strong. To some extent Centro, is coming back into the business. That is, again, helping us in our overall numbers, plus some of the space additions that we have done in various department stores have also contributed to that growth. So that's broadly the story there.

**Ashish Kanodia:**

Sure. And just last bit in terms of -- you have talked about TMRW's plan where you will look at some external funding. So I mean there are news flow that TMRW may be looking to acquire another D2C brand. So just purely on the fund raise part, right, I mean, are you looking at any external fund raise happening maybe this year in the TMRW entity?

**Ashish Dikshit:**

So I think difficult to predict with great sense of timing. We have committed a certain amount in investment to Tomorrow. About half of that is what Tomorrow has consumed so far in the brands that they have acquired. They continue to pursue opportunity in that sense. And we will look at maybe towards the end of the year or somewhere around that for a fund raise, but it's difficult to predict with any degree of certainty about the timing for that. But it's definitely something on our agenda as we go forward.

**Moderator:**

The next question is from the line of Devanshu Bansal from Emkay Global.

- Devanshu Bansal:** Yes. So for Innerwear our checks are suggesting that, Van Heusen has taken some price cuts as well as the retailer incentives are also relatively higher versus prior periods. So wanted to understand what's the strategy going on here since we are also making losses?
- Ashish Dikshit:** So I think price cuts and price increases are part of adjustments that will always be going on. I think last year, around this time, there's a price increase across all categories. Most major players had to take price increases that has affected demand at the premium end of the market and therefore, there is suitable price adjustment that's happening. As far as...
- Devanshu Bansal:** I said incentives are also higher, retailer level incentives have also been higher.
- Ashish Dikshit:** That keeps changing month-on-month. I don't see that's dramatically different. But as a large player in the premium market, we are the only other player other than the market leader, which is more than INR500 crores of sales at the premium end of the market. And remember, we are even more premium on an average than any other player in the segment.
- There is obviously going to be competitive pressures and to which we'll respond at various points of time. So that's more a monthly, quarterly adjustments that will keep going on. I don't think there's anything structural about it.
- Devanshu Bansal:** And on the inventory position here, sir, everything is in under control. I just wanted to check if that is driving such level of incentive?
- Ashish Dikshit:** So there has been, as you might know, if you have spent time that Innerwear business consists of both innerwear as well as the athleisure part of the business. Athleisure part of the business after years of -- almost 2, 2.5 years of rapid growth, a lot of consumption of work-from-home environment is beginning to show slowdown in last 2 or 3 quarters, and that's where there is a little bit of excess inventory.
- Innerwear is a more evergreen product, and therefore, that's not a matter of concern. So whatever that would happen is perhaps related more to work-from-home categories, which is largely Athleisure.
- Devanshu Bansal:** Got it, sir. And secondly, you mentioned about price corrections in Pantaloons as well. So just wanted to check, will SSG be flat in this format on you are expecting growth in volumes to help drive positive SSG?
- Ashish Dikshit:** I don't think these price corrections are so large that they will bring down the average price. These are opportunities to complete the range in some of the gaps that we felt there. There is no wholesale price reduction, if that's what you were referring to. There may have been marginal cases of price gaps, which is what Sangeeta was -- I don't think it would have a material impact on SSG.
- Moderator:** The next question is from Alok Shah from AMBIT Capital.

- Alok Shah:** My first question is on the Reebok. So if I heard you right, you said that it's at the breakeven scale currently and should be profitable by year-end. So just wanted to check, what are the growth plans over here? And what would the target in terms of store openings, et cetera?
- Vishak Kumar:** So yes, you're right. First things first, it's a profitable business for us -- for this year. There are multiple growth levers. At first level, there is a distribution expansion itself, both in multi-brand as well as exclusive stores. So we have a fairly large pipeline for retail expansion. So that should fuel one kind of growth.
- Second, there's a whole lot of initiatives to drive throughput in existing stores, use of better technology to improve replenishment, assortment planning, et cetera, to drive growth. The third is many new products -- introduction of new product categories, et cetera, which will get into the stores in the next few months, that again should propel a lot of growth.
- And of course, a lot of leveraging of our strengths in apparel to be able to drive further on the apparel sales in the sportswear side of business. So Alok, all in all, many levers for growth, which will unfold over the next few years, but a lot of momentum this year itself to be able to drive profitable growth.
- Alok Shah:** Got it. But what will be the current store count? And what will the target by the year-end?
- Vishak Kumar:** We have about 120 stores, 125, 120-odd stores. So -- and that's going strong. So my sense is we'll be able to add 15 to 20 stores every quarter. So that's the kind of momentum we should have in the network. So if all goes well, maybe 200 stores by year-end exit, if not maybe 170, 180 stores.
- Alok Shah:** And this would be COCO stores or...
- Ashish Dikshit:** It's a combination. We have a lot of partner stores. We also take COCO stores where required. So it's a combination because there's a lot of franchisee interest in this brand to scale up a lot of partners that we have who want to diversify the sportswear also lot of existing Reebok franchisees who want to put up more stores, it's a combination of FOFO and COCO.
- Alok Shah:** Got it. Perfect. And there's some new subsidiary that is proposed to be incorporated. Just wanted to check what would be this for? And what would be the capital allocation for this business?
- Ashish Dikshit:** So this is a new company that we have incorporated. This is for a partnership with one of the luxury brands called Christian Louboutin. We are initially putting INR5 crores of capital at this point of time.
- Alok Shah:** Okay. And this can potentially go up as you think about expanding?
- Ashish Dikshit:** No, no, this is not really so good. This is a part of our broader partnership for the Galeries Lafayette project that's coming up. So I don't expect this to be significantly -- significant in our scheme of things from a capital point of view.
- Moderator:** The next question is from the line of Vikas Jain from Equirus.

- Vikas Jain:** So number one, with respect to Tasva, sir, can you broadly outline as to like what are the investments that -- or what is the kind of capex that they require to put up 1 new store? And what are the targets for FY '24 in terms of stores addition for Tasva?
- Ashish Dikshit:** As I mentioned, we're talking about 40 stores for this year. And typically, it depends on the size of the store, but anything between INR75 lakh to INR1 crore is really the investment in a Tasva store.
- Vikas Jain:** This includes working capital as well, right?
- Ashish Dikshit:** No, no, this is capex.
- Vikas Jain:** Okay. Okay. And sir, with respect to the debt number that you quoted initially, can you like broadly -- of course, we do understand that there has been some weak conditions as well as scaling up of the new businesses. But can you like broadly look at what was the segment -- broader segments where this -- the difference between quarter-on-quarter improvement of the debt was allocated to?
- Ashish Dikshit:** So debt number, which you're saying the opening debt for the quarter?
- Vikas Jain:** Quarter. And the ending date of the -- there's not a broadly, where was that utilized broadly in our segments?
- Ashish Dikshit:** So a part of it -- the difference is we started the year with about INR1,400-odd crores, INR1,420 crores or something. And our quarter-end debt is about INR2,000 crores. A part of it has gone into capex, small part in working capital and to some extent, the losses for the quarter.
- Vikas Jain:** Correct. And sir, as a follow-up to that. Any number that we are working out with towards the end of the year FY '24 for the debt?
- Ashish Dikshit:** Jagdish had mentioned in the previous call, for the full year, we have talked about INR2,800 crores kind of number is the closing debt. This is after considering the payments towards 51% stake for TCNS.
- Vikas Jain:** Correct. Correct. And sir, if I missed it, so the TMRW investments are done or is it like yet to be completed, some part of it was left, right?
- Ashish Dikshit:** So yes, last -- till last year, as I mentioned in the previous response, we have made half of the investment. The entire investment is factored in, in the closing debt number that I was talking about.
- Moderator:** The next question is from the line of Akshat from Flute Aura.
- Akshat:** So my question is on the depreciation side, as it has increased significantly on year-on-year basis and also sequentially. So can you please guide as to how this depreciation will be going forward and why it has increased so much?

- Jagdish Bajaj:** See, depreciation is a function of new store additions and capitalization and the impact of Ind AS stores because I have to treat them as my owned store that is the reason the depreciation has gone up and it will continue to be in this range or rather increase. If you see from last few years, so because of the store additions plan and the treating them in first half of life of the stores like out of 5 years, the first half will be heavy on depreciation, and it will be more like straight line depreciation.
- Moderator:** The next question is from Varun from ICICI Securities.
- Varun Singh:** Sir, 2 questions. First is what would be a number of store closures in Pantaloons over the last 3 years, 3 to 5 years?
- Ashish Dikshit:** So yes, we'll just get back to you. You can move to the next question.
- Varun Singh:** Sure, sir. Sir, second question is, I just wanted to know that what would be the size of Innerwear segment products, if you want to share that?
- Ashish Dikshit:** No, we had shared in the previous calls, we don't give separate numbers, but we have since I have said that, it's about INR500 crores last year.
- Moderator:** The next question is from Palak Shah from ITI Alternates Fund.
- Palak Shah:** Just one. When you were indicating a INR2,800-odd crores of net debt by the end of '24, are you including the INR1,400-odd crores to the received from...
- Ashish Dikshit:** Yes. I should have clarified. Yes.
- Moderator:** The next question is from the line of Ankit Kedia from PhillipCapital.
- Ankit Kedia:** So when are we looking at breakeven in the innerwear space and in the pure Tasva ethnic space?
- Ashish Dikshit:** So Tasva is a very early stage. We think FY '27, '26-'27 is the likely period in which we'll breakeven. As far as innerwear is concerned, right now, the slowdown in the athleisure segment has extended it. We should look at either towards the end of next year or early year after that.
- Ankit Kedia:** And -- so the losses are probably in the marketing spend and in the fixed cost or also you're looking at the gross margin expansion from a breakeven perspective in the innerwear space?
- Ashish Dikshit:** So in innerwear, there will definitely be a gross margin expansion play also possible. As I mentioned in response to previous question, our innerwear gross margin shrunk in the previous year primarily due to higher raw material prices. And to that extent, those margins will come back as we go forward. And therefore, it will be a combination of margin expansion as well as leverage over fixed costs.
- Ankit Kedia:** And -- so in FY '25 and early FY '26, the size of the Innerwear business, including Athleisure should be around INR750 crores, INR800 crores when the breakeven should happen, is that a good assumption?

**Ashish Dikshit:**

Yes. Yes. That's a fair assumption.

**Ankit Kedia:**

And sir, in Tasva, when we had done the tie-up with Tarun we had guided for 300 store opening in the first 3 years. Are we sticking to the guidance? Or do you think the current environment where we are in that could stretch a bit?

**Ashish Dikshit:**

No, I'm not sure we would have said 300 stores for 3 years. We said 300 stores for 5 years. We opened 50-odd stores. So we'll be 100 at the end of full second year. But yes, as we go along, we are also refining the store format. We are learning from our experiences, improving product proposition, finding out missing categories and price points.

So we'll keep learning as we go along. Difficult for me to give a revised number. But as we go along, we'll keep letting you know how we are progressing and what's our expansion plan. This year, we are talking about 40 stores.

**Moderator:**

The next question is from Tejash Shah from Spark Capital.

**Tejash Shah:**

Sorry, I logged in a bit late, so I'm not sure if this question was asked before, but just wanted to get the sense on the current typical demand environment that we have seen across on discretionary consumption side. And based on the data or cycles that you would have seen, how soon you think we can come out of this, A? And B, looking at this situation that we are in today, do you think that you will go slow on expansion that you had guided for this year? And would like to calibrate -- recalibrated in terms of to push it a bit of next year or perhaps later?

**Ashish Dikshit:**

So there is 2 parts to the question. When do we expect the demand to recover I think definitely not before the festival period. The extent of recovery after that will be both a function of -- because this time, as you know, the festivals have also got pushed a little bit later into the year.

So they are about 20, 30 days later than the previous year same period. So to that extent, it will look even further than what it was otherwise. A lot of wedding dates have also got shifted towards the second half of the year. So that's another piece that actually is an important piece for our premium brands as well as increasingly the larger ethnic portfolio. So these 2 from our portfolio point of time -- portfolio point of view are the important drivers and triggers. And I don't expect them to significantly shift before the festive period.

On your second question on expansion. I think I had indicated earlier that this is something that we had started to see from Q4 last year. And therefore, we had started to sort of moderate and factor in some of the situations. We had talked about Pantaloons expansion, which was last year at about 60-odd stores, 63 new stores is what we had opened last year.

And we had indicated 35, 40 stores. So that reflects the kind of moderation that we are doing in parts of the businesses where we think we need it. In the parts where capital, which are not related to the capital, which are largely franchisee led, we will continue to grow, but obviously, that will also be reflected reflective of the demand as we go forward because a lot of it is franchisees putting their capital and they are also cautious, we are also cautious during that period.



Overall, however, I would say that we are in a long-term growth trajectory as entire pieces over the last few years has been making investments, getting into new categories building brands, both organically and inorganically. Many of these, especially in ethnic wear Reebok, which Vishak talked about, are in very early stages of what is possible.

And we don't want to let go that portfolio opportunity expansion that we have. We now have a fairly full sort of plate as far as that is concerned. And it needs to be set to the extent that we receive -- we get the full potential out of them. So you won't see a significant seesaw. We'll continue to expand, we'll continue to invest in our business moderation from time to time is all that we'll look at.

**Tejash Shah:** And sir, last question on Style Up. Is it still an experimental stage or you believe that the proof of concept at store level is not established and you would like to ramp it up?

**Ashish Dikshit:** Yes, I'll get Sangeeta...

**Sangeeta Pendurkar:** So Style Up, as we had mentioned before, is a new proposition in the value segment, while Pantaloons will play in the mid-market segment. Style Up is fairly and squarely for the value proposition. We, as of today, have about 15, 16 stores. We have created this proposition in a completely new manner with great merchandise at great value, a very nice retail environment delivered through a very good retail identity, small compact stores.

And we've seen initially good traction on these stores, while it's still early days. We've been in the market for about 7, 8 months now. But it gives us great confidence. And I think as we establish the proof of concept in the next few months, we'll certainly come back and take a look at how soon we can scale up this business.

**Ashish Dikshit:** We had, Tejash, I think, 5 to 7 stores of this concept when we started the year. We would -- at the current rate of opening, we'll get to about...

**Sangeeta Pendurkar:** 30, 35 stores.

**Ashish Dikshit:** 30, 35 stores by the end of the year.

**Sangeeta Pendurkar:** By the end of the year.

**Ashish Dikshit:** And it's -- we're feeling quite confident about how it is doing. Still we'll have to see over a larger network on how the overall performances.

**Tejash Shah:** Sure. And the last one, if I may. Now with the kind of diverse and deep portfolio that we have, how are we managing the human capital part because retail relatively, it's actually younger industry from Indian perspective. So are we kind of creating our own -- like promoting our own talent pool or we are actually kind of going outside our industry and attracting talent to kind of come in this space?

**Ashish Dikshit:** Tejash, as we've discussed in the past also, a wide portfolio play requires 3 things: capital, talent and ability to execute differential business models for different segments. We have looked at all



3 and therefore, a lot of our actions over the last 2, 3, 4 years, have been built around its trending balance sheet, raising capital in line with our vision on 1 side.

If you look at our talent for a long period of time, our company has been and as a part of being part of a large group like Aditya Birla Group, we get to attract and retain the best talent in the industry.

Wherever we need unique talent and specialized talent, you should see -- I mean, a part of our partnership with designers is really to harvest the experience and the talent that they bring, which is unique and very different to build ourselves. Wherever we think the talent can be built internally, we are doing it, and we are very proud of the talent that we have built over a period of time.

Most of managers or leaders over the last 10, 15 years have risen from inside. And that's something that we will continue to invest in. But wherever unique capabilities are required, we are very open and we go and attract the best talent required for that. And we continue to -- we run our businesses in a very sort of decentralized manner, which brings both unique talent and unique business models required for each of the businesses. And we'll continue to look for. So it will have to be a combination of homegrown talent as well as bringing and infusing experience wherever required.

**Moderator:**

That was the last question. Thank you very much. Ladies and gentlemen, on behalf of the management, we thank all the participants for joining us. In case of any further queries, you may please get in touch with Mr. Amit Dwivedi. Thank you, and you may now disconnect your lines.