



“Aditya Birla Fashion and Retail Limited (ABFRL)

Q3 FY‘25 Earnings Conference Call”

February 17, 2025



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Moderator:

Ladies and gentlemen, good day, and welcome to the 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 FY '25 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; Mrs. Sangeeta Tanwani, 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 today's discussion 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 quarter performance and to strategic questions only. Housekeeping questions can be dealt separately with the IR team.

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

Jagdish Bajaj:

Thank you. Good afternoon, and welcome to the Q3 FY '25 earnings call of our company. Let me start with an overview of the macro environment. The overall consumption remains subdued this quarter as well with periods of high to moderate consumption. While the festive and wedding season witnessed robust demand, other periods experienced inconsistent footfalls.

In the context of the weak operating environment for the past many quarters, our strategy has been focused on driving better efficiencies in operations, leveraging our existing asset base and deploying capital strategically. We have been executing this agenda by rationalizing our distribution to prune less productive channels, tightening inventory management, strengthening high-value partnerships, reducing operating costs and strategically aligning the product portfolio in line with consumer relevance.

Through these measures, we have consistently delivered profitable growth over the past few quarters. This quarter as well, we have delivered EBITDA margin expansion with all our businesses demonstrating improved profitability.

Update on key corporate actions.

First, the demerger of western wear brands business into a separate entity, that is Aditya Birla Lifestyle Brands Limited, or ABLBL, is progressing well and set for completion within the next 2, 3 months. The NCLT hearing is scheduled in third week of March 2025.

Number two, the company has successfully secured USD 490 million equity capital through a mix of QIP and preferential issue. The fundraise within demerged ABFRL will strengthen its

balance sheet by making it debt-free and leaving enough cash in the books to take care of the growth needs of its businesses until they become self-sustainable.

This fundraise attracted strong participation from leading global and domestic investors along with our promoters, who paid a significant premium to the prevailing share price, underscoring their confidence in the long-term potential of the business.

Coming to the financial performance for this quarter. The company delivered consolidated revenue of INR4,305 crores, a growth of 3% over same quarter last year. Consolidated EBITDA stood at INR683 crores, growing 13% Y-o-Y in absolute terms, with 15.9% margin as against 14.5% margin in Q3 last year. Our established businesses continue to deliver strong margins, while high-growth segments like Ethnic and TMRW have achieved significant revenue growth, coupled with profitable margin expansion.

Consolidated PAT stood at a loss of INR42 crores for the quarter against a loss of INR108 crores in same quarter last year. At YTD level, company recorded a revenue of INR11,376 crores, which is growth of 7% Y-o-Y. EBITDA stood at INR1,499 crores, margin of 13.2% as against 12.5% margin in YTD December last year.

As on 31st December 2024, our store network stands at 4,492 stores, spanning across a total retail area of 11.9 million square feet.

The total net debt of consolidated ABFRL at the end of January 2025 stood at approximately INR1,800 crores after receiving INR1,860 crores of QIP money. This will further come down post receipt of preferential issue of INR2,379 crores. We expect ABLBL to start the next year with opening debt of INR700 crores, whereas demerged ABFRL will have a likely cash balance of approximately INR1,300 crores.

Let us now discuss business-wide performance. Starting with proposed Aditya Birla Lifestyle Brands Limited. ABLBL posted revenue of INR2,151 crores with EBITDA of INR355 crores in Q3 FY '25 and an EBITDA margin of 16.5%, 90 basis point expansion versus last year. Lifestyle Brands, the brands have seen a retail LTL growth of 12% across brands on a network of more than 2,500 stores.

This industry-leading LTL growth reflects the strength and quality of franchisee that these brands have with Indian consumers.

The total revenue remained flat on account of degrowth in wholesale and e-comm channel. Brands posted revenue of INR1,817 crores with EBITDA of INR357 crores in Q3 FY '25 with EBITDA margin of 19.6%. Over the past few quarters, in context of the market situation, brands have taken the opportunity to strategically optimize their network and channels to enhance overall quality of its distribution. This involved exiting underperforming markets and formats and restructuring business arrangements with wholesale and e-commerce partners to drive profitability.

Despite these changes, the brands have consistently driven premiumization, casualization and elevated in-store experiences, aligning with evolving consumer preferences. This transformation, further fueled by a strong festive and wedding season, reinforced their market leadership.

The emerging growth businesses in ABLBL, which include youth western wear, innerwear, athleisure and sportswear segment posted 5% growth at an overall level with the segment posting another quarter of EBITDA margin improvement.

As you may be already aware, the company is in the process of phasing out its F21 offline operations, which has had a moderate impact on the growth of the emerging segment and also impacted its overall profitability. Post the demerger, ABLBL is set to embark on its independent value creation journey, well supported by access to its own cash flows to drive growth.

Over the next 12 months, the brands are poised for an aggressive expansion with a significant rollout of 300-plus new stores across the portfolio. Additionally, other sales channels are expected to regain momentum, further accelerating the overall growth.

Let us now discuss performance of demerged ABFRL segments. The proposed demerged ABFRL reported a 3% Y-o-Y revenue growth, reaching INR2,218 crores. EBITDA stood at INR320 crores with an EBITDA margin of 14.4%, marking an increase of 250 basis points from 11.9% in the same quarter last year.

Let me first cover Pantaloons. Pantaloons has been a driving premiumization strategy where it has consciously moved away from the overcrowded value retailing space. This is visible in the quality of overall offerings to our customers through a revamped product portfolio and enhanced merchandise.

As an outcome of this deliberate choice, Pantaloons has exited over 40 stores in the past 12 months, mostly in Tier 2 and smaller markets. This has helped Pantaloons improve its customer proposition as well as consistently improving its profitability.

The reported revenue of INR1,305 crores this quarter was impacted primarily by the shift of pujo to Q2 this year and the closure of a stores on a Y-o-Y basis. Excluding the East zone, Pantaloons recorded a positive LTL growth of 2.5%. At an overall level, the LTL was negative 2.5%. On profitability front, the segment reported an EBITDA margin of 19.3%, reflecting an improvement of over 170 basis points Y-o-Y.

Style Up continues to expand its retail footprint and now operates across 39 stores. The brand has also diversified its product portfolio by introducing newer categories to constantly improve its consumer proposition. Post the fund raise, as the financial viability of the formats gets established over an expanding retail network, we are poised to accelerate the growth of this format going forward.

Ethnic business. Our Ethnic strategy continues to deliver for us. As we stand today, the portfolio of Ethnic brands is the largest and most comprehensive portfolio in the industry and has consistently driven growth for ABFRL by maintaining double-digit growth over the past few quarters.

As the portfolio is gaining scale, it's starting to contribute to our overall profitability as well. In a quarter that has both the benefits of festive and wedding season, the performance of this portfolio showcased the intrinsic strength of our brands and the relevance for consumers across multiple occasions.

The overall portfolio posted a revenue of INR588 crores, a growth of 7% Y-o-Y. While TCNS is still going through a distribution rationalization to focus on profitable channels, which led to its degrowth for rest of the portfolio, excluding TCNS, the growth has been 39%, highlighting strong momentum across the brands.

Profitability for the overall portfolio also improved sharply with EBITDA margins reaching 19.2%, a remarkable 1,160 basis point Y-o-Y expansion. This was led by improvement in margin across the entire brand portfolio. Portfolio of designer-led brands, which includes Sabyasachi, Tarun Tahiliani, House of Masaba, and Shantnu & Nikhil grew by 41% on a Y-o-Y basis. This also has the addition of Tarun Tahiliani's Couture business, which got added in Q2 of this year, as we increased our stake in the company to 51%.

Within premium ethnic wear brands, the men's ethnic wear brand, Tasva, ably leveraged the festive and wedding season this quarter with sales growing by more than 50% versus last year. Tasva delivered an 18% LTL growth and strengthened its footprint in key wedding markets. The brand for the first time delivered a positive EBITDA this quarter, showcasing intrinsic potential of its business model.

Meanwhile, TCNS recorded its second consecutive quarter of positive EBITDA despite a revenue decline of over 20% due to ongoing distribution optimization aimed at establishing profitable distribution. By strategically selecting profitable channels and stores, along with cost control initiatives, the business has successfully been able to streamline operations and drive leverage.

Our merchandise has also seen improvement and the consumer feedback on recent ranges has been more than encouraging, backed by 4 consecutive quarter of positive LTL. We feel these efforts by our operating teams have laid a strong foundation for sustained viable growth in the medium to long term for the brand. Post the fundraise, the balance sheet of demerged ABFRL is well placed to support the accelerated expansion of our Ethnic portfolio.

Luxury Retail, the Collective & Mono brands grew by 13% in Q3 FY '25, led by a strong LTL of 10% and robust e-commerce performance. Similarly, our digital brand portfolios under TMRW posted a growth of 26% in sales year-on-year with an improvement in margin. This

validates our belief in the longer-term potential of digitally native brands focused on young India.

To conclude, despite a challenging consumption environment, especially for discretionary category, our focus on driving productivity, efficiency, profitability, coupled with continuous improvement in products and services has been able to guide us through this tough environment. One of the key strategic tasks of adequate fund raise has been successfully completed.

Another important strategic initiative of demerger is on track. The completion of these steps in the next 2, 3 months will enable us to unlock value through 2 independent entities, both with attractive growth potential and a strong balance sheet through a resilient growth-oriented business model sharpened over time.

We are open to questions now. Thank you.

Moderator: Thank you, Mr. Bajaj. The first question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: First question is on Lifestyle Brands. So very strong like-to-like performance, especially in the tight demand environment that we picked up from other retailers. So I wanted to know what worked for us.

And interestingly, in margin expansion in the presentation, we credited channel mix tighter control, cost control and inventory management as key drivers for margin expansion, which are independent of LTL. So how should we think about margins also when, let's say, if we continue this LTL performance, how should we think about margin in coming periods? So those 2 questions on Lifestyle Brands.

Vishak Kumar: Sure. Tejash, Vishak here. Yes, I think it was a decent quarter for us from a retail like-for-like point of view, largely driven by a very strong festive and wedding performance. We had prepared for this. We also knew that the calendar was, in that sense, more a Q3 calendar for wedding.

So we had prepared for this with the kind of assortments that we had. In fact, frankly, if winter had been stronger this time, we would have had even better growth, but this was a tepid winter this time. Otherwise, we would have had that gain as well. So I think it was just preparing for a strong festive and winter season that enabled us to do this.

Of course, your second question is around how do we maintain this kind of margin expansion. I think the biggest drain in our business on margins is the discounting. And as we keep getting better and better at tightening discounting, getting into more and more of channel mix play, et cetera, which drives for reduced discounting, I think the stronger our business keeps getting.

So that, Tejash, would be lever number one. Drivers of that full price sell-through, drivers of that superior retail experience, all of that is how we would look at keeping that driving quarter-on-quarter, Tejash.



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Tejash Shah: And looking at where we are in this calendar year or where we have started, do you think that this performance will continue for this calendar year as well?

Vishak Kumar: Yes. I think fundamentally, Tejash, all the fundamentals are very strong and in place. You remember that we had a very tough first quarter where the calendar was pretty bad. So that was there. But after that, it has been a steady improvement pace. So we should expect the momentum to continue. In fact, what you -- I don't know if you saw it in the data was we also, in some sense, consolidated our retail network.

So some of our margin draining retail stores have been taken off. So that also augurs well for the overall network. And to that extent, we are also cranking up the expansion machinery once again. So that will give us another wave of growth as we go along. So I think, yes, the quarters ahead fundamentally look strong.

Tejash Shah: Sure. Second question is pertaining to Pantaloons. So with 40 store closures in the last 12 months, is the consolidation phase over? And does the metro Tier 1 focus means that we will service the demand beyond Tier 1 through Style Up? Because interestingly, Style Up is now 39 stores so far versus 40 stores, we have opened 39 stores. Obviously, this can be a coincidence. But just wanted to know your thoughts on how to think about both Pantaloons expansion from here on and Style Up's expansion also in Tier 2, Tier 3?

Sangeeta Tanwani: Yes. Tejash, this is Sangeeta. So as far as Pantaloons is concerned, like we've talked before, our distribution strategy is in line with our overall brand strategy, which is about premiumization. And therefore -- of course, every retailer reviews its store and performance from time to time, but for us, more so, this is a bit of a reset to make sure that as a brand, we come together and we come through as a consistent brand across the pop strata.

So we've closed, as the commentary has told you, about 40 stores in the last 1 year. We'll have a few more in this quarter. And for next year, of course, we'll review, based on performance and the market conditions, how things progress.

As far as your second question is concerned, here in retail, we are very clear. It's a two-pronged strategy, because we are addressing 2 very different consumer sets. Style Up is clearly playing in the value segment category. And again, we have close to 40 stores, which we will continue to expand to address the needs of that consumer.

The mid-market segment, which is where Pantaloons operates, we will continue to expand in the relevant markets. You will see increasingly, our expansion of Pantaloons largely in metros, mini metros and Tier 1 towns, whereas the Style Up audience is there in the metro and continues to exist across the pop strata. So two-pronged strategy, 2 brands addressing 2 different consumer sets with their own separate distribution agenda. I hope I've answered your question.



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Tejash Shah: Yes, you have. If I may squeeze in one more. So Sangeeta, what are the initial stage markers we are monitoring to track the product market fit for Style Up? And if you can share any of KPIs that you're monitoring there?

Sangeeta Tanwani: So we are monitoring it like we would monitor any other retail business. Of course, very specific focus on store economics to ensure that even today, at a store network level, the stores are positive. Our focus is to continuously ensure that our inputs, which is in terms of our merchandise strategy, we continue to improve that.

We've launched new categories. We've launched beauty, which has started off really well for Style Up. We've relaunched lingerie, which is also doing well. So to complete the proposition, it is still almost the first full year of Style Up. And therefore, we are learning very, very quickly as we are going along to make sure that our proposition is both relevant to the customer and differentiated versus competition.

So all the metrics in terms of customer metrics are being monitored and commercial metrics from a business model standpoint are being monitored. And our eyes are on sharpening the acts on proposition and expanding our distribution.

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

Devanshu Bansal: Congratulations on good LTL in Lifestyle Business and margin improvement across segments for the company. Sir, first question is on network optimization and restructuring with partners, both in Lifestyle and Pantaloons. I just wanted to check, do you foresee any losses related to inventory liquidation at these stores, any kind of asset write-offs which may happen, or that has already been taken care of?

Ashish Dikshit: I'll chip in here. I think the results that you see here are inclusive of any inventory dormancy or any potential -- we have a very conservative but a consistent policy on that. So there will be no surprises on that account.

Devanshu Bansal: Understood. And sir, we have sort of closed stores, right? And now we are sort of again going aggressive on the expansion. So I just wanted to check on the key learnings with the stores that we have closed, which we are now sort of building upon to open new stores aggressively again?

Ashish Dikshit: So I think three different parts of businesses where store closures have happened. Lifestyle Brands, I'll let Vishak to comment. But primarily, we felt that there were operating conditions where many parts of the market, particularly our expansion into smaller towns, was taking time to fully fructify. Most of our store closures were consistent with this sort of phenomenon, which is smaller towns taking longer to recover. And that's where a lot of rationalization has happened.

Pantaloons is a different thing. As Sangeeta just responded in previous question, it was a strategic call on shift in premium positioning. And therefore, we felt that a lot of smaller towns as well as

smaller size stores, which didn't do justice to overall Pantaloons proposition needed to be pruned. We have done a significant part of it. There's still some part which is left there.

The third large rationalization came in TCNS, where post evaluation, once we came into the business over the next 6 to 9 months, we looked at the network profitability took a onetime deep correction.

So we think most of these are strategic onetime corrections in a large manner. And as the consumption improves, both the businesses -- all the 3 businesses will be able to grow. Lifestyle Brands particularly also will have access to their own cash. So their ability to grow even in downtimes, when franchisees sometimes are not in a position to invest during the low time, the business will be able to sort of short circuit that and invest deeper.

Pantaloons -- our primary investment in the Pantaloons segment is going to be in Style Up, although we'll continue to gradually increase Pantaloons. And TCNS is an early stage for us to start growing. Right now, the focus is on profitability.

Devanshu Bansal:

Understood, sir. The last question...

Vishak Kumar:

I'll add, sorry, Devanshu, to what Ashish said, which is in terms of Forever 21, we had an accelerated closure of stores. And that will be there in Q4 also in that sense. So like Jagdish mentioned in his speech, we are getting out of the offline Forever 21 business. So that also added to the total list of closures.

There is, of course, also the routine lease expiry, locations becoming irrelevant, et cetera, which is there. But usually, the new additions would be significantly higher than that. This time, there were a set of one-offs also, which had to be pruned. So those -- I think we have fairly robust criteria of stop loss and have robust criteria around evaluation of stores, et cetera. I think we get it 95% right, and that's the accuracy level at which we would like to work, because we do need to grow aggressively our network.

Devanshu Bansal:

Understood, Vishak. Sir, last question from my end. The debt level is currently sort of INR1,800 crores after receiving the QIP proceeds. I guess, after the preferential issue, it should be largely -- you said that ABLBL will be having INR700 crores of debt and ABFRL will have INR1,300 crores of cash. So I just wanted to check on the leeway for ABFRL's growth, right?

So would this INR1,300 crores capital be suffice for them to sort of move on to the next decade of growth? Or there is a certain period that this capital can sort of suffice growth from this segment?

Ashish Dikshit:

So two parts, Devanshu. One that while your analysis is perfect, I think we expect the ABLBL business to start with a debt of INR700 crores and ABFRL to start with a cash of between INR1,300 crores to INR1,500 crores.

The only other point I would add to that is that we are also looking to separately raise capital in TMRW for its own growth. Right now, you're looking at numbers at a consolidated level. Once you take that out, it will free up a lot more capital for ABFRL's remaining businesses.

And then if you look at within the ABFRL businesses, Pantaloons is capable of generating its own free cash flow. Style Up is where capital will be required. Large part of Ethnic is self-funded. Perhaps Tasva is one where meaningfully reasonably large size of capital will be required. And there is a small investment that will go into the first store in Galeries Lafayette.

So we feel over the next 3 years, we have enough cash cover left for growing these businesses. Of course, the internal accruals from the profitable business will continue to further add to that. And TMRW's fundraise will take away kind of the sort of responsibility for this current cash flow.

Devanshu Bansal:

Sir, just a small follow-up here. So within, say, 3 years, you expect the smaller sort of new ventures, Style Up, Tasva, Galeries Lafayette to gain scale, and then post that they'll be able to sustain on their own or we may have to sort of raise more capital within ABFRL?

Ashish Dikshit:

So our current analysis, and that's why this level of capital was raised, is that with the capital that we have raised, over the next 3 years, we should be able to accelerate the growth of these new businesses to a point that at the end of that cycle, the company as a whole, which is the demerged ABFRL, will be free cash flow generating company.

Moderator:

We'll take the next question from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi:

My questions again are on Pantaloons. So I hear you saying that we are going to be focusing more in the metro cities, Tier 1 markets, mini metros, focusing more on the premium category. Just want to understand that today when we look at our current portfolio of Pantaloons, what would be the positioning or, say, a couple of years ago, what was the positioning? And how much time will it take us to get to the premium level which we are aspiring to get to?

Sangeeta Tanwani:

Yes. So Sheela, if you look back at the history of Pantaloons, a few years back, about 3 to 4 years back is when we defined our strategy to move up, just before COVID, in fact, from a value player to being a mid-market player.

And we commenced our journey then. Of course, COVID came and disrupted business for almost everybody. I think we have got all our elements. The foundation is absolutely strong. The distribution correction that you see, as I said earlier, is to make sure that the brand experience is consistent.

Today, with all the consumer work that we have done, and we've done some very extensive consumer work in the last 6 to 8 months, the consumer clearly sees us as a player in the mid-market segment. I think it's a question of now ensuring that the brand imagery, the brand



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experience is consistent across each of our stores, and that's our journey to ensure that our merchandising continues to get better, to ensure that our stores continue to look good.

And therefore, we are investing in, again, a new retail identity, which is completely in sync with where the market has moved. And equally to make sure that our customer experience is superior to most other players.

So to answer your question, I think we have already made the shift, not just as defined in our strategy, but as the consumer has paid back to us. It's now a question of just fine-tuning our strategy and making sure that our execution is consistent. I would expect that it's a journey of another 12 to 18 months for us to look more, shall I say, coherent across each of our stores.

Sheela Rathi:

Got it. Understood. Just a follow-up here, Sangeeta. Will this be led by own brand strategy only? Or do we plan to change the portfolio?

Sangeeta Tanwani:

So our emphasis on private label has been there. Over the last few years, our share of private label has improved a little bit. I think the lens that we are using is to make sure that our brand and label assortment is relevant for that city and for that store.

Our emphasis will be to make sure our private label is very competitive and relevant, that we offer great value through our private label. In those stores and those markets where the external brands play a complementing role and, therefore, offer a greater variety to our customer, we will continue to have those brands.

But the choice making today, I think, is far more deliberate and it is far more data enabled. And therefore, as we are looking at the layouts and assortment of labels in each of our stores, it's far more specific, keeping in line with the understanding of the customers in each of those cities.

So we'll continue our play with both, but private label will be our top priorities, and we will continue to improve that merchandise and, therefore, the share of private label over a period of time.

Sheela Rathi:

Understood. My second question again is on the store expansion strategy. You talked about we had store closures and there may be some more going ahead. Having said that, when we are opening Style Up stores, are we having a strategy where it is closer to a Pantaloons store, or we are pursuing a very independent strategy of driving expansion of Style Up? I mean I just want to understand how are we leveraging our existing brands to scale up Style Up faster?

Sangeeta Tanwani:

So the strategy for the 2 brands and 2 businesses is absolutely independent simply for the reason that the consumer sets are completely different. We've had examples where we have a Pantaloons and a Style Up store sitting right next to each other, because we believe in that catchment, there is potential for both of those stores.



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And I think the fact that we have a sharp understanding of who these consumer sets are or which these consumer sets are, we assess the potential of each of these businesses independently. And if it turns out that the stores need to sit next to each other, so be the case, or if there's no potential for Style Up in that catchment, Style Up will find its own location in that city.

Sheela Rathi:

Understood. My second and final question was on TMRW. How should we think about the growth going ahead? I did hear you say that we will require to do some capital raise. But how should we think about the growth trajectory and the profitability journey for TMRW, say, for the next 2 years?

Ashish Dikshit:

Sheela, this is Ashish here. As you can see, over the last couple of quarters, since TMRW's numbers are also getting represented here, that business is growing organically at about 25% to 30%. And that's really the kind of growth rate we think we'll continue to maintain.

Over a period of time, a part of capital raise will also go towards inorganic opportunity. I think the whole space of digitally-first focused and Gen-Z and young millennial customers is a very large opportunity.

Our current portfolio of about 5 or 6 brands is focused largely on the young casual menswear space. There will be opportunities later. And post fundraise, we'll obviously look at entering some of the new categories as well. But at this point of time, therefore, 25% to 30% organic growth rate is what we are experiencing, and that will continue to remain. Overall picture may change post the fundraise, but that's something that we can talk about when that actually happens.

On profitability, the intrinsic profitability of each of these brands is on a continuously improving path. Barring 1 out of 6 brands, I think most others are close to being profitable. Some of them already are profitable. There is a corporate overhead below that, which is sort of pulling down the overall profitability. We think over a period of time, as intrinsic profitability of the constituent brands of TMRW improves, that will be able to leverage the overhead that currently exists.

Moderator:

We'll take the next question from the line of Sameer Gupta from India Infoline.

Sameer Gupta:

Firstly, sir, on Lifestyle Brands. Now I understand this is a more penetrated category versus others. And if I remember, a few years back the growth lever here which was identified was expansion into smaller cities with concepts like Peter England RED. Now the focus is back on larger cities. So how should we look at the growth outlook? Is it like calibrated down now to a more mid- to high-single digit, which is more realistic? Your thoughts on this?

Vishak Kumar:

Sameer, so we still have a very robust Peter England RED network. Likewise, we have a network of about -- totally, altogether, in Tier 4 towns itself, we would have about 700-odd stores. So it's a very robust network and that grows. It's a reality that the headwinds in those markets have been a little more than the overall conditions in other markets.

But those are short-term ups and downs that we have to deal with. In the medium term, these are as important for us as markets as are the Tier 3, Tier 2, Tier 1 and the metro cities. So in that sense, all I can say is that at this point of time, maybe the number of new stores which will come up in bigger cities might be more.

And also, we're looking at larger store formats as our merchandise assortment has expanded. But it doesn't mean that the other towns are any less important. Those will also continue to be. Short term, the aggression in growth in smaller towns would be a little muted as compared to what we would do in the bigger cities.

Sameer Gupta: So short term, a mid- to high-single-digit growth rate considering demand comes back in a more consumer-friendly environment, that's a realistic assumption?

Ashish Dikshit: In small towns, you're saying?

Sameer Gupta: No, as an overall Lifestyle Brands.

Ashish Dikshit: I think so. I mean, look, please recognize that our costs escalate 5% to 6% year-on-year, okay? So as a network, you've got to constantly keep growing faster than your cost to be a better and better network, okay? So that will be a continuous drive to keep improving like-for-like sales as we do. So I can only say this that there might be some ups and downs across quarters, but in general, that's the kind of direction going forward in our business.

Sameer Gupta: Got it. Second question is on the net debt. Now I heard Jagdish also point this out that INR700 crores of net debt in ABLBL from FY '26 onwards. Now I remember last year, this number was around INR1,000 crores. So is my understanding correct that the whole year, the more cash-generating business has only accrued INR300 crores, and this is despite low working capital and capex requirements in this set of business?

Jagdish Bajaj: Sameer, so this is like we have to monitor the account separately. Firstly, whatever working capital charge, plus working capital consumption, plus capital expenditure, all needs to be met by the business itself. Therefore, the opening date of INR1,000 crores, we are saying that year-end will be around INR700 crores. So the cash generation of the business has gone into fund the capex and working capital and interest.

Sameer Gupta: I'll probably take this offline. Lastly, sir, if I may squeeze in. Outlook on Tasva, you've added 10 stores this year so far, and this year was a very healthy wedding-oriented, third quarter was very wedding heavy. So what is the outlook or plan in terms of store rollout going forward?

Ashish Dikshit: So first half of the year was very, very poor, and it was one of the lowest wedding period for Tasva, for the market itself. I think as the weddings are coming back, obviously, the expansion is increasing.

The second half of this year is seeing more expansion than previous half. But overall, post fundraise and strengthening the balance sheet of ABFRL, you will see a far more accelerated expansion in Tasva. I think what was important also was to establish and prove to ourselves a very strong store model, which is now increasingly visible, invest behind the brand, getting the store economics, supply chain, et cetera. I think so the foundation has been done. Post this fundraise and a stronger balance sheet, Tasva will be able to expand much faster.

Sameer Gupta: Any number you can share for FY '26?

Ashish Dikshit: I think it would be in the range of 40 to 50 stores from the current level of about -- we end this year at about 70-odd stores, and we should be able to probably add closer to 50 stores next year.

Moderator: The next question is from the line of Tanuj from JM Financial.

Tanuj: Sir, my first question is on Lifestyle. So how are we planning to revise the growth in wholesale in our e-commerce channel? And how is this impacting the profitability of the entire Lifestyle format considering that these channels are low on margin and require higher working capital?

Ashish Dikshit: Tanuj, so 2-3 things. There is a part of wholesale which is very attractive from a profitability point of view, there are parts of retail which are less so. And we have a portfolio, each of them having their own role to play in each of our brand play. There are some one-offs in the quarter which we have to recognize.

And one of our biggest trading partners in the department store formats has been going through, and I said this in the last quarter also, has been going through a strategic shift. And I think it will be probably another quarter or 2 before they can strongly bounce back. So that is there impacted in our base. So there are a couple of one-offs like that which do impact the wholesale and those will, in that sense, go away in coming quarters for our business.

On the e-comm side, actually, exactly what you're saying, Tanuj, which is to say how do we make our e-comm more profitable. In the past, there was also a lot of inventory from a liquidation of old season merchandise point of view. So as we made our inventory sharper, we have had less of that.

And hence, the kind of business that we want to grow within e-comm is a lesser discount, more profitable growth path. So we're building models towards that. I think that is the way we'll be able to create something which is strengthening brands, addresses the kind of consumers who go to the e-commerce business and yet also is a more profitable mix for us. So that's the thinking on the wholesale side, Tanuj.

Tanuj: Sure, sir. Sir, my second question is on Pantaloons format. Like what kind of store opening are we targeting in FY '25 and '26, net store opening in Pantaloons? And if you can provide the breakup of like what will drive growth in Pantaloons; between SSG and store openings, like how much will be from the SSG side and how much from the new store openings?



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Ashish Dikshit: So I think at this point of time, we don't want to give a number on growth broken up with this degree of detail. But as Sangeeta had said, we continue to sort of fine-tune our network at this point of time. I'll let Sangeeta chip in and talk about the growth, which is the number of new stores added, but there will be a sort of marginal refinement of the network even in the next 6 to 12 months.

Sangeeta Tanwani: Yes. So specifically for this year, I think by the end of the financial year, we would have opened about 13 to 15 stores. We have a few more to go in the next few weeks before the end of the financial year. And just this year alone, we would have shut about 20-odd stores. We have shut a few and a few are about to be shut in the next 5 to 6 months. Next year, we are looking at, again, opening about 15 to 20 stores.

Tanuj: And this 15 to 20 stores is the net opening. Am I right?

Sangeeta Tanwani: Next year?

Tanuj: Yes.

Sangeeta Tanwani: We will review -- 15 to 20 will be the new stores. We will review how many stores, if at all, they need to be shut, which is a normal course. Like Vishak was also explaining to you, if a market shifts or if we believe a store is not doing extremely well, that, I think, call we take on an ongoing basis.

Tanuj: Okay. And my last question is on the innerwear segment. Like what scale is the company trying to achieve? And like at what scale we'll be able to achieve the single-digit EBITDA margin in our innerwear segment?

Ashish Dikshit: So we are closer right now to about INR500 crores. I think we'll have to grow by another 40% to 50% from this level to get to that kind of margin structure.

Moderator: The next question is from the line of Jignanshu Gor from Bernstein.

Jignanshu Gor: I wanted to check regarding the margin profile for 3 of our largest businesses, which is Lifestyle, Pantaloons, and Ethnic. The margins are all close to 20% for this quarter. So how should we think about these going forward? Do we expect them -- is there any expansion possible? Or do you think we are broadly near the peak and we should maintain that?

Ashish Dikshit: I think we should look at margins not on a quarterly basis, because fashion is very seasonal and festivals and especially quarters like this are very profitable in that sense. Look at YTD numbers.

And then if you think about the large businesses, Lifestyle Brands over a consistent period of time has operated with revenues -- with EBITDA margins between 18% to 20%. And therefore, that's the kind of margin that -- I mean, last couple of years, it's been closer to 19%, 19.5%.

Pantaloons is where there is a significant shift in margins, because margins last year at the same time for 9 months was about 13-odd percent, which has moved closer to about 17.5%. So that's where the big improvement has taken place.

On Ethnic wear, I would say it's too early for us to say where the margins will eventually settle, because Ethnic wear consists of 2 kinds of businesses, some very profitable, well-settled businesses, though they may be small, and some businesses, where we are investing deeply, are turning around.

So Tasva is where we are investing deeply. This quarter, it's shown profit -- just positive EBITDA for the first time. And TCNS is also at the low profitability base. Similarly, designers on the other side are very profitable.

But quarter 3 margins are, I would say, exaggerated in the wedding and ethnic markets, simply because of amount of weddings and the festival period that falls in this period. And therefore, I don't think this is truly reflective of a long-term thing, but it's probably more reflective of the potential these businesses have. At this time, many of the businesses are too small to operate at this level of profitability on an annual basis.

Jignanshu Gor:

Okay. That's extremely helpful. I think the second thing I wanted to check, and apologies if this has been covered earlier, is where do we see our strongest sort of growth if we were to aim for a double-digit growth in the Lifestyle, the ABLBL part of the business? How is the management thinking about that? Because it has been a little bit tepid in the last few years now.

Ashish Dikshit:

Vishak, can you...

Vishak Kumar:

Yes. I think one of our biggest levers for growth, which didn't happen this year is net retail expansion. So we took, in that sense, a consolidation year of getting the mix right of the kind of stores. Also, like I was explaining earlier, small towns, there were a lot of headwinds that we had to go through.

To a fair extent, that's behind us, and we are back to aggressive expansion. Of course, it takes a little time to crank up that engine, and you will see that over the coming quarters in terms of the kind of expansion that we see. So the way we see it is there's 3 big pillars within retail. So there is, of course, like-for-like retail.

And like I was saying earlier, that will be a continuous journey to constantly keep getting stronger like-for-likes within our business. We have a fairly large network, which applies from a like-to-like definition.

The second is new spaces, new spaces in new markets, also new spaces in existing markets. We also have a multiple portfolio of brands. So there are some brands in some places which also tells us proven spaces for other brands in those markets, et cetera. And that's the second wave of growth, and we have identified white spaces for that in the kind of network we want to expand.

The third is also what we call project stretch, which is to say there are markets where our stores do very well, but we don't have stores of the size that we would ideally want. So how do we make -- in those same markets, how do we create larger stores for ourselves. Sometimes a higher floor in the same building might be available, but sometimes you might have to relocate to a larger store to be able to do that.

So all of these would be, Jignanshu, drivers towards making for a stronger retail. And already, if you look at our overall retail, it's 2/3 of our business. So when our retail grows very strongly, our overall business has to keep growing stronger. Not to say that the other parts of our business, other channels are any less important. Those we will continue to drive.

We have a very strong department store and trade business. We have a strong e-comm business. All of those also we'll drive. But if you want to know significantly what changes in quarters ahead, it will be a very aggressive retail expansion.

Moderator:

The next question is from the line of Ashish Kanodia from Citigroup.

Ashish Kanodia:

So the first question was on the fundraise. So given that this fundraise has happened at a consolidated entity level before the demerger happening. So just wanted to understand what was the thought process of leaving ABLBL with INR700 crores of debt? And related question on this was, by when do you expect that entity to become debt free?

Ashish Dikshit:

Demerger plan and the fundraise. At that stage, our expectation was demerger will happen faster. But because we were simultaneously doing the acquisition and therefore the corresponding merger of TCNS, we realized the whole demerger exercise will probably take 12 to 15 months. And that's when we decided to do the fundraise in the combined entity, because that is the fastest way of raising capital at that point of time.

On the question of the rationale for leaving INR700 crores, I think Jagdish, in his previous quarter's response, has explained that the demerger is effective from 1st April 2024. So the books of accounts of the 2 companies are separated with the relevant debts lying in both the companies.

And therefore, the company started with close to INR1,000 crores of debt at that point of time, which they brought it down in these 9 months to INR700 crores. Over next 2, 2.5 years, we expect this to become a debt-free company.

Ashish Kanodia:

Sure. That's helpful. And second thing, now when I look at your store expansion plan and looking at your presentation, I think there are 2 key categories which you are calling out in terms of accelerated growth. One is on the value fashion segment, which would be Style Up.

And the second thing is on the Ethnic business side. So on Ethnic business, I think you guided for maybe 50 stores addition in FY '26. But if you can also give some sense in terms of what to expect in Style Up, and also within Ethnic, beyond Tasva, what kind of a store expansion can we expect?

Ashish Dikshit:

So in terms of expansion, Ashish, there are not 2 but 3 large shifts that we are looking at. And primarily driven by the fact that I think organic performance is improving, we have completed our acquisition journey, now the focus is sort of improving the strength of those businesses and creating larger leverage.

The first that Vishak talked about, which is Lifestyle Brands accelerating much faster than network expansion. We think that's a large opportunity, which was sort of underleveraged in the combined entity. And one of the strategic rationale for the demerger was to leave that cash for allowing that business to soar. So that's point number one.

As far as value retail is concerned, you're absolutely right. I think Style Up is the opportunity. We expect this year to end with a network between 45 to 50 stores -- 48 to 50 stores. Next year, we'll definitely, at the minimum level, double it. As we go along during the course of the year, we'll see if we can expand faster than that. But at this point, I think the number that I would play out is about 50 more stores next year.

Tasva has already got the momentum with 70 stores now in the network and a good model which is working well. So Tasva is about 50-odd stores. Tasva is, of course, more concentrated network. Potential for Style Up in subsequent years is much larger, but we obviously want to take bite size as we keep improving the economics of the business before we expand too rapidly.

Ashish Kanodia:

Sure, Ashish. And just last bit is on TMRW. So just you touched upon that, and I think this has been a strategy for quite some time that TMRW will have its own path of fundraising. So just 2 questions here. One, how much total investment has been made in TMRW till date? And secondly, what kind of a fundraise and what time line are we looking for TMRW?

Ashish Dikshit:

So I think, Ashish, we've been pretty consistent with the strategy of TMRW. We knew it's a longer term, because it's a very, very, very large opportunity of a market which is emerging quite rapidly. We had initially invested close to \$100 million, which is between INR750 crores to INR800 crores in equity. There's a little bit of debt, which TMRW has taken on the balance sheet. So let's say, about INR1,000-odd crores is really what we have invested in that business.

In terms of time line, we'll look at, when markets are right in the next 9 to 12 months, to raise this capital. And the exact amount, I think, closer to the time we'll decide. I don't want to give a number at this stage.

The only other thing I would say is we will fund TMRW's growth with that capital. So in a sense, the current rates will be largely kept for the ethnic and the value retail apart from a small luxury play.

Moderator:

The next question is from the line of Videesha Sheth from AMBIT Capital.

Videesha Sheth:

Most of my questions have been answered, but just a follow-up in case of Pantaloons and Style Up. So in the pursuit of having a different proposition for Pantaloons as well as Style Up, if you



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can elaborate on the initiatives, either in terms of demarcation of price points or the new launch momentum or store layout, if you can go a little granular in terms of how different is the proposition and offering in case of Pantaloons versus Style Up?

Sangeeta Tanwani:

Videesha, so as I mentioned before, these are 2 separate businesses targeting 2 different consumer segments. They play in different spaces from a price point as a part of the proposition. So let me just go one by one. They are both multi-category stores operating across women's western, ethnic, and menswear, and accessories. The formats are very different.

The focus on merchandise is very different. Style Up is a completely private label space with everything that is sold in the store is designed by us in-house. Pantaloons, as you know, has external brands.

The pricing is different between the two. In case of Style Up, our exit price points are about INR1,200 to INR1,300, with bulk of our merchandise being below INR1,000. In case of Pantaloons, the exit price point is much higher, would be probably twice of that, because the consumer segments are different. So while we operate with the same set of categories, the merchandise is different because the price points are different and our store formats are different.

On an average, Style Up size is about 6,000 to 8,000 square feet. In case of Pantaloons, in fact, given our strategy to play with a little bit of premiumization in the mid-market segment, we are opening larger stores, and our average store size is anywhere between 15,000 to 20,000 square feet.

We have examples of stores that we are opening which are 30,000, 40,000 square feet. So they look completely different. The teams that work on these propositions are completely different. And as I said, the opportunity exists for both of these propositions, because both the consumer sets exist in large numbers and we are continuing to strengthen our proposition in both.

Moderator:

Ladies and gentlemen, in the interest of time, we'll be taking the last question, which is from the line of Sameer Gupta from India Infoline.

Sameer Gupta:

One clarification. Sir, the other segment within ABFRL, I assume that it's largely the super-premium and Luxury Retail. And a margin of 13% this quarter, I understand this business used to be very healthy with 20% plus margins, and that too in a seasonally strongest quarter, just wondering if I'm reading it correctly?

Ashish Dikshit:

No, two parts. One, you're reading it correctly in a large extent, but to give you comfort, the existing operating business, which is the Collective and the international brand, continues to remain same healthy margin that you talked about. There is currently an investment going on in the Galeries Lafayette store and that's really what has brought down the overall margin.

Sameer Gupta:

Got it. That's helpful. Secondly, Forever 21, I missed the detail. So you mentioned phasing out of the offline business. Just some details around what is the size of this business currently? And



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what is the kind of impact -- if there is any positive impact we can expect on the EBITDA will be very helpful if you can share that?

Ashish Dikshit: So it will be positive because we were not making money in that business. But obviously, we don't reveal details at the brand level. It wouldn't be right to give you the exact number. There will be a positive impact on EBITDA.

Sameer Gupta: And is online big in this, like you will continue to do online, right?

Ashish Dikshit: In a very small -- subscale level. So it's not material in that sense. Most of the business was offline.

Moderator: Ladies and gentlemen, as that was the last question for today, we will conclude the Q&A session. On behalf of the management team, we thank all the 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.