



“Aditya Birla Fashion and Retail Limited Q4 & FY23 Earnings Conference Call”

May 22, 2023



**MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR
MR. JAGDISH BAJAJ – CFO
MR. VISHAK KUMAR – DIRECTOR & CEO (LIFESTYLE
BUSINESS)
MS. SANGEETA PENDURKAR – DIRECTOR & CEO
(PANTALOONS)**



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Moderator:

Ladies and gentlemen, good evening and welcome to the 4th Quarter and Full Year Earnings Conference Call of Aditya Birla Fashion & Retail Limited.

The call will begin with a brief discussion by the Company's management on the Q4 FY23 and full year FY23 performance followed by a question & answer session. We have with us today Mr. Ashish Dikshit – Managing Director; Mr. Jagdish Bajaj – CFO; Mr. Vishak Kumar – Director & CEO (Lifestyle Business); and Ms. Sangeeta Pendurkar – Director & 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. Please restrict your questions to the quarter and full yearly performance and the 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:

Good evening and welcome to the Q4 and FY23 Earnings Call for our Company.

Let me start with highlights of the quarter:

The quarter saw the highest ever Q4 revenue for the Company at both stand-alone and consolidated level, which was driven by strong retail L-to-L, omnichannel play, and network expansion. This is despite the fact the overall industry continued to face subdued demand post festive period, especially in value and masstige segments. Our brands on account of their inherent strength, lower customer base, and brand-building initiatives continue to grow from strength to strength. Our strategic growth levers have enabled us to maintain an impressive revenue growth for the 6th consecutive quarter post recovery from COVID. Our Company has remained committed to its ongoing marketing investments which have been in place for the past few quarters. These spends are aimed to strengthen our brands, increase our market share, and be ready to seize the long-term surge in discretionary spending.

Additionally, we have continued to aggressively grow the distribution network and enhance our capabilities for existing as well as new businesses. It gives me immense pleasure to tell you that our Company in FY23 added a record more than 500 stores and also added 1.6 million square feet of retail space to the network.

Now, I will talk to you about “Financial Performance”:

The Company delivered sales of Rs. 2,880 crores, which is a growth of 26% over the same quarter last year. The Company achieved a consolidated EBITDA of Rs. 232 crores. EBITDA for this quarter was impacted due to subdued sales, building organizational capabilities for all

our businesses and investment in brand building which were Rs. 55 crores higher than Q4 last year. The Company's consolidated PAT was negative Rs. 195 crores. In terms of expansion, our branded business added 104 stores led by addition of 25 stores by ethnic business. Pantaloons also continued to expand as the business achieved a net addition of 25 stores during this quarter. The Company experienced a remarkable 77% year-on-year growth in e-com sales across its portfolio, primarily due to successful B2B partnership in the e-commerce space and strong emphasis on enhancing our own brand website. Our Lifestyle Brand launched a new super app that aims to offer customers a seamless experience and curated range of options across our 4 Lifestyle Brands.

Now, let me update you on “Full-Year Performance”:

I am very glad to inform you that our Company has made a remarkable recovery post COVID as demonstrated by 53% growth in sales versus last year to reach Rs. 12,418 crores. Our resilience and strategic initiatives have propelled us to reclaim this momentum and strengthen our position for a strong future growth. The Company posted EBITDA of Rs. 1,617 crores, an increase of 34% versus last year. EBITDA margin stood at 13% for the year. As our Company significantly surpassed pre-COVID levels in terms of revenue, we also intensified our product focus on brand-building initiatives. Our marketing spend was more by Rs. 350 crores versus last year. The Company's consolidated PAT was negative Rs. 59 crores. The pre-Ind AS number would have been a profit of Rs. 57 crores.

I am pleased to tell you that in line with our strategic initiatives, Lifestyle and Pantaloons are now 1.5x of last year reaching Rs. 6,608 crores and Rs. 4,069 crores respectively in revenues. Apart from the established businesses, I am delighted to share with you that the total size of our newer ventures which comprise of businesses in high-growth areas is already more than Rs. 2,000 crores. We have added this scale to the ABFRL portfolio in the last 5 years while our established businesses – Lifestyle and Pantaloons – have also grown almost twofold over the same period. Our innerwear, youth fashion, and international brands together have grown more than 48% over the last year. Ethnic business grew 84% over the last year to reach Rs. 574 crores. Rebook is now well placed to become a major player in the Indian sportswear segment. TMRW has acquired 7 brands and is on track to build an exciting portfolio of next-gen digital-first brand for the next decade. Our consolidated net debt stood at Rs. 1,422 crores, as we continue to invest in our operations and new businesses.

I will now take you through the performance of individual businesses starting with Lifestyle Brand:

Lifestyle Brand posted its highest-ever Q4 revenues on the back of robust retail performance and strong e-commerce performance. Revenue for the quarter was Rs. 1,535 crores, 14% higher than last year. EBITDA stood at Rs. 225 crores. For the quarter, retail business grew by 31% over last year on the back of solid net addition of 128 stores during the last 1 year and consistent

same-store sales growth. Further, e-commerce continued to be a strong sales channel, as e-com sales grew by 49% Y-o-Y. For FY23, sales stood at Rs. 6608 crores, a 46% growth over last year. This growth was driven by premiumization and casualization, as the brands continued to build on their leadership position and gain market share. The business EBITDA crossed Rs. 1,000 crores for the first time to reach Rs. 1,095 crores, a growth of 39% year on year. EBITDA margin was 16.6% for the year. This year, women's wear business within the Lifestyle Brand achieved more than 70% year-on-year growth in FY23. Also our presence in small-town India has aggressively expanded now totaling 600 stores.

Moving onto Pantaloons business:

The Pantaloons division recorded quarterly sales of Rs. 798 crores with a growth of 18% over the last year and 13% L-to-L growth. This was achieved despite a demand slowdown in the value segment. The performance in metro cities continued to remain strong but sales in Tier-2 and Tier-3 cities remained sluggish as inflationary pressures and weak consumer sentiments impacted the demand. The sales for FY23 stood at Rs. 4,069 crores, a 55% growth over the last year. Pantaloons posted an EBITDA of Rs. 635 crores with a margin of 15.6%. Pantaloons continued to expand its private label portfolio with new launches addressing diverse spaces like casual, innerwear, and youth segment. This year, Pantaloons significantly ramped up its store addition with 54 net additions, twenty-five of which opened during Q4. We plan to sustain this momentum in the coming fiscal year as well.

Now, let me speak about other businesses in Madura:

Other businesses segment continues with its outstanding performance. The portfolio comprises of 4 business lines – Active athleisure innerwear, youth fashion brands; super premium brands; and Rebook. During the quarter, this portfolio posted a revenue of Rs. 392 crores, an 81% growth over the last year. This portfolio recorded a revenue of Rs. 1,352 crores, a growth of 57% Y-o-Y in FY23. Let me start with innerwear business performance. The business in FY23 posted 33% Y-o-Y growth with retail revenue doubling over the last year. During the year, brand strengthened its reach to exit with 32,000 trade outlets and 175 exclusive brand outlets. The business also unveiled its fresh new retail identity setting the stage for a more dynamic and personalized shopping experience. Youth fashion brands consisting of American Eagle and Forever 21 delivered strong performance. American Eagle in FY23 delivered 89% revenue growth with 67% L-to-L growth. Brand opened 6 new exclusive brand stores in Q4 and now available at 37 EBOs. Forever 21 continued to expand its newer market as the brand posted 40% revenue growth over the last year in FY23. The brand also added 9 stores via asset light model in the last 1 year showing the trust the brand has gained over the years. The Collective and other super premium brands business witnessed a sharp growth of 60% over last year in FY23 with a very strong 41% L-to-L. The Collective is growing profitably not only in metros but in non-

metros as well. Online revenues continue to surge as our own e-com site thecollective.in is on the path to be a premier luxury e-com destination in India.

Ethnic business:

As you all know in 2018, we outlined our growth strategy to be built around ethnic wear, the largest segment in the Indian fashion space. Over these years, our Company has made several organic and inorganic moves with an objective to build a comprehensive portfolio brand in this key segment. This quarter, our ethnic segment achieved a revenue of Rs. 174 crores and has grown 72% Y-o-Y. This portfolio recorded a revenue of Rs. 574 crores in FY23 growing to 1.8x of last year. The business continued to invest in brand-building initiatives and strategic new store openings. In FY23, Sabyasachi grew 50% Y-o-Y, as the brand launched 2 new stores. Men's premium ethnic wear brand, Tasva, has continued to expand its network aggressively and is now available across more than 50 crores. Brand Tasva and its products continue to do well, recognized by the consumer and the industry. Jaypore's FY23 revenue grew 90% Y-o-Y, as the brand in FY23 added 8 stores to the network to exit the year with 18 stores. Shantnu Nikhil posted its highest ever yearly revenue with 53% growth Y-o-Y. SNCC by S&N, a sports inspired Lifestyle Brand, continued to gather customer interest. Also, as you are already aware – and we had a separate conference call as well for it – ABFRL board has approved the Company to acquire 51% stake in TCNS Clothing Company Limited through combination of an SPA with founder promoters and a conditional public open offer. Subsequently, it also proposed that TCNS will be merged with ABFRL through a scheme of amalgamation post receipt of necessary approvals. These deals will help us complete our ethnic wear portfolio and expand our existing ethnic wear portfolio into the premium women's ethnic wear segment. As I am talking to you today, we have made rapid progress in the process and already filed the necessary applications with the regulators for their approval.

Leveraging our strong brands and their category extensions, our ethnic wear portfolio is primed for rapid growth. We are confident of raising a substantial and profitable business in the coming years.

To Conclude:

The Company continues to be on track to follow its long-term strategic objective. Our branded strategy as being the key driver of our success till date has enabled us to differentiate ourselves, build customer trust and loyalty, and effectively deliver our value propositions. Now, with a portfolio of very strong brands in the fast-growing segments, we are confident to build a comprehensive portfolio of offerings for all the consumer segments, wearing occasions, and price points.

We are open to questions now.



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have our first question from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Sir, three questions from my side. First is specifically on the margins for the Lifestyle Brands. There has been around 8% kind of Y-o-Y contraction. If you could just help us with what part of this was related to the incremental marketing spends which you highlighted and also the aspect of operating leverage?

Vishak Kumar: First things first. Usually, we do about 16% to 17% EBITDA in a quarter. This quarter was about a couple of percentage points lower than that. Last year Q4 had some exceptional gains that we had one-time gains. So, don't go by 1 quarter per se. But this quarter, fundamentally the difference was additional investments and advertising by a couple of percentage points. Plus, there were some rent concessions we had last year which we did not have this year. If you remember, last quarter was the last of the COVID rent relief that we had received from landlords which was spread through the 4 quarters of last year. This year, we did not have any such gains. But otherwise, basically and fundamentally, the difference between our typical average quarterly EBITDA versus this was about a couple of percentage points largely because of advertising delta. And you would see our brands very strongly advertised through various events even as we speak right now.

Nihal Mahesh Jham: Vishak, a follow-up on Madura, was on the wholesale channel. Again, while retail has done reasonably well, we see that that channel has again seen a bit of a contraction. What is the outlook or thought on that channel going forward?

Vishak Kumar: Actually, wholesale is fairly strong for us. Q4 you would see a negative primarily because we had done some accounting changes of a lot of buy & sell stores which we had converted to consignment. If you take that away and also if you look at it from a full-year perspective, it's a fairly healthy growth. Also, that channel is poised for a lot of growth. In fact, we just concluded a partner meet about in the end of March, where there is a lot of optimism around the kind of things that we are doing in the wholesale channel. So, my sense is that we continue to be leading the brands across various large chains. It's a strong channel. Don't go by the one quarter number which is primarily because of conversion of a set of stores, a large number of stores from buy & sell to consignment to enable superior replenishment model.

Nihal Mahesh Jham: So, this is a one-off adjustment in Q4?

Vishak Kumar: That's right, yes.

Nihal Mahesh Jham: Okay. I will maybe take those numbers offline. Last question was on the debt part. From Q3 to Q4, there has been a reasonable increase in debt. That was as per expectations? And second is,

at the time of the TCNS call, we did highlight a target of our debt to EBITDA and how is the bridge to that if we could just discuss, that would be helpful.

Ashish Dikshit:

Nihal, let me answer your first part of the question. I think the increase in debt in this quarter has been slightly higher than what we had anticipated, primarily and I would say also entirely led by drop in sales versus the estimates that we had across our businesses. Effectively, from the base that we were.... If you look at our growth rate, in the first 3 quarters, the Company as a whole was growing at a very rapid pace and to that extent, despite an Omicron wave in this quarter, sales growth has been slightly lower than our internal estimates and that's what has resulted into higher inventory and to that extent, some large part of debt has come through that. Additionally, we have made investments in subsidiaries – TMRW and ethnic subsidiaries – during this quarter and that has further increased the debt to this level.

Nihal Mahesh Jham:

And just on the outlook on once we considered the TCNS acquisition GIC money, how do we reach the target debt-to-EBITDA? What would be the investments next year?

Ashish Dikshit:

At this point of time, Nihal, we probably won't have the exact outlook on that. But to give you a sense of where that range would be, I think what Jagdish had mentioned in the call somewhere you had picked up this number during TCNS investment call, that is the outer range that Jagdish was sort of indicating towards what we might look at considering that we continue to invest in the growth of our businesses. We continue to see an opportunity both in new businesses as well as existing businesses to grow. You have seen Pantaloons investing in close to 60 stores this year. All the ethnic businesses put together have opened close to 70-75 stores. Madura businesses have more than 250 stores which were opened this year. So, we see that trajectory to continue, and therefore, while we don't have an exact number for debt for next year, Jagdish wanted to highlight that there will be a potential increase in debt towards the end of next year.

Moderator:

We have our next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani:

My first question is with regard to the Pantaloons margin. If we see the Pantaloons margin even on a reported basis, that has come to around 8.5%. Even if this 8.5% we consider one-off, what kind of margins should we build going ahead? And what has impacted the margins during this quarter for Pantaloons specifically?

Sangeeta Pendurkar:

Gaurav, our margin in Quarter 4 is 8.9%. And it is largely on account of the fact that we saw a little bit of sluggishness in our top line. If you look at the full year picture, in fact, FY22, our margin was 14.0% versus that we have ended the year at 15.6%. And therefore, our margin versus the full year has improved. I think it's just the sluggishness of the 4th quarter which has resulted in a slightly lower margin in Quarter 4.

Gaurav Jogani:

One follow-up here. Even if we see the annual sales per square feet, that comes to around Rs. 7700 odd. And prior to year 2016-17, we were at around Rs. 8,800 per square feet. The sales per



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

square feet hasn't picked up over the last, I would say, 5-6 years even pre-COVID levels. How are we looking to drive that sales per square feet? And in that event, do you think that the increasing inflationary cost is impacting the margins on the other hand?

Sangeeta Pendurkar:

I think our SSPDs we have seen versus last year, we have absolutely improved. We have been constantly adding stores, as you know, to our network. This time, if you see, we have been presenting to every quarter a lot of our store addition has been back-ended, and therefore, you don't see that kind of a shift. We are, however, very confident of the strategy that we have been on track on over the last few years in terms of improving our product, investments that we have made in our stores to improve the in-store experience, the fact that we have invested in our operations and IT, etc., and all of that has given us initial improvement in the productivity. I think again this year, with a little bit of slowdown that we saw in Quarter 4 and the fact that our stores are back ended, the numbers may not be stacking up, but we stay confident of the potential of Pantaloons and equally of our strategy and as the demand comes back, we definitely see that number lifting.

Gaurav Jogani:

We had guided earlier of 70 stores in Pantaloons. I think we ended around with 54. For the next year, do we maintain the guidance of (+70) stores or it will be now moderated around at 54 or 55 levels?

Sangeeta Pendurkar:

We had given a guidance of 60 to 70 stores. We actually opened 63 stores and we have shut about 9 stores which is a standard practice every year that you look at stores that are not profitable. Going forward, this year too, we are looking at opening 40 to 50 stores.

Gaurav Jogani:

That's net 40 to 50 stores?

Sangeeta Pendurkar:

Yes, net.

Gaurav Jogani:

Just one last bit on the TMRW subsidiary. If we look at the exit basis run rate for the TMRW subsidiary sales, it's around Rs. 220 odd crores that we get. If I remember for FY22, the total sales for all the subsidiaries was around Rs. 314 odd crores. Implies that there were losses of around Rs. 60 to Rs. 65 odd crores also that we incurred. Anything on why the sales, a) has been down versus the last year levels on the exit basis, and b) the losses.

Ashish Dikshit:

You are asking about TMRW subsidiary's numbers?

Gaurav Jogani:

Yes, TMRW subsidiary's total revenue numbers on the exit basis. If we see, it's around Rs. 54 crores for the quarter, so around Rs. 220 odd crores for the year. Even if you adjust for the seasonalities, I think it will still be lower versus the FY22 levels.

Ashish Dikshit:

TMRW business started this year. Even though the brands that we have invested in the first 7 sets of brands, they have come over a time period starting from October through as late as

February-March. So, what you are seeing is a reflection of a very small period for some of the brands, full quarter for some of the brands. Therefore, this is not truly reflective of where the run rate of this business is. It's much higher than what is projected in the quarterly revenue.

Gaurav Jogani:

If you can help us out what will be the possible exit target for the same? And also, on the losses part if you can help us out can we expect more losses going ahead as we invested into these businesses and now these losses will be funded?

Ashish Dikshit:

It's very early stage for me to give actual number of losses and projections, Just to give you a sense of the run rate and revenue, these brands have been, as I said, acquired. Many of the brands have just had 1.5 to 2 months. Some brands have had 4 months. And to that extent, therefore, this revenue run rate is significantly higher than where we are. As far as losses are concerned, yes, we recognize that this business will have losses for the first couple of years. We had also mentioned and repeated it several times over the last 1 year that we have committed a certain fixed amount of equity to this business, which is Rs. 500 crores. A large part of it which we have already invested. About Rs. 350 odd crores has got invested in FY23. The remaining part will get invested over next year and further equity to both fund acquisitions, operations of the business, as well as losses will be raised through external sources.

Moderator:

We have our next question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah:

A few questions from my end. First, Vishak, you spoke about we moving our terms of trade from buy & sell to consignment. Just wanted to understand what led us to change these terms of trade and how should I account for this change in my model in terms of accounting purpose?

Vishak Kumar:

Tejash, we had exclusive stores which were on a buy & sell with the franchisee and we had exclusive stores which were on consignment. We found and we found this over a period of years the consignment model allows you to do a certain amount of we have a special software for replenishment which allows it to function very effectively when it is on consignment. So, we took the effort of converting all the stores that we had to consignment in Louis Philippe Van Huesen and Allen Solly. That has already created a very smooth transition in terms of inventory management assortment planning. It was a one-off thing. The exercise has been completed now except for some stores of Peter England which are still on the old model of buy & sell. All other stores have already been converted. It just improves the quality of assortment planning, the amount of analytics, and the information that you have on each store, the way you replenish on a daily basis for whatever sold the previous day in the store, all of that becomes of a superior nature with this model.

Tejash Shah:

How does it impact the working capital if at all?

Vishak Kumar:

In some way, it is working capital neutral because the inventory investment is offset by a deposit from the partner – from the franchisee.



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Tejash Shah:

The second question pertains to Pantaloons. A lot of experiment in terms of model we are seeing in the large-format stores across the brands now in terms of whether COCO, COFO, and FOCO also in some cases. Just wanted to understand where are we in terms of leveraging the franchise-led expansion strategy for Pantaloons and if you can share some thoughts on how you are seeing this piece also evolving because we are seeing a lot of changes happening in the whole landscape itself in terms of the model how large-format stores have been operated in the last 2-3 years.

Ashish Dikshit:

Tejash, I will just give a quick response. If Sangeeta has something to add, she will add to it. Essentially, over the last few years, if you see, we have maintained a franchisee mix of between 15%, 18%, 20%, 22% kind of range year on year over the last 3-4 years. We continue to believe that's the balance that we will have. And these franchisees which have not come in 1 year, so there is no drastic shift in our model as far as we are concerned. We started moving to franchisees, started testing them in small stores, in smaller markets, and slowly over a period of time have pruned it. We think this number will probably be range bound where we were it is. And as we expand the network, a similar amount will stay in the franchise. We don't see in our model a dramatic shift in this model.

Tejash Shah:

I have a follow-up there. When I see our success in Madura piece in terms of engaging with franchises and how much working capital efficient and scalable it can be and now looking at other large-format stores also kind of leveraging that part very efficiently. I am just wondering why we are kind of restricting it to 20% or 22% only. I can understand the better brand control you have always spoken about, but now seeing that others are doing it managing both polarity of objectives very efficiently, why are we not actually leveraging that part?

Ashish Dikshit:

Tejash, I am taking away the financial accounting jugglery of having financial investment being made by somebody else and counting it as a franchisee model. We have found that in a multi-category large-format multiple-product consumer segment, the kind of retail experience that's required is not necessarily easily replicable by franchisees. We are testing it. When we continue to sort of improve that which is why I am saying the number won't come down, but we don't believe a retailer should sort of completely let go off the primary business of retailing. And as our confidence in quality of franchising and consumer experience, merchandising, etc., improves over a period of time, these numbers may increase but we are circumspect from our experience right now large-format retailing is more complex for a franchisee to manage in terms of merchandising, consumer experience, etc. There is always a case of financially engineering it with somebody else investing and security deposit, etc., but we believe at this point of time, it's important to take control of operations, manage consumer experience, give us greater flexibility in moving merchandise, and replenishment, etc., which yourself as you pointed out, it's not that we don't know how to do franchising. We have India's largest franchisee network on the Madura side of the business. Many of them have experimented and many others have tried Pantaloons franchising. I think it's a lit bit more complex operationally as well as the level of control that want to exercise and which is why we are more aggressive. At any stage if we feel more

comfortable with the idea of actually it being seamless for consumers, we will probably do it faster, but right now where we are is where we are most comfortable.

Tejash Shah:

Last one if I may. When I look at our portfolio on ethnic side, it looks very wide and very deep also. Just wanted to understand just from the operating leverage perspective, how should we think about it? Whether these brands will interact with each other on the supply chain side or on the retail expansion side to bring out the operating leverage part of having such a diverse portfolio or you believe that they will individually compete against each other in some segments and let the efficiency of each brand speak out in terms of operating leverage?

Ashish Dikshit:

I think two parts that these brands are very diverse. The portfolio is very diverse and to some extent we got to make sure that we do justice to individual brands. At the same time, we are building management structures which allow synergy of operations in some areas where the brand is not directly involved like front-end retail expansion as well as some areas of common back-end sourcing knowledge, etc. We are right now not integrating any operations of the business because we believe it's best run within each individual brand, but key functional areas of sourcing, in some areas of retail business development, front end is where we are looking at synergy through common leadership management in some of these places. We need to initially make sure these brands remain distinctive and true to themselves to get to a certain size before the impact of synergy and some of those benefits start to play out more.

Moderator:

We have our next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir:

A few questions; the first is just wanted to get a sense on the revenue trends in this quarter as well as in the coming period. If I see Lifestyle and Pantaloons, we have done mid-teens growth and maybe if I do some adjustments of Omicron benefit in the base and maybe price increase benefit, probably we would have seen flattish to maybe I don't know if at all declining volumes. And in some of the other companies' retail sectors also we are seeing similar trends. Since we are catering to multiple categories, both at the premium end as well as at the value end, just wanted to get a sense from you in terms of the current quarter as well as the outlook how is the trend; because price increase that we have taken in the previous quarters from passing on the raw material price would have more or less got adjusted. So, how do you see the revenue outlook in that context and across both premium as well as value category? Are we seeing any diverging trends?

Ashish Dikshit:

Ali, let me first address the reference to price increase. The price increase in apparel industry and that's not just true for us I think for all the players in the market is almost 12 to 15 months back. The real price increase from the cost side pressure and textile value chain came 12 to 15 months back, almost 3 seasons back. Price increases were made then. If anything, we are on the other side of the argument where there is deflationary or at least some readjustment of cost as far as textile. So, pricing is not really a factor right now. Having said that, I think you have a right observation. At mid-teen growth in a quarter where the base includes an Omicron effect

reflects softness of sales. Our overall growth rate this quarter has got affected significantly across our segments and that's really one of the points that you have made. It has also resulted in higher inventory and higher debt apart from some of the external reasons that I mentioned about the debt, but effectively, this is probably the first full quarter where the impact of slowdown is fully visible across all segments of our business. If you recall our earlier conversations in quarter 2 and quarter 1, I had referred to the lower end of the market being more affected by. Now, it appears that it is a more widespread sort of slowdown in this period. Some of the actions are looking slightly excessive or just as in Lifestyle Brands, Vishak talked about a big reversal we have taken for conversion of stores. But overall, there is a softness in the market that is clear compared to the pre-festive period.

In terms of our outlook, hard to put a number, but our sense is perhaps it's closer to the festive period when we will start seeing the kind of buoyancy that we had seen in the pre-festive period last year.

Aliasgar Shakir:

And you made a comment on deflationary trends. Do you think that any softness in raw material prices will be passed on which could help you revive demand?

Ashish Dikshit:

Done.... which is why I am seeing your references are behind because the reduction in raw material prices is also a 6 months back story and all of it as we started to get benefit of it has got passed on to some extent wherever brands felt it was useful and necessary. I don't think pricing alone is a factor. I think there are larger demand pressures across not just apparel industry, across discretionary pockets. Inflation, overall slowdown in the economy, and there are many other macro factors beyond the textile price value equation.

Aliasgar Shakir:

The second question is on Pantaloons. We have reduced our guidance from about 60-70 stores last year to now 40-50 stores. How do I read this? Is this maybe we are now closer to the 450 stores? So, probably do you think that with 18,000 to 20,000 square feet size store to, you have reached a fair amount of base effect and therefore to that extent increasing the stores should be lower? Is there anything else that I should read into it? I was frankly expecting a much faster or larger run rate of store addition.

Ashish Dikshit:

I think there is absolutely no change in our either ambition for business or our sense of opportunity. I think Pantaloons continues to have a very large run rate over a long period of time. We continue to believe that we are in an early stage as the market to organized players grows. Pantaloons is well positioned with the familiar brands and it has tremendous opportunities in existing and new markets. I think the moderation is coming primarily on two accounts. One is, we have added something like 30 to 40 stores just in the last 4-5 months and that's a very large addition. Close to 25 stores have got added just last quarter. We are doing it at times when there is a pressure on discretionary consumption and particularly for a sustained period of time at the value end of the market where smaller towns if you look at the growth rates or performance of Pantaloons stores in metros versus tier 1 and tier 2, we can clearly see that the pressure is much

larger as we go away from larger cities. And to that extent, we are temporarily moderating the rate of new openings, at least in the smaller towns, and that's why it's resulting into a slightly smaller number from what we ended up in the last year.

Aliasgar Shakir:

So, the pace of acceleration will be a function of recovery in the market?

Ashish Dikshit:

Yes, and we could come back maybe in the second half if things change with higher number but at this point of time, we want to sort of acknowledge the reality that is facing the business for the last couple of quarters and the softness that we continue to experience, particularly in smaller towns and that's the part of expansion that we want to slow down a little bit.

Moderator:

We have our next question from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta:

Just wanted some clarity on the net debt number. I understand you have mentioned that it is unusually high inventory, which is leading to this bloating of net debt, but we have traditionally always followed a model where we have a high amount of creditors which match the inventory even in case that it goes up. Have we changed this practice? Another question here is that with already at Rs. 1,400 crores level, given that margins are under pressure, demand is sluggish, you mentioned that we also see net debt levels increase in FY24. So, just wanted to understand, are we ready for this kind of an increase in debt from our balance sheet hygiene perspective or can we not cap our losses in our new investments for the time being?

Ashish Dikshit:

You are asking two questions. One is really about this year's closing net debt situation and the second is about strategy for next year. Let me answer each question separately. What happens is when last 4 months as the sales started to come below our expected numbers, it resulted in higher inventory resulting which effectively meant we curtailed some of the purchases for fresh inventory. We still have to pay, which we should for the inventory that you would have purchased during September-October-November. To that extent, therefore, the payables because it follows in about 120 to 140 days, payables came down, but because of loss of sales, inventory didn't come down. Therefore, what we are experiencing right now at a point of time of 31st March is a position where inventory hasn't adequately reduced but payables have reduced. This will offset in the coming quarters as we move forward because we have purchased less inventory during this period, and therefore to that extent, the inventory will come down as we go forward and we have less payables left to be made and to that extent, net working capital come down. As we have explained, we have consistently followed the larger principle that your front-end inventory should be adequately and reasonably matched with the credit period on the back end. That is a consistent philosophy; we have followed it for many years and it has kept the net working capital in the ratio that it exists today. But in the temporary period, at moments of time inventory will be higher and payables will be higher because we are not buying and selling at the same level. There is an increase in purchase before the beginning of the season which falls due 3-4 months later and the sales also have similar peaks and troughs. Therefore, at all points of time, the picture at a point of time may look different but overall as you average it over a



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

period of time, the net working capital cycle that we have established over the last 4-5 years stays good. So, don't worry about it. It's a temporary and transient phase. This balance will get corrected very soon.

On next year's number, I think your suggestion is, is there a way we could expand less either on CAPEX or on the losses side, I have just mentioned we are moderating our businesses in line with the reality in response to the previous question on Pantaloons expansion. We look at it carefully every time and right through the close of the year. I don't see a major shift in strategy because I think many of these strategies are built to succeed over a long period of time. Many new businesses we have gone into are very early phase. In some sense, our Company is in a transformation phase for the last couple of years and I think we will have to complete the journey over the next 2-3 years. So, you wouldn't see a significant or dramatic shift in strategy but minor adjustments and calibration that we will have to do, we will keep doing that.

Moderator: We have our next question from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Sir, as you have been indicating that our inventory levels have been slightly on a higher side. Just wanted to check do you expect our margins to get impacted in FY24 pertaining to this liquidation of inventory?

Ashish Dikshit: No, not at all. This is a transitory phase in which one period, we are consistently adjusting our inventory purchase with future sales estimates. In a long lead time industry like us, it takes a few months for it to show up. There is no risk or expectation of any loss of inventory on this account. And to the extent that it exists in the fashion industry, I think it's already there in the base and is a more continuous process.

Devanshu Bansal: Sir, previously we had indicated about a loss in ethnic on an annual basis a billion in D2C and about half a billion in Reebok. Are we still maintaining a similar outlook for '24 as well?

Ashish Dikshit: Let me start first by Reebok. I don't think Reebok we will have a loss. We are beginning to see the first signs of success in this. Reebok has already sufficiently given us confidence to believe that it's a business which will be a profitable business right from year 1. As far as D2C is concerned, I think we will continue to invest. I wouldn't give a number at this point of time because we are still trying to get a sense of individual brands as well as overall portfolio that we will build, but no shift in difference from where we probably are today at this point of time; I don't see a change.

On the ethnic portfolio, our primary losses are coming from our deep investments in Tasva. I think that's something that we will have to continue for some more time before the brand gets early footing and a basic level of scale for us to ramp down. I think that will remain slightly at higher levels perhaps for a year or 18 months more.



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Devanshu Bansal: Our CAPEX has been about 5 billion in standalone operations and about 7 billion for consolidated operations in FY23. if you could provide a ballpark breakup for this as in which segments, this money has gone?

Ashish Dikshit: Not very different. Are you asking details of where that has gone?

Devanshu Bansal: Yes.

Ashish Dikshit: That's mostly in retail stores. There is a shop-in-shop CAPEX that goes. But a large part of our CAPEX goes into building new stores, renovations, or shop-in-shops and that's across the businesses.

Devanshu Bansal: Standalone I guess includes.... Lifestyle is majorly on a franchisee basis, so broadly about 60 odd stores that we have opened in Pantaloons and maybe the innerwear and EBOs as we may be opening, right? Is this a fair understanding?

Ashish Dikshit: It is reasonably fair, but not fully correct to say Lifestyle Brands don't open, as one of the things that we are doing in Lifestyle Brands and as you are seeing the scale and size of our brands, two of our Lifestyle Brands have crossed Rs. 2,000 crores and we see potential for the next level of growth for these brands. We are opening large-format stores in many of our brands. Therefore, our share of capital which is own capital in large-format stores in Lifestyle Brands is increasing slightly at least for a short period till there is enough franchise confidence that gets built in in these large-format stores. That's another reason why some of our capital expenditure is higher even in the standalone business. And all the new businesses that we are building whether Jaypore, Tasva at this point, innerwear to a large extent at this point apart from Pantaloons are largely own CAPEX businesses.

Devanshu Bansal: The Style Up stores; are these included in the Pantaloons numbers or the Pantaloons number is only Pantaloons; it does not include Style Up?

Ashish Dikshit: It doesn't include Style Up.

Moderator: We have our next question from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: Sir, just wanted to understand that the total number of stores that we have added in FY24 and in Q4 in Pantaloons, what percentage would that be into Tier-1, 2, 3 cities? Rough estimate if you can help us understand?

Sangeeta Pendurkar: We have added about 25 stores in this quarter, just for Quarter 4, and we have added net about 54 stores as we told you – a total of 63 with about 9 closures as what we have opened. Off these 63 stores, about 40 stores are in metros and tier 1 split equally and the rest of the stores are in



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

tier 2 and tier 3. Metro includes the metros and some capital towns, the top 10-12 cities. About 20 stores are in those cities.

Varun Singh: As we highlighted earlier that there is amount of stress in Tier-2 and Tier-3 cities, if you can help us understand that how has been the performance – objective assessment in the metro and Tier-1 cities? Maybe like-to-like performance or anything of that sort?

Sangeeta Pendurkar: As we mentioned earlier, I think Ashish mentioned it a couple of times and I said it at the beginning as well that we started seeing a little bit of a slowdown post festives starting from November-December. Our growths in metros are relatively better versus the Tier-1, Tier-2, and Tier-3 towns and that again corroborated well with all the reports that you read. Given the inflationary pressures, growth across sectors and these sectors also has been impacted more severely in tier 1, tier 2, and tier 3. However, as we said before, it's too early to comment on the new stores because most of our stores are back-ended and we do believe that all these markets, the Tier-1, Tier-2, and Tier-3 markets, they are still underpenetrated markets. There is potential, but this last 5-6 months of slowdown has impacted the performance of I think most organizations.

Varun Singh: Madam, overall at portfolio level, what would be the total number of stores in metro and tier 1?

Sangeeta Pendurkar: About 50 odd percent of our stores, 55% to 56% of the 430 stores that we have are in metro and tier 1.

Varun Singh: Last question on Reebok. I just wanted to understand what is the distribution scale up program out here.

Vishak Kumar: First things first. When we took over the business, we moved about 110 stores. By the end of September, we should have added another 40 stores to this. So, we should have a cumulative tally of about 150 stores. We are also significantly strengthening the wholesale network. We have already launched about 30 doors of Shoppers Stop. Many other department store doors will follow. Likewise in multibrand stores. It's an effort which is on full pelt with huge momentum to be able to scale up the business to be available in the kind of outlets that the brand deserves to be in.

Moderator: We have our next question from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir, my first question is on Pantaloons. Is it fair to assume Pantaloons on pre Ind AS basis, EBITDA we would have made a loss for the first time in this business ex-COVID quarters?

Ashish Dikshit: We don't want to get into different accounting had given. But yes, the overall this quarter performance, not just for Pantaloons, as you can make out overall at the Company level itself is much softer.



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Ankit Kedia: Sir, from Tasva perspective, we have started franchisee expansion. We have always had that initially we will have a COCO expansion and then we can have a franchisee expansion. For FY24 expansion, how will be the mix between franchisee and COCO?

Ashish Dikshit: I guess we will have one more year at least of majorly Company-owned expansion. During the course of this year, we will perfect the model, figure out the retail operations, merchandising, and other aspects of the business before we start handing over to franchisee. One of the things that you have to consider and this also goes back to the earlier question that for a Company which runs 2,500 stores through franchisees and close to 700 franchisees, making franchisees successful is one of the most important things for us and that's what has fared us into 20-25 years of relationship with franchisees. We are not in a hurry to hand over the businesses to franchisees until the model is well proven. It doesn't mean that we haven't tried. Even in Tasva, a couple of stores out of the first 50 stores that we have – don't have the exact number, but about 6-7 stores already are franchisee stores. But we will remain watchful that share will not let it go too rapidly until we have established the business fully.

Ankit Kedia: My last question is on Galeries Lafayette The first store in Bombay is expected to open in FY24. What will be the CAPEX for this and how many losses should we build in for the first 2 years for this store?

Ashish Dikshit: I don't think at this point of time I want to give you a number on that because we are still figuring out the model around. I expect in a good case scenario, we should not be losing money in that business at least in the second year. First year, there are sometimes preoperative and initial investments, but I don't expect to lose money in that business even from year 2 onwards.

Ankit Kedia: Is it fair to build in around Rs. (+100) crores CAPEX for that and FY24 opening?

Ashish Dikshit: I think it will be split between '24 and may run into a little bit of '25.

Ankit Kedia: One more question if I can squeeze in. While offline you are seeing some pressure on demand, online are you seeing any channel pressure out there as well emerge or that's pretty resilient now?

Ashish Dikshit: I think the demand pattern is more organic. It's channel independent, channel agnostic, and similar across channels, especially for the portfolio brands that we run which is widespread and cover multiple consumer segments. All of our brands have online and offline presence. The outlook on business in consumer behavior is no different online and offline and it's the macro trend which is actually leading to softening of demand. It's no different in any channel.

Moderator: We have our next question from the line of Shrey J. from Svan Investments. Please go ahead.



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

Shrey J: Sir, my first question is, I just wanted to understand the CAPEX number for FY24 and FY25; what would that be?

Ashish Dikshit: We haven't given out an indication but as you have seen the overall CAPEX for FY23, '24 and '25 will perhaps, at least '24 would be roughly in the similar range.

Shrey J: Do we envisage any further investments in our newer businesses – be it ethnic, TMRW, or the other businesses?

Ashish Dikshit: I have indicated TMRW investments. We have said that repeatedly and that's what we will stay with. We have not made the full investment as yet. As far as the ethnic businesses are concerned, yes, Tasva will take more investments. Smaller bit of investments may be required for small ethnic businesses which is Jaypore and some of the designer business, but those won't be large. I think most of the meaningfully large investment will stay with Tasva and a little bit in Jaypore.

Shrey J: Why I am asking is we are about Rs. 1,400 odd crores of net debt. You spoke about the expansion in stores for Pantaloons as well as Lifestyle businesses and you are saying ethnic also. So, just wanted to understand is this Rs. 1,400 crores the peak or how should we look at this? Just wanted to understand on that front. That's why the question.

Ashish Dikshit: I think if you refer to my response on the Pantaloons question, the calibration of network expansion is more driven by demand side factors and not necessarily from the balance sheet alone. As we said, we will have to remain watchful but we wouldn't change our strategy dramatically at the current level. We feel we have the strength in the business to be able to generate cash to deal with situations of higher debt if it comes to that. We have indicated a high level of debt towards the end of next year, primarily because we believe that we will need to continue and there is an opportunity to continue our multiple platforms that we have built during the course of the last 2 or 3 years. To do justice to the opportunity in front of us, we will continue to invest in these businesses as they are. We will of course be watchful looking at the market realities as we actually invest on the ground.

Shrey J: My last question on the inventory. Now, we have seen about Rs. 1,000 odd crores of increase in the inventory. What kind of reductions can we see in this year or maybe this quarter if you can just help us understand that?

Ashish Dikshit: Please remember this Rs. 1,000 crores inventory has come on an increase of Rs. 4,000 crores of sales. To that extent, it's an increase which is matched to a large extent by the sales increase that you see, as sales has also grown by 50%, inventory has grown slightly lower than that. But yes, it's a fair point that you made. To the extent of about Rs. 300 crores to Rs. 400 crores is the level of inventory which we believe is higher than ideal than what we should have had at this point of time and that's equally reflective in what we think was the opportunity for us in the last 2 quarters, as additional sales that we would have planned for. As we go down, as the sales



*Aditya Birla Fashion and Retail Limited
May 22, 2023*

situation softens, if it remains at that level, that's the opportunity that we have about Rs. 300 odd crores of inventory.

Moderator:

Ladies and gentlemen, that was the last question for today. 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. Amit Dwivedi. You may now disconnect your lines. Thank you.