"Aditya Birla Fashion and Retail Limited
Q3 and 9M FY24 Results Conference Call"
February 15, 2024

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Moderator: Ladies and gentlemen, good evening, and welcome to Third 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 Q3 and nine months FY24 performance followed by a question-and-answer session.

We have with us today Mr. Ashish Dikshit, Managing Director; Mr. Jagdish Bajaj, CFO; and Mr. Vishak Kumar, Director and CEO, Lifestyle Business; and 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 risk that the company faces. Please restrict your questions to the quarterly performance and to the strategic questions only. Housekeeping questions can be done separately with the IR team.

As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that the conference is being recorded. With this, I hand the conference call over to Mr. Jagdish Bajaj. Thank you, and over to you, sir.

Jagdish Bajaj: Thank you. Good evening, and welcome to the Q3 earnings call of our company. Let me start with an overview of the operating environment. The market remains subdued as inflationary pressure continued to affect households, significantly impacting overall discretionary spending. The quarter exhibited varying performance with a stronger festive led sales in November compared to the months of October and December, which were affected by inauspicious period. Further factors like fewer weddings and winter delay led to an overall sluggish Q3.

Throughout these times, we have consistently demonstrated agility with sharp focus on enhancing our operational metrics. Our brands have actively pursued visibility through numerous impactful campaigns across occasions. We remain committed to delivering exceptional products and experiences to our customers. Furthermore, we shall continue to maintain our position in the market through targeted expansions, multiple strategic brand-building initiatives and enhancing capabilities.

Now I will talk about financial performance of our company for this quarter. The company delivered revenue of INR4,167 crores, a growth of 16% of same quarter last year, primarily driven by its new lines of businesses. Please note TCNS has also been added to the financials from this quarter. Our standalone sales stood at INR3,516 crores, growing 5% over last year. The company achieved consolidated EBITDA of INR605 crores with margin expansion of 150 basis points to reach 14.5% versus 13% last year.

At a standalone level, business achieved a 315 basis point expansion to reach 17.4%. Improvement in gross margin and lower markdown contributed to EBITDA margin expansion in this quarter.

As you know, we have been executing a transformational strategy to build new businesses in high-growth segments with large potential in the long term. These new business lines have become substantive growth engines for our company in the last three years. The growth segments of Ethnic, Digital and Sportswear contributed approximately 20% to total ABFRL revenue in this quarter.

The company's consolidated PAT was negative at INR108 crores, impacted on account of high depreciation and increased interest cost due to higher borrowings this quarter versus same quarter last year. Our net debt at consolidated level post TCNS consolidation stands at approximately INR4,000 crores. We maintain our previous full year debt guidance for FY24 as communicated earlier.

At the end of Q3, including addition of TCNS network, our store network now stands at 4,753, including 21 stores in international markets, spanning across a total retail area of 12.2 million square feet. Our brands continue to expand strategically in key markets, while in parallel, driving improvement in network helped by pruning nonperforming stores.

For YTD Q3, company posted revenue of INR10,589 crores, reflecting growth of 11% over the same period last year. EBITDA for YTD Q3 was INR1,326 crores with EBITDA margin of 12.5%.

I will now take you through the performance of individual businesses, starting with Lifestyle brands. Lifestyle brands continued with their strong trajectory. The brands strengthen their position with customers through high-impact brand campaigns and aspirational and innovative product offerings. These brands continue to gain much stronger position with the third-party partners including departmental stores. Premiumization, product innovation and markdown management continues to be the key strategic levers for Lifestyle brands.

Lifestyle brands achieved the highest-ever YTD Q3 EBITDA level with a conscious strategy of cutting down less profitable channels, marginally impacting their sales growth. I would like to point out that this revenue is on a base of 18% growth in same quarter last year. Quarterly revenue for the business was INR1,815 crores led by gross margin improvement and increased focus on profitable channels. EBITDA for Q3 stood at INR349 crores. EBITDA margin for Q3 was 19.2% and expansion of 230 basis points over last year.

During the quarter, the business added a net of 36 stores as brands continued their expansion in key markets in line with the long-term strategy along with pruning the network by exiting poor performing stores.

Let me now talk about youth western wear, which consists of American Eagle and Forever 21. American Eagle experienced another quarter of impressive performance achieving a 34% revenue growth compared to last year. This growth was driven by significant distribution expansion and a strong acceptance by consumers. American Eagle added 10 new stores in Q3 as it expanded its network to 59 stores. The brand is available at 100-plus departmental stores, a channel that has rapidly been scaled up over the last one year as the brand gained strong affinity amongst consumers. Forever 21 continued to face headwinds, while trying to correct its business model towards improving viability for eventual scale up.

Now about Reebok. The brand posted another quarter of INR100 crores-plus profitable sales on the back of rapid distribution and e-commerce expansion. The brand is now available at 160-plus stores and 800-plus points of sales across departmental stores and multi-brand outlets. The brand has also significantly scaled up its e-com business, driven by deeper partnership with all major e-com players. With a strong trajectory of American Eagle and Reebok, we now have two new potential mega brands in our portfolio complementing existing four lifestyle brands.

Let me now speak about innerwear business performance. The innerwear and athleisure wear category sustained decline in demand and sales volume due to shifting consumer preference away from athleisure post-COVID. The business in Q3 FY24 was impacted primarily led by athleisure slowdown, while the innerwear category posted a 5% growth over last year. The brand has added over 2,000 trade outlets in the last nine months to exit Q3 with 34,300 trade outlets. The recent campaigns launched by the brand have generated higher levels of engagement, awareness among our customers with respect to the brand. The premium part of the portfolio, the Collective and other super premium brands continue to show resilience despite the overall market slowdown. It witnessed a solid growth of 16% Y-o-Y. The collective.in witnessed a 50% growth over last year as it continues to be one of the top e-com luxury destination for consumers in India.

Moving on to Pantaloon business. Inflationary headwinds continue to affect demand in the value fashion segment, particularly in lower tier markets where the impact still remains more pronounced. Pantaloons recorded quarterly sales of INR1,297 crores, a growth of 12% led by festive shift and an LTL growth of 3%. EBITDA for the business grew 40% to reach INR235 crores led by lower discounting and effective cost control measures.

EBITDA margin expanded by 360 basis points year-on-year to reach 18.1%. Pantaloons added 10 new stores while closing three stores in Q3 as the brand focused on enhancing the quality of distribution network. Brand continued to improve customer experience and drive store productivity while also focusing on refining the proposition towards customers.

Now Ethnic portfolio. This quarter, our Ethnic portfolio achieved revenue of INR550 crores. Brands, other than TCNS, posted year -- Y-o-Y growth of 43%, led by network expansion and a strong traction witnessed during the festive and wedding season. Businesses continue to expand distribution given the largest addressable market for any category within fashion apparel. The brands other than TCNS added 14 new stores during the quarter.

Sabyasachi grew 43% Y-o-Y, led by strong LTL growth at the back of a strong performance in jewellery. Brand recorded its highest ever quarterly revenue crossing INR150 crores milestone as new stores in Mumbai and New York maintained strong sales momentum. Shantnu & Nikhil posted 30% growth Y-o-Y as its Pret label business, S&N, grew 42% over last year, led by 20% L2L growth. House of Masaba posted 16% growth as it expanded its network to 14 stores this quarter.

Our Men's premium Ethnic wear brand Tasva, developed in collaboration with Tarun Tahiliani is now available at 67 stores. The brand has continued to work on its product and build awareness via multiple campaigns on both digital and offline platforms. The brand witnessed a strong interest during its first full festive wedding season as brand double its revenue over last year. Festival L2L for the business stood at 62%, though based on a smaller number of stores is particularly encouraging for us and gives us confidence of our product, design and brand being loved by our customers. Tasva shall continue to incorporate the learning from this festive & wedding season and further strengthen its proposition going forward.

For TCNS, its revenue in Q3 stood at 91% of last year with EBITDA at negative INR8 crores. This quarter too, TCNS experienced an impact on profitability due to alignment with ABFRL policies, which is expected to persist for another two, three quarters. The business has continued to refine its product offerings versus consumer insights and feedback, resulting in newly launched products receiving exceptionally positive feedback from both consumers and channel partners. As TCNS undergoes transformation, it remains focused on increasing store throughput, getting back to its winning range architecture and leveraging ABFRL synergies to bolster its capabilities and drive efficiencies.

TMRW, revenue grew to 3.7x of last year. This quarter, TMRW also completed the integration of The Indian Garage Company into its portfolio. With TIGC getting added, TMRW is now scaled up rapidly to an ARR of more than INR600 crores. TMRW has continued to build value for acquired brands through strategic and operational improvement.

To conclude, in this challenging environment, our new businesses have continued to add scale to our overall revenue with these businesses already three-folds of last year, they are poised to become crucial growth drivers for our company going forward.

In addition to this, as the consumption environment and market condition improves, our established businesses are also set to experience robust growth. With our continuously evolving fashion proposition, focus on price value balance and a strong business model will continue to take necessary steps in terms of expansion creating an environment conducive to sustainable growth. Thank you, and we are now open to questions and answers.

Moderator: Thank you very much. We'll now begin the question and answer session. The first question is from the line of Garima Mishra from Kotak.

Garima Mishra: Let me first start off from my Q&A with a question on Pantaloons. Can you elaborate a little bit on a few initiatives that you've taken, which have actually driven this sharp Y-o-Y margin expansion?

Sangeeta Pendurkar: This is Sangeeta. So I think there are two or three aspects that we need to keep in mind. Of course, in this difficult environment, Pantaloon's top line growth at 12%, I think, is a pretty good performance, but that has come with the benefit of the slight shift in Pujo that we saw in this year versus the last year. And therefore, there is an intrinsic top line growth benefit that has come to us. Of course, it's backed by a strong strategy that Pantaloons has that we continue to pursue.

But I think to your specific question on the bottom line and on the margins, we have put in a very large set of actions to double down in terms of reducing our cost. And this goes across every single cost line item. Looking at our overheads in a very, very detailed manner and taking some actions to control costs in this tough business environment.

Two, reducing costs, operational costs, whether be it in our stores or in our supply chain. And the third one I would call out is optimizing our markdowns. For example, in festive, we pulled off some of our offers. As our proposition gets stronger, we also believe that we need to make these choices where we can sell full price, we have an opportunity to optimize full price sale.

So therefore, I think it's a very set of concerted actions that has helped us achieve this margin, of course, with the benefit of a better top line.

Garima Mishra: Understood. Just in case of Pantaloons, how large is online for you now? And you specifically mentioned that for Madura, some of these online and maybe unprofitable channels have been curled. Is a similar thing being done for Pantaloons e-commerce sales as well?

Sangeeta Pendurkar: Yes. So I think, as I said, we are looking at costs across every single channel, every single line item. The online business is about 3%, 4% of our total sales. And even there to get our business model to be stronger, be it in both the channels, whether it's rationalizing our stores, which are not profitable in retail or looking at operating costs in the online business. We've looked at both and we've rationalized some of those.

As we go forward, we will continue to rationalize some of our stores, which are not profitable, perhaps even more aggressively and the same would apply to the e-commerce business. That's overall in terms of the business model.

Garima Mishra: Understood. My next question is on Tasva. So Tasva business has scaled up pretty rapidly to 67 stores. How are you thinking about your future store addition strategy? Is 67 a number you are happy with? Or you think this number could be easily double, tripled in the next, let's say, two, three years?

Ashish Dikshit: Garima, for medium term, we had indicated a network of about 200-odd stores that we want to build eventually for this business over next three, four years. We've got the first 67 stores. Perhaps by the end of the year, it may go to 70 or a little bit around that. We are also learning as we expand on which of the markets, which are more ready, how to expand deeper in some markets, slowdowns in some of the markets, etcetera. But our guidance about perhaps at this point of time, maybe 30, 40 stores a year is what we would see.

The other shift in expansion strategy would be, we are finding tremendous traction in bigger cities. And therefore, some part of our expansion will be more -- a large part of our expansion will be looking at the top 8, 10 cities where the market is more ready for product like thus why in terms of sophistication and design aesthetics. But the store number that we had indicated when we thought about this brand and launched the brand, that pretty much remains an important milestone for us to get in next three, four years.

Garima Mishra: Got it. Got it. And my last question was on TMRW. So you mentioned that the portfolio as such has achieved annualized revenue run rate of INR600 crores. At what revenue run rate does the business breakeven and by when you seek to achieve that?

Ashish Dikshit: I think it's too early, Garima, honestly, for us to give a number for that because it's a function of two things. TMRW business model is accumulation of individual brands plus TMRW's own cost structure that is required to add value to these businesses. In our own estimate, it doesn't seem to turn profitable at least in the next three years. And that's the kind of time that we need to get this business to get to that level.

Garima Mishra: Understood, Ashish. But when you make that estimate, are you also assuming that in the process, you will keep on acquiring new brands over this time frame as well?

Ashish Dikshit: So Garima, when we launched this business, we had clearly allocated a certain amount of capital, which was part of our overall capital allocation strategy. A large part of that capital is being used. We'll perhaps look at some add-on small acquisitions as we go along and consume that part of the strategy. But subsequent brand addition would largely be driven by as the market improves TMRW's own fundraise efforts, which will perhaps do towards the end of next year.

Moderator: Next question is from the line of Nihal Jham from Nuvama Wealth Management.

Nihal Jham: Sir, three questions from my side. First is, in case of Lifestyle brand specifically, it is in terms of its positioning a little more premium than a lot of our other categories. Does the overall slowdown, in a way, explain the muted growth that the segment has seen? And if I compare versus Pantaloons, is it mainly the festive shift because of there is a divergence of the performance between the Lifestyle brand and Pantaloons?

Ashish Dikshit: So yes, there is a slowdown, and it is reflected in the amount of footfalls into mall stores, etcetera. We also took a conscious call, Nihal, to scale down on discounting, okay? So that is also -- which is what has helped us to significantly expand margins. We recognized that in this market situation, it would be a sharper strategy to stay tight on discounts, manage for profitability, which is what we have done.

So we were able to make the most of the footfalls, which came into the stores, which was linked with the premiumization strategy that JB spoke about in his opening speech. So I think all of that together, the market was tough in terms of footfalls, Nihal.

Nihal Jham: Understood. And if possible to share what is the like-to-like growth for the segment? Not sure if I could find the PPT this time.

Ashish Dikshit: Yes. I mean, apples-to-apples, it would be flat to small negative, Nihal.

Nihal Jham: Understood. The second question was on the fundraise part of it. I see there's a small press allotment, which is insignificant number. So if you could just highlight on that? And are there any plans other than the GIC planned amount, which is due in March in terms of fundraise?

Jagdish Bajaj: Nihal, this notice is primarily to redeem the existing preference share capital. As per the regulatory requirement, the existing preference shares are falling during the month of March. And if we don't have adequate profit for distribution, we have to raise the fresh preference shares. That is the notice we have sent it to stock market. So except GIC right now, there is no intention of any.

Ashish Dikshit: And Nihal, this is just a small amount. I think the total amount is about INR1 crores. So this is more a procedural thing. As far as fundraise is concerned, there is no immediate plan.

Nihal Jham: Just one last question was that on the innerwear side, I see a decent increase in terms of our reach at least in the last few quarters. So are we looking at getting our aggression back on that segment or anything specifically you want to highlight on that side?

Ashish Dikshit: We'll have to look at the drivers of growth in that segment. Distribution expansion is one, but a large part of that business is you can make out from study of that market is -- was built around athleisure, activewear and those other categories, which are currently seeing depression in volumes. And so innerwear would be the business aggression is also a function of market situation in these categories.

On the innerwear side, we'll continue to grow because, as we said, it's a long-term target that we have. We believe we have got a strong brand, great product proposition backed by good innovative products, and that's something that consumers are seeing right across. We will not change from our long-term trajectory on that, but we'll have to moderate its growth ambition looking at the overall stage of the market.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: A couple of questions. First on Lifestyle Brands. Vishak, you spoke about market condition being tough. But at the same time, it seems you choose profitability over discounts. So just wanted to understand, is this a sign of confidence on the quality or quantity of inventory we are carrying? Or is it more of a competitive response to something?

Vishak Kumar: Yes. Tejash, I think you picked up the right issue. We saw this fairly early to say that, look, let's stay tight on inventory, okay? And let's make sure that we are driving very strongly on the fresh business, full price business, etcetera, okay? So our pressure for discounting was lesser as well because of the health of inventory. And we hence recognize that, look, let's maximize festival business, wedding business and so on. And that's what we drove, Tejash. So I don't know if that answers your question.

Tejash Shah: Perfect. Second, on Tasva. So 60 plus stores is a very good base that we have now. So Ashish, just wanted to know, would you be positioned to share any qualitative or quantitative comments on the operating metrics in terms of sales per square feet or inventory kind of that we have to carry any ROC of payback period in any of those initial metrics that you can share?

Ashish Dikshit: I think -- I mean the only reason I would hesitate sharing some of these numbers is primarily because, one, business is very new; second, the experience is quite divergent and variable across different markets, and we are experiencing that; and third, it is highly seasonal, and we have just experienced one large festive season. I have to say we are positively surprised despite our best intention and desire to build a very strong business. We are very positively surprised by the uptick that we saw in the wedding period, and therefore, that gives us confidence about the overall product and the brand proposition.

Needless to say, we had invested in it adequately to get to that outcome. But it's too early because the performance is in the wedding period, the sales is so much higher than the non-wedding period. It's difficult for me to assess whether it is because the non-wedding period happened in the early stage of life of the brand, the awareness was low? Or is it just the seasonality of the business. So I would request, Tejash, to hold on for some more time in this before we can confidently and reliably give you metrics on that.

Tejash Shah: Got it. And if I may squeeze in one more on Sabyasachi, so very good numbers. But I just wanted to, what will be the share of jewellery here? And where do you see this number settling down in the overall Sabyasachi as a franchise?

Ashish Dikshit: So currently, it's about 25%, 30%. And I think it's a business, which is gaining traction as the confidence grows in this segment. It is a segment of one player right now. There are very few brands, if any, which operate at the price points that this operates. So the market will grow in that. Hard to say long term where it will sit because right now, accessories and apparel are growing also extremely well.

And as the business grows, they will also have traction. But -- I mean, at this point in time, it looks like the share of jewellery will continue to increase and jewellery will grow faster than the other parts of the business.

Moderator: Next question is from the line of Aditya Soman from CLSA India.

Aditya Soman: Sir, two questions. Firstly, can you just give us any sort of indication of how the brands within Madura have fared? And any reason for the differences, if any? And secondly, I mean, just on a sort of more medium-term or long-term strategy. We've seen this quarter that there's a significant amount of growth that is coming inorganically, but some of the organic growth has been subdued because of conditions and otherwise. So how would we expect the mix of inorganic versus organic, let's say, over a medium term?

Ashish Dikshit: So Aditya, the first question, we don't break down the brand-level details in public domain. So I will stay away from that. But I would give you a flavour that broadly, the performance is very similar across the segment. And as Vishak explained, the level of challenge that we had even in the premium brands, that was visible in this quarter. .

The only additional point I would say, there is a geographical difference and not the brand difference, where the smaller tier towns seem to be suffering a lot more and that's consistent across brands, whether it's Lifestyle brands or Pantaloons, we've seen it consistently across. So that seems to be the bigger driver of state of the market than the individual brands in that.

Coming to your question around the share of new business versus old business. As you know, Aditya, we've been on a transformational journey of building very large new platforms and potentially very, very large markets. The entire Ethnic wear strategy, sportswear category, the entry into D2C were very long-term bets that we have taken, and we have executed that strategy systematically over the last three and half, four years.

I think what you're seeing is the early signs of the outcome of that strategy, where this quarter, about 20-odd percent-plus came from the businesses that we have added to our portfolio just in last three, three and half years. And as this portfolio settles down, obviously, this will also become part of the organic business. At some point, we'll have to call this also organic as the strategy plays out.

I would say both in organic versus inorganic, the way to look at our business is the segment that we operate in. We have two retail formats at the top end of the collective and the bottom end is Pantaloons, which also has the layer below, which is Style Up. And we have a portfolio of brands in the Western wear segment, which is our traditional business that we have build over a longer period of time. We have added Reebok to that.

We have a portfolio of brands in Ethnic wear segment, which is a portfolio we have built with seven, eight very, very strong brands in a large market. Just added over the last three and half years, and we have portfolio of brands, which are digital D2C brands, which is under TMRW. Now these are five platforms, which is retail formats at the top and bottom and the brands in the middle, which is really the part of strategy that we have played out over the last few years. You will see as these -- each of these businesses grow.

Many of them are early stage, and therefore, the growth potential is higher because the bases are very small. But individually, each one of this is a very large market.

Aditya Soman: I think that's very clear. But I'm just trying to understand from -- and I understand that these businesses will become organic. The main sort of point of the question was whether we would be -- if you would be adding more brands or in the near-term focus is to stabilize what we've grown or built over the last two, three years, at least in, let's say, in the next two, three year period?

Ashish Dikshit: No, fair question. If that is the question, the answer to that is no. We have stated that -- I think we have laid out the strategy in where we wanted to play. And over the last three years, three and half years, we have systematically executed that strategy. I think we have come to a point where we're happy with filling all the large potential spaces, and we are not looking at any inorganic play for next near future. At this point of time, our plate is full. Our balance sheet is stretched. And I think we've got the right opportunities to play in. And you can expect, therefore, more organic businesses.

Moderator: The next question is from the line of Anurag Lodha from Axis Capital.

Anurag Lodha: Just one question. So like, what was the interest cost for Q2 and Q3, excluding the leasing?

Jagdish Bajaj: My effective interest rate is somewhere around 7.7%.

Anurag Lodha: Okay. So 7.7% for both quarters?

Jagdish Bajaj: They have gone down by 10 basis points -- 10 to 12 basis points between Q2 to Q3 because of the general interest rate environment, yes.

Anurag Lodha: Understood, sir. And just one more on that. Also, sir, what was the incremental impact from the TCNS acquisition that -- I mean, in Q3? Because you have taken debt and acquired. So now I guess the interest cost would reflect this as well, right?

Jagdish Bajaj: So I said that we have borrowed around INR1,700 crores for this and that is the incremental...

Ashish Dikshit: But Anurag, we have taken that in the middle of Q2, if you know the debt. And therefore, even during that quarter, we had at least half of that quarter, we had that impact.

Anurag Lodha: All right. Okay. And the rate was similar at this year?

Ashish Dikshit: Yes, it is similar.

Anurag Lodha: Understood. And so just one more clarification. You said net debt was INR4,000 crores, right?

Ashish Dikshit: Yes.

Moderator: Next question is from the line of Kunal Bhatia from Dalal & Broacha. Your audio is not clear. Can you please speak through the handset?

Kunal Bhatia: Can you hear me now?

Moderator: Yes.

Kunal Bhatia: Sir, I just wanted to understand in terms of this quarter, we have seen the margin was a good surprise both either we talk about Pantaloon or the Madura business. This time were there any kind of one-offs, which might not occur in the future? Because I understand that there were a few cost initiatives, which we had taken. At the same time, we had taken off some offers from the play. So -- is this kind of margins, what percentage would be more on a sustainable basis? If you could give some flavor on that, sir?

Ashish Dikshit: So I think in each of the businesses have different drivers for margin improvement. As Vishak took you through, a large part of margin improvement came from discipline around which channels to play and how aggressive to be markdown management, how much discounts we are giving during festival period. So some of those who has come, it obviously has come the business had to sacrifice some growth to get that kind of margin. Is it sustainable? Yes. But would we always play the same game? No, I think we'll have to keep moderating depending on the market condition.

This time, our judgment was that there is low elasticity of demand to some of those activities, and therefore, we went for the margin. But essentially, over a medium to long term, we will have to pursue slightly more aggressive growth as we go forward. And therefore, margin to that extent quarter-on-quarter will vary. On Pantaloons, Sangeeta did talk to you about the cost measure that business has taken. I think those are sustainable cost measures and those are done in a manner that these are not one-offs, these are not like rental rebate that we got during COVID and subsequently. These are more structural in the nature.

But you know we are fixed cost retail business, the largest driver of margin is revenue. And Pantaloons has the benefit of festive period in this. In good market conditions, Pantaloons has, in the past, also delivered this kind of margin. If you look at H1 of last year in FY23, Pantaloon's margin structure is very similarly, each of the two quarters. So Pantaloons is correcting its cost because we see tough environment to continue.

Will we get the benefit of scale of festive period all the quarters? No. So you will probably see margins being more related to the overall revenue at that point of time. But keeping in mind that we are facing headwinds in the market, I think that Sangeeta had laid out our structural cost steps that we have taken and we'll continue to take that. But will the margin hold? It's harder to say in Pantaloons because you would have the benefit of festive period all the time.

Kunal Bhatia: And finally, so what was the inventory at the end of Q3?

Ashish Dikshit: I think each of the businesses are at different level. I don't think we have any challenge on inventory being high or additional as far as the core businesses are concerned. There is always a post-festive period. There is some bit of lots of sales that a quarter like this we experienced, but that level of fluctuation get sort of digested in the regular business operations.

Kunal Bhatia: Okay. Fair enough. And if you would share the number on that -- or it's okay.

Ashish Dikshit: I think if you can talk to Amit, post the call.

Moderator: The next question is from the line of Nisarg Vakharia from NV Alpha Fund.

Nisarg Vakharia: All my questions have been answered.

Moderator: Next question is from the line of Varun Singh from ICICI Bank.

Varun Singh: This is Varun Singh from ICICI Securities. Sir, my first question is like in the sector, we see premium price point segment sector, etcetera, to be outperforming compared to value. This is what the case recovery, etcetera, that everyone is talking about. For a few apparel companies also, we see Tier 3 cities to be maybe significantly underperforming compared to Tier 1, 2, etcetera. And given the similar kind of a context, which is a general slowdown, maybe less number of readings, if not number of wedding days in the current quarter and all those things.

We see, in our case, Madura to be maybe significantly underperforming compared to Pantaloons. So of course -- in Madura, I mean, I'm specifically talking about Lifestyle brands. Yes, so like what are your understanding reasoning of -- I mean, looking at these two numbers if you can share that?

Ashish Dikshit: So to a large extent, I think the phenomenon that you said continues to hold true, smaller markets, smaller towns, consumers at the lower income segments continue to suffer more than the other customers. And to that extent, your broader thesis is correct. And most of the period, if you don't go by quarter-on-quarter, if you look at the medium term, that phenomena is absolutely correct.

I think on Lifestyle brand performance, Vishak explained. It seems -- it is a larger part of conscious strategy, which we are driving in that. Because longer term, a journey of premiumization would require us to manage that difference with other brands in the space. We are investing a lot in these brands. We have to build longer-term premiumization. In the medium term, on a very large base that we had last year, where I think the nine-month growth rate last year was -- nine-month growth rate was close to -- we will give you a number.

But I think it is higher than 50%. The Q3 growth itself was 18%. So we're growing very rapidly on that business. And it's more an internal adjustment to the grade, but the CAGR, over a period of time will continue to remain strong. So I don't see it -- while the numbers may appear so I don't think it is in contradiction to the broader understanding of the market as you have explained.

Varun Singh: Okay. So you are saying that we should expect maybe Madura to grow at a faster rate compared to Pantaloons in the near term?

Ashish Dikshit: The challenge for Pantaloons are very different because of the distribution that they have in smaller towns, and that will remain a problem as far as that segment remains. Madura is in a very different segment, the strength of the brands are very, very different. The premium segment to that extent is less affected. But I think it's a choice on margin and growth that we are currently taking.

Varun Singh: So my second question is squarely on the choice between profit and revenue growth as we called out in the opening remark of -- I mean not participating maybe with higher intensity in the discounting, etcetera. So -- and even in case of Madura, I mean, I could clearly see the strategy to be executed well given the revenue growth in Madura brand has been much, much higher compared to maybe the own brands. .

So in this context, sir, just wanted to understand that higher EBITDA margin with a choice or like a strategic choice of opting for even if the revenue growth is relatively slow, how sustainable you think this equation could be -- I mean from a very -- if not too much medium term, I mean from the next one or two years point of view, given the competitive intensity and all those things in the background?

Ashish Dikshit: See, in the medium term, and you're talking of one or two years, growth is important for businesses. So in short term, we could take a call a quarter here, a quarter there, holding back. If the growth remains a challenging issue, we will have to get more aggressive. The method of getting aggressive is really what we need to decide. As a long-term player, which is investing in the brands, I think our primary focus will be to continue to expand distribution, invest in the brand and allow natural organic growth to play out, and we are very confident that's what we play out.

It's not an active choice that we'll continue to make in the medium term that we will not -- or we'll compromise on growth to get profitability. In short term, we have to take inventory decisions, looking at the best judgment of the market, and that's what we'll do in the short term, but medium term growth is important. Early double-digit revenue growth is critical and essential part of our strategy for existing businesses. So that will remain an important priority for it. And that, for medium term if you need to sacrifice some margin, we will do that as well.

Varun Singh: And sir, just one last question, if I may, on TCNS in the opening remarks, we made statements like we are doing -- I mean, under -- the brand under transformation, etcetera. If you can help us understand from objective lens, what are the incremental transformation things that we are doing at the brand level, maybe to turn around the brand from both growth and profitability perspective? That's my last question.

Ashish Dikshit: So first fundamental level, let me tell you that and assure you that a lot of steps the management team had already started to take as they came out of COVID and realized what needed to be done. Some of the product correction, the architecture change that needed to happen that is already on play and some -- to that extent, the brand has already started to perform well as far as the front end of the retail is concerned.

What we need to do is to combine the strength of the two companies, whether it is go-to-market, whether it is retail costs, whether it is sourcing synergies possible. And to some extent, rationalize the network like we are doing in some of our other businesses to get profitability without necessarily sort of chasing strong growth at this point of time. We need to build the business healthier first before we grow it. And I think those initiatives are focused around cost, which is network cost, synergies that are coming through.

The front end of the business, which is product improvement, design integration, getting aesthetics with the product, right, I think that is already playing out very well, and we'll have to see for the next couple of quarters whether that improvement is sustainable, but it's already beginning to take shift.

Moderator: Next question is from the line of Ashish Kanodia from Citi.

Ashish Kanodia: The first question was around the markdown management and discounting. So just wanted to understand, have you seen this as an industry phenomena as well where other players are also kind of curtailing the discounting? And on the similar line, you also said that demand was inelastic, so -- I mean, just to understand, is it more that even if there was a higher discounting, it would have not driven higher sales?

Or the other way could be that consumers who wanted to purchase because of festive wedding and all would have anyway purchased, whether it's a full price sale or discounting. So just wanted to get your sense on this one first.

Vishak Kumar: Yes. So Ashish, first, as you know, Q3 is also strong wedding quarter. And a large part of the wedding business is full price business. That is not a business where consumer wants variety, freshness, newness, innovative designs and so on. And that's the part that we had maximum focus on, right? There are other parts of business, which is with old season merchandise, liquidation, etcetera.

And that is where we scaled up because also we didn't have an inventory problem to solve for, and we didn't want to create inventory just for discounting, etcetera. The market was tight on some of the other segments, beyond the wedding segments. And to that extent, you are right that there wouldn't have been too much of elasticity with greater discounts. So you -- it was in that sense to optimize for rupee profit rather than to be able to optimize for just revenue.

Ashish Kanodia: Sure. That's helpful. And second thing, in the Pantaloons and in the slightly affordable price segment, are you seeing that the competitive intensity has kind of increased in the last, say, three, four quarters or so? And secondly, from a planning perspective, when you think about the next 12 to 18 months in terms of store growth and investing in branding, marketing, where do you see more focus? Is it going to be more on, say, Reebok, American Eagle and maybe Lifestyle by Pantaloons to a certain extent, maybe within Madura, Peter England takes slightly a calibrated approach. Your thoughts on that?

Ashish Dikshit: I think actually, it's a very broad question across covering multiple segments. Let me try and see if I can answer you satisfactorily. See as far as the small format, branded stores are concerned, whether it is Peter England, Louis Philippe, Van Heusen, Allen Solly, American Eagle, they're largely driven by our understanding of market opportunity, very often a franchisee who sees that opportunity in that market or a new model coming up.

And therefore, to that extent, these growths are more organic. Of course, brands like Reebok and American Eagle in very early stage. These are finding very strong traction. So they will grow at a much faster pace because there's a very large opportunity available. Distribution is very low in these brands.

Your other question, which is slightly different. It's about the competitive intensity in the segment of Pantaloons, I would say and argue that Pantaloons has very strategically and steadily and consciously over the last three, four, five years, had chosen a path to premiumize itself, which has separated itself from some of the very competitive value play where large amount of competition has happening. The fact is you have seen how many players have come in, many more have announced entry. And yet Pantaloon's performance remains robust to the extent the economy has allowed to do that.

It's a validation of the strategy that we have chosen, which is to take Pantaloons above some of these players, and that's playing out very well for us. In the longer term, we believe that, that strategy that will actually allow us to build longer-term value and create profitable business for Pantaloons. The competitive intensity is more below that and that's where we have also got Style Up as a play. It's an early stage. We now have about 25, 30 stores. We probably would have launched about 20-odd stores this year. We will continue to expand that business.

And as our confidence grows, we'll go and expand it a little bit more aggressively. But at this point of time, that's our response in that segment. I think Pantaloons' strategy will be guided by its own performance. We had said we'll open about 30 stores this year. We'll continue to drive that. And I don't see a shift in that strategy. We look at a similar number next year as well.

Moderator: Next question is from the line of Himanshu from Dolat Capital.

Himanshu: Sir, just a couple of questions. Can you help with pre-IND AS margins for Lifestyle and Pantaloons business for either Q3 or preferably nine months FY24?

Ashish Dikshit: We don't do that because it creates confusion on that because then people will need quarter-on-quarter, then we simply -- sort of simplified the whole business by giving only post-IND AS margin. That's a consistent policy we have followed for the last two and half years.

Himanshu: Okay. And secondly, sir, we are talking about rationalizing stores in Pantaloons. So can you provide some color, like what percentage of stores are we looking to rationalize? And what kind of cost savings or it can have?

Ashish Dikshit: So it's not specific to Pantaloons. I think the comment is very similar, whether it's Lifestyle brands, Pantaloons and any of our other businesses. As the market conditions are tough, we see consumer sentiments sort of where they are today. At this point of time, we are looking at costs far more strictly. And therefore, the rationalization is something that we are looking it at across businesses, whether it's innerwear stores, Pantaloon stores, Madura Lifestyle brand stores expansion. So that will remain same.

I think as we announced in this quarter, we have opened about eight, nine Pantaloons stores and closed three, four stores. Net seven is what we have added. And we'll continue to look at it. I think at this point of time, that seems to be the more prudent strategy. We will expand in markets where we see the opportunity, which is bigger markets, towns where the impact of slowdown is much lesser. While the smaller markets where we see fundamentally market conditions not improving, that's where the rationalization work.

Moderator: Next question is from the line of Sanket from Ambit Capital.

Sanket: Sir, can you just give guidance for store addition of Pantaloon for FY24 and FY25?

Ashish Dikshit: Sorry, there is an echo at year end. Can you just repeat the question?

Sanket: So what is the store addition guidance for Pantaloon for next two years, '24 and '25?

Ashish Dikshit: We just -- as I just said, this year, we had set close to about 30 stores. We will open 30 stores. Next year, also, we look at 25, 30 stores kind of additions. So I don't think it will be any different from what we have done this year.

Sanket: Okay. And one more question, sir, with respect to Section 43B(h) of income tax. So since we have payable days more than 100. So is there any impact for us due to these provisions?

Jagdish Bajaj: These are relating to MSME, and we are undertaking a study and we'll come back to you on that. But right now, I don't see that MSME, we have never defaulted. We are always in time to pay them.

Sanket: Okay. And what is the percentage of our trade payable from MSME?

Jagdish Bajaj: I have to really find it out and come back to you on that, yes.

Moderator: Next question is from the line of Archana Menon from Morgan Stanley.

Archana Menon: My question was actually on the demand side. Just wanted to get your sense on any early trends that you're seeing over Jan and Feb because there was a comment in the presentation of all the players starting their sales season early this time. Sir any trends, any sort of improvement that you've seen in Jan versus December?

Ashish Dikshit: So Archana, I think some of the demand patterns are driven by more underlying factors. I don't see one month shift in that. So there is really my statement would remain exactly what we had said in Q2 and Q3 call that overall demand remains soft. It is particularly softer in smaller towns at lower income customer segments. And I would say that there's no difference from what we have seen before.

Archana Menon: Okay. Understood. And the other question was on the balance sheet side. So you did say that you 28 billion sort of net debt for March '24, but how are you looking debt beyond that for '25, '26?

Ashish Dikshit: I think a bit early for us to come back in it. Obviously, our plan will be to moderate that over a period of time, but the -- as you know, we have a lot of potentially large businesses from opportunity point of view. We would not swing dramatically in terms of our overall strategy on debt. We'll over a period of time, as our businesses mature, profitability improves. The debt will keep coming down. But at this point of time, I'm not in a position to give you indicative number for '25, '26.

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