"Aditya Birla Fashion and Retail Limited Q3 FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3 FY16 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 quarter's earnings performance followed by a question-and-answer session.

With us, we have Mr. Pranab Barua - Managing Director, Aditya Birla Fashion and Retail along with Mr. Ashish Dikshit- Business Head, Madura Division; Mr. Shital Mehta - CEO, Pantaloons Division; and Mr. S. Visvanathan - CFO, Aditya Birla Fashion and Retail. 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 therefore in conjunction with the risk that the company faces. With this, I now hand the conference over to Mr. Pranab Barua. Thank you and over to you, sir.

Pranab Barua: Thank you. Good afternoon, everybody. This is our first investor call as a new company so welcome to this call. So what I am going to do is give you a brief overview of the overall market conditions, talk about the ABFRL performance, and then a little bit on both Madura and Pantaloons and after that we will take question and answers and go deep into whatever areas that you want to probe**.**

I think on the market context the consumer sentiments have remained quite muted as you are probably aware for the last 12 months and the same thing has continued this quarter as well. However, this year the festive season was basically falling in quarter three which was split last year between quarter two and quarter three and this helped us the entire industry to post stronger growth this quarter compare to the H1 performance so far. However, this quarter is also marked by continued high intensity promotion and discount across the industry as player chase growth aggressively, this is particularly true of the E-commerce channel which further increased the pressure during the quarter.

As far as ABFRL performance I think we reported an impressive growth of over 20% just 21% in this revenue for the third quarter ended 31st December, 2015. As part of our strategy to further strengthen our brand strength we had increased our advertising spend by almost 60% - 58% to be accurate during the quarter.

Overall increase in promotion and advertising spends as well as a few exceptional items cost items have resulted in EBITDA of 103 crores for the quarter which is about 23% lower than the previous year.

If we now turn to Madura Fashion & Lifestyle it recorded a 16% revenue growth in quarter three across all channels with same store growth of 5% in exclusive brand outlet. This division increase the advertising spends by around 64% during the quarter and also there have been some incremental cost items which is provisioned for bonus with retrospective effect of FY14-FY15 which further impacted the profitability for the period with resulting in an EBITDA of around 65 crores.

As far as Pantaloons is concerned, it actually explains one of ~~his~~ its best quarters with revenue growth of 32% and same store growth of around 19% across its network. Of course as I mentioned earlier, this was aided by the spillover of the festive season from quarter two and earlier on set of end of season sale in quarter three. This division opened 15 new stores in this quarter including its first ever franchisee store. EBITDA for the quarter grew to 36 crores which is approximately a 16% increase despite the incremental impact of provision for bonus.

Going forward the company will continue to leverage its market leadership through continuing to invest in brands, expansion of distribution reach across multiple formats and channels as well as product enrichment through design and innovation. The other major initiative the company has taken is actually a very wide scale digital transformation through a comprehensive Omni-channel program to create a seamless consumer experience across his physical and digital presence in line with the evolving consumer who is increasingly buying online.

So with this opening remarks, I would like to now, open the floor for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy Edelweiss. Please go ahead.

Abneesh Roy: My first question is in terms of cost if you could elaborate A&P up by 58% what is the break-up between A&P because you have said intense competition and promotions are up sharply so is most of that in terms of promotions if you could give the break-up?

Management: This increases pure advertising, I think we have taken a strategy that in this very heated discount kind of led environment that has been created by the E-commerce companies we have got strong brands and we took a strategy that we will spend behind the brands and therefore this is pure advertising, the increase is pure advertising.

Abneesh Roy: And this advertising is for Madura largely or is it equally split?

Management: No, the bulk of the increase has been in Madura because of its brands of course Pantaloons also there has been increase but only in promotion to the brand Pantaloons but the four large brands of Madura that is where we spend more of the increased amount.

Abneesh Roy: So sir, such a sharp increase in advertising it translates to around 5% LTL growth in this quarter and year-to-date and just 2.5% so it does not seem to be working, if you are spending 58% higher on advertising just 4% kind of LTL growth could you explain that part?

Management: Yes, I think we are not taking a quarter-on-quarter view on our brands that is the basic issue and I think we are very clear that we need to create the strong brands so, we have taken a view on the longer-term that brand building is extremely, extremely important that is where it differentiates us from the rest of the market, rest of the brands in the market differentiates us from the E-commerce players and so on and so forth. So it is an investment that we are making for the longer-term and I think it will pay dividends as we go forward. Above that we are not going to take a quarterly view on our brands.

Abneesh Roy: Sir, on follow-up to this, if I see the first-half numbers for Madura there also EBITDA is down around 9% to 10% Y-o-Y in the first-half of course this quarter it is down 36% so, this advertising does not seem to be limited to one quarter, if you could explain that part, so where do you see the margin trajectory because it use to be 11%-12% now it is 6% so because see online promotions will remain aggressive at least for the next few quarters so will it be fair to say your advertising spend, A&P will be aggressive for the next few quarters?

Management: See the question is if I look at on a quarter-to-quarter basis compared to last quarter three, last year quarter three same quarter advertising is gone up by approximately around 30 odd crores between the two companies then there is this bonus impact that has happened of around 15 odd crores and then because of this merger related cost there are about 5 crores so that is almost if you like talking about 50 odd crores. If I add that back into the kitty then you are back to your 10% margin that we talk about between the two companies, so that answers you why the margin looked appears much lower. So the fundamental ongoing margin I think you can expect it to be around that level around 10% level that is what you can expect I think this is for Madura I am talking about. As far as the advertising spends are concerned obviously we take calls on quarter-to-quarter basis, we will continue to spend at the certain months when there is EOSS heavy discounting that time we may not be able to spend or we would like to spend that kind of money so it will go quarter-on-quarter but the overall trajectory of spends will remain high that has been in the past essentially to ensure that our brands are differentiated and feasible in the marketplace. If the environment changes and we believe that we make do with lesser advertising, we will certain consider that as well in the longer-term but the fundamental principle of what we are operating which is building brands that would not change.

Abneesh Roy: And so you are saying promotions are negligible, right, promotion discounts are negligible, right promotions discounts are negligible.

Management: Yes, mostly advertising.

Abneesh Roy: Sir, my last question is on Pantaloons very set of numbers first cut 17%, 18% LTL growth but sir, if I see Shoppers Stop also this quarter have seen 17% same store growth Shoppers Stop is much more I would say mature in the sense they have not gone in terms of such store restructuring change in design, etc., I the last few years, Pantaloons has gone into complete overhaul but still after that overhaul both are growing at similar rate so could you explain why it should not be much higher than Shoppers Stop?

Management: Okay, I will give you my perspective then I will ask Shital also who is CEO of Pantaloons to respond. My own sense is that Pantaloons has gone through first of all let us talk about the quarter growth, I think the quarter growth has also been impacted by this whole shift in festival season. So I do not think if you take this 18% growth as a part of the cost for the next few quarters for example, that one is very clear but if you are comparing with one other department stores which I do not like to compare with others but I will say to you that I do believe that Pantaloons has really transform is in the journey in transformation. So I think to me like-to-like growth that we continue to see irrespective of the market conditions, irrespective of seasonal impact, we like to see the trajectory going up that is the overall view that I have about the Pantaloons like-to-like growth. Shital, do you want to add anything to it?

Shital Mehta: I think what happens is again from overall perspective when people get money in the hands, consumer gets money in the hand, then they tend to go on spend on either automobiles or things like that in that kind of industry and may be daily consumption drop. When the money tight supply of money reverse because then people tend to buy daily consumables and do not spend money on the other bigger ticket items so I think the trend is basically that trend so currently I think the lack of confidence in the consumer is pretty clear and if they are actually having got immediate money in their pocket because of a certain event then I think they will spend the money probably in those exceptional items.

Samir Shah: Right. But this time it is going to be monthly so it is not going to be one-time big check.

Shital Mehta: Yes, but the only thing they cannot keep buying cars every month.

Samir Shah: Yes, surely and lastly, if the impact of GST if say the GST comes at 18% hypothetically what will be the impact for us?

Shital Mehta: See we can tell you as far the overall GST rate at which we will be more or less neutral around 10.2 to 11 around that level so anything above that if it comes there is an impact and that we will have to, that is industry as a whole.

Moderator: Thank you. The next question is from the line of Dipanshu Madan of Locus Investments. Please go ahead.

Dipanshu Madan: I have a couple of questions, first could you just give me your square footage break-up for both Pantaloons and Madura?

Management: Pantaloons we have 2.5 million square feet. Madura is about 2.8 million.

Dipanshu Madan: 2.8 million and sorry I miss the EBO count that you had given for Madura how much is that?

Management: About 1850.

Dipanshu Madan: Just in terms of advertising can you quantify how much it was for the quarter?

Management: We do not give expense item level.

Dipanshu Madan: Okay. So then may be just more broadly as you think about this 10% operating margin going forward what is the assumption on what advertising should be as a percentage of sales on an annual level?

Management: Let us look at it simply for nine months' period that if you look at our results despite this exceptional advertising that we have done in Q3 our EBITDA margin is around 9% so that should give you comfort that on an ongoing basis it is something that is pretty much doable.

Dipanshu Madan: Correct, but I am just trying to assume if I look back at the previous disclosure I think advertising and sales use to be about on a 4% sales.

Management: Yes, you are right.

Dipanshu Madan: So you now expect that to sort of move up as a percentage of sales?

Management: So I think over the years advertising as a percentage of sales has operated between 3.5% to 5.5% and we take calls on this depending on competitive situations and overall brand strategy so that is a mix, this quarter has been exceptional and that is the point that we have repeatedly made.

Dipanshu Madan: Understood. And then just lastly in terms of broadly in terms of top-line growth guidance I mean what is the aspiration that you all have?

Management: Difficult for me to actually give you guidance on this. Overall I think we will keep pushing for growth that is something that we will continue I mean if I look at it from a clarity point of view I think we certainly be talking about building brands and spending behind brands and hopefully be able to extract some cost out of the business so that we can continue spend behind the brands and hopefully that we will delivery growth we continue to expand specially into smaller town classes so, this was the kind of strategy and hopefully that deliver the kind of double-digit that we want.

Moderator: Thank you so much. We will take the next question from the line of Avneesh Agarwal of Prabhudas Lilladher. Please go ahead.

Avneesh Agarwal: Sir, I have two three questions, first being that if we look at the Pantaloons where we have started the franchise store, can you give us some idea about the size of the store and how the economics will work out in this format?

Management: Typically, the franchise store will be the 12,000 square feet to 15,000 square feet and essentially the model is that the store lease on a long-term basis we have taken and sort of we pay of that and we hold the rights for the lease. For a certain period of time we have the franchise who is contracted who essentially puts in the capital and runs the store and we pay certain percentage of our sales commissioned towards his cost as well with certain returns which he expects from the business so that is the model we have.

Avneesh Agarwal: Okay, so it means that the entire sales minus the commission which we pay will be recorded in our top-line.

Management: Yes, that is true.*

* This is an inadvertent miscommunication as the question was misunderstood. The sales will be recognized at gross value and commission will be expensed out.

Avneesh Agarwal: Okay. And margins in this business would they be lower than the stores which we are operating and what is your expectation on that front?

Management: As Pranab was explaining earlier I think largely this is a contract which you have on a store to store basis but everything being same you will have to obviously share small part of your profit with the franchise for having putting the capital.

Avneesh Agarwal: Okay. And sir my next question is again on the Pantaloons format, now here currently our margins are in say around low to mid-single-digits so what is your expectations over the coming two years to three years will you be inching towards 8% to 10% margins, what are your targets in improving the profitability and margins in this segment?

Management: So I think if you look at the industry of large formats they are in the range of 6% to 7% in one quarter they may up to 8% but that is the kind of range they are operating at. We certainly want to be hitting the industry benchmarks and hopefully if we do our strategy well and execute our strategy well we should try to outperform the industry average so that is all I can tell you at this point of time.

Avneesh Agarwal: Okay. So a couple of book keeping questions one being that in one-time depreciation accelerated depreciation which is there in that 3Q of this year I believe there was some element of this in last year also in your Pantaloons Fashion and Retail so can you share with us that number?

Management: You want what number the last year?

Avneesh Agarwal: No, in 3Q third quarter of FY15 and nine month FY15 there were some element of accelerated depreciation in the Pantaloons Fashion and Retail?

Management: We will just come back to you with that give us five minutes.

Avneesh Agarwal: Okay. And sir finally what is the guidance for the tax rate because currently you have provided for zero tax so for how many years do you think you will be in zero tax.

Management: I think for next two years we will have MAT then we will see.

Avneesh Agarwal: Okay. So for the next two years we will be under MAT.

Management: Yes, that is our current understanding but let us see.

Moderator: Thank you. The next question is from the line of Vinay Pahariya of Religare Invesco. Please go ahead.

Vinay Pahariya: Actually I wanted to understand in the other expenses line apart from the advertisement expenses which is the other significant expense line and has that materially changed over the previous or base period?

Management: Yes, apart from the advertising the two big ticket items as I mentioned earlier was bonus is one item and budget related expenses were around 5 crores and then there is other expenses which are ongoing and we will continue to spend behind the whole digital transformation that I talked about.

Vinay Pahariya: So how much is could you please quantify that or that is something which you would not able to do that?

Management: Just a minute are you looking at Slide #32 of the presentation?

Vinay Pahariya: No, actually I am looking at the bear result which has been submitted to BSE.

Management: Yes, okay. There is other expenses which is about 448 crores.

Management: Yes, so the other big ticket item is spent on omni-channel transformation, I did not treat this as an exceptional item purely because I think…

Vinay Pahariya: So, this shown as 448.6 crores for the quarter?

Management: Yes, that is basically it include everything other than rent, it includes our sellex, our logistics cost, our freight cost, our advertisement cost, all other cost of running the business.

Vinay Pahariya: So apart from advertisement which is the other major next major expenses?

Management: Sellex would be the big expenditure after that and then we would have logistics cost and the freight cost also there, we will have our corporate overheads also there so these all of them put together.

Vinay Pahariya: Okay. Is there material uptick in the…

Management: All other expenses either quarter-on-quarter or year-on-year there is no great material change. It is normal link to business change that is it.

Moderator: Thank you. Our next question is from the line of Nikit Shah of Motilal Oswal Securities. Please go ahead.

Nikit Shah: Just want to know how much is discount as a percentage of sales in this quarter versus last year same quarter?

Management: So I think discount we would not have in all places on our books but overall impact on discount is about 3% to 4% that is the level of increase that we have seen in percentage.

Nikit Shah: So this is 3% to 4% higher as a percentage of revenues?

Management: Yes.

Nikit Shah: Okay. So initially for example if it was 7% is now 10%?

Management: That is right.

Nikit Shah: Is not that a little on the higher side and is that one reason why the top-line growth is actually in double-digits?

Management: Yes, I think see it is pretty much adds-up EOSS started early Pranab talked about competitive intensity or some of these result into higher promotion and higher share of discounting in the quarter and that results in higher level of discounts, of course, it drives top-line a little higher than normal than.

Nikit Shah: Right. And where do you think this discount number is really heading up I mean obviously it changes from time-to-time in terms of strategy but from a next two years to three years' perspective do you think we are towards a cycle where the discounts will really peak out now at these levels and will only start moving downwards?

Management: I think the sense is that as there is pressure on profitability on across the industry there would be some relief going forward but wed not yet see it on ground and that is the point Pranab was making in his earlier commentary.

Nikit Shah: Okay. On the franchise model of Pantaloons which you spoke about and you said that margins would be around 100 basis points lower than the existing model that you really operate at, could you share broadly what will be the return on capital employed that you would generating in a franchise model as compare to your own model?

Management: See in franchise model essentially the capital is employed by the franchise so we do not have any capital there. So apart from the working capital I am talking about the CAPEX we do not really point in only the inventory belongs to the company.

Management: You must understand there is only store in the franchise model we are piloting it, we are experimenting it, it is a little bit early to you know give you some concrete numbers on what expectations that we will have. We will have to see how the market evolves, how franchises are interested, and how our business model developments based on that we will come up a model which is both win-win for the franchise and win-win for us and allow us to expand rapidly, so I think you should wait for time till we do the pilot, and get our understanding right and then come back to you on these issues.

Nikit Shah: Right. And just final question, if you can just speak a little bit about our own venture trend-in how is that doing and what are the growth plans there?

Ashish Dikshit: So our E-commerce is growing year-on-year between 70% to 90% quarter-on-quarter it varies a little bit, it still continues to be a small part of our business our total E-commerce revenue is between 2% to 3% which is growing rapidly but still remains a small part. I think in the longer term this is going to be an important channel but I think for that to emerge the current level of discounting in promotion that this channel is seeing will have to come down for brands to start participating in it fully. And at that stage, you will see faster growth.

Management: And just to add to Ashish, I think currently when we started trendin we looked as a pure E-commerce play but now that we are looking at omni-channel it fits in very well because this is how we have a back-end completely tied-up and we can actually engage in their omni-channel play so, therefore, we are to talking about only online E-commerce sales we are talking about the bigger picture which effects our retail entire network. To that extent I think it is trendin has a big role to play there. So I would think the E-commerce is going to become less than less important to us but more and more important in the context of the omni-channel network that I talked about.

Nikit Shah: Right. Any other measures that you have taken recently within Pantaloons I mean apart from what we know during the merger that you had shared and any incremental measure that you have taken to improve the profitability part of it that you can share about?

Shital Mehta: No, I think it is the plan which we had shared it was sort of two years to three years' plan so we are continuing on the same path sort of building our own brands, increasing the overall mix of our portfolio sort of to improve the margins and so on and so forth so that is something which we are continuing. There is nothing which is significantly changed in terms of direction.

Management: You know just to what Shital has said, we created a roadmap and I think we share that road map at one stage which is saying the first year would go and managing the transition which is also had a lot of issues around the transition. Then the next two years went about building the foundation and I think we are now ready for scaling up. If I look it again from my own perspective at Pantaloons I think the opportunity is so large that I do not know what we will be talking in the quarterly basis even on an annual basis. I think I want to go after the growth, I think our competitors are doing that and if we do not do that we will have problem five years down the road. So I am very clear that we need to invest behind this growth story of Pantaloons and if you look at the network if we have only 50 stores and 60 stores and you put 30 stores on top of that it is 50% increase and store it actually impacts the bottom-line of the company of the division. But as the store network increases, everything I put 30 stores - 40 stores - 50 stores - 60 stores then the impact on that is less on the network. So I think therefore the journey is going to become hopefully better and better because each and every store we launch is suppose to be profitable so if it is not going to be profitable store we do not launch so it is going to be actually delivering value and we have a very clear norms of what kind of paybacks we are looking for. So based on that I think the story in Pantaloons will be more about driving growth so there will be completely different position, there years from now, four years from now. And that is the opportunity that is actually lying in front of us and if we do not take it others will take it.

Moderator: Thank you. We will take the next question from the line of Nishit Rathi of CWC Advisors. Please go ahead.

Nishit Rathi: First question is just the 10% number that you gave on margins is only for Madura or for the company as a whole?

Management: No, I think we are saying just only for Madura because Pantaloons margins are lower and Pantaloons it may take quite some time to get to some level as I explained earlier so, that is only for Madura.

Nishit Rathi: Earlier we need to do around 12%-odd margins we are now taking the margins guidance to around 10% is that clear?

Management: We are not giving you any guidance, please.

Management: We are not giving guidance, I think what I am saying is that we will spend behind the brands and therefore, when we do that spend I think there will be an issue around what kind of pressure the margins come but for example, that if the competitive intensity drops and E-commerce players actually find it difficult to keep discounting 70%-80% of their value and automatically I think our margins will improve. So it is a combination of factor because you guys are asking the question of why this quarter three was well below the 10% and I am saying that it can easily get back to 10% so that is not a guidance it is reassurance.

Nishit Rathi: Okay, fair enough. And can you just give a quantification how much how are we how much investment is going through the P&L on the omni-channel piece is it substantial or is it, is not much to impact?

Management: Sir, this is big journey that we are embarking so, far I think we have spent around 10 crores or so we have spent but this will continue because as we roll out into our entire network of 500 stores or 600 stores that we are looking for year one, year two.

Nishit Rathi: It is 10 crores from the P&L or it is a CAPEX?

Management: P&L.

Moderator: Next question is from the line of Vaibhav Goel of SBI Life Insurance. Please go ahead.

Vaibhav Goel: So sir I have two questions first on the omni-channel how much we have spent till now and how would be the roll-out phases, how much time it will take probably?

Management: So in terms of an investment it is on both sides the CAPEX and the OPEX side Pranab mentioned 10 crores figures that was for the OPEX that we have spent in last six months. There has been a similar spend on the capital side in building the IT Infrastructure. At this point of time we are in early stage of roll out in about 10 stores - 12 stores we have launched the first version of it. I think over next 9 months to 12 months about 60% to 70% of our revenue network will get covered through omni-channel functionalities.

Vaibhav Goel: Okay. And this would be on both the sides I mean Madura as well as Pantaloons?

Management: So it is more about stores but yes, the model has been tried out in both the businesses.

Vaibhav Goel: Sir, so annually probably for the growth path because we have made almost like 7 crores kind of PAT this quarter so CAPEX requirement how do we look at them to be funded through?

Management: Going forward next year?

Vaibhav Goel: Yes, growth plan for the next year, in the coming years.

Management: Yes, I mean it is a bit early to talk about next year's CAPEX. We will come back to you probably around the beginning of this thing to see. And see, we will have to estimate both the quantum of CAPEX required for expansion and for new growth opportunities plus what can be the cash that can be generated from the business looking at the market situation, etc. Currently we will not be immediately able to tell you any number around that. Our next year's budget and plans are still being worked out so it will take some more time. But one thing we can reassure you we will not be borrowing heavily to invest and increase our debt beyond normal limits that the company should have so that we do not over leverage our selves in the quest for incremental growth.

Vaibhav Goel: Yes, sir. Sir one more thing on the goodwill part how do we look forward to amortize it or would there be tax rate…

Management: No, this will be tax rate for impairment on the Madura business.

Vaibhav Goel: So on the tax benefit part only the losses which are sitting probably that will be giving the tax benefit?

Management: Yes, see there is a case in the Supreme Court who says amalgamation of goodwill can be allowed in taxes which has been recently won so I think we have a fair good chance of getting the goodwill write-off also as a tax benefit but that was only yesterday or day before the case has been decided by Supreme Court and will come back to you on that.

Moderator: Thank you. The next question is from the line of Abhishek Jaiswal of Ratnabali Capital. Please go ahead.

Abhishek Jaiswal: So just one thing to clarify, the number for your online business that you gave us that is 2% to 3% of your revenue. Is it only for trend-in or dose it also consistent of Aditya Birla Online Fashion the new portal that you have launched?

Management: No, this is mostly trend-in.

Management: See hello, Aditya Birla Online Fashion is not a part of this group of this business. It is a separate company that is privately held by Mr. Birla it has nothing to do with our this thing. The amount of 3% that we gave you is the amount of sales that happens through our trend-in sales and something that happens on the other B2B commerce sites.

Abhishek Jaiswal: Okay, sir. And just one more question sir, like I was working with rental expenses so going forward that we have also come up with a report that some of the shops are moving on to revenue or profit sharing model with the malls rather than the fixed rental expenses. Do we see our company also moving towards that model?

Management: Who is doing this, who is doing this revenue share in your report?

Abhishek Jaiswal: Sir, we have in the news paper there was some article about this that some of the mall owners are shifting to this so just want to know in that fact that is it anything like that happening around?

Management: No, we do not see that kind of huge trend happening. May be one anchor probably gets a revenue share but in large I do not think it is happening.

Abhishek Jaiswal: Okay. And do you see any rental expenses going further or is it going to increase in further?

Management: See I think there are two factors, premium retail space which is high quality continues to be in demand because it is limited. The overall real estate development has not really kept pace so the good quality space continues to be in demand rentals are not going up but good quality space is limited. On the broader market, however, rentals have remained soft they have not come down because land lords have capacity to wait for the right opportunity but definitely they are not going up.

Moderator: Thank you. Ladies and gentlemen, we will be taking our last two questions now. The next question is from the line of Mayur Gathani of OHM Group. Please go ahead.

Mayur Gathani: Sir, you have been stating now that the ballpark figure margins would be 10% for the Madura brands it is a 2% drop so last two years - three years we have been doing 12% we were spending on advertisement why the sudden splurge in spending more on the advertisement side it could not be just because of E-com, I mean E-com is more of discounting rather than advertising.

Management: No, I think two parts one is there is overall increase focus on building these brands to take next level of growth we want to make sure these brands continue to grow. Our brands have grown very strongly over the last five years to six years, we want to accelerate that expansion and therefore this is something every once in while you will come back and make that re-investment brands requires refreshments over a period of three years to five years. It is not an ongoing and continuous increase but we have to assess the market situation and do that and that and that is the call that we have taken for this year.

Mayur Gathani: So it is for this year or probably the next year it continues that you will continue to focus on these brands advertise more then and hence margins remains subdued from what have you have been doing earlier on?

Management: Yes, I think what happens is that when we talk about the margin there are three big livers that are impacting us, one is the discount, one is the advertising, and the third is of course the cost factor. So with these three things we have to play them around and as I said it was not a guidance of 10% it is reassurance that the fact that you saw 6 point something in quarter three for the reassurance that that is an aberration that was the reassurance so therefore whether how much we will spend on advertising will also depend on the competitive environment, what view you take on new launch, and so on and so forth. But also very important to understand what is happening in the competitive environment and if you have to compete on discounts for periods of time we have to do that as well so, it is a combination of factors so I think to me what I am reassured is that 10% margin I think is a sustainable model even in the worst scenario. And I do not think the worst will continue for too long period of time based on what we hear in the market.

Mayur Gathani: Okay. And coming to Pantaloons I mean you are doing around 4% I mean this quarter was a little high but generally you are doing 4% so, this could move up to 8% over a period of time because that is where the normal margins for the industry?

Management: I think industry is lower than that the number you have quoted but I certainly think we should be able to match industry and hopefully in the couple of years beat the industry.

Mayur Gathani: Okay. Any outlook on the debt you have 1,800 crores of debt right now I mean you just said that you intend to take some debt for expansion but there is a limit to that so what could be the upper limit?

Management: See if I was able to tell you that now, I would have answered the previous question to say how much CAPEX we are doing and how we are funding it. Both these numbers are linked to each other and we will come back at an appropriate time with that.

Management: But we are aware of the fact that debt to EBITDA ratios have to be maintained and that is something we will do unless there is a big one time investment behind acquisition or something apart from that, I think it should be under control.

Moderator: Thank you. Our last question is from the line of Shitij Kazi of Edelweiss. Please go ahead.

Shitij Kazi: My question is that this quarter we have seen a lot of one-off like write-offs and depreciation and the Bonus Act so do we see those continuing?

Management: See the stock adjustment of 32 crores of this was one-off adjustment which happened in Q1 because we have to consolidate the numbers from the appointed date we have given you both year-to-date numbers and Q3 number that would not be again repeated because now only the incremental stock which is sold between the two divisions there will be an adjustment. With respect to merger expenditure we will have some more merger expenditure which will be incurred during the next quarter as we complete the process of merger including share issue and completing it and bonus you know the impact in this quarter because it is was a retrospective effect for the previous year and as a result of it there was a substantial hit in the quarter's accounts because we have to accommodate for the full year and therefore the site. Going forward it will get adjusted to the normal wages that we normally have and there will be part of wage cost structure that we need to have for our employees.

Moderator: Thank you. Ladies and gentlemen that was our last question, I now hand the floor back to the management for closing comments. Over to you, sir.

Management: Thank you very much for your questions a lot of insightful questions. We will note of them and thank you for your time and patience.

Moderator: Thank you. Ladies and gentlemen, with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines.