



## “Aditya Birla Fashion & Retail Limited Q1 FY19 Conference Call”

**August 01, 2018**



**MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR  
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER  
MR. VISHAK KUMAR – CHIEF EXECUTIVE OFFICER,  
LIFESTYLE BUSINESS  
MS. SANGEETA PENDURKAR – CHIEF EXECUTIVE  
OFFICER, PANTALOONS**



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**Moderator:**

Ladies and Gentlemen, Good Day. And Welcome to the Q1 FY19 Earnings Conference Call of Aditya Birla Fashion & Retail Limited. The call will begin with a brief discussion by the Company's management on the quarter's performance, followed by a question-and-answer session.

We have with us today Mr. Ashish Dikshit – Managing Director, and Mr. Jagdish Bajaj – CFO, Mr. Vishak Kumar – CEO, Lifestyle Business, and Ms. Sangeeta Pendurkar – 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, therefore, in conjunction with the risks that the company faces.

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

**Jagdish Bajaj:**

Good evening. And welcome to the earnings call for Aditya Birla Fashion & Retail Limited. To begin with, the company has witnessed spectacular growth in the first quarter of FY 2019 despite subdued market conditions.

Before moving on to the results, let me briefly discuss the key trends that were noticed in the sector. First, the industry experienced tepid market conditions as can be inferred from lackluster end of season sale, despite advancement of the same by roughly two weeks across the market. Second, ecommerce continues to pose strong growth. Third, value fashion continues to remain the fastest growing segment, attracting higher store expansion. Fourth, Tier-II and Tier-III markets remain sweet spots.

Now, let me give you a snapshot of the financial performance of our company and its individual business segment. Q1 FY19 the revenues were at Rs. 1,914 crores, registering a growth of 8%. But comparable with GST and IndAS adjustment our growth would have been 13% over Q1 FY18. For reporting period beginning on or after 1<sup>st</sup> April, all companies are required to adopt IndAS 115, that has impacted our revenues only, and there is no impact on our profitability. Q1 EBITDA is at Rs. 122 crores showed a strong growth of 50% over Rs. 82 crores in the previous year.

I will now take you through the performance of individual business segments, starting with lifestyle brand business. An unwavering focus on improving the product portfolio through differentiated product offerings and brand rejuvenation through impactful marketing campaign has lead to improved profitability for this business. The EBO network expanded from 1,741 stores in Q1 FY18 to 1,838 stores in Q1 FY19. Ecommerce witnessed a robust growth of 65% in the quarter.

The revenues for the segment was at Rs. 945 crores, a growth of 6% over Q1 FY18. But again, if we consider GST and IndAS impact, the growth would have been 12% in this business segment. EBITDA for the quarter was at Rs. 77 crores as against Rs. 64 crores for Q1 of FY18, exhibiting an impressive growth of 20%.



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Moving to the Pantaloons business:

The business achieved remarkable growth in sales and profits on the back of both rapid store expansion, improved marketing strategies, and better cost efficiencies. Sales achieved 11% growth from the Rs. 731 crores to Rs. 813 crores in this quarter. But if I consider the impact of IndAS 115 and GST, the growth number would have been 15% from the previous period.

The EBITDA for the quarter was Rs. 78 crores as against Rs. 46 crores in FY18, showing remarkable 71% growth in its performance. The retail network expanded to 280 stores from 213 stores in the same period last year.

Now, the Fast Fashion business. We consciously adopted the store rationalization, focused on better operating performance and cost control, which resulted into reduced EBITDA losses in Fast business by almost half, despite of our reduced sales.

And lastly, our other businesses, that is innerwear and international businesses. Our innerwear business achieved remarkable growth, over 200%, on the back of products which are very well received in the market and through a wider reach, products being distributed to 8,600 outlets, spanning across 85 cities. Expanded reach and brand investment led to more than 80% revenue growth in other businesses.

We launched our first American Eagle store in Mall of India, Noida. The store has been received very well by the consumers.

Finally, concluding with the future outlook and way forward for our business segment. Our Lifestyle business, we will continue to grow the business through brand building, product innovation, launch of new product lines, and channel improvements. Pantaloons, we will continue to expand our store footprint with concerted efforts towards improving price value equation. Fast Fashion, we will grow cautiously with profitability as a focus. Innerwear, we will continue to build scale through aggressive distribution and we finally aim to steadily build up our international brand portfolio.

Thank you. We are now open to questions.

**Moderator:**

Thank you. Ladies & gentlemen, we will now start with the question-and-answer session. We have the first question from the line of Alok Shah from Edelweiss Securities.

**Abneesh Roy:**

This is Abneesh here. My first question is on Pantaloons. You said 15% is the sales growth in Pantaloons. The margins are expanded very significantly to 9.6% EBITDA margins. So, my question is, where do you see the peak margins for this business? And with just a 15% sales growth, what is the SSG? Because your number of stores has increased 31% YOY. So, if you could take



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us through the SSG number and why the margin improvement has been very high versus sales growth of only 15%.

**Sangeeta Pendurkar:**

So, I think on Pantaloons our same-store growth, if you see, is a minus 2%, that is a combination of two factors. We have seen a volume increase like to like, which is to the tune of about 3% and I think this is in line with our expectation. We also must remember that in terms of like to like growth from same quarter last year, we are cycling a very high June growth, given the GST impact, which is sitting in the base. So, in terms of like to like, we are very happy. In terms of our expansion strategy, it is working very well. And a large part of our growth is coming from the new stores that we have put in place over the last two years, most of them coming during the second part of this period, which is last year. On the new stores, the profitability of our new stores is very close to that of our old stores, and which is absolutely helping us. And we do believe our expansion strategy is a strategy that is working for us. And in fact, over the next few months, we intend to accelerate and press the pedal hard on that strategy.

As far as our margins are concerned, it is a function of the top-line growth and we have a leverage on account of that. But primarily two or three other reasons which have contributed to the higher margins is, first, improved gross margins, which is a function of our product mix. The second thing is a very concerted effort around cost, which has two or three elements, it includes our store size rationalization, rent negotiation, better control on store operating costs, a better control on our overall overheads which has led to re-expanded margins.

**Abneesh Roy:**

Two follow-ups here. So, in Pantaloons would it be fair to say you have taking a price cut of around 5%, because minus 2% with a plus 3% is a gap between volume and SSG?

**Sangeeta Pendurkar:**

So, that minus 5% is right, but a large part of that is really coming selectively as part of the GST impact. We had taken a call to reduce the prices on some of our categories. This is from last year, we had taken a call to reduce the prices, and you see an impact of that. And going forward, of course, when we talk a little bit about that strategy going into the future, etc, I can talk a little bit more in terms of how we are viewing our product price equation. But (-2%) and (-5%) as a result is the right number.

**Abneesh Roy:**

One follow-up was, with the minus 2% you are hitting a margin of 9.6%. And as SSG comes back could this be starting teens margins, a 12%, 13% EBITDA margin also? And second, are you also looking at Tier-IV expansion at some stage?

**Ashish Dikshit:**

So, Abneesh, I will not speculate too much into future margins at this stage. But your point is valid. I think the business has potential of operating at much healthier margins than what we have done in the past. And some of it will get paid out over next year or so. In terms of expansion in Tier-III and IV, yes, Pantaloons has already expanded and started to tap those markets. Many of those stores, as Sangeeta is saying, are operating at a fairly good profitability to give us confidence to accelerate that. And yes, that is a new and large opportunity that we see for Pantaloons.



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**Abneesh Roy:** My second question is on Madura. So, one is, you have done well here also. But the other retailer which came out with a numbers, they said in menswear this quarter there has been some slowdown, but you seem to have still grown reasonably okay and with respect to the base. So, if you could talk about that, are you seeing recovery in the men's? And within the four men's brand is there growth with very similar for all the four? And versus the new ecommerce draft policy, do you see this as a big positive for your different businesses whenever as a policy that gets executed?

**Vishak Kumar:** First things first, I think yes, it was a very difficult quarter for the overall men's business. We also deal with a lot of our retail, wholesale customers, so we know from them also that it was a tough quarter. I think we were fortunate to have done a reasonably okay number. And still, we were at just about 1% same-store growth for the quarter. We had a very good April, which helped us, but June, which had a base effect of the pre-GST purchases last year, by consumers, that impacted the quarter's business. The good news is that July, we had a very strong like to like again and you will see that when you see our Q2. So, I think, net-net what it means is that Madura brands have been able to, in a sense, buck the trend in the market in Q1 and our momentum should take us through going ahead also.

The larger issue around, will this whole government thing on ecommerce help us? I hope so, if the discounts become tighter in the ecommerce space, I think it will help everybody. Consumers have to get other reasons than discounts to be able to buy in various channels. In fact, product generation, newness, convenience, speed of delivery, all of those will hopefully become talking points by which we will attract customers as an industry.

**Moderator:** Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital.

**Abhishek Ranganathan:** A few questions on my side. One is, if could you just help us understand IndAS 115 impact on Madura and Pantaloons separately. I would imagine that for Madura, this would have actually helped the revenues develop, it would have helped you to, in fact, report higher revenues, and for Pantaloons the other way around.

**Ashish Dikshit:** Abhishek, can you explain why you thought Madura's would go up?

**Abhishek Ranganathan:** So, basically, because there is no SOR, and if SOR gets converted into a bought out it sits as inventory in the channel, but you have the book sales.

**Ashish Dikshit:** So, just to explain, and Jagdish will give you full explanation, Madura has a very small business on SOR, very, very small. So, you may find other companies, which have a large business on that model that may have an impact on it. For Madura, the impact is practically negligible. But in any case, whatever it is, Jagdish will take you through the individual impacts.

**Jagdish Bajaj:** It is like this. Madura, there is not much impact of IndAS in revenue, but the Pantaloons impact is already disclosed in our published, that our revenues are lower by Rs. 13.8 crores.



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- Abhishek Ranganathan:** Okay. That's 14 crores now.
- Jagdish Bajaj:** That is right. And you know, IndAS does not affect the P&L as such. It is only the revenue. So, my revenues are lower by Rs. 14 crores in this quarter when I count off IndAS 115.
- Abhishek Ranganathan:** Right. So, basically if we want to just come back on margins, ideally, I would look at the margins what you report in terms of EBITDA and the top line is to add Rs. 14 crores to it?
- Jagdish Bajaj:** That is correct.
- Abhishek Ranganathan:** Okay. So, the other next question I have is on the gross margin, and I think for Pantaloons, directed to Sangeeta. The larger question here I have is that your product mix has not changed towards private brands of yours, its rather possibly reduced by 300 basis points year-on-year. So, if you could just help me understand what has improved the gross margin in Pantaloons this quarter? And secondly, also on Pantaloons, one aligned question. On the costs, is this a case of better absorption of central costs or is it a case where you have been able to bring down your store? You mentioned that, but I just want to understand which has a more material impact of the store OpEx?
- Ashish Dikshit:** So, Abhishek, as Sangeeta had mentioned, the larger impact is from store side, because that is really the more material cost and that is not one quarter initiative, this is what we keep doing over a period of time, rationalizing the stores which are not profitable in size, renegotiating rental and so on. So, it is a gradual impact over a period of time.
- Sangeeta Pendurkar:** And on the point on gross margin, I think it is just the product mix. So, you are right that our private label mix is not where we would like it to be. In fact, that is going to be one of our big strategic shift moving forward to increase the mix of private label in our total revenues. And we have a lot to do to get there. But here it is purely a function of within the private label, the mix of products within different brands and different products, which has lead to better gross margin.
- Abhishek Ranganathan:** And would also, was the discounting lower this year compared to last year?
- Sangeeta Pendurkar:** No, it was very similar to last year.
- Abhishek Ranganathan:** Okay. So, that will not have contributed materially?
- Sangeeta Pendurkar:** Yes.
- Abhishek Ranganathan:** And Madura, I think Vishak and Ashish. The wholesale versus retail, if you look at some for longer time series of three to four quarters, the behaviors has been very different, particularly from the second quarter of last year where I think wholesale has been growing in Madura, whereas retail actually has not been or has been very, very marginal. What explains the dichotomy here? And is it, I can have a follow-up on that later on, but I just wanted a sense of the dichotomy here.



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- Vishak Kumar:** Abhishek, first things first. Actually, our retail has had a very good run. In fact, we came to nearly double-digit retail growth last year on like to like sales. And our retail in that sense is a very strong engine for growth. You might not see it in terms of overall numbers because of limited expansion that we had taken on last year. This year we have stepped the pedal on that and you will see a significant growth coming out of expansion also. In wholesale, which is the way you see wholesale, we also have a significant exclusive stores, which buy and sell from us, and that has been very strong engine for growth for the Madura brand. And while for the consumer that is like a retail experience, it looks in our books like a wholesale business. So, there again has been a big fuel for our overall growth in the wholesale channel.
- Abhishek Ranganathan:** So, you are saying that basically there is some EBO, which is in a bought-out model it can be classified as wholesale and not in retail?
- Vishak Kumar:** That's right.
- Abhishek Ranganathan:** And what would you classify as retail, something is just consignment or...?
- Vishak Kumar:** Consignment is what in our books is classified as retail.
- Abhishek Ranganathan:** So, basically your actual retail sales will be much higher than the 40% to 50% reported?
- Vishak Kumar:** What consumer sees as retail, yes. And plus, our consignment retail now is back to significant expansion. In fact, I said this last quarter also when we had spoken. Our consignment retail is also expanding very quickly, but the growth impact of that we will see during the rest of the year and in coming years.
- Abhishek Ranganathan:** One last question if I may, Ashish, on Forever 21 and the innerwear business. So, Forever 21 losses have come off, the top-line has declined. When do we see the top-line growth come back? And I mean, on the innerwear, what is the bleed we are looking at here? Because the losses have pretty much growing along for that segment along with the top-line, the same velocity.
- Ashish Dikshit:** Abhishek, I think I will stay with what I have been saying as far as Forever 21 is concerned. It is a very strong brand, we want to make sure our business model is profitable. A lot of work we are doing is basically fundamentally changing those. We inherited a lot of large stores, a lot of exploration is happening. Merchandising, mixed supply chain, those changes are happening. And therefore, when we feel more comfortable, it is a brand whose equity is so strong that it is very easy to grow this brand, so we are no hurry to do that until we get that. It is a very powerful tool in our hand. We want to exercise that with great amount of care as we go-forward. So, you will not see a immediately large expansion, but I think in maybe by Q4 or next year, you will start to see that, as we feel more comfortable with the whole model itself.



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On innerwear, honestly, at this stage, we are excited by the growth opportunities that it provides. We see a very large runway and the more we get into it, the greater we see the possibility in that. I think our successes has also internally have given us greater confidence to invest even deeper. A lot of this is really what is showing up, and I would call those as investments, because we see a fairly accelerated and a quick scale up of the business. For some time, we want to make sure that we stay invested. In terms of overall losses, I think we will stay or probably peak out this year because the scale will also start adding up.

**Abhishek Ranganathan:** And the run rate would be pretty much the same as this quarter for this year?

**Ashish Dikshit:** A little lesser because the run rate this quarter, typically despite the year is a good time for innerwear business to launch new products and so on. And therefore, to that extent, run rate was slightly exaggerated this quarter. The overall annual run rate will be very similar to last year as far as innerwear is concerned.

**Moderator:** Thank you. We have the next question from the line of Tejash Shah with Spark Capital.

**Tejash Shah:** My first question obviously pertains to the big surprise that is on Pantaloon's margin. At 9.6% we are higher than Madura margins, I cannot recall if this happened in the industry before. So, I can understand if you do not want to comment on margin expansion, but do you think the measure that you spoke about, this would create a base now for Pantaloon's at current levels of margins?

**Ashish Dikshit:** So, Tejash, I think what you are asking is, is the margin from which we will grow from? Honestly, this is obviously for a period of time, not just for us but you are seeing for various retailers, there has been an overall margin expansion in the industry. And we are also benefiting from that. Much of what we are doing in terms of business improvement strategies, which Sangeeta talked about, enriching the product mix, improving the brand sale, etc, those have yet to play out and some of them will require investment as we go-forward. We are very clear that this is both scale lever and we see very, very large run ahead of Pantaloon's business. At the same time, this will continue to require investment, both in terms of staying competitive on pricing as well as investing behind building the brand. So, if you are looking for a margin indicator, it would be difficult for me to give at this point in time, but clearly, we are on a good path as far as the business is concerned.

**Tejash Shah:** So, any factor which were kind of one-off in this quarter's number at least in terms of margins for Pantaloon's?

**Ashish Dikshit:** No, Pantaloon's had absolutely no one-off in terms of either cost or margin.

**Tejash Shah:** And sir in a period where a growth at large is still elusive on Pantaloon's format, at least SSG front, so what will be the priority now, would it be to revive SSG or focus on margins, or both are mutually exclusive for you?





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**Sangeeta Pendurkar:**

I think it is going to be both for us. And I will talk a little bit about why we believe we stay confident on our growth of margins as well. So, I think there are four or five levers that we want to focus on as we move forward. The first one is in terms of our private label mix and really strengthening that, and that really means revisiting and looking at our product. The consumer today really has multiple choices and has many, many options to pick good product. And improving the price value equation of our products is something that we are very keen to do in order to improve our private label share. And as Ashish alluded to it, this is not something that we can change overnight. We have begun this journey. You will see some impact of this in spring summer 2019 and you will see some clearly visible shifts there. But that is the first lever directionally as we have called out before we would like to be north of 70% in terms of our private label mix. At the same time, we ensure that our entry price points remain strong. Our second lever is going to be really the expansion in terms of our stores. Again, I talked a little bit about this strategy. We now have great confidence that it is working, and it is something that we would like to accelerate going forward.

The third piece is really in terms of improving our brand and sales in Pantaloons. Pantaloons has a strong equity, it has a strong heritage. We need to do a few things to make it a lot more contemporary. We need to make sure equally the brand is salient. It is a journey that we have started, we have delivered these results in first quarter with a good investment in marketing. We have upped our advertising spends significantly. And that journey, defining the brand proposition and making it salient will absolutely continue, and we are committed to that.

I think the fourth lever for us is really how do we improve our in-store shopper experience and our engagement with our shoppers, whether in our physical stores or online, which is a new journey that we are about to start. So, that will mean various initiatives such as improving our retail store identity, it would also mean in terms of improving the freshness of our merchandise with some back-end processes.

And finally, the last lever for us is online. Currently, we are available in marketplaces, but pantaloons.com is going to be launched soon. So, that our consumer has a choice to pick our fantastic products that we create and that we will continue to improve on, even sitting in her living room or his or her office. We want to offer that option to our consumers.

So, these will be the four or five levers because of which we feel confident of our growth going forward.

**Tejash Shah:**

And what was the count of franchise stores in Pantaloons at the end of the quarter?

**Jagdish Bajaj:**

49.

**Tejash Shah:**

And what is the plan there?



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- Ashish Dikshit:** We will keep the mix as business, Tejas. We have balancing franchises with our own expansion. The current mix is about 17%. I see it maybe creeping up to close to 20%.
- Tejash Shah:** So, you have been in the past hesitant to call it a success, but now this format has been around for 2.5 years. So, would you now say that this format is here to stay, and you would like to at least take it as a very sustainable format in Pantaloons journey from here on?
- Ashish Dikshit:** Yes, I think we have quietly crept to near 20%. So, to that extent, it is fair to say it is here to stay. Large format retailing is not easy to franchise easily. There are challenges in execution, and therefore it will continue to remain a slow burn as far as we are concerned. We are in no hurry to do that. I think business is doing well. Individual store performance is more important than own investment on that.
- Tejash Shah:** And any surrender you have seen in this format? Any of the original franchisee, early franchisee who have surrendered the store?
- Ashish Dikshit:** Yes, there have been a few cases, there have been one or two cases. That is the journey that we have experienced in it. And sometimes function of franchisee's, experience in running it, sometimes management issues that we want to solve and therefore get in. But yes, that is a journey that we will have to continuously undertake.
- Tejash Shah:** And just the last question. What was the gross margin in the innerwear business as of today?
- Ashish Dikshit:** So, we do not declare that level, Tejash.
- Moderator:** Thank you. We have the next question from the line of Yatin Mata from Reliance Mutual Fund. Please go ahead.
- Yatin Mata:** Just continuing on the Pantaloons margin, just wanted to understand what is the average breakeven time for a store?
- Ashish Dikshit:** So, I do not think that is the case. Our stores are very profitable in their first few months itself. Most stores, when they work, they work in first month. Over a period of time, of course, so the idea is to launch the store early with an impact to make sure that you start with a good base. And therefore, it is no longer true that you wait for three, four years for stores to turn profitable. I think most cases, the first few months itself sets a very large base by inviting customers, getting them to experience the stores, getting them to know the location. And we make sure that the early start is impactful enough to get them off the ground.
- Yatin Mata:** So, is it fair to understand that because last quarter call you had indicated that, or the store aging profile, you had kind of indicated that and that would probably benefit the SSG and the margin. So, was just trying to understand the comment where if in this quarter would that store aging profile



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would have come through? Because, if you see that most of your stores which were opened would now be entering that SSG period.

**Ashish Dikshit:**

Yes, I think the number of stores which would have moved to SSG cycle would be higher than last year. But still, the weight of old stores, because they were large stores, they are traditionally built on a very large business, still remains very high. So, I think it may take another one year for us to feel like a new retailer in that sense.

**Yatin Mata:**

And there was this enabling resolution on fund raising, which was indicated last time around. Is there any update on that?

**Ashish Dikshit:**

No, clearly as we had declared even at this stage that this was purely an enabling resolution for us to have the choice in case we feel the need to expand our capital base. At this point of time, looking at the state of the business, our own performance, I think we feel sufficiently secure with what we have and feel very confident. In fact, we have not even taken it up in the coming AGM. So, to that extent, there is no action that we foresee in the immediate future on that at all.

**Moderator:**

Thank you. We have the next question from the line of Niraj Mansingka from Goldman Sachs. Please go ahead.

**Niraj Mansingka:**

A few questions on Pantaloons and then Madura. In the gross margin on the Pantaloons, increase has happened because sales base. Can you talk was it because of category changes? And what category grew and what didn't grow? Can you give some color on that?

**Ashish Dikshit:**

I think it is not specific, what happens is that each of these brands and product mixes have intrinsically slightly different margins. So, some of it shift in those, some categories are growing faster than others, as you can see in the shift, but there I think only a significant shift is kids, which is not much better in terms of margin profile. I think the margin is more a matter of mix, intrinsic margin at which you have initially priced the product, and overall management. It is a small change across all three, which adds up to, because these are multiplicative in that nature and that sense which has led to what it is. So, the actions that we talked about which is to improve the product, some of the initiatives that Sangeeta talked about, they are yet to show up as far as the outcome on financial performance is concerned.

**Niraj Mansingka:**

And the second question is on the ASP of Pantaloons, I think you said minus 5%. This is adjusted for GST or it is unadjusted?

**Ashish Dikshit:**

This is with GST.

**Niraj Mansingka:**

So, the net impact would be 1%; is that right? Or net impact is still 5% net of GST?



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**Ashish Dikshit:** What happens is the GST impacted Pantaloons because of its mix of below thousand and above thousand is much lesser than in Madura brand business. But probably the impact to GST would be 1.5% - 2%.

**Niraj Mansingka:** Can you also give a color on the competition for the Pantaloons as a whole and how you internally might have estimated the growth in that industry segment?

**Ashish Dikshit:** It is difficult I think for us to comment on competition at this point in time. Most of them do not report separately or are yet to report results. You are probably better placed to tell us about that.

**Niraj Mansingka:** Any color on how you see the revenue per square feet of a new store versus and an old store of Pantaloons and how much different is it? And any color on that number?

**Ashish Dikshit:** I think the big picture that Sangeeta mentioned, which is really where we should focus on and I would ask you to look at is really the contribution percentage that these stores are making. And we are finding stores open a year, two years back as a cluster have started to inch very close to our stores greater than five years. The reason per square feet revenue is not a fair measure because we are opening stores in all kinds of locations, in parts of Delhi, Bangalore, Chennai as well as in the interiors of Uttar Pradesh and Rajasthan and so on. Both come with different cost structure and different revenue throughput. And therefore, the SSG or sales per square feet is not as important a measure as the contribution percentage in the overall business.

**Niraj Mansingka:** On the same count, what would be the number of stores in SSG and how many old stores would be there?

**Ashish Dikshit:** So, I think our overall stores in the SSG would be about 190. But the weightage of old store continues to remain very high to north of 50%.

**Niraj Mansingka:** And last question on the innerwear side. Growth has been high, but can you give some color on how much the growth has been on because of the push towards the EBO of stores only carrying Madura's brands versus the growth in the stores which do not carry Madura brand, but only focus on innerwear as a dominator? Just wanted to know on a like to like is it that the low hanging fruits are over, or you see more upside on those count as well?

**Ashish Dikshit:** So, I think in this business we were clear in terms of our distribution philosophy that we need to build a whole new distribution different from Madura's distribution. And that is why we built a different sales structure, different team structure, distribution is completely different, distributors are different, and there are more than 100 distributors across the country. Not even one of them is a common distributor. To that extent, there is no easy path that we have taken in this business. And while it is quite possible that many of the existing outlets carry both piece, but I think the large part of our innerwear success has come through innerwear distribution, which is unique and new for us.



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- Niraj Mansingka:** Okay. And any thoughts that you had where you see revenue for this innerwear till you see some tamping down of the growth rate?
- Ashish Dikshit:** I think it is too early for us to see that. When we launched it at that point in time we had talked about Rs. 500 crores as the first sort of pit stop. We are headed in that direction. It will take us a couple of years, but we are committed to that trajectory. I think it is a significant sort of journey that we are making in that. I see a runway even well beyond that, but I think it might be too early to talk about that.
- Moderator:** Thank you. We have the next question from the line of Nitin G from Invesco Mutual Fund.
- Nitin G:** The first question is pertaining to the gross margin. On company level the gross margin is around 52%. If I look two years back it used to be at 54% somewhat and the EBITDA margin used to be around 7%, or maybe 6% - 6.5%. Today the gross margins have gone down, but the EBITDA margins are still at around 6%. The question is, the change in gross margin is more to do with the addition in revenue coming in from Pantaloons?
- Ashish Dikshit:** So, I think we have a lot of businesses with varying margins. If you look at our profile, outside Lifestyle brands or core businesses and Pantaloons, there is a significant revenue which comes from all of the businesses, whether that is Fast Fashion, Innerwear, International Brand segment. And each one of them are currently carrying very, very different margin profiles. So, I would say that it is very difficult to comment on or take too much away from the overall company gross margins. Suffice to say, individual businesses are driving their own gross margins and stable businesses are continuously improving on it. There are investment businesses where the margins are lower right now, those are the ones which will evolve over a period of time.
- Nitin G:** And second question is pertaining to the advertisement spend. You mentioned the advertisement spend is over 40% for the quarter last year. What could be the absolute number for the quarter?
- Ashish Dikshit:** So, again, that is a number we do not report as an individual-pieces but both Madura and Pantaloons have seen advertising spend significantly going up as a part of our overall strategy to strengthen both these portfolio brands.
- Nitin G:** Would you mind the splitting, you may not give the absolute number, but can you just split it up between what would be the advertisement spend for Madura and what would be for Pantaloons on a percentage basis?
- Ashish Dikshit:** So, I think Madura's advertising spend has gone up by about 40%. In Pantaloons case, the number is even higher, it is about ~ 70% - 73%.
- Nitin G:** Got it. And last question is on SSG from Madura, I do not find it in the presentation.



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- Vishak Kumar:** Yes, it was about 1%, Nitin. We had a very good April followed by a depressing May, and then of course, June had the impact of last year's GST, pre-GST buying by consumers. So, net-net, it was just a small positive that we had. The good news is this still pegs us relatively better than most of the players in the market. The better news is that we had a very strong July. So, it is a good, healthy double-digit July. So, it just tells us that we are all right on SSG.
- Moderator:** Thank you. We have the next question from Chirag Lodaya from Valuequest Research. Please go ahead.
- Chirag Lodaya:** I have two questions. The first, can you just say what is the store expansion plan in Pantaloons, Madura, and F21 for the FY19?
- Vishak Kumar:** Madura actually this year is headed for some aggressive expansion. So, we should be able to across our formats put up about 350-odd stores, and we seem to have the line of sight for that, give or take one month here and there depending on how quickly the stores get put up. But we should be around north of 350 stores that we put up.
- Chirag Lodaya:** And net of closure would be around?
- Vishak Kumar:** I guess about 50 stores would be the kind of annual closure.
- Sangeeta Pendurkar:** In the case of Pantaloons, we intend to add about 40 to 50 stores and we are on track to do that.
- Chirag Lodaya:** Ma'am, you mentioned you are accelerating the Pantaloons growth and this 40 - 50 store guidance, it is annual guidance historically have been maintaining from last five, six quarters. So, I was just wondering, I thought expansion would be much faster.
- Sangeeta Pendurkar:** So, I think we said going forward is where we would like to accelerate. We are hoping that we will be able to do more than the 40 - 50 stores. Our intention is absolutely to take that number higher by the end of the year.
- Chirag Lodaya:** Okay, F21?
- Ashish Dikshit:** So, F21 we will probably be looking at four to five stores.
- Chirag Lodaya:** And just a bookkeeping question, which of the brands were we pay royalty currently?
- Ashish Dikshit:** We do not pay anything on Madura brands or Pantaloons. International Brands is the portfolio in which that exists.
- Chirag Lodaya:** It would be largely F21 because other brands composition would be very less?
- Ashish Dikshit:** Yes, F21, American Eagle. There is some very small margin that we see on some of the brands in Pantaloons. Madura, some brands have international business on which there is a small market.



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But those are not material, I do not think that is significant enough. So, most of our current composition, you are right, would be around Forever 21.

**Chirag Lodaya:** Because that number seems to be very high. So, absolute Rs. 28 crores royalty on a sale of maybe Rs. 250 crores - Rs. 300 crores come to around 7% - 8% of sales. So, just wondering is this a high number for F21?

**Ashish Dikshit:** No, so this is not F21 alone. Pantaloons has many brands on which small percentage royalty gets paid, some of the in-house brands also. Similarly, Madura international business also. So, it would have crept up to that. But I would say a significant part of it would be Forever 21.

**Chirag Lodaya:** What is the nature of legal expenses in our P&L, legal and professional expense, number seems a bit high so just wondering.

**Ashish Dikshit:** So, I do not think there, we will probably come back to you on this.

**Chirag Lodaya:** Just lastly, what is the CAPEX for FY19?

**Jagdish Bajaj:** CAPEX for FY19 is around Rs. 300 crores for the all businesses included.

**Chirag Lodaya:** And these 50 stores of PFL includes franchisee stores, right?

**Jagdish Bajaj:** Yes.

**Moderator:** Thank you. We have the next question from the line of Manish Poddar with Renaissance Investments. Please go ahead.

**Manish Poddar:** Sorry to harp on this Pantaloons margin again, but I remember two or three years back we used to say that we will keep the margin in this business within the 6% to 8% band, given that we will do an expansion at the rate of 60 to 80 stores. Are we now trying to infer that this margin band has shifted from the 8% to 10%?

**Ashish Dikshit:** So, don't hold what we say against us in one quarter.

**Manish Poddar:** I am just trying to understand over three years, over the last two years obviously things have changed.

**Ashish Dikshit:** I think let us look at the bigger picture. In Pantaloons, consistently over the last 4 years from the time we have acquired we have been consistently improving margins, and as the business gets more and more confident about its own performance, as more of new stores come in, more of our strategy gets played out you will see more and more of margin discovery happening. I do not want to comment on one quarter performance, but generally, we have consistently improved our margin every year over the last four years. I see that trajectory and that opportunity to continue for more



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time to come. In fact, many of our levers on private brands, makes, etc has not really made out. So, I think there is a lot more that lies ahead. Fundamentally, I think margin improvement remains an intrinsic part of Pantaloon's trajectory, but not at the cost or in contradiction with growth, I think both are actually supporting each other. And that is a good story that is getting played out. And we continue to stay on the same path. Absolute number, it is improving and that is really what you are seeing.

**Manish Poddar:** One bit on the store expansion as you said on Madura. When you are trying to say that there was lackluster sales and the online gaining ground, so what is given us confidence that we should open 300 stores this year?

**Ashish Dikshit:** What is giving us confidence...?

**Manish Poddar:** I just want to understand if the retail environment is lackluster with end of season sale not picking up, online actually gaining ground. So, what is the thought with this 300 stores expansion? And what is it mean for FY20 also, any ideas?

**Vishak Kumar:** First things first, we have had a good run on our retail stores, our same-store growth last year was just about double-digit, okay. I think we have to be careful about reading too much into a June number, which had the last year's GST impact, which is why when you look at July numbers, very strong double-digit numbers. So, we are okay. And some of this in the apparel business, there are some cycles including wedding season and so on, we have to be careful how much we read into that. Overall, the fundamental retail model has been very good, and we are seeing that there are many new markets where our brands have fantastic traction. So, that will continue, and these are stores which have been opened profitably in these markets. So, that gives us a lot of confidence to scale up faster.

**Vishak Kumar:** I think the big picture remains that it is not only for Pantaloon's but for Madura brands, there is tremendous headroom for growth. And the more we reach, more we look at that. In the last two years we have looked at our stores in terms of rationalizing the network, in terms of improving the quality of retail execution, retail identity upgradation., And that is resulted in last year, full year, like to like being near double-digit. So, we feel very confident both in terms of potential as well as execution and results on ground to actually embark on this journey.

**Manish Poddar:** And just one small data point, if I can get. In the Innerwear business would our marketing spend be somewhere in the Rs. 35 crores to Rs. 40 crores range?

**Ashish Dikshit:** Difficult to give.

**Manish Poddar:** What I am just trying to infer, because if you look at the spend of the last year was somewhere in the Rs. 120-odd crores, market processing S&D. So, I am just trying to infer is the marketing spend for you peaked out, let's see, going into FY20? Let's say FY20 is called out the losses would be





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there itself. But I am just trying to understand now would this grow in line with your as a percentage of sales rather than having a jump?

**Ashish Dikshit:**

Maybe this year more. I think we are looking at, our larger strategy on Innerwear remains about growth and making sure that we are a significant player in the market. Our success, as I said, has given us confidence to accelerate it and therefore we keep tempering our ambitions with what's happening on ground. Currently we feel very, very confident about it. I cannot give you the exact spend, but it is better than what you have indicated. But we will make sure that consumers experience our product, distribution reach is enhanced, the supply chains keep getting strengthened. And I think there is still a long way to go before we start to taper down investment. It is just that our growth starts to pay back from next year onwards and therefore, perhaps next year is the time when the losses may start to get peaked or tempered after that.

**Moderator:**

Thank you. We have the next question from the line of Garima Mishra from Kotak Securities. Please go ahead.

**Garima Mishra:**

The first question is on Madura. Could you explain or tell us what is the proportion of ecommerce contribution to your overall Madura sales?

**Vishak Kumar:**

It's high single digit, Garima.

**Garima Mishra:**

And what was it same time last year?

**Vishak Kumar:**

We have grown significantly, we have grown about 50% - 60%. About 60% is our growth over last year. So, clearly, the company's composition of ecommerce in our business has increased significantly.

**Garima Mishra:**

And so, is any of the advertising that you are doing and the spends that are increasing, is there any thought behind specific increase of this ecommerce bit in particular?

**Vishak Kumar:**

I am do not know if I understand your question fully, but basically, there are two, three thoughts in this. One is, significantly our advertising is moving towards a digital generation. And we would in that sense have very strong audiovisual content, strong television campaigns, strong campaigns in internet related media, a lot of digital campaigns. All of this, of course, also has increased sales as a happy byproduct also and improves our ecommerce traction. But it is also to be able to strengthen our online/offline business as well. So, it is a strong campaign with a lot of investments in digital as well, which has also helped us in the kind of results that we have delivered in Q1.

**Garima Mishra:**

So, when does Pantaloons go online? I know you already sell some brands through the marketplaces, but when does your own portal go online?

**Sangeeta Pendurkar:**

So, that is planned for this quarter.



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- Garima Mishra:** And could you please help me with your June debt and cash position?
- Jagdish Bajaj:** Rs. 2,000 crores overall debt, and temporary surplus of around Rs. 75 crores.
- Moderator:** Thank you. We have the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** A couple of questions on Pantaloons. We reported EBITDA margin of 9.6%, which includes the new store expansion which we did. So, I just wanted to get some sense from that SSG stores which are around 180 stores, what is the steady EBITDA margin those stores are generating vis-à-vis the new stores? Because initially, as you mentioned, it takes a few months to get breakeven. So, can you give us some sense on it?
- Ashish Dikshit:** I think Sangeeta started this call answering that question. We have now reached a situation in terms of our expansion model where our new stores, and I would say anything more than a year old, and some of them even the same year, are operating almost at the same level, just marginally below where our whole network is performing. And that is what is giving us confidence to actually go out and expand even more aggressively. And that is the reason why despite the expansion conventional logic would have said that these stores would have delivered lower profitability and therefore profitability will be under strain. But actually, we are improving our profitability every year through new store expansion, because our new stores are very close to, not exactly, but very, very close to the exact contribution that old store network has delivered.
- Umesh Patel:** So, what is the cost associated to open the new store, whether it is franchised or owned, including inventory as well?
- Ashish Dikshit:** So, I think typically, depending on whether it is a big metro store or a small-town store, our CAPEX per square foot ranges between 1,800 to 2,000 square feet, and then the function of the size of the store. Whether we do it or franchise it, that is the same investment, either it lies in our book or his book. On inventory, typically, it operates between 120 to 150 days depending on the state of the market.
- Umesh Patel:** So, it means that assuming that 7,500 square feet or 10,000 square feet area of stores with Rs. 1,800 CAPEX per store translating into something 1.5 crores to 2 crores. Is it fair to assume that a month?
- Ashish Dikshit:** Yes.
- Umesh Patel:** And you mentioned it takes 6 to 9 months to break even at EBITDA, right?
- Ashish Dikshit:** No. Our stores, some of the stores start off with a very strong, because initially, there is an impetus in terms of marketing launch in the stores. So, some of the stores actually start off....



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- Umesh Patel:** Because your outlet would be different, correct?
- Ashish Dikshit:** That's right.
- Umesh Patel:** And last question is, you mentioned that because of the change in product mix, gross margin was significantly higher for Pantaloons. So, what I understand, I think it is constitutes women apparel segment as well, which is something around 40% to 45% of revenue of Pantaloons. So, what was it to two years back? And does it really make any sense or any change that the woman apparel segment is generating better margin compared to men's apparel, and because of the change in product mix like woman apparel is generating better margin, we are focusing more toward those kind of products?
- Ashish Dikshit:** No, our product mix is designed for customers. Our pricing is designed at customer's product value and competition and the mix is really a function of how consumers choose between our products. So, we are not shifting deliberately a supply to one side or the other side. Pantaloons is a retailer with a uniquely healthy mix between men, women, and kids, and we continue to therefore focus on all these 3. So, product mix is not something that we have engineered. This is how consumers have bought and that keeps moving quarter-on-quarter, but there is no artificial or deliberate strategy to move towards one or the other.
- Umesh Patel:** So, there is no significant spread or differentiation between the pricing, whether it is woman or whether it is kids or men's right?
- Ashish Dikshit:** No, not very large.
- Moderator:** Thank you. We will take one last question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- Abhishek Ranganathan:** Just a follow-up on the quarter again. This quarter particularly started off quite weakly as the industry, correct me if I am wrong, I was thinking April and May have not been very good. So, if you could just help us understand for both Madura and Pantaloons how April, May, and June individually have been? And then I have a related question to that.
- Vishak Kumar:** Abhishek, usually, April, May are the wedding months. We had in that sense a reasonably good April and for the rest of the industry also my sense is that it was okay. We were better, but I think the sense is that it was okay. May was a disappointment for everybody. The wedding season didn't turn out to be the way it was expected to. And June, as you know, last year's base is really what impacted it. If you were to look for most players against year before last the growth would be fine, it is basically, again, last year June, where a lot of customers preponed their purchases, and people started their end of season sales early to create a high June peak. So, that is really what affected this year's June business. So, I would say, I do not know if that answers your question, Abhishek.



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**Abhishek Ranganathan:** Sure. So, the 1% SSG you are saying largely would have been in April and May? April and May would have been a better representative of what...

**Vishak Kumar:** Absolutely.

**Abhishek Ranganathan:** And then you think July obviously has been...?

**Vishak Kumar:** July has been a very strong double-digit for Madura.

**Abhishek Ranganathan:** And in the case of Pantaloons?

**Sangeeta Pendurkar:** So, in the case of Pantaloons, again, a very similar story for April, May, June. I think we had a good start to the quarter in April. May, like Vishak said, we saw a lot of competitors starting their sales earlier. And in fact, in the case of June, because we are again cycling a very large growth from last year, June was a slightly tougher month, relative to April and May. July again has been a little tough for us because I think continuation of EOSS and, again, the response to EOSS for everybody has been slightly lower than what we expected.

**Abhishek Ranganathan:** And our EOSS period continues to be, what duration, is it same as last year or is longer than last year?

**Vishak Kumar:** We are trying hard to reduce this, Abhishek. In fact, we have been trying to keep the EOSS windows tight and help find reasons for the entire industry to create product innovations and design stories lead reasons for creating full priced merchandise businesses. It creates better customer service, better experiences, and so on. I think gradually, the industry is also recognizing that.

**Abhishek Ranganathan:** And that holds true for Pantaloons also in terms of the duration? It is now six weeks, or it is eight weeks, or where are we at?

**Sangeeta Pendurkar:** For us this EOSS was 7 weeks.

**Abhishek Ranganathan:** 7 weeks versus last year of, what, 6 weeks or...?

**Sangeeta Pendurkar:** Similar.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. And on behalf of the management, we thank all participants for joining us. In case of any further queries, you may please get in touch with Mr. Rahul Desai or Mr. Amit Dwivedi. Thank you. You may now disconnect your lines.