



# “Aditya Birla Fashion and Retail Limited Q2 FY24 Earnings Conference Call”

**November 10, 2023**



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LIMITED**



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**Moderator:**

Ladies and gentlemen, good evening and welcome to the Second Quarter Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the company's management on the Q2 and H1 FY24 performance followed by a question and answer session.

We have with us today, Mr. Ashish Dikshit - Managing Director; Mr. Jagdish Bajaj – CFO; Mr. Vishak Kumar - Director and CEO, Lifestyle Business; Ms Sangeeta Pendurkar - Director and CEO, Pantaloons. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. Please restrict your questions to the quarterly performance and to strategic questions only. Housekeeping questions can be dealt separately with the IR team.

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

**Jagdish Bajaj:**

Thank you. Good afternoon and welcome to the Q2 Earnings Call of our company.

**Let me start with an overview of the “Operating Environment”:**

The market has remained sluggish primarily due to the slowdown in discretionary spending. This was further impacted by the span of Adhik Maas, shift of festive season and fewer wedding dates vis-à-vis last year. The combined effect of the above factors led to really sluggish demand environment where at an overall level fashion as a category suffered. During these times, our brands did what they do the best offering consumer delight through addition of innovative and exciting products, elevating customer shopping experience, expanding consumer base and improving brand salience through multiple marketing campaigns. Our brands remain steadfast on their growth agenda with net addition of 48 stores during this quarter.

As you must be aware, we have completed acquisition of 51% stake in TCNS Clothing Company Limited in last week of September. With this critical step behind us, both ABFRL and TCNS teams have swiftly come together to work on creating collective growth plan, with business synergies and operational efficiency improvement being core to it. The second leg of the transaction that is merger of TCNS with ABFRL will start soon and it is expected to complete in next 6 to 9 months. Both the teams are confident that this collaboration will propel the growth of TCNS plants into their next phase of value creation.

**Now, I will talk about “Financial Performance” of our company for this quarter:**

The company delivered revenue of Rs. 3,226 crores which reflect a growth of 5% over same quarter last year, mainly driven by its new lines of businesses. On like for like basis, the business



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stayed flat in a significantly slower market. Our standalone sales stood at Rs. 2,995 crores. The company achieved a consolidated EBITDA of Rs. 369 crore with 11.4% margin. Our standalone EBITDA margin was 14.2%. EBITDA for this quarter was impacted due to subdued sales on a cost base built for higher sales. You are aware that a large part of cost based is rentals, which are predominantly fixed in nature. The company's consolidate PAT was negative Rs. 200 crores. At the end of Q2, our store network stood at 4,056 stores spanning across the total retail area of 11.2 million square feet. The net debt as of September 23 stood at Rs. 4,355 crores. This is post completion of TCNS transaction. For H1 FY24, the company posted revenue of Rs. 6,423 crore, reflecting growth of 8% over same period last year. EBITDA for H1 FY24 was Rs. 722 crore. EBITDA margin stood at 11.2% for H1 FY24.

**I will now take you through the performance of individual businesses:**

**Starting with Lifestyle brands:**

Lifestyle brands, which has been growing steadily, was impacted this quarter primarily on account of feeble wedding calendar as these occasions drives a large part of its suits and blazer business. Shift in festive and e-com slowdown were other factors responsible for the adverse impact. Quarterly revenue for the segment was Rs. 1,586 crore, which was 6% lower than last year. Led by cost measures and gross margin improvement, EBITDA for Q2 stood at Rs. 339 crores, reflecting a growth of 18% over last year. EBITDA margin for Q2 was 21.3%, an expansion of 430 basis points over last year. During the quarter, the retail channel declined by 4% over the last year, while the wholesale segment exhibited resilience with sales remaining at par with the previous year. Our brands continued to launch innovative products and extensions. The business also expanded its distribution, adding a net total of 17 stores during the quarter. The brands have consistently elevated their salience by enhancing product across various categories and executing impactful marketing campaigns.

**Let me now talk about Youth Western Wear:**

Youth Western Wear consists of American Eagle and Forever 21. American Eagle witnessed yet another quarter of strong performance with 37% revenue growth over last year, led by strong distribution expansion. The brand is now available across 49 exclusive stores and across top departmental stores. Meanwhile, Forever 21 remain committed to streamlining its network, emphasizing operational efficiencies and expansion of e-com channel.

**Now about Reebok:**

With the year at ABFRL, Reebok's resurgence continues. The brand's quarterly revenue grew 77% over last year same quarter on account of rapid distribution expansion and strong LTL growth. The brand maintained its momentum by introducing new product offerings, optimizing

store throughput and extending its presence across various channels. In this quarter, the brand expanded its network with addition of 15 stores in line with its aggressive growth strategy.

**Let me now speak about Innerwear business:**

Innerwear and Athleisure wear as a category has been under tremendous pressure since early quarters of last year. The sudden shift out of the Athleisure wear category post buoyancy experienced during COVID, where the category was doing well has been a difficult one for the brands to assess, then take quick corrections. The category hence has been under severe stress from growth point of view for last couple of quarters. The business in Q2 FY24 declined by 10% late primarily by outer wear slowdown as innerwear category within the business posted a low single digit growth over last year. The brand posted retail LTL of 6% despite overall slowdown in the category. During the quarter, brand strengthened its reached to exit with 33,600 trade outlets. Brand also launched its first ever celebrity campaign, starring Indian Cricketer Hardik Pandya as the campaign garners increased reach and influence among the consumers.

The premium part of the portfolio continues to do well. The Collective and other Super Premium brands witnessed a stellar growth of 26% with 11% LTL growth over last year. Thecollective.in witnessed a 30% growth over last year as it continued to be one of the top e-com luxury destinations for consumers in India.

**Moving on to Pantaloon business:**

Value fashion as a category has been under constant impact since festival of last year due to sudden consumption slowdown in lower ASP segment attributable to poor income and consumer confidence at lower end of the population pyramid. The trends around lower tier markets doing poorly, High Street struggling to catch up with Malls has continued even in this quarter, all factors indicating towards a real stress in rural semi urban markets and predominantly among the low income households. Pantaloon recorded quarterly sales of Rs. 1,021 crore. The sales remain impacted because of subdued demand in the segment marred further by the shift of Pujo to Q3. Pujo plays a big role in driving sales for Pantaloons as the brand is among the most loved brands in eastern part of the country. We saw that while non-Pujo markets showed a robust 7% year-on-year growth, the East market showed a double digit decline due to shift of Pujo affecting the overall performance of the business. The decline in sales had an adverse impact on the margins of Pantaloons due to negative operating leverage. The store additions in Pantaloons continued as it added net 5 stores during the quarter, taking the total to 439 stores by the end of Q2. The brand continued to enhance the in-store ambiance and elevate the customer experience by rolling out new stores with new retail identity and launching multiple initiatives to drive footfalls.

**Now Ethnic portfolio:**

This quarter, our Ethnic segment achieved revenue of Rs. 144 crores, at a growth of 32% Y-o-Y. Business continued to invest in brand building initiatives and new store openings with addition of 6 new stores during the quarter. Sabyasachi grew 39% year-on-year, led by 18% retail LTL growth and strong performance in jewelry and apparel segments. Our men's premium ethnic wear brand Tasva is now available in 60 plus stores with focus on driving quality, in-store experience, improving offerings with more variety and occasions and increasing brand recognition through impactful marketing campaigns. Jaypore continued to expand its store network with addition of two stores during the quarter and now it is present in 22 stores. Shantnu Nikhil posted growth of 33% over last year same quarter, while House of Masaba posted 18% Y-o-Y growth with 12 stores in total.

**TMRW portfolio** brands grew to seven times of last year as brands continued to benefit from operational enhancements. Post the quarter, as disclosed in our regulatory filings TMRW expanded its portfolio by adding 8th brand, The India Garage Company, which specializes in men's casual space.

**To conclude:**

As we look ahead to the near future, our outlook is cautiously optimistic. We anticipate an upswing in consumer sentiments during and post this festive and plan to leverage on the positive consumer sentiment for the coming period. We are focused on building resilient businesses, leveraging our expensive retail network, formidable brand portfolio, execution excellence, digital prowess and organizational capabilities. ABFRL shall continue to manage business with agility and take proactive measures to ensure that we not only build and nurture our brand, but also realize our long-term vision of value creation. Thank you and wishing you all a very Happy Diwali and festive season. We are open to question now.

**Moderator:** Thank you very much, sir. We will now begin the question and answer session. We will take the first question from the line of Varun Singh from ICICI Securities. Please go ahead.

**Varun Singh:** Sir, my first question is related to Madura brands, Madura segment, sir, our performance has been relatively weak compared to peers during the quarter, so how should we, given that everyone has faced a similar kind of slowdown in the industry with regards to shifting festivals and lower wedding days etc., but still, how should we read relative underperformance in our case, compared to peers, that is my first question?

**Ashish Dikshit:** Varun, I will take the first question, Vishak can add to it. If you look at Lifestyle brands performance, it has delivered by far the industry leading EBITDA margin for the quarter. In a tough quarter that is, there is nobody in the industry who I know of has delivered margins close to this, so I am a little surprised by the question. If you are talking of revenue, it is a reflection

of the choices you make on channels. There are parts of revenues which are not as healthy, which at times you don't chase them so much and therefore to that extent the revenue growths will differ across business. It is a very high quality business, exceptionally strong brands and therefore I don't have a reason to believe that there is any level of underperformance in that, in fact, it is a strong performance on multiple accounts.

**Varun Singh:**

Sir, my question was, I meant to compare revenue growth only, in terms of profit, of course we have done relatively better, but for example -6% and my question is more restricted to Madura only excluding other businesses, so -12% like to like growth, -6% revenue growth, so I was trying to understand more from the channel nuances point of view, is this because of more primary secondary growth differences or anything else that we wanted to call out to explain this difference that I am calling out as?

**Vishak Kumar:**

Varun, 2-3 things, first of all, like you rightly said, there is the phasing effect of weddings and festival etc., which you correctly understood. On top of that, like Ashish was trying to explain, the channel mix in our business including some lower margin channels, liquidation channels, etc., so we have seen the revised phasing of business quite early. We kept inventory tight and hence we did not have to do some of those things which give topline, but don't give bottomline. So we kept it in that sense, very high quality sale which was at high margins. Also, tremendous amount of effort went into cost reductions which led to a very strong EBITDA growth as well, okay and we are fairly well priced. If you look at our ranks in department stores, we are 1, 2 and 3 and so on. So in terms of market share also perhaps we would have only gained share, not lost share and all of this is on top of our last year's performance, which is also a huge bumper growth. So Varun, what I would say that it is fine.

**Varun Singh:**

And my second question is looking at the losses over last six months or in the first half, will we be recalibrating or turning down our retail expansion rate?

**Ashish Dikshit:**

Which business are you talking about, Varun?

**Varun Singh:**

Overall, at company level retail expansion in Pantaloons and Madura stores?

**Ashish Dikshit:**

Madura as Vishak just explained, is operating with tremendous strength with strong profitability business doing exceptionally well. There is no reason to slow down anything there. It is very high quality business currently. So there is absolutely no reason to slow down.

**Varun Singh:**

I meant the overall retail expansion rate of the company, for example, we are making losses in Ethnic and TMRW, which is significantly having drag on the overall EBITDA of the company, but that might be the construct of the business, but still I thought maybe is there any reduction in the overall guidance for the financial year with regards to how we wish to expand our retail network?



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**Ashish Dikshit:** So as I was explaining, there is absolutely no reason to slow down network expansion as far as Madura brand is concerned. We will continue to remain with the guidance that we have given. In Pantaloons, we had given a guidance about 30-35 stores for the year. We have opened 15. We will stay with that guidance. In Innerwear is where we have slowed down significantly our retail expansion because the Athleisure market is not responding as strongly and that is the only place where there is a slowdown. Tasva has gone up to a very good start. So we will continue to remain expansion on that, so the strategy is different across different businesses. You have to see company has different pieces at different stage of their evolution and we will take appropriate step for each one of them.

**Moderator:** Thank you. The next question is from the line of Garima from Kotak. Please go ahead.

**Garima:** Could you please remind us when does the GIC branch come in and the exact amount?

**Jagdish Bajaj:** So Garima, GIC's warrant money is likely to come by March. Amount is around Rs. 1,400 crores.

**Garima:** Sir, now that we have already made the 51% acquisition and money has gone towards that and debt levels have increased, do you think debt levels can come down because of any other interventions that you make barring the warrant money that hits you by, let us say March 2024?

**Jagdish Bajaj:** Garima, I would like to stick with our earlier guidance of debt of Rs. 2,800 crores by end of March. This includes the proceeds from GIC against conversion of warrants. The money whatever we generate will be used for the CAPEX, working capital, liquidation and the investments which is going to TMRW for Rs. 100 crore.

**Garima:** My next set of questions was regarding the TCNS itself, any comments on strategic steps that you might take to revise revenues there because it was the first half performance there maybe has been impacted due to the consumption slowdown and particularly in the second quarter, could you clarify why margins of that business were very low, both gross margins as well as the EBITDA margin?

**Ashish Dikshit:** Garima, I won't comment on quarter 2 performance. Most of it was before we came in. It wouldn't be fair for me to comment on that, but as far as we are concerned, we have seen the portfolio of these brands in our stores, in Pantaloons and post acquisition we have started to look closely into the business. I think lot of challenges which business suffered on account of slowdown in Ethnic recovery post COVID and internal challenges with respect to some of the design failures that they had created have been well understood by the business. The business is now fully back on track and the current performance seems a lot better than what it is. It may still take them a couple of quarters to come back to where they were, but at this point of time there is a clear visibility of strong recovery in that business.



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**Garima:** And my last question, could you make some comments or observations on how 3Q has panned out sales, we were almost in a halfway through the quarter across businesses and if there are any differences between business performances that you are observing?

**Ashish Dikshit:** So I don't want to say anything that leads you to conclude anything about Q3. What I would say generally however, is that we have seen large part of festive period during Pooja and part closure to Diwali. Obviously, there is a natural demand revival that happened during this period. I would say also, on an overall level, the picture looks flattish to marginally positive for some businesses, extremely good for wedding related businesses, but for the lower end, the business continues to suffer from the underlying demand challenges, however, festive period performance naturally as you would expect will be far better.

**Moderator:** Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

**Tejash Shah:** Sir, you kind of alluded that the initial feeler from the festive season is somewhere mixed except wedding pocket, I believe the rest is actually flattish too marginally positive that is what perhaps you indicated, so just wanted to know let us assume that the demand does not recover for the second-half, how should we kind of think about or rollout expansion plan that you have just mentioned that you will stick to it, do you think that we will have to revisit or we will go calibrated on that guidance?

**Ashish Dikshit:** Yes, to large extent we have sort of factored in some of these medium-term challenges that the economy was suffering because it started practically from the post festive period of last year and therefore if you look at our strategy shift or calibration was to slow down expansion in the lower end of our markets were let us say Peter England Red operates in smaller towns, Pantaloons, particularly in smaller towns, slowdown in Northern East was more visible, so geographical expansion. We therefore continue to see that similar behavior. Lot of that has already factored in, so as I said, we will stay with our plan of about 30 to 40 stores for Pantaloons. Lifestyle brands continue to expand largely by demand driven, franchise driven model. So it is not really a push model where we decide how much we want to go. There is a lot of demand and therefore franchisees decide that we will continue to that business is doing very well and I think you will see in the second-half as the weddings come back because there is a lot of suits and high end purchases in Lifestyle brands that are related to it. As far as Ethnic business is concerned, I think the best part of the year is coming in now. We are already beginning to see tremendous shift in trajectory as far as wedding related and ethnic businesses are concerned at that higher end, at least the Designer wear, Jaypore, Tasva etc. So to that extent, what we needed to do, we have factored in the sense that we have. We will not need to change dramatically any major shift, and while I have said it is flattish, that is it compared to last festive compared to where we are, it is a significant uptake in demand versus what you saw in the Q2, but that was natural to be expected.



**Tejash Shah:**

And second, considering the widespread brand and the entire distribution network that we have, you would have one of the most, I would say studied and much more insightful kind of access to what consumer is thinking and why certain slowdown post Diwali and then you collect a lot of data digitally also, so just wanted to know both anecdotally and digitally the feedback that you are getting, what is your sense on why consumer has kind of taken such a long time to come back and when do you expect this to kind of change from at least in the near term?

**Ashish Dikshit:**

So it is a tough one, Tejash. We are also still evolving our thesis around the consumers, but as you rightly said, we are a retailer with 4,500 stores. We sell products at Rs. 15 lakh and Rs. 200-300, so we have a reasonably good sort of what consumer voice through its wallet, which is travelling back to us. There are few things which are very clear. Clearly the state of the economy in different segments is almost directly proportional to the income levels. There is relatively lesser stress as you go up in the top and lower at the bottom. Second, there are parts of the country which are more affected by this and perhaps you can connect with the first. Particularly parts of East many states like UP, Bihar, even parts of North India, they are far more affected than the West and South East at this point of time. That is also visible in a geographical sort of the way the sales numbers are playing out. The deeper underlying theory is also really around at some level, we feel that as the discretion in the high inflation environment in society where personal indebtedness is rising, consumer credit is more freely available, consumers are spending on categories which are, I would say more capital in nature and to that extent high inflation, not enough rise in wages as you have seen, is squeezing the discretionary part for some time and this is a part time cycle that happens. There is of course K-shape recovery or factor that people talk about which is higher end of the market is less affected, but the lower end is where the squeeze is much more visible. So as we look ahead this is also cyclical. I think consumers, our category fortunately is somewhere between basic and discretionary, depending on what kind of products you're talking about. So there is a part of the segment you don't cut down on weddings and festivals, so it comes back and also perhaps to some extent it is also a reflection of exuberance that you saw and I would say slightly exaggerated exuberance that you saw in the first half of last year. So the base numbers reflect that. So the companies which are more stable and are not going inorganically by distribution expansion and you look at like to like picture, this is to the best of our understanding reflects the performance differential in our own portfolio. Of course, individual businesses could have factors related to their particular segment, but this broadly reflects current understanding of consumers.

**Tejash Shah:**

And the last one if I may, we have guided on bringing our debt to somewhere around Rs. 2,600 or Rs. 2,800 crore and then obviously there is GIC money which will come through which is roughly Rs. 1,450 crores and then we have our own CAPEX need also, so we just wanted to know, let us assume that this environment has to continue for slightly longer, this tepid growth environment, do we need some more infusion of equity capital to kind of revive the growth engine or do you believe that managing between this infusion from GIC and our own internal accruals will be able to kind of fulfill our internal growth ambitions?

**Ashish Dikshit:**

I think for just for our near-term growth ambitions, we think we are well positioned. We have to go through a period of slightly inflated debt as you said Rs. 2,600-Rs. 2,800 crores, that is our reality, but we had factored that in when we made the investment and we were thoughtful and spent time thinking about how we see our business and a period of elevated debt after a large acquisition is almost a natural outcome and we are comfortable with that and feel that. Most of our investment phase, if you think about it, where have we put capital and how we have used capital in last 12 to 18 months, there is a large TCNS acquisition investment that has gone in, that part is over only the merger part is left, 90% of TMRW investment is done. Our peak losses in Innerwear will perhaps play out this year and after that we will come closer to breakeven or much closer to that. I think except Tasva where we would continue to remain aggressive because the response is absolutely phenomenal what we are seeing and it is a large opportunity. Perhaps all our businesses are coming to a phase where the deep investment phase will come down and we feel that we are well structured to respond around that and you will start to see some of the less capital needy business like Lifestyle brands, Reebok is on a very good growth, but most of it is self funded, Pantaloons, despite going through a phase of very difficult period currently as we see despite these circumstances will be able to generate enough cash to fund its growth. So we feel comfortable with what lies ahead, but I have to say that this level of debt is something that we will have to get used to slightly higher debt level for next, maybe 18 to 24 months.

**Tejash Shah:**

Ashish, just an associated point of observation. So we had an opportunity to listen to Mr. Kishore Biyani on couple of popular podcasts recently and invariably when the question was asked that what led to or what mistake he did in Pantaloon and he very honestly kept on saying that elevated debt was actually an issue and if we had kind of redo it again, that is one mistake that will avoid, I can understand that we have our growth priorities and there is a tepid growth in market also, so between the two priorities as you said, you are also not comfortable with high debt, between the two priorities to revive growth and reduce debt first, what will you prioritize? Like say if you have limited capital and then the growth is not as we expected?

**Ashish Dikshit:**

So of course, Tejash there is no doubt that we will play the game as the constraint play out, but I would only say that as a significant consumer focused business of Aditya Birla Group, we have the mandate and the opportunity in front of us to play out actively. If you look at where we have invested, whether it is TMRW, whether it is Ethnic businesses, whether it is Reebok, these are very strong foundations that we are creating. In a transformational journey at different points of time, many of our good businesses have gone through this phase. We in our own journey have gone through a phase post acquisition in past also. I am very comfortable that this is not something for us to worry about, but we will remain of course responsible to what we have at this point of time and careful in how we invest. There was a phase in which we needed to grow many of these sort of multiple canvas to build long term growth levers and that is what we have done in last 4-5 years, perhaps next few years, we will see a more steady and robust growth of existing businesses instead of multiple new opportunities that we have pursued and built, but we

think that was needed to done to diversify this company and take it into more productive and future ready state, which is what we have done in last few years.

**Moderator:** Thank you. We will take the next question from the line of Richard Liu from JM Financial please go ahead.

**Richard Liu:** Can you explain the gross margin movement a bit, please and I am talking about the standalone business here, so as to not get confused with the B2C piece, I see that your standalone margin is down by about 200 bps from 54% to some 52% and you seem to have attributed into Pantaloon with one of the slides, any perspective on how bad this is and is it a deliberate move to try and grow sales with this weak environment and also in that context it can give some color on how the core Madura brand margin have been moving in recent times?

**Ashish Dikshit:** So I think Richard, different parts of our businesses have played out gross margins differently and I will just take some time to explain the differences. On Madura side of the business as I was explaining in response to the first question that Varun asked, the gross margin has significantly improved, I think between 150 to 200 basis points, large part of it is attributable to the softening of raw material prices, improvement in quality of channel choices that we have made in that and so there you would find the gross margin has increased. The Pantaloons part, we have specifically called out because this quarter Pantaloons performance got affected between 250 to 300 basis point gross margin dilution. It was primarily because in the period between November and March, we ended up because we are on a very stable growth business at that point of time. We didn't anticipate the slowing of demand fast enough and therefore there was an inventory buildup and we wanted to use quarter 2 end of season sales to liquidate that more deeply. It has made the business healthier going forward, reduce our level of old inventory and it was a call that we took to settle the Q2 and it is a combination of these two. Rest would be a share of businesses mix in between.

**Richard Liu:** Just moving on from there and I think you kind of alluded to part of this in one of the earlier questions, but I am just referring to the sales breakup of the Madura brands where EBOs have declined quite substantially while wholesale is kind of much better, I had thought that it would be the other way round, given the festive season delay, any color into this in terms of how much destocking, late stocking or what kind of a picture is if this kind of behavior due to?

**Ashish Dikshit:** So I think it is quite a reflection of the economy. Madura business, especially parts of Louis Philippe, Van Heusen, etc., have a large share in the weddings market and when weddings do well, suits which will be a quarter of our sales or something between a fifth to a quarter of our sales, that business does extremely well. You will see that reversing in the quarter 3, but in quarter 2 as most of the wedding businesses and now we have a portfolio of wedding businesses. We can clearly sort of associate the retail performance where the share of wedding related sales is much higher. That is the part that has affected Madura region, otherwise, the business stands on a very good and you will see, Richard, you will see that reversing in the quarter 3.



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**Richard Liu:** And what about the wholesale part? Is there any pre-stocking on account of festivals or should we expect that also to come in Q3?

**Vishak Kumar:** So Richard, it is both, as you know, the Pooja buildup etc., would have happened, Onam, Pooja buildup etcetera happened in Q2, some parts of it is in Q3, so it is in that sense this year spread as far as wholesale is concerned between Q2 and Q3.

**Richard Liu:** And earlier years, it used to be everything in Q2?

**Vishak Kumar:** Not earlier, it depends on the years. There are years when Diwali is late versus early. Whenever Diwali is November Diwali, this split happens.

**Richard Liu:** And lastly, I am sorry for asking this again, but what was the comment you all have given with regards to how the festive season has been panning out in the last 40 days, I kind of missed that when you talked about it?

**Vishak Kumar:** I think the question was more around Q3, so I want to qualify and say Q3 is still lot is to be played out. So don't read it in that context, but if I were to look at how consumers have reacted during Onam, Pooja, large part of them lying in Q2, some in Q3 and to the parts of Diwali, I would say the festive performance have been mostly flat in some businesses below slightly small negative except wedding related areas where you can see the revival much stronger. That has really been the overall comment.

**Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

**Sameer Gupta:** Sir, firstly on the networking capital, the PBT mentioned Rs. 1,360 crores. When I do a calculation from the balance sheet, I get a number of Rs. 2,000 crores, so just wanted that to be clarified and also between these two numbers, it will roughly translate to around 40 to 50 days if you include TCNS sales, where do you see this number stabilizing because part of it like Lifestyle might have negative working capital, but your growing part of the business like Sabyasachi or Tasva or these B2C businesses that naturally might have higher working capital, also there is some channel realignment going in the Lifestyle brands wherein there is movement towards consignment, so just wanted your thoughts on that, where do you see this number on working capital stabilizing for the whole business?

**Ashish Dikshit:** I think our business is very diversified now, but if you were to put it in very broad buckets of where substantive part of our inventory lies, it lies in our larger businesses, which is Lifestyle brands and Pantaloons and if you look at these businesses and current quarter is perhaps likely to reflect more inflated picture because festives have been pushed up and therefore you build up inventory, you don't have sales at that point of time in the previous quarter, so lower Q2 sales, but higher inventory buildup, but broadly speaking we have operated Pantaloons over a long

period of time in high single digit networking capital to sales. It gets inflated during some period, but comes back to around that, so between 8, 9, 10, maximum 11%-12%. As far as Lifestyle brands is concerned, because the business is increasingly moving to retail shift, the networking capital is a revenue for large part has been between 13% to 15% and we don't expect these two are very strong stable businesses. We don't expect that to move. Rest of the individual businesses currently are small and perhaps have greater volatility if you were to say that and elevated level of working capital, but that is because they are in a slightly higher growth phase or still figuring out the right model till they find the stable area. Does that answer your question?

**Sameer Gupta:** Yes, pretty much, just a clarification on that, Rs. 1,360 to 2,000 crore, which number is?

**Jagdish Bajaj:** Actually you have to look at it. We have equated inventory plus debtors for this, but in public it goes into other current assets and other current liabilities.

**Sameer Gupta:** Second question is on TMRW, so you mentioned that 90% of investments in these businesses have been done, so just wanted a clarification as to how much amount cumulatively in debt plus equity you have invested till now in these businesses, how much more do you plan and the timelines related?

**Ashish Dikshit:** I think it is about 600 to 650 out of 750 is what we have invested and that is the combination of debt in equity and we expect to our next 6 months to invest the remaining.

**Sameer Gupta:** Which would be around Rs. 100 crores?

**Ashish Dikshit:** Rs. 150 crores.

**Sameer Gupta:** Another question, if I may squeeze in, the other part in the Madura, which is basically your Innerwear, Youth Western brands, etc., there I see a moderation in the EBITDA losses and intuitively the Athleisure or Innerwear part has seen a decline, so just wondering what is contributing to the losses moderation here?

**Ashish Dikshit:** So the Innerwear parts of the business, the Innerwear because of the challenge in that market, that segment losses have been moderated, that segment losses, if anything have actually increased the most of the improvement in profits is coming from the higher end of the market which is international brand, The Collective, Reebok is a profitable business. So all of them are actually countering slightly more elevated losses in the Innerwear business.

**Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

**Devanshu Bansal:** Sorry for stressing again on this, but I just wanted to have a better understanding, in H1, our debt is increased by about Rs. 3,000 odd crores and for TCNS, I guess we have paid about Rs. 1,600



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odd crores, so there is a requirement of about Rs. 1,400 crore in the existing business, you mentioned that working capital levels are relatively higher, so just wanted your clarity as in the rest Rs. 1,400-Rs. 1,500 crore, how much of it is because of this onetime working capital elevation, if you could help me explain that?

**Ashish Dikshit:** After Rs. 1,300 crores, about Rs. 400 odd crores would have gone into TMRW, for the remaining, it is a combination of course CAPEX and working cap and it is the working capital part which will reverse in the second-half and that is really why Jagdish has indicated closing debt number which we had indicated even earlier in the range of Rs. 2,700 to Rs. 2,800 crores.

**Devanshu Bansal:** But sir, that also includes GIC investment of Rs. 1,400 crores that?

**Ashish Dikshit:** So we have been consistently stating that for last 6 months, that is what we have said at the beginning of the year, that is what we said at the end of Q1 and that is what we are repeating. So our guidance for the debt at the end of this year including that is Rs. 2,700-Rs. 2,800 crores. So that hasn't changed at all.

**Devanshu Bansal:** Second question was to understand, since we have now acquired 51% and we will be consolidating TCNS in our financials, just if you could provide as a onetime what is the current run rate, annual run rate, so that we for the modeling purpose both in terms of revenue and EBITDA and 4-5 years down the lane, what is the kind of run rate that you expect in this business?

**Ashish Dikshit:** So very short term, I don't think it is possible for us to predict very short term. We have just sort of understood the business. It is going through a transitory phase. So I will want to comment on what you are looking for if that is your question on Q3 and Q4. In the longer term, as we had stated at the time of acquisition, we strongly believe that this portfolio brand is the leader and the most profitable business that has existed in the women's Ethnic wear business over a long period of time. We expect this to reach Rs. 2,000 to Rs. 2,500 crores in next 3-4 years and achieve the double digit with pre-Ind AS EBITDA margin where it has operated for much of its life of last 10-15 years. So I don't think that has changed, but from where the business is today, how long will it take, where would it, it is too early for us to comment.

**Devanshu Bansal:** Just one follow up, what will be the current pre-Ind AS run rate, is it largely planned or is it slightly negative for TCNS?

**Ashish Dikshit:** I wouldn't want to comment. I think you will have to look at the TCNS results because the onetime, so what is the normalized business situation, I wouldn't want to comment. Wait for the quarter, you will get a clearer picture.

**Moderator:** Thank you. The next question is from the line of Vishal B from Bandhan Mutual Fund. Please go ahead.



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**Vishal B:** In the Madura part of the business and the other Lifestyle brands, would you say that we would have lost some market share? The overall market has been reached, I appreciate your views, but on an overall basis, when we look at our performance versus the market performance?

**Vishak Kumar:** No, on the contrary actually Vishal, we have gained share. If you look at like Ashish was explaining, the overall volumes are impacted by some of our depletion volumes, but if you look at our regular business, we have actually most places gain share, our position in department stores or rank in Mall throughputs etc., if anything have only consolidated even further.

**Vishal B:** And this you would say across Madura and other Youth brands as well?

**Vishak Kumar:** I would say this in Madura definitely there four big brands. Reebok, we have significantly scaled up since we have acquired, American Eagle continues to grow significantly. Yes, Ashish was talking to you about Collective and that continues to scale strongly. So yes, across the board, I think we have gained share.

**Vishal B:** And lastly, are there any more wide spaces that you plan to fill? Are there any more missions in certain areas that you would look for or are we through?

**Ashish Dikshit:** See we have created, we have played out the strategy that we had laid out for ourselves. We have repeatedly communicated our intent to build a comprehensive portfolio, self presence in the casual innerwear, Athleisure space, both through Van Heusen Innerwear and Reebok and to enhance a digital presence, which is what we have done through TMRW. So we have multiple sort of strong platforms which we have invested in last 4-5 years and therefore we feel that most parts of the market are very well covered. The next phase of company's growth will come from growing the businesses that we have, refining them, making them better and getting them to the scale that and potential that they deserve.

**Vishal B:** And one more, for the Innerwear business, what is strategy for the coming, how do we improve the performance from here because the overall market doesn't seem to be that excited?

**Ashish Dikshit:** Yes, so short-term look, we will have to go through these periods of challenges in different market conditions. It is a business which is very promising, consumer proposition works very well. We have managed to establish a very strong consumer franchise, a reasonable distribution channel. At this point of time, we will have to wait for conditions to improve before we start pressing lever on the next sort of dimension of growth, which is retail expansion and therefore, we will have to wait out this period of difficulty, continue to make sure that product innovation, brand visibility, continuous distribution expansion that keeps coming.

**Moderator:** Thank you. The next question is from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.



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**Gopal Nawandhar:** I needed some clarification when you talked about trends on the festive side, you have commented you are expecting flattish to marginal positive trends, is it related with the like same store level we are talking about at our company level?

**Ashish Dikshit:** Yes, this I am talking about, this is about Onam, this is about Pooja, which has already happened, Diwali still few days are left, so probably early to say, but going by our experience of previous festive that is the comments was like to like for the previous periods that have gone.

**Gopal Nawandhar:** And the second question is on this recent acquisition by TMRW for TIGC, would you like to give any comment what kind of revenue and EBITDA that business, this brand have and at the same time, that is TMRW, this quarterly run rate of around Rs. 40 crores losses, will it go further up or we should expect a declining trend on that loss trajectory for TMRW?

**Ashish Dikshit:** So second part first, Gopal, I think the peak of TMRW's losses has happened in Q2 in the first half of the year, you will start seeing it slowing down as you go in the second-half of the year. So for the full year, it will be moderated to some extent versus the run rate that you referred to. As far as TIGC acquisition is concerned, I don't want to give actual brand level profitability, but as our press release had announced, the business is close to Rs. 300 crores in revenue, very strong business, one of the leading brands on multiple marketplace platforms and it is a business that we feel will grow very rapidly going forward.

**Gopal Nawandhar:** And any comments on the profitability, whether it is like a negative on EBITDA or?

**Ashish Dikshit:** It is a profitable brand completely self funded so far. So it is a profitable brand.

**Gopal Nawandhar:** And one clarification on gross margin front for Pantaloon, we have taken some correction, are you talking about some inventory write-offs or these are like strategy corrections on the pricing which will have impact on the coming quarters also?

**Sangeeta Pendurkar:** This is Sangeeta. So this is as Ashish mentioned last year our first half if you recall was very good. Post Diwali, we started seeing a little bit of a slowdown and therefore there was some carry forward inventory from last year, both from spring summer and autumn winter, as we started seeing semblance of slow down. So I think what we did during the EOSS period is went into a little bit of a deep discounting to help us clear that inventory and we have done that correction, as Ashish mentioned, to get the business into a healthy shape and now we are going to manage whatever is the remaining inventory in a regular manner that we would do within otherwise.

**Ashish Dikshit:** So this is actual discounts, the markdowns that we gave to liquidate that inventory.

**Gopal Nawandhar:** So this like could be kind of oneoff for this quarter, ideally the margins would have been better if this would not?





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**Ashish Dikshit:** This is exceptional and that is why we call that out. That is why Pantaloon's margin for this quarter compared to same quarter last year, it is markedly lower between 250 to 300 basis points.

**Gopal Nawandhar:** And is it right to assume that all those old inventories are through or will have some?

**Ashish Dikshit:** Yes, the extends of stress Gopal that is there that we have solved for. There is always some rollover that will happen in the inventory, but I don't think there is much too worry about now.

**Gopal Nawandhar:** Lastly if you can just comment because on the TCNS we have seen some policy level changes and some inventory write downs, do you expect any more such when we take over this company?

**Ashish Dikshit:** No, not at all Gopal. We are very confident because we spent time on those a lot more during both the process of due diligence and subsequent management interactions. We have aligned most of the policy, understood the policies and aligned in line with what the broader policies that we follow. Some of them have resulted in one time markdowns that they have to take both in provisioning for returns, discounting, markdown of the inventory, etc. So that is oneoff that has happened. I don't expect that to continue.

**Gopal Nawandhar:** Sir, lastly, on this Lifestyle margins, do you expect these margins can be sustained or there could be some softness on the margins?

**Ashish Dikshit:** See longer term, which is the point that I think Vishak is making, quarter-on-quarter margin changes are both reflection of markdowns, brand mix and channel mix. If you look at the long-term margins, the business has operated closer to 18% to 19% margin, but in every few good quarters we get to 20%-21%. This quarter has been particularly focused on quality of business. To that extent, we have not chased revenue in some of the low gross margin channels. To that extent, we have an upside on the gross margin side just as we have let go of revenue on the revenue side.

**Moderator:** Thank you. The next question is from the line of Udhav Sinha from Locus Investment Group. Please go ahead.

**Udhav Sinha:** I just wanted some color from an overall channel perspective, so if there is any channels that we see that are performing well and on the same side of any sort of channels which we are viewing with some more hesitancy at this point of time?

**Vishak Kumar:** We always believed that we should be where consumers want us to be. We continue to do that. We are very strong players in Malls, we are strong players in High Street. We have very deep connections with all department stores. We operate very deeply. We have lot of convergence of IT systems in merchandise management etc. So those will continue. I think our focus has been to continuously see how we can upgrade to quality of retailing, better superior distribution with better realizations etc. That is something which you continue. In terms of geographical channels



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for short term, smaller towns had more pressure, but that is again something which should change with this festival and wedding season. Does that answer your question Udhav or you have something more specific in mind?

**Udhav Sinha:** Just within, even your department store versus your EBO channels, if there is any color that I could have?

**Vishak Kumar:** They have both their own opportunities. They have both their own relevance. There are consumers who prefer shopping in a multi-brand environment and I do believe that our brands need to be there for that. We have very deep ways of working with Shoppers Stop, Lifestyle, Pantaloon, all we work very closely, Centro, we work very closely on this and they have their own relevance, which is independent of the relevance of the EBOs in both Malls and High Streets. So I would say they are not mutually exclusive, they go together.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing remarks.

**Ashish Dikshit:** Thank you everyone for taking the call and wishing you all and your families a very Happy Diwali. Our stores have lot of good, exciting merchandise for you and your families across the brands portfolios that we have. So wish you all good time shopping and have a great day ahead. Thank you.

**Moderator:** Thank you members of the management. Ladies and gentlemen, 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.