



“Aditya Birla Fashion & Retail Limited Q3 FY17
Conference Call”

February 03, 2017



**MANAGEMENT: MR. PRANAB BARUA – MANAGING DIRECTOR
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Moderator:

Good Day, Ladies and Gentlemen, and a very warm welcome to the Q3 FY17 Earnings Conference Call of Aditya Birla Fashion & 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.

We have with today Mr. Pranab Barua – Managing Director, along with Mr. Ashish Dikshit – Business Head, and Mr. S. Visvanathan – CFO. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's Earnings Call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the Company faces.

With this, I am glad to hand the conference over to Mr. S. Visvanathan. Thank you and over to you, sir.

S. Visvanathan:

Thank you. Good evening and welcome to the Q3 FY17 Earnings Call for Aditya Birla Fashion and Retail Limited. Let us talk first about the performance for the quarter and year-to-date December 2016.

Industry performance:

It is important to look at the performance in this quarter by month as there are many factors at play, including festive season, pay commission impact, demonetization and the early onset of EOSS. I will first now look at what is the performance in October. The festive season combined with the impact of the Pay Commission hike implemented in September 2016 saw the industry post strong growth across all categories and price points with most players posting strong double-digit growth. The industry was poised for a very good quarter as this momentum continued in the first week of November, 2016. In November, the government announced demonetization and this immediately impacted cash sales across all channels with a first few days showing a reduction of close to 40% of the total sales. Discretionary spending was the most impacted with consumers facing liquidity problems in the aftermath of demonetization. Cash sales of retail channel reduced to around 10% to 15% against normal ratio of 40% to 45%. Moreover, wholesale channels were particularly impacted. All players in the industry posted double-digit negative growth in this month and many players were saddled with high levels of inventory, especially in the wholesale channels.

Now coming to December:

December saw a sharp marked recovery in retail sales with most players coming back to normal levels of sales and even posting single-digit growth. The value fashion players recovered very



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quickly while the premium and super-premium were more sluggish as consumers were spending the available cash on more basic items. The wholesale channels continue to battle liquidity issues and this combined with higher levels of inventory suppressed their growth. The entire industry, barring a few players, started the EOSS in the last week of December itself to offset the impact of inventory pile up. On a broader note, the segments of women's wear, casual wear, value fashion and fast fashion segments continue to grow at a healthy pace. In terms of channels, e-commerce continues to lead growth across all categories.

Now coming to ABFRL performance:

I will take you through the highlights of the financial performance of ABFRL for year-to-date and Q3:

Overall, despite challenging conditions ABFRL has delivered a steady performance during the year so far. Our year-to-date December sales have grown by 9% while EBITDA grew by 11% and EBIT has increased by 26% over the same period last year. During this quarter Q3 FY17, sales grew by 5% over Q3 of FY16 to Rs. 1,707 crores. This is a strong performance in the light of the fact that we lost an estimated sales in excess of Rs. 100 crores due to the demonetization impact. EBITDA for the period at Rs. 95 crores was marginally lower than Q3 FY16 EBITDA of Rs. 102 crores. This EBITDA was after absorbing the impact of the lower revenue on account of demonetization and cost of Forever 21 and innerwear business, which we did not have in our portfolio last year and are currently in investment phase. Post-demonetization announcement the Company took several initiatives to react to sudden loss of business. These initiatives included cost reduction programs across overheads, selling expenses and advertising as well as working capital management in view of the sudden revenue loss in the month of November and December. As a part of our ongoing focus on working capital improvement, we continue to improve inventory turns in the business. Overall, working capital was lower by Rs. 50 crores as compared to the beginning of this year, despite fresh investments in new business.

Now I will take you through the two businesses of Pantaloons and Madura, first let me talk to you about the Pantaloons business:

Pantaloons continued its impressive growth journey during this festive period. On a year-to-date December basis revenue grew by 21% to Rs. 1,968 crores and EBITDA at Rs. 111 crores grew by 56%. The year-to-date Q3 like-to-like value growth was 6.1% while volume like-to-like grew by 12% in this period. The move to value fashion and increased share of own brands combined with expansion has helped us to record growth in sales and profits.

During this quarter, Pantaloons posted a healthy revenue growth of 13% to register sales of Rs. 667 crores. The same store growth; however, at 1.8% was impacted by lower sales in November which declined by almost 25% on account of demonetization. Pantaloons stores had recorded



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very healthy like-to-like growth in the month of October and December. The network expanded to 180 stores, up from 171 stores at the beginning of the quarter. We continue to increase share of own brands which now stand at 62.5% of the Pantaloons revenue. EBITDA for the quarter was Rs. 33 crores. The network of 180 stores at the end of Q3 FY17 includes 10 PT women stores and 5 PT kids' stores. The initial results for these new formats are encouraging. As a part of the overall strategy to drive partnered distribution, we have launched 14 franchise stores and we expect this number to grow slowly and steadily as we build on the experience of running and managing these stores profitably.

Coming to MFL business:

MFL's Q3 FY17 sales at Rs. 1,056 crores was the same as last year. The business was impacted by a steep decline post demonetization in November. While retail sales have begun to improve in the quarter, wholesale business was most severely impacted due to their internal liquidity issues. Our strategy of continued investment in brands, control over discounting and mark downs and cost rationalization across the business ensures that despite the external challenges in the market and pressure on top-line Madura marginally improved its profitability in the quarter and EBITDA for the quarter was better at 6% of sales as against 5.9% last year. This EBITDA is after absorbing the initial expenses of the innerwear launch and Forever 21 businesses, thus reflecting the strong intrinsic profitability of our core business. During the quarter, we continued the retail network rationalization by closing 36 stores as part of the overall network rationalization exercise planned for the year. We have now completed most of the strategic network restructuring. We believe this will make our retail network healthier going forward. We continue to accelerate Company's journey into rapidly evolving digital ecosystem through launch of brand.com, ecommerce website for each of our brands. Rollout of Omni-channel program across 450 plus retail stores and increased share of online sales both through owned and third party ecommerce sales sites.

I will give you a brief update on the innerwear business:

We continue to expand the distribution for the innerwear business. The innerwear received very strong trade and consumer response in the first three markets that we launched. We have now expanded our network to be present across 640 outlets across MBUs in these cities, 40 plus department stores and 170 of our own Van Heusen Brand stores. Over next few months we will expand the business initially to other cities in south, followed by the rest of the country in FY18. The results for this quarter incorporate the impact of IndAS accounting standards; the detailed bridge is available in the investor presentation uploaded on the website.

Outlook:



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Our outlook continues to be cautiously optimistic and we expect normalization in the wholesale channel to take another one to two quarters before it comes back to regular kind of business.

We are now open to questions. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, your margins in Madura is 6% and you said obviously that has Forever 21 and launch expense of innerwear, so my question is on the legacy brand Madura, how things are in terms of same store growth and margins? And similarly, Forever 21, did it see faster revival post the initial impact of demonetization just like Pantaloons?

S. Visvanathan: Second question first. Yes, indeed it did, Forever 21. But it is early days for Forever 21, so basis are not fully established. So it is a strong recovery as far as Forever 21 is concerned. On Madura business, we do not report beyond the segmental reporting that we have, needless to say we have large ambitious innerwear as well as Forever 21 which has tremendous potential of rapid scale up, and therefore we are in investment phase. The fact that EBITDA for the whole business after absorbing these two remains at same levels last year will give you an indication of the strength of core brands. I can only say that that has improved in this quarter. If you go back to our previous two earnings calls we have indicated time of recovery both in revenue and profitability of this business, we continue to remain on this path, and it is improving and getting stronger every quarter.

Abneesh Roy: But sir, you are not sharing numbers on legacy Madura, but impact of these two, so Forever 21 and launch will it be 100 bps in terms of margins?

S. Visvanathan: I mean, that would amount to sharing everything. So, I think at this stage I can tell you that Madura margins are pretty strong and they have come back to near normal levels that we had after a quarter or two of recovery that we had indicated earlier and we have a very strong footing.

Abneesh Roy: Sir, follow-up on Forever 21, what is seen is Zara seems to have cut prices post H&M's entry, and H&M is seeing very good footfalls, and post any acquisition across the board we do see initial teething issues. So in that context and what I mentioned on the peers, what is your understanding of Forever 21 versus what it was say two, three months back when you had bought?

S. Visvanathan: So, I think you have seen how business acquisitions work. First few months we took charge of the business, understood the business, figured out the current state in terms of store network, quality of inventory and those things. We are back to a strong trajectory now; it took us three, four months to get on top of that business. And it is a very strong brand with tremendous



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consumer franchise. You must have either experienced or heard about how well it does in wherever it is present. I can only tell you at this stage the performance is rapidly improving. We still have a little bit journey to go before we could stabilize and completely be on top of this operations in terms of growth trajectory that we want to take it on, maybe a couple of quarters more and we will be able to talk a little bit more about it.

Abneesh Roy:

And that specific issue will be current store present where you are or in terms of layout, what is the issue which you highlighted just now?

S. Visvanathan:

So, the current issue is about the legacy of the network that we have inherited, that is not enough that we have added on top of it. As you noticed, even in case of Pantaloons which is a much larger acquisition, much bigger format, multiple categories and a new team, we took a couple of years to get the core business right and you are now witnessing the kind of growth that business is achieving. I think journey for Forever 21 is going to be much faster than shorter, brand is very well established, most of the pieces are working but we will have to get into a better model as we open new stores.

Pranab Barua:

See, just to give you a sense of it, when we inherited and took over the business, as you know in any kind of acquisition there are transition issues when the business is changing hands. So we also inherited some of these transition introduced in terms of inventory being ordered, stores being full etc., which we have corrected in the last one and a half quarters that we have been running this business. Going forward, we will focus more on the operational issues and we are very confident that Forever 21 will be a big success in the Indian market.

Abneesh Roy:

Sir, my second question is on your legacy business, Madura. You were closing EBOs but this quarter EBO has been again added very strongly. So, is most of that clean up in EBOs behind and if you could talk about your online partnership with Amazon and if any other players, how that is shaping up? And online players are struggling further, so is that further good news for you from a medium-term perspective?

Pranab Barua:

So, a couple of things. We embarked on a network rationalizing journey and we talked about it for the last three quarters, and we have executed most of it in the last two quarters. In this quarter it is not that we have added a lot of stores and so on, I think our store expansion is stable, right through that journey, it is the closure of network which had got accelerated in the first two quarters. Even in this quarter we have closed some stores which are part of that original list. So I think we feel, as Vish had communicated earlier in his opening remarks, we feel strong and healthy network is in place now. We will continue to add stores as market opportunity continues to remain over next few quarters as well; it is the rationalization which has slowed down now. As far as online business is concerned, we have partnership with the entire leading player, Flipkart, Mintra, Amazon, Jabong across all our businesses. Our ecommerce business is being growing between 6% to 10% year-on-year, but part of it is small basis right now. As well as our in



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systems that we manage a level of parity in terms of consumer offering and discounts across our channels, and therefore with every partner we maintain that. To some extent that inhibits the growth in those channels which are primarily discount driven. But we have deep and very strategic partnerships. As you rightly suggested, as players look for more profitable sustained model, they will find working with companies like us with strong brands, good customer traction, and much better profitable proposition for them. So we expect that business to continue to grow.

Moderator: Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: I have two questions. One, in your traditional Madura branch how much could be the percentage of revenue coming from the category extension, apart from your man's formalwear categories revenue?

Pranab Barua: Sorry, I did not get. So, trade is a channel?

Maulik Patel: No, I am talking about more from the Madura brands which are typically traditional man's formal wear category.

Pranab Barua: So, these brands have got expanded not today but over last seven, eight years.

Maulik Patel: Correct, so I want to see that...

Pranab Barua: Nearly 40 plus business, 40% plus business comes out of those extensions.

Maulik Patel: And approximately what could have been the growth rate if you could tell me about last two years is the growth rate significantly lower in formal wear category compared to the category extension?

Pranab Barua: Last two years I think the growth rate overall is lower across the segments, but some of the casual categories are going slightly faster, but it is not dramatically different.

Maulik Patel: Second question is on the margin side, I think in the earlier question you did mention that we have recovered the margin what it used to be. But in your earlier presentation before the demerger the margin used to be around 12% - 13% at a Madura level, currently it is around 6% - 7%. So is this 4% - 5% of the gap just because of the acquisitions what you have made, or is this something else? Because in earlier quarter you have some one-offs are there.

Pranab Barua: So, there are two elements of it, one is you have picked two discrete pieces of data, our core business continues to remain healthy, it is not at 13% but it is close to double-digit, sometimes higher, sometimes lower, in last few quarters it used to be lower and our current trajectory is now



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higher than basic double-digit growth, profitability. It is therefore the impact of all the new businesses that we have either launched or acquired that is showing a strain as far as the overall segment profitability should. So that means that approximately 4% of the EBITDA drain is because of the new businesses, is this a correct explanation?

Pranab Barua:

I mean, you can do the math.

Maulik Patel:

I guess my math is right.

Moderator:

Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah:

Sir, just wanted to know in our slide 16 of our presentation what constitutes other revenue of Rs. 94 crores? Other channel which is mentioned there in channel mix for Madura garment.

S. Visvanathan:

So, it includes ecommerce, it includes all the depletion channels that we have, it includes the exports that we have in Middle East.

Tejas Shah:

Sir, second, the fact that you rightly elucidated at that pressure on Madura, Madura margins were largely because of the two businesses that we are accommodating in the same P&L, but then is it a fair assessment that the same businesses would have also helped for our revenue growth in this quarter. So just wanted to understand, if you can share the numbers then better, but if not then also directionally how the Madura portfolio did like-to-like basis, was there a de-growth because of demonetization?

S. Visvanathan:

Yes, there was de-growth. And the revenue growth that you are seeing here is marginal revenue growth that has helped to small extent by the new businesses. Having said that, you must remember these businesses have very low revenue compared to Madura's base, but their ability to at this point affect profitability is much higher than revenue. So, that is the extent to which the Madura's business has performed.

Tejas Shah:

And sir, in Madura business for last almost three quarters you have been highlighting as a business leader we are trying to set right practices and not to participate in EOSS as much. But quarter-after-quarter we are hearing that EOSS was the key pressure point for margins not expanding, in fact margins contracting also in Madura business. And second, based on our channel check at least for this quarter in metro cities we did not see EOSS starting before 23rd of December weekend. So from that observation also we are hoping that this time margin pressure at least on account of EOSS will be lesser. So just wanted if you can throw some light on the same.



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Pranab Barua: So, we said that three quarters back and continue to remain on that. Our discounting as a percentage of sales has remained steady and declining despite whatever else is happening in the market. We are clear that it is a right strategy to do, and some of it is beginning to show up now. In fact, our gross margin is pretty stable and improved in last two quarters over previous year. That is a reflection. You are not seeing the same thing in EBITDA because of other businesses being mixed up in that. We have taken a bit of a hit on revenue on account of that and that is really what is being visible over the last two quarters. We are very confident that as the market is coming back to a more normal behavior that both revenue and profitability growth will be back very soon in this business. So we are very confident and consistent with that strategy, that strategy has also lead us to lower inventory, superior turns, greater freshness which took again a couple of quarters to achieve that, but we are pretty much on that path.

Tejas Shah: And sir lastly if I recall correctly, two quarters back you had mentioned that perhaps we need to revisit price value equation or value proposition in Madura portfolio. So, on that count have we taken any action in terms of rationalization of prices in that portfolio?

Pranab Barua: So, we had indicated that in the last call itself, we looked at pricing and in couple of the brands where we felt pricing was missing we took that call. In general, the price change is very small on the portfolio level but it is more about introduction of certain anti-price points for a few channels to stay competitive there. On a business it is not a large mix of our business.

Tejas Shah: And sir lastly on book keeping question, what is the debt on books as on December?

S. Visvanathan: So we have close to about Rs. 1,966 crores of debt.

Tejas Shah: This is gross or net?

S. Visvanathan: This is gross debt.

Moderator: Thank you. We have the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Very small question on book keeping, one of the slides on Pantaloons which is the first slide which says that the like-to-like volume growth in Pantaloons was 11.5%, right, for September to December quarter? Slide 23.

S. Visvanathan: Yes.

Mayur Parkeria: And then we go to slide 24 and the first chart mentions like-to-like growth and it says (-1.8%) for Q3.



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Pranab Barua: So, if you look at that 11.2%, see Pantaloons as you know is the business which has a very strong basis in east where Pooja a strong festival. And therefore for Pantaloons we look at business for entire festive period together internally which is September to December period as one period, which is where Pantaloons has done extremely well. But because of high Pooja bias which means very heavy September, a lot of it does not get reflected in Q3.

Mayur Parkeria: So there is a September overlap?

Pranab Barua: Overlap and shift in Pooja dates from last year. So these two reasons are why we have looked at to look at a genuine like-to-like business performance.

Mayur Parkeria: One more small clarification, when we looked at Q3 FY16 investor presentation, the EBITDA shown for Madura was Rs. 65 crores and the margin there came at 6.1% compared to Rs. 63 crores right now and 6%. But Q3 FY17 shows Rs.63 crores of EBITDA and the margin is 5.9% for the same quarter. So there is some regrouping may be possible but then we would request if the numbers are maintained in the presentation, I can understand accounting the groupings can be possible but...

Pranab Barua: Yes, we will get back to you on that.

Mayur Parkeria: Sir, one comment if I may make. I hope you will appreciate the comment, and it is not from a negative sense but a concern which definitely comes from most of the investors. We have been maintaining that Madura traditionally has been a very strong business franchise and growth of 30% - 40% and even higher has been possible and most of the questions currently have been in the light that Madura traditional margins have been not as strong as what it shows and there is a pain point over there. Now, what I would request the management to understand and pay attention to is we have now become vulnerable to quarterly losses. I understand that there is a growth strategy; I understand that we are doing the restructuring and trying to improve the profitability mix, but irrespective of that today the situation is that we have reported a quarterly loss which is not something which is very well taken from a business which normally is considered to be a strong franchise. And a large portion of that loss, if one is to split, would have come from higher rise in very high proportion of interest cost, depreciation and rental cost. So, I am not asking a question in that sense but we would definitely urge the management to look and have a view on this and be more sensitive to the balance sheet and how it is impacting the P&L.

I have one more question but I will come in the queue later on. And I hope sir you will definitely take a note of that, from a longer-term perspective.

Pranab Barua: Thank you for your observations. We are quite cognizant of that and which is why we do not only talk revenue growth or profitability, we talk of revenue profit, return on capital, all three.



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And that is what we are trying to optimize. But fairly relevant observation and thank you for your feedback.

Moderator: Thank you. We have the next question from the line of Pratik Patel from Ariti Services Pvt Ltd. Please go ahead.

Nidhi Bengali: Hi sir, this is Nidhi Bengali this side. Sir, my first question is why the rent cost has escalated quarter-on-quarter and year-on-year, that is 13% and 18% respectively? Though these include Forever 21 stores as well?

S. Visvanathan: Yes, Q3 includes Forever 21, are you refereeing to earlier quarters or... Q2 and Q3 have Forever 21.

Pranab Barua: We also have addition of stores in the Pantaloons business which is consistently being added across various quarters. So, all these new stores would come into performance successive quarters, so rent as a percentage of sales as the new stores mature will improve.

Nidhi Bengali: And sir, my second question is, sir looking at Pantaloons customer segment basically we are from mid-segment category. And Madura with brands like Van Heusen and Luis Phillip they are more on the upper segment category, right? So I mean, basically the impact should be more on Madura rather on Pantaloons, Pantaloons we expect the growth rates to be around 20% but it has moderated to around 12% this quarter . So, what are your comments on that?

Pranab Barua: First of all, in very short the challenge was faced by all businesses and I think there Madura brands are also mass premium and premium segment. These are not luxury business or total value business, so these are not as far away as it may appear. Secondly, just to reaffirm, Pantaloon is growing at 20% on a YTD basis, this quarter was a bit of a setback, Pantaloon has a wider presence in smaller towns, so some of that also travels. There is a shift of Pooja from October to September which is why we had in the previous question talked about it. So it is a combination of these factors, the Pantaloons is on a very strong revenue growth trajectory and that you will continue to see going forward as well.

Nidhi Bengali: And sir my last question is, sir how was the traction in the wedding season in the Madura brand?

Pranab Barua: It was quite good, November was impacted by demonetization but I think the wedding categories which are suits, premium shirts etc. have done very well, December in fact it fact it came back even more strongly. So, if you take away the impact of demonetization which was sort of a bigger wave across the industry, the wedding period seems to have gone off well this year.

Nidhi Bengali: And sir just one last question is the Company overall planning to bring down the debt levels, like what would be the sustainable debt to equity ratio in the future?



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S. Visvanathan: See, we will be looking over a period of stabilized net debt to EBITDA of under three in the next two to three and a half years.

Moderator: Thank you. We have the next question from the line of Viky Punjabi from JM Financial Please go ahead.

Richard: Hi, this is Richard here. The recovery in Pantaloons SSG is very heartening on one hand, but if I look at your peers Westside has sustained its SSG in Q3 versus Q2 and Shoppers Stop has actually accelerated, but Pantaloons is negative for Q3. And even if I add Durga Pooja in October and so on, SSG is 4% odd, still lower versus 6% that was clocked in Q3. What do you attribute this difference in pattern to?

Pranab Barua: See, I think Pantaloons if you just look at it, as you rightly mentioned September to December period we are 4.5%, notwithstanding the demonetization. But I think the bigger point which you need to observe is that our like-to-like volume has been growing double-digit and there is not a single player right now in the market which is growing anything more than 4% - 5% volume on a like-to-like basis. So as we execute our value fashion strategy that is a tradeoff which we are making where our ASPs are coming down by 4% to 5% and that is what is sort of a volume growth is not entirely flowing into the revenue. But as we go forward and the ASP de-growth sort of stops, you would see that the strong double-digit volume growth which we are seeing will flow into the revenue as well. So that is how one needs to actually see the numbers.

Richard: Thanks for that. I was just looking at share of consumer wallet in terms of consumer spends, so I appreciate the point regarding volume versus pricing etc., but I am just taking a look at consumer spends growth and if I take revenue growth as a good metric to measure that, it is just that the growth that you are seeing have decelerated on consumers spends basis whereas the other guys have actually either maintained or accelerated. So if you look at it in terms of the larger picture in terms of what is Pantaloons share in industry, probably in FMCG we will call it market share loss, how do you look at this?

Pranab Barua: Before we come to the market share I think let's look at the picture in totality. At the YTD level if you just simply look at revenue share we are growing at 20% and I do not think too many of the players are growing in excess of 20%, that is one. So when it comes to market share, despite demonetization we are at 20% on an YTD levels. Second, as I was saying we are right now going to the transformation exercise where the trade off on price and volume is happening despite that, otherwise I think our volume growth is up by almost 30%. Second factor is that as we do this trade off our private brands are going up, and that is one of the reasons where we are taking some of the benefit into the margins. And therefore another way to look at it is look at the EBITDA, our EBITDA has grown at a YTD level almost in excess of 50%, so that is probably another way one can look at the business that on a YTD level 20% plus revenue growth and almost 50% plus EBITDA growth which sort of reflects all this parameters get accounted for. So that is what I



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would see that. So as far as Pantaloons is concerned, we seem to be absolutely on a strong footing vis-à-vis any other player in the market.

Richard: So, I conclude from this that you are not really too worried about this aberration between 2Q versus 3Q and what other guys have reported?

Pranab Barua: Absolutely not.

Richard: And some housekeeping stuffs here, Vish, if I may. If I look at rent for the quarter, that is for 3Q, and I compared it with the figure versus September, I know you answered to somebody else before this that there were store addition in Pantaloons and therefore the rent expenses were significantly

S. Visvanathan: Forever 21 stores.

Richard: Yes, but Forever 21 stores would also be there in 2Q, right, to some extent. So my question is that, if I look at rent, the figure has gone up significantly December versus September quarter whereas other expenses have come down in December versus the September quarter. Is there any trade off here, some accounting related stuff or there are some reasons for the same?

S. Visvanathan: See, one is the franchisee commission being reclassified as rent, I can give you the bridge on that, but that should not change too much between last quarter and this quarter because that is the IndAS thing that we have been consistently carrying out. But with the addition of stores maybe that impact I can show it to you. Apart from that, the fact that rent as a percentage of sales will go up a little bit more because our sales will remain stagnant in terms of the growth, while our number of stores that we have added has actually increased.

Richard: So let me put it in another way, if I look at other expenses it is pretty volatile between the quarters, it was about Rs. 305 crores in first quarter, then it became Rs. 380 crores in the second quarter and it is now down to about Rs. 348 crores in the third quarter. Any reasons why they are so volatile?

S. Visvanathan: The other expenses as a whole host of other things other than rent in that, so there would be changes amongst various things. I can give you the details separately if you want.

Richard: Sure. One more housekeeping stuff, can you give me store count and square footage for Madura ex-F21 and Pantaloons, quickly please, or do I take it from Rahul?

S. Visvanathan: We will mail it to you.

Richard: Sure. And would you mind disclosing what is Madura's LTL, the figures that you have been giving thus far, the figure that was (-10%) in 2Q FY17?



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- S. Visvanathan:** Madura L-to-L for overall business was (-7%).
- Richard:** This is the number that compares with (-10%) in 2Q?
- S. Visvanathan:** Yes. Year-to-date number.
- Richard:** Okay, this is year-to-date, how much is it for Q3?
- S. Visvanathan:** No, this is Q3 only.
- Moderator:** Thank you. We have the next question from the line of Vaibhav Goel from SBI Life Insurance. Please go ahead.
- Vaibhav Goel:** Sir, two questions. First, on the Madura side what is the volume growth what we are seeing, is there also some ASP reduction strategy which we are following?
- Pranab Barua:** No, insignificant there. There is a small entry price correction that we have done, but on a whole business that you are seeing, that is not such a big factor, as significant as 4% that you saw in Pantaloons.
- Vaibhav Goel:** And second sir, on the Pantaloons side we have increased the franchisee stores, so what is your experience, because by now probably three, four quarters have passed and you have experienced that, can you share that how fast it can grow?
- Pranab Barua:** So, I think it is a first year of franchise and I would still sort of say that it is too early to really talk too much about it. But so far all what we are seeing is experimenting to be going well. Having said that, you must remember that these are last moment stores vis-à-vis the small standalone stores and therefore franchising as a concept we do not believe that I will be anything more than 10% - 15% of our overall expansion as we go forward. But so far I think from what we have seen in last three quarters seems to be doing well.
- Vaibhav Goel:** And sir, your specific comments on women and kids store separately?
- Pranab Barua:** The women and kids I think most of the stores, now we have almost 15 stores in the network, I think it is a mix match so far, there are stores which have done exceedingly well, some are on target, some we are still learning where we believe we could have done things better. So I would still say that I think this is a pilot, it is just year one, most of the stores have not even seen two quarters. So it is very difficult to right now really say that how this chain as a whole is doing, but we are already seeing that some of the stores are doing very well.
- Moderator:** Thank you. We have the next question from the line of Manish Poddar from Religare. Please go ahead.



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Manish Poddar: Can you just comment on let's say the inventory in the channel? So, how is the inventory trending right now in the channel?

Pranab Barua: You are obviously talking of other channels because our own store is what we have full control and that is reflected in balance sheet. So that I do not know if you can make out but inventory within our system is pretty much under control. As far as rest of the channels is concerned, there is some concern on the wholesale channels which had sort of slowed down post demonetization. Our assessment is that in last 45 to 60 days even that channel has come back to normal inventory now post EOSS. And therefore we expect a restocking back in next quarter.

Manish Poddar: And if I may, what gives us the confidence that things are going to revive for the multi-brand channel in the next quarter, if I may?

Pranab Barua: Same, I mean, you answered the question; your question was what happened to that inventory? The inventory was high over last one and a half, two months they have brought less and therefore they have corrected the inventory. We have seen from retail performance which is the consumer off-takes across retail channels for us as well as for our competitors you have seen from everywhere else that that normalcy is getting more or less restored, which means the consumer off-take is likely to come back to nearly the same level or marginally lower than normal. And therefore we expect the channels to come back.

Moderator: Thank you. We have the next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: One question on your F21 model, by when do you think you will be able to bring it back to EBITDA positive territory?

Pranab Barua: We expect next year we should be able to show that.

Vinod Bansal: And sort of on a sustainable basis what kind of target margins are you looking at say two, three years down the line?

Pranab Barua: High single-digits are what our current visibility is.

Vinod Bansal: And what kind of capital turns are you looking at in this business?

Pranab Barua: So, working capital turns or total capital turns?

Vinod Bansal: Total capital turns.

Pranab Barua: See, it is difficult to assess today, we are getting on top of working capital turns which when we took over the business was little low at around 3.5 turns. We expect it to improve to 4 turns as we



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move forward. On the capital side it is fairly productive business because CAPEX per square feet is relatively moderate and the throughput per square feet is much higher. So, I think on capital side it will be more productive than most of our other businesses. On the inventory side also it is likely to be more productive.

S. Visvanathan: Actually we can give you a more proper and a better reply once we have operated the stores for about two quarters when we will now how it performs. We have just got into that business so it is not correct for us to give you any kind of target or aspiration around this.

Vinod Bansal: Sure. Just in terms of understanding how it operates, you said 3.5 times to 4 times working capital turns is completely cash sales, so it is a function of the inventory you hold and the greater days you have from the main brand from whom you are sourcing. As we speak, what kind of split would be there in inventory days and creditor days, broadly?

S. Visvanathan: I think we cannot disclose creditors; it is two party contract issues. But inventory, right now not as good as the brand has the potential of, primarily not the inventory at the stores but the inventory that we have taken over. We expect that to improve quickly in next two or three quarters. As I said, both on inventory turn and the asset turn which was capital turn, from our initial judgment this is likely to be the most capital efficient business for us.

Vinod Bansal: Because single-digit EBITDA margin let's say 7% - 8%, if I remove 3% depreciation on sales you are left with 5% EBIT margin, you remove tax and you are left with 3.5%. No matter you do in terms of capital returns you will struggle to make any respectable ROCE in this business. So, I was just wondering what is driving our traction for the business.

Pranab Barua: I think on multiple front, but let me just stay with the financial thing because businesses are done to create returns, so it has lot of positive from a future to way the market is and so on, but I would not get into that. Your math is quite right, except that your capital turns on asset side will be much better than delivering 3% depreciation or 2.5% depreciation that you are taking. We hope as we improve business and get to a scale the margins improvement should also be better than this. And I think from the traction that we have seen in the brand so far, we believe over a period of time our inventory management and therefore working capital which is inventory minus creditors will be far superior than where we are today, which is 3.5% kind of a number. So that can substantially go up and that leverage is going to be quite large.

Vinod Bansal: Can you say that 20% plus ROC is doable in this business over a long-term, two years out?

Pranab Barua: I do not know of two years but I think it is possible, because its throughput is very high and capital investment in fixed assets is smaller than any of our business. I feel it is possible, maybe not in two years so.



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- Vinod Bansal:** I thought your capital investment in terms of fixed asset investment will be higher than your typical Louis Philippe stores and stuff like that because this is supposed to be more jazzy?
- Pranab Barua:** No, two things, one is, absolute rupee square feet per cost is on an average just there or slightly lower. Second, the throughput of this business which is sales performance square feet is much higher than most of our businesses.
- Vinod Bansal:** So you are saying the CAPEX per square feet on a F21 store, CAPEX per square feet would be lower than what you would typically spend on a Louis Philippe store?
- Pranab Barua:** Yes.
- Vinod Bansal:** That is surprising because I thought you will be competing with the Zaras and H&Ms of the world where CAPEX is much higher than that? We are supposed to be more jazzy stores and more sort of attractive stores.
- Pranab Barua:** No, there are two things that you should look at if you look at 1000Sqft to 2000 Sqft this is anywhere 8,000 square feet to 10,000 square feet store. Some of the common costs like an AC or ducts or things like that which in a smaller store gets apportioned over a lower square footage and here over a larger square footage. Plus, the retail identity in these stores are different from a Louis Philippe which is inaugurating in the super premium, this is operating in not so super premium. There are differences there and therefore the cost per square foot gets spread over a larger square feet.
- Vinod Bansal:** So, would it be similar to what let's say a Zara does in India, the per square feet CAPEX, would that be a right comparison?
- S. Visvanathan:** We do not know what they do, because now we have opened three stores from post-acquisition, so we know what...
- Pranab Barua:** Also Vinod, what we have done is we have indigenized most of the CAPEX in India, so our import component of the CAPEX has come down dramatically for this business and that also gives us an advantage in terms of the cost.
- Vinod Bansal:** Can you share the CAPEX number; it will just answer all questions then.
- Pranab Barua:** Not now boss, we will get in touch with you.
- Moderator:** Thank you. We have the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead.



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Mayur Parkeria:

On the Pantaloons side, what we understood was it was on a sort of a sustained trajectory for margin improvement having seen all the restructuring over the last two, three years since acquisition. And the margins were supposed to be more stable and rising upward. But in this quarter we saw a fall compared to that. Why would that be? And this is despite the fact that the sales value growth has been there, so no benefit of operating leverage or anything in that?

Pranab Barua:

Yes, so I think again as we were explaining a little while back, we feel the like-to-like growth, revenue growth, various other numbers, it is very important to look at numbers from September - December perspective. Leave alone the demonetization impact which has happened in November, but even if you keep that aside our margin has expanded September - December basis. What this will really reflect in Q3 is that large part of our business, one-third of our business is in east, last year it was in October, this year it was in September.

Mayur Parkeria:

So, September - December quarter last year was 6%.

Pranab Barua:

Not quarter, I am not referring to quarter; I am saying September to December. So if you look at it for the four months period as we look at it, it is for the entire festive period, notwithstanding the demonetization our margin has expanded over last year, apart from the revenue growth of 20%. And that is the reason our EBITDA growth for that period if you look at it a four months basis it is almost in excess of 40%.

Mayur Parkeria:

EBITDA growth, okay. Second question was, when we try and assess it from a more field level, any dealer or any store whether it was garments or, most of them have mentioned that the sales impact during the demonetization in November - December was 25% - 30% broadly give and take, cumulatively till December time. And some of them even still say that there is a 20% slowdown. However, when we looked at even our company as well as any other, the reported sales from the Company level has been pretty stable growth or even margins, very less impact. So put it more tangibly, we are seeing Madura like-to-like volume de-growth was only 7% and Pantaloons like-to-like de-growth was (-2%) for the quarter. Whereas if we reconcile that with the ground level understanding there is more of a larger fall. So what I was just trying to understand, is it possible that in this quarter the first level of sales from the companies to the dealers which is rebuilding in the stock has happened and hence the sales at our level has been good. But the tertiary sale, which is to the final consumer there has been an impact and that sales have not taken place. So will it happen that the January to March quarter will actually see a similar fall or a larger fall even at the company level because the tertiary sale has not taken place. And to combine that with your comment that you expect the sales to improve in the next quarter, so about the current quarter will it be that the sales will continue to be seen?

Pranab Barua:

I have understood your question. I think the short answer is, our sales, Pantaloons 100% sales and Madura's close to half the sale is direct sale to consumer, so there is nobody involved in that,



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so Pantaloons sales, whatever we are reporting is direct consumer sales. So what you are hearing...

Mayur Parkeria: No, I was talking this from Madura's perspective?

Pranab Barua: Madura's case also half the sale is direct consumer sale, the other about 25% and close to 30% of the business comes through the small trade business which is about 25% to 28% depending on the quarter. In that in fact we have taken very sharp reduction in sales in this quarter which has led to inventory correction at their end because we have almost taken a 30% drop in primary sales, so exactly reverse of what you are saying. We have taken fall in primary sales to them in this quarter.

Mayur Parkeria: This quarter means the third quarter?

Pranab Barua: Third quarter, yes. And therefore to that extend our result in this quarter is impacted adversely; their inventory is getting corrected during this quarter as well EOSS. And therefore we expect a reasonable pickup, although we will have to see when it actually comes up, see a reasonable pickup next quarter.

Moderator: Thank you. We have the next question from the line of Yash Javeri from Alder Capital. Please go ahead.

Yash Javeri: I joined the call late, so I am sorry if this is a repeat. Can you tell me what is the CAPEX that you have done so far for this year and can you give any guidance for FY18?

S. Visvanathan: So far we have spent about Rs. 186 crores odd in this quarter, I mean, till YTD December.

Yash Javeri: And any guidance for FY18?

S. Visvanathan: Difficult to say at this point of time, we are still in phase of making up plans. But unlikely to be dramatically different from what we have been spending.

Yash Javeri: And second question is on the store closures on Pantaloons, are we done with that more or less or do we still have some way to go on that?

S. Visvanathan: So, Pantaloons' main format has not gone through store closure issue, the store closure was more in outlet stores which are small format stores where we used to sell leftover inventory because we had a lot of inventory. We had taken a call to shut that channel and therefore we have shut about 20-odd stores, so that is a one-time thing where channel strategy was corrected.

Yash Javeri: And lastly, any update on the franchise operations for Pantaloons?



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- Pranab Barua:** Yes, so we have so far opened 14 stores this year and so far from what we are seeing is the experiment is going on reasonably well. But however, we must caution this is too early to say because it has just been six, eight months which has happened for most of the franchisees. And the fact that this is a large format store and reasonable investments are required where franchisee actually takes a risk of putting the CAPEX without any sort of guarantee of return, we believe that we should be able to have a franchisee to the extent of maybe 10% - 15% of our expansion going forward.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints we will take the last question from the line of Sandeep Bhat from Crest Investment. Please go ahead.
- Sandeep Bhat:** Vish, the question is for you. You guided for a CAPEX of I think Rs. 186 crores we have done for the first nine months and I assume for the full year it will be about Rs. 225 crores to Rs. 250 crores and similar amount for FY18. Now, our depreciation for the first nine months is about Rs. 177 crores and we have a net block of Rs. 550 crores odd. So just wanted your guidance on depreciation going forward?
- S. Visvanathan:** See, first of all this CAPEX that we told you are without Forever 21, so we also have the Forever 21 investment which will happen in the subsequent period. And secondly, the guidance going forward for the future, during this quarter I think we will not be in a position to give you guidance because we are making a plan. So, give us one more quarter and we will give you the guidance of that.
- Moderator:** Thank you. Sir, we can take one last question which is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- Abhishek Ranganathan:** Just one question which I have is largely a question on performance of Pantaloons. I have joined in late, apologies if this question has been asked earlier. If we just look at the numbers for the festive season, the like-for-like has been still quite low and especially we have had a quite a few peers who already reported numbers particularly in the segment. Just wanted to get a sense of is there something which has changed in the product mix or have we undertaken some measures with respect to the portfolio of the in-house brands which is why this growth is lower than what has been the industry run-rate for this period?
- S. Visvanathan:** Yes, so as I was explaining earlier as well, I think it is important to keep in mind that what you are seeing in the number is the Q3 number. Of course Q3 got impacted by the November demonetization, however notwithstanding that, the better way to look at this number is for the entire festival period, and festival period started from September. So if you really look at from a September to December period, which covers starting from Pooja which was last year in October and this year in September, so that is the reason this Q3 number seems (-2%). If you correct for that and look at for the entire four month festival period, our like-to-like revenue growth was



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4.5%. Not only the like-to-like revenue growth was 4.5%, but actually if you look at like-to-like volume growth was in excess of 11%, so 11.5%. So we have had a fairly good festival season despite the fact that November was a demonetization impact. However, in Q3 revenue growth it appears to be (-1.8%) which is more of an optical issue.

Abhishek Ranganathan: So sir is it fair to say that the pricing has been lower or there have been more promotions or discounts on offer which is why the volume growth is higher than the value growth? And consequently also the margins, any effect on the margins?

S. Visvanathan: So, it is actually the exactly the opposite of that, we have actually not been giving as much discounts and promotions. As a result of our overall value fashion strategy where the pricing was corrected, our volume growth has started really expanding much faster and that is what is reflecting in our like-to-like volume growth. It is also allowing us because of the higher full period sales; it is also allowing us to expand our margins. So despite the price correction we are able to see the number higher volume growth at a like-to-like level along with the expanded margin. And if you see that for September - December period, our margin also has expanded.

Pranab Barua: Abhishek, I think the margin drop that you are looking at is EBITDA for Q3, that specifically is impacted by lower revenue on account of as Sheetal explained, one, shift in Pooja from last year October to this year September; and second, demonetization.

Abhishek Ranganathan: Yes, sure. If we look at Q2 or Q3 last year versus Q2 or Q3 this year, we have improved margins, fair point there. And lastly on Madura, I just wanted to get a sense of where are we in terms of, I understood that it was moving four seasons and consequently we would have had to, we been on a journey of getting the platform ready for new products and therefore which means that we have not been putting fresh stock into the channel as much as you would have done usually. Whereas we on that journey and when can we see the entire merchandise on the new season or the four season platform in the market?

Pranab Barua: So, two separate questions but short answer is we are back fully. So, Madura's business is fully back on track, this spring we have launched because we brought in our inventory levels significantly lower during April to December period despite the demonetization impact. So, summary of it is, in that sense we are fully back in the market, spring summer has been launched well in time and therefore you will start seeing the results of that whole strategy now. As far as the two to four seasons, it was a very timely intervention that we made which has allowed us to quickly correct our inventory post demonetization. In the normal course most of our commitment for entire spring and summer would have been made. But in this case because we had only made commitments towards spring we could quickly correct our inventory going forward. We feel strong both in terms of revenue growth as well as the freshness inventory now going forward.



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- Abhishek Ranganathan:** So we should see a positive like-for-like starting maybe early first quarter or maybe the fourth quarter for this business now because the base would have been set, all the necessary course correction have been made?
- Pranab Barua:** Yes, I think we are very confident now of coming back on some of those, because most of the big corrections which took us about two and a half quarters are behind us.
- Abhishek Ranganathan:** That is very encouraging. So basically at least beginning first quarter we could look at that, if not in the fourth quarter?
- Pranab Barua:** Yes, we do not give forward looking estimates but the business is fully back on track.
- Abhishek Ranganathan:** Sure. Not looking for guidance, but basically just to get a sense that the portfolio is fully back as you said, so the product is in the market, so no question of lost sales anymore?
- Pranab Barua:** Yes, absolutely.
- Moderator:** Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.
- Pranab Barua:** Thank you very much for this investor call. And those of you who were unable to ask your questions can email us with your queries and we will come back to you with the reply.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Aditya Birla Fashion and Retail Limited, that concludes conference call for today. Thank you for joining us. And you may now disconnect your lines.