



“Aditya Birla Fashion And Retail Limited Q3 & 9M FY-22 Earnings Conference Call”

February 04, 2022



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MS. SANGEETA PENDURKAR – DIRECTOR & CEO,
PANTALOONS**



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Moderator:

Ladies and gentlemen good day and welcome to Third Quarter and First nine-months of FY22 Earnings Conference of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion of the company's management on the Q3 FY22 performance followed by a question-and-answer session.

We have with us today Mr. Ashish Dikshit – Managing Director, Mr. Jagdish Bajaj – CFO, Mr. Vishak Kumar – Director and CEO Lifestyle business and Ms. Sangeeta Pendurkar – Director and CEO Pantaloons. I want to thank the management team on behalf of all the participants for taking valuable time to be with us. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter and half yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. With this, I now hand the conference to Mr. Jagdish Bajaj. Thank you and over to you sir.

Jagdish Bajaj:

Good evening and welcome to the earnings call for our company. Let me first take you through the highlights for the quarter. The companies or its highest ever quarterly sales and profitability in this quarter. You will be pleased to note, all the business lines of the company individually also have posted the new high in terms of revenue, profits and cash generation. Company delivered sales of Rs. 2987 crores, a 44% growth over same quarter last year. The company achieved historically highest consolidated EBITDA of Rs. 609 crores, a 42% growth over last year levels. Improved profitability was driven by an agile product to market fit strategy, better discount management and continued fixed cost controls driving a record EBITDA margin of 20.4% this quarter. Happy to inform that the company has closed this quarter with a positive cash of Rs. 118 crores instead of net debt of **803 crores 2.29** at the end of Q2 FY22 thereby generating nearly 1000 crores of cash from operations in this quarter. In line with our comprehensive ethnic wear strategy, we are pleased to announce that we have launched our premium men's ethnic wear brand Tasva in collaboration with the ace designer Tarun Tahiliani in this quarter. The brand also has quickly scaled up to three stores and will close this fiscal with a total of five stores across different markets. The company continued to expand its portfolio by entering to large meaningful consumer lifestyle segment with signing of agreement to acquire India operations of Reebok in sportswear and 51% acquisition of House of Masaba to enter into beauty and personal care segment. Both these transactions are expected to be completed by end of this fiscal. Reebok India is poised to reach 1000 crores in next 5 years. Similarly, Masaba has a potential to scale up to 500 crores brand in the next 5 years. We have accelerated our network expansion and launched more than 200 stores this quarter, across businesses, format and town classes in line with our objective of expanding offline footprint across India. We have expanded our omni channel coverage with 50% of our network omni enabled across India which is 1500

stores across all our brands put together, the strong push to our digital plans continues as we evolve ourselves with changing consumer needs.

Now I will take you through the performance of individual businesses; starting with Lifestyle brand business. The Lifestyle brand recorded a historical high sales and EBITDA of Rs. 1589 crores and Rs. 346 crores respectively. The EBITDA has grown by 18% over last year with margin of 21.8% also being a historical high. The performance is a testimony to the strength on our brands in a resilient business model. The brand continued to gain market share and grew by 55% over last year with retail sales growing at a historic high of 41% YOY and L-to-L of 34%. Retail sales even surpassed pre-COVID levels by 30%. Our focus on category extension continues as our new launches of **VH Flag 4.49** and Louise received strong consumer traction along with our women's wear segment doubling in size over pre-COVID level. Our recent foray into kids wear through our Peter England girls and boys has been received very well in the market.

Our expansion in small-town India continues aggressively as we take our brands to these markets through an asset-light format. PE Red now sales across 400 stores while Louis Phillipe, Allen Solly and Van Heusen continued to build on their successful pilots early this year. E-commerce sales continued to emerge as a dominant sales channel with this quarter recording the highest ever revenue. I want to reiterate that Madura brand portfolio is one of the largest branded fashion e-commerce businesses in the country. Pantaloon business recorded sales Rs. 1066 crores with the growth of 31% over last year with the highest ever EBITDA of 216 crores. This was on the back of robust footfall during the festive period. Pantaloons almost recovered to pre-COVID levels during this quarter. The sales could have been significantly higher but for the impact on footfalls in the last week of December due to onset of third wave. Higher share of mall stores and significant presence in certain markets which were relatively on more stringent restrictions also adversely impacted this performance. E-commerce continues to make stride growing by 67% year-on-year across our own pantaloons.com and partner sites with pantaloons.com sales almost doubling in size versus previous year. Pantaloons opened 22 new stores during the quarter and expects to open (+ 20) more stores in Q4. With this Pantaloon is likely to close the fiscal with the store count of over 380 stores.

Inner wear business continues to scale up rapidly and reached 25000 outlets at the end of December '21. The revenue of this segment grew 1.5 times or pre-COVID Q3 FY20 level. The segment will have more than a 100 EBUs by the end of March. The business is continuing on a strong trajectory and is on track to breakeven.

Now let me talk to you about global brands which is youth and super premium. This business continued to witness a strong momentum. In youth business fashion brands Forever 21 is back in expansion mode with three new stores this quarter. American Eagle saw 127% jump over pre-COVID levels. Five new American Eagle stores opened during the quarter. The brand is strongly



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establishing itself in the denim segment. The Collective and the other super premium brands business also witnessed a sharp growth of 37% over last year. The segment is consistently maintained strong profitability journey over the past few quarters. Our own e-commerce site thecollective.in recorded a 4 times growth over last year across the super-premium brands portfolio we have opened nine stores so far in this fiscal.

Ethnic business as you are aware we have set up a number of partnership initiatives in the ethnic sector with big brands in the ethnic space like Sabyasachi, Tarun Tahiliani, Shantanu and Nikhil and Jaypore. In addition, we have organically launched women's mid premium brand Marigold Lane along with affordable premium men's ethnic wear brand Tasva. At an aggregate level the segment has grown fivefold over previous year and is currently operating profitably at an annual run rate of 400 crores. The segment has added 8 stores across all its brands and is currently operating a network of 23 stores across key markets in India as well as one store in Dubai. We will aggressively expand the store network across all the constituent brands over the next few years. I wish to reemphasize that ethnic wear is a huge market opportunity where we wish to build a large meaningful play through our comprehensive portfolio. At our current levels we are on track to build scale in this segment profitably.

I'm also glad to apprise you that ABFRL board today approved setting up a wholly owned subsidiary for incubating a portfolio of fashion and Lifestyle D2C brand. As you would be aware D2C is a fast-growing space with an expected total addressable market of about 100 billion by 2025. ABFRL has played a leadership role over the last 25 years in building the most iconic fashion brand in the offline space. With this move we intend to replicate the success into the digital world as well. Thereby evolving along with our consumers. In conclusion I'm glad to announce that this quarter ABFRL reached new heights in terms of revenue and profits. As we continue to leverage the strength of our brand, our resilient business model, continuous innovation and evolution in line with changing consumer needs we are confident to reach new highs in future. With the most comprehensive portfolio play in Indian fashion industry ABFRL is poised to continue its leadership position in India's fashion and apparel sector. Thank you and we are open to questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Mehta from Edelweiss Securities.

Nihal Jham: This is Nihal Jham from Edelweiss. First on the cashflow bit, so you mentioned that you've done a cashflow of around 1000 crores this quarter. This obviously I would assume includes a decent working capital release also that has happened. I just wanted to understand that is any of it expected to reverse in the coming quarters or this is something that was pending and now got completed and incrementally most of the EBITDA that will get converted into cashflow will be as per the past trends.



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Ashish Dikshit:

You are right, of the rough close to 2000 crores cash has got generated, a significant part has come from working capital release as well. As you know this quarter happens to be a relatively high quarter compared to the annual average. To that extent the cash released in the system is higher because you sell more, release more inventory. Some of it has a tendency of coming back but very small in Quarter 4 where sales typically come down while your purchases become due for payment, part of it. I think that difference will be maybe 150-200 crores shift quarter-on-quarter. Otherwise, you typically go in line with how your sales and profits are.

Nihal Jham:

Just a question on Pantaloons, in your opening remarks you mentioned that there was an impact in the last week on footfall given the COVID wave. Is it this quarter only given the sense say looking at the daily sales that what was this contraction that happened in the last one week to 10 days because of the COVID impact?

Sangeeta Pendurkar:

If you look at our October-November trajectory, I think festive we did a very good performance and we saw some very good footfalls coming through festive. I think as we approached December, we saw a reduction and the backend as kind of the third wave started coming in, we saw a reduction in terms of our footfalls. We believe that was just the beginning of the third wave. We saw some sale loss there account of that. That kind of continued as we know in January as well. However, the most important thing for us is to note that in October- November when things were looking good the business really came back to normal on our recoveries even versus FY20 was fantastic, if it was not for the shift that we saw in the last 10 days in terms of footfalls dropping to the tune of almost about 20% versus what we would have expected, our numbers would have been even higher.

Nihal Jham:

Last question for my side, Ashish it's now a year since we held our annual investor day and we had given targets for the next 5 years. There obviously we had plans for each of the businesses in terms of ethnic, inner wear and the other part. Over the last 6 months there have obviously been some new pieces that have also been added, whether it was the Reebok part of it or even recently Masaba and now there is obviously the release for the online D2C part that you are contemplating. Just in terms revised thought process what will be the daily apparels you are looking at over a next 3-5 years and also little more detail on the D2C part because in my limited experience I have only seen maybe e-commerce platform getting to something because they have a platform to provide these lines to scale up, you can give them some kind of confidence with this. From our side what is it that we plan to provide these D2C brands just to let them scale up and how do we see ourselves monetizing this?

Ashish Dikshit:

Nihal lot of questions in this. Let me try and address as many as I can. First is what's our view on the longer term, almost a year back we presented during the investor day our long-term 5-year plan in a pretty granular detail. I think where we stand in this journey despite an intermittent disturbance due to the second wave and subsequently even third wave, we are more confident than even a year back that we will definitely exceed that plan. On top of it, Reebok is a very



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large opportunity, sportswear is a large industry. Some of the leading companies are (+1000) crores. Reebok is also starting at the good base of 400 crores. Some of our plans in ethnic have become more visible as we are going down. We have launched two new organic brands both Tasva and Marigold Lane. In many sense if anything I were to sit and remove the effect of the two waves and just look ahead, I think we are much better placed than anything that we had said about a year back.

Coming quickly to the D2C brand business that we are talking about. Let me just take few minutes because I think this question will come from multiple people since we've just made this announcement to explain that. Today a whole new set of brands are coming to the market and growing very rapidly on the platforms as you rightly mentioned, some of them even have capability and have learned very smartly because they are either digitally savvy or it's the next generation of idea which has traction on their own website. Most of them, a large part of them are primarily brands which are taking shape and getting formed on large platforms. Now platforms are already doing what they can do which is to provide access to these brands to the consumers that are there on the platforms. What these brands need is really an experienced hand, apart from capital because at some point of time as they grow first 10-20-30-40 crores, at some stage management bandwidth, expertise, competence to run larger business, ability to expand into multiple lines, sourcing and supply chain efficiency, digital marketing, technology capability, just to run their business more and more efficiently. Apart from capital, whether it's working capital for growth or initial investment, these are the things which hamper what could be a promising and potentially large business from actualizing its full potential. This is what we want to provide. We have 25 years of experience of building brands. Each of our brand has evolved multiple times in its journey. We have expanded into new categories. We have built deal capability in supply chain. We understand fashion ecosystem particularly and now adjacent categories like accessories and other products. Therefore, there is a lot of value that we can add. We are not just channel providers. We can convert potentially promising small brands into meaningfully large brands through this combination of capital, management expertise, access to partners, access to channels of growth. That's really what we want to do.

Moderator: The next question is from the line of Tejas Shah from Spark Capital Advisors.

Tejas Shah: My first question pertains to Pantaloons, so Sangeeta spoke about recovery part but on surprisingly with lesser throughput we are doing well on margins part. If you will help us to understand how one should think about margins going forward when the recovery happens? Is it a new base that we are formed and on that we'll build new profitability or it is actually more of a response to COVID cost cutting and it will normalize as we go forward?

Sangeeta Pendurkar: Let me try and respond to your question in two parts. One is, I just want to remind everyone on the call-in terms of the journey that Pantaloon has been on and we have mentioned and talked about this in every single call. I think our business today fundamentally offer better quality and



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therefore the key things that have led to this quality of business starting right from how we started that journey in terms of improving our products and product esthetics, the new categories that we launched to the new labels that we have introduced. More importantly I think in terms of expansion, we know our stores are profitable right from the first year, the new retail identity that we have put out. I hope some of you have had the chance to go and see it which redefines the customer experience that we want to provide inside the Pantaloon stores and likewise on pantaloons.com, providing a seamless kind of experience. Now from a cost standpoint last year we had made some decisions in terms of overheads and in terms of how we invested in marketing. I think this year again few measures in terms of tight cost control measures some of which have become intrinsic to our business. We kind of now understand the levers to manage cost. Overall, we feel pretty confident that we will be able to sustain some of those costs and keep those costs under control. As Ashish said before this also happens to be one of our largest quarters in the year. Therefore, we do get a leverage on account of a higher turnover there. But going forward our journey on constant improvement, if you remember not very long ago our EBITDA margin used to sit in single digit which we have kind of improved constantly with all the things that I mentioned, in terms of improving our portfolio, our journey towards improving our private label share etc. and we feel confident that we'll be able to constantly improve our margin. Yes, this quarter is slightly different because the quarter in itself is a quarter where our dependence on festive being high we see higher number. Therefore, I think in the subsequent quarters too you will see us our endeavors to improve our costs will continue.

Tejas Shah: Second question pertains to athleisure business, if you can help us with some trailing 12 months number get over there?

Ashish Dikshit: Tejas you mean inner wear athleisure business, Van Heusen?

Tejas Shah: Yes. Van Heusen.

Ashish Dikshit: I think we are tracking somewhere between if you were to look at annualize run rate kind of number, we are closer to 500 crores and it's growing rapidly year-on-year and through the COVID it's been growing (+30%). So that's the trajectory as of now.

Tejas Shah: Any sense on profitability if you can help?

Ashish Dikshit: It's marginally, some quarters its breakeven, some quarters marginally lowered but its profitability is again moving very rapidly from initial days of deep investment to now come into a point where it's also generating enough to fund its growth but at a very nominal level right now.

Tejas Shah: Last question I'm actually struggling to find an efficient way to ask this. But if we keep the last years Analyst Day's Business Plan Presentation as a compass for the strategy that we decided for ourselves for next 4-5 years, should we see this current initiatives on Reebok, Masaba and

D2C platform has it detoured or is it much more I would agile response to a changing scenario that we are seeing that kind of market place?

Ashish Dikshit:

I think it's very important if you see our strategy, is a continuity. We have been saying and doing the same thing for last 5 years. We said we will get into ethnic wear, build a portfolio to play in all segments of ethnic wear, we took initial small steps with Jaypore and Shantanu-Nikhil, bigger steps when we made investment in Sabyasachi, even bigger when we came up with a plan to launch two large premium ethnic wear brands, one in men's wear with Tarun Tahiliani and the other one in Marigold Lane, Masaba is a part of that. Therefore, it's no way different from a plan that we are building. Reebok is an opportunity that came to us. It is not something that we had engineered. Reebok is one of the top three global brands in the world. It is a very powerful brand which we believe in India. India is one of the few markets where Reebok has been a market leader ahead of Nike and Adidas and Puma till 6-7 years back. So, it's a strong brand, fast growing segment. We have already playing that partly through our athleisure initiative inner-wear but we were never able to take the sportswear brand head on. This was something that we did but it's part of our strategy to play in the emerging market segments. The D2C initiative is more fundamental as strategies need to absorb the large shifts that happening. How consumers are shopping today, how brands are getting made today. The pace at which e-commerce both in marketplace and otherwise is growing is creating a very large set of opportunities which is creating new entrepreneurs who are building businesses, digitally native consumers beating digital first brand, is a very large shift. It's a 5-10-15 year fit happening across the category and across the world. And in fashion also this is the play and therefore we need to build next generation of brands also and not just grow what we have. This is because it's such a monumental shift in the world and you and I lived that as a consumer and experienced it. It requires a response from a large company and that's really what we have started on. We will over the next few years build the portfolio brands where we add our ability from ecosystem point of view, competence point of view, capital point of view. But also combine that with entrepreneurship that is thriving in today's very digital world. I would say to that extent it's a part of our overall digital pivot that as a company we are making.

Tejas Shah:

Just one follow-up, so financial capital and all this long tail initiatives are a relatively easier to track. If you can spend some time on explaining or sharing the manageable capital that we would have added to support this long tail of initiatives that we have taken in last 2-3 years. So right from new membership bandwidth to each individual level if you can give some....

Ashish Dikshit:

I think you've only talked about tail of initiatives. You've not talked about tail of...I would call head of management bandwidth that we have got. We have got one of India's finest designers set that this country has produced in last three decades. Sabyasachi, Tarun Tahiliani, Shantanu-Nikhil, Masaba, these people have in just individually between 15 to 25 years honing their skills, testing them against the best, creating aspirations and desires for them. This doesn't come free Tejas. This this takes decades. That's the management capital that we have got along with the



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brand image that you're talking about. That's substantial. That's what we are actually building. We are not just building stores, products and brands. We are building a management team with capability which is unmatched and very rare in the industry.

Tejas Shah:

Just last one so that I don't have to come back in the queue. When we are actually spreading out in so many directions, how do you ensure that the form and the balance sheet has capacity to suffer a mishap which will be very natural in this course of journey. But how we ensure or what does that you internally put it as a safety check when you actually go in new initiatives.

Ashish Dikshit:

I think Tejas you could decide to call Allen Solly Kids a new initiative, Peter England Girls a new initiative, Sabyasachi is a brand, Tarun Tahiliani is a brand, which has got Reebok is a brand. These are brands which have got built over decades as I said. We have got them into new. We have got them with management expertise in more often than not. If the question is about capital, I think it's last 18 to 24 months when the global fashion industry, Indian fashion industry, retail industry has been such, I've seen such a monumental pressure on itself. You would see how we have managed balance sheet, not just with the infusion of capital but managing working capital, releasing cash from it, taking a business in the same period from debt which I repeat for 3500 crores despite wave 2 and wave 3 coming to a completely debt-free company. Needless to say, we are very mindful of how we deploy cash, where we deploy cash, how we manage it. If anything, it should give you comfort that in a growing complex but potentially large business opportunity pursued, we are managing our capital very well.

Moderator:

The next question is from the line of Chirag Shah, an individual investor.

Chirag Shah:

This is Chirag Shah calling from CLSA. I must say that you guys clearly seem to be on a roll and working overtime to achieve your long-term goals that you spelled out at the last annual investor day. At the outset real congratulations to the entire ABFRL team to have used the last 2 years of crisis so very well to emerge stronger from it and also moving to a debt-free company. I mean that's for us seemingly impossible a couple of years back. So, congratulations to the entire team. I guess a lot of my questions have already got answered but just two things that Ashish if you can just highlight, how are you rolling out your digitization initiatives and the omni-channel strategy because that's also going to be very important as we start building that and integrate all these different modules onto a common platform and benefit from that? Secondly, how do we really ensure that while we get into a high growth mode on revenues, we keep the working capital in mind and ensure that the inventory turns is something that we really benefit from in terms of return on capital employed?

Ashish Dikshit:

I think the first question is around our digital play for our existing business. If you still broadly look at our digital play even if it's in continuation of the Tejas' question consists of two parts. One is what are we doing to digitally pivot the existing brand and retail network and assets that we have and the second is what other opportunities can our company based on the competency and strength has can build in the new age digital system. Second one is what we have just



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announced with the new initiative and which is what I described to Tejas's earlier question. On the first one we had laid out a strategy, I think about 4-6 months back where we had said we are looking to build two large platforms. One is the Super App of our brand where we can get individual brands and also have the ability to toggle between our brands so that we get the leverage of consumers in our ecosystem of brands which is very one of the largest portfolios of strong brands in the country. And secondly at the value-end which is more middle-class India is to build and invest in Pantaloons as a platform for brands where every middle-class Indian can come in and get his lifestyle needs from clothing, fashion, beauty, accessories and any other product categories that Pantaloons extends to. Both these platforms are underway. The brand Super App is likely to be launched sometime in the Quarter 2, Pantaloons first version is just got launched for Pantaloon's app. We will revisit and refine it over next 3 to 4 months and these two will become our vehicles. In terms of omni-channel capability both these initiatives of building digital platform are the front ends but these are backed by integration between the online and offline. Today both our businesses have more than half their network connected through omni-channel which means if you place an order on allensolly.com or pantaloons.com it's most likely if you have ordered from Jalandhar, you will probably get it from Jalandhar, Chandigarh or Ludhiana store. 55% of our online traffic is being serviced by stores and at more than 1000 stores across the brand portfolio in this omni-channel network we had one India's largest fashion omni-channel today and we will continue to build on that.

Chirag Shah:

And then Ashish on the working capital part that I mentioned as we really grow; how do we keep the inventory turns into context to benefit in terms of higher return on capital?

Ashish Dikshit:

Chirag, we had shown in the last investor day and in fact the only reason we are able to generate this cash flow that we are talking about is primarily because we are very focused on working capital returns. Our ROCEs in individual businesses that operating level if you look at our total capital employed is about 3.5 thousand crores of which if you take away investments and good will we are operating what is potentially anything between 10,000 to 12,000 crores business of a post-COVID scenario at an operating capital of less than 800 crores. That's the way we are rotating our capital and lot of it comes from the way we manage our inventory. So, we are very focused on that Chirag.

Chirag Shah:

This D2C strategy that you are putting in, it seems like the house of brands concept. Clearly some of these newer brands which kept about \$10 million in size; not able to get to the next level, can use our platform. Do we also get in an external capital into that subsidiary to ensure that we have a much faster scale up of that?

Ashish Dikshit:

Yes Chirag, the idea and I think we have called out in is the reason to separate is a threefold. One, we want to build a set of competency and ecosystem which attracts both talent and capital to win in the digital world. Second, we will put some capital and initiate this business from ABFLR's point of view but even from capital point of view, we will seek to go out at some point

and raise whatever is required to be competitive in that model. Third the ecosystem which requires mindset of raising capital, investing capital, nurturing entrepreneurship is a slightly different mindset from operating companies and that's why we are building it into a separate business entity.

Moderator: The next question is from the line of Richard Liu from JM Financial Service.

Richard Liu: One is if I look at Pantaloons' margin for the quarter right, I think that has declined from around 23.5% to 20% despite this very strong Y-o-Y growth in Pantaloons. If can help us understand that?

Ashish Dikshit: Very quickly Richard, it's because the rental savings that we got during the Phase 2, a lot of it was flowing over in Q3 last year. This year because the overall impact by the time we came to Quarter 3 and therefore the savings were lesser. That's what is reflecting, in fact inherently Pantaloons business is improved this quarter.

Richard Liu: It's more an accounting accrual kind of a thing, is it Ashish?

Ashish Dikshit: It's a base adjustment of last year.

Richard Liu: While on that topic of rental, what's the charge to your P&L this time is a number of about 250 crores before considering the rent waiver. 200 crores is then the P&L and then I think you had deducted 54 crores being the rent waiver so the gross charge was about 250 crores. Now if I annualize that number, 250 crores into four quarters, it means that you will still be charging about 1000 crores of rental to your P&L even on a post Ind-AS 116 basis. If I look back to FY20 for reference, the charge to the P&L for rental used to be about 480 crores which is now currently at a run rate of about 1000 crores. Can you explain this, how should we look at it and therefore in light of this, what is the rental cost pool in the system as on date?

Ashish Dikshit: I couldn't hear the question. Is your question is rent this year is 1000 crores versus 500 crores last year? Is that the point?

Richard Liu: No. Ashish so what I was saying is that if I look at the rent that gets charged to the P&L right which is only a part of the rent; that number is about 250 crores for this quarter. It's 200 crores plus the 50 crores that you got as a waiver. So, the gross charge to the P&L is about 250 crores before the waiver, right? For a moment if I annualize this number, 250 crores into 4, it means that the annual charge will be about 1000 crores. If I look at FY20, the annual charge to the P&L in the Ind-AS 116 financial statement used to be about 487 crores. That rent that gets charged to the P&L has doubled between FY20 and now and I presume that this is obviously not a full cost rent because this is Ind-AS 116 and there is still a large rent which you are capitalizing. In light of this one, how has that 480 crores become 1000 crores, is terms of the charge through the P&L

and two, the total rental cost pool which ABFRL as an entity is now incurring, what would that figure be looking like at this point in time?

Ashish Dikshit: I think we will have to come back and give you details later Richard but let me assure you that our rent numbers are in line with our revenue growth and therefore it's unlikely they will be that dramatically different from what you have in FY20.

Jagdish Bajaj: Richard my rent to revenue at pre-Ind AS level is 14% whether it is from in Q3 FY21 or '22 versus last year. The escalation or you are deriving a number which is three components. Firstly, the operations from compared to last quarter, number two is the rent concessions which was there available in the last quarter is not there. Thirdly, if I add more stores the Ind-AS 116 impact will be more. Therefore, the reported number, if I remove it from rent and take it to finance and all, it is not a right measure to do that. You compare what I have done in published result.

Ashish Dikshit: I just got a quick first level of numbers Richard. FY20 our total rent base is about 1200 crores between fixed and variable because there multiple models exist. Our current rate is lower than that.

Richard Liu: On a full cost basis?

Ashish Dikshit: Yes, on a full cost basis.

Richard Liu: Lastly if I can make this request again. I tried these two quarters back and I guess it's not possible for you to give it and as clearer terms. If I can just request you to let us know even on a memorandum basis maybe as a part of your address in the call; on what are the pre-Ind-AS margins like? It's my fault because I am not able to yet identify with this new margin structure. Or alternatively if you are not able to do that, the benchmark margin that you had set in the investor day in terms of what you want to achieve in Madura, Pantaloon etc. if you can convert that into a post-Ind-AS number so that we can track progress against that milestone accordingly?

Ashish Dikshit: Fair request and we will see how we can do the reverse part. The problem in giving two numbers was that people were picking up different numbers at different points of time. Comparisons were becoming harder to do so and the industry had completely moved to these and that's why we have done that. I think it's a fair point from your side. We will have to convert our long-term plans into similar numbers.

Jagdish Bajaj: But Richard now it is not 1 year, last 3 years, we are giving the comparable numbers of the margins. From there you can draw the conclusion what has happened in last year and what has happened into this year. I think they are comparable, absolutely comparable margin numbers.



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Richard Liu: I understand that. I mean so which is why the second part would if you can reverse calculate the margin ambition that you showed in February of 2021 in the Investor Day so that we have something which is like-to-like?

Ashish Dikshit: I hear you. We will come back to you.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal.

Aliasgar Shakir: First is on Reebok, I think very good acquisition and at a very good price. I just want to understand here that in typically sportswear business, I see that there is a lot of support that the brand gets from the parent specifically if you see your peers like probably Puma, Nike and the others. So, whether it is in terms of product design capabilities or maybe even in terms of global advertisement, global brand ambassador that they have. So could you just explain how do we plan to address that and what kind of advertisement we will require to do, what kind of branding advertisement cost that will have to do. And what are your ambitions about 3-to-5-year period given that what you mentioned and I understand that lot of your peers were now maybe probably three-four times your size but at one point of time actually much behind you. So, what are our ambitions over that 3-to-5-year period?

Vishak Kumar: I think it's a brand which is, as you would know it's globally Big Four brand. It continues to have an ambition which is to become very large. Even globally it wants to be a \$10 billion business and we would be hopefully a part of that growth story. There is also a plan to create a Reebok Design Group which would be able to address the needs of various markets including India. It's still early days for us as we go into this pact. Clearly this is something where we want to be a very large, significant player in this market. It's also as very fast-growing segment and we believe that we can add tremendous value with our understanding of the market, consumers, relationships with various partners in the market etc. I think it's a great opportunity for us to be able to create leadership in this segment.

Ashish Dikshit: To answer your question, we will do what it takes to be a leader in this business.

Aliasgar Shakir: Can you just share some number, so we are probably around 400 crores today. What would be the kind of advertisement-branding exercise you will have to do and I mean what is our ambition we can be in 3-to-5-year period because I am just looking at it from this point of view that let's say if you want to grow 3 times-4 times from here then we may have to do very significant investments in advertisement-branding? How are we looking at that part?

Vishak Kumar: I think it's multiple things. A segment like this there is celebrity endorsement, there is events there is advertising and of course at various levels its distribution, e-commerce, channel strategy, partners. I don't think it's any one aspect of the mix. We will have to employ all of this and we will have to do this effectively. As you would know and Ashish was saying a little while back even up to 6-7 years back, it was a very strong player in the Indian market. Some of that we will

have to bring that mojo back in today's context and scaling it up. Both the big brands in the segment are in their 1000 to 1500 crores space. If we have to be leader that's and of course it's a moving target. If you look at it 3 years from now and so on but 3-years-5-years that is the kind of trajectory we will have to get to very soon.

Aliasgar Shakir:

Second question is on the gross margins. Can you just share some more color in terms of what has led to this very good (+200) margin improvement between your discount reduction or price increases or whether Pantaloons has seen mixed benefit, private label improvement? How much of this we should see is sustainable margin for us from here?

Ashish Dikshit:

I think gross margin in a mixed business like this is more often than not reflective of the mix of the businesses that we are selling. So, you shouldn't literally convert gross margin into either premiumization or discounting. Having said that, in with that caveat not necessarily related to this quarter, the fact is that we are operating in a period which is a festive period. Most of the products are fresh because our roll inventory over a period of time has come down and our brands are able to sustain that premium. So that's really reflective of that but the only reason I am making this comment is gross margin will change quarter-on-quarter because the mix of businesses in various quarters keep changing.

Aliasgar Shakir:

Should you expect the increase in GST to have some effect in fourth quarter? This the one under Rs. 1000 from 5% to 12%?

Ashish Dikshit:

No. As you know that the government has decided not to proceed with that. As an industry, we are representing to the government to not go forward with that and come up with a different plan. As of now we don't see it coming through but we will have to see if the government changes its mind.

Aliasgar Shakir:

Last question on D2C. We have a very strong capability across products, across brands, multiple categories that they are managing. I was just wondering if this platform, instead of this platform we could incubate more product categories in-house or what is the benefit of probably going through a platform route that you could not explore through in-house incubation of a lot of these brands?

Ashish Dikshit:

As I said in response to previous question with Chirag. Winning in digital requires ecosystem of partnerships, talent, operating model which are different from the dominant operating model in which we have built our businesses. Lot of competencies are transferable and that's what we will do. New competencies will be required to build there and that's why we are creating this platform which can focus on Digital-First as a primary thing and that's what the business model there will have to be slightly different. I must also add that to your point and you have very rightly said that a lot of what we want to build D2C will also come from organic B2C brands that we will build from scratch. It's not just about investment in new brands and so on. We will identify



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initiatives, we have a lot of capability and we will transfer that by building organic digital-to-consumer brands, direct-to-consumer brands.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: I had one very simple question. On the acquisition front we are winning a lot like that's a good thing obviously but I am just curious who are we competing against and how come we are winning from any deals? What is the secret sauce of that?

Ashish Dikshit: I think every individual opportunity the partner on the other side is taking a call looking at capability, your performance, value system, Aditya Birla Group's partnership, it's prestige and wanting to work with that. I would say it's the wholesomeness of the whole proposition. We obviously don't chase everybody; we talk to few people where we think there is a right value and try and find that mixture and see how we can add value and create value for that partner as well. I don't really know who we are competing against because what are the other choices for them is for them to decide. But really our promise is very simple. As an Aditya Birla Group Company, we bring governance, we bring systems, as ABFRL we bring capability on the fashion side and that's what we want to partner and build.

Swagato Ghosh: Also, I just want to understand in terms of org structure because of the deals we are doing; are we looking at like an ethnic business head or a D2C business head, even if not now maybe couple of years down the line, will the org structure look like that?

Ashish Dikshit: Definitely we will have to keep evolving our organization structures in line with strategies. At this point of time these businesses are relatively different and independent and we are building business heads in each one of them. D2C will definitely have a business head which will be independent and separate. On ethnic side, at this stage there is no immediate need for consolidation but as these businesses grow, we look for that opportunity.

Swagato Ghosh: In 10 years' time where do you see the contribution of Madura and Pantaloons combined for the company? Would it be still very sizable or can it actually come down because of the actions taken now and may be in the next 3-4 years?

Ashish Dikshit: I think clearly these are very large businesses and they have their own growth story but other small businesses are because they are smaller, they will grow faster but I don't see Madura and Pantaloons being significantly lower at least in next 2-3 years than there they are.

Swagato Ghosh: This is more of a longer-term question but may be difficult to predict and we can discuss that offline.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital Limited.



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Gaurav Jogani: My first question is with regards to the store in the Lifestyle brands or the Madura brands let's say. There has been a sharp decline on its Q-o-Q basis of around 256 odd stores. Any particular reason for this?

Jagdish Bajaj: What is the question? Can you repeat it again for us please?

Gaurav Jogani: The number of stores at the end Q2 FY22 was around 2750 stores and its around 2488 stores. There is a decline of around 260 odd stores on a Q-o-Q basis?

Ashish Dikshit: I don't know where you have got that number but I can safely tell you that in the Lifestyle business YTD December we have added about 350 odd stores.

Gaurav Jogani: Because your presentation as of now, it shows 2488 stores vis-à-vis the current one and the Q2 presentation did show 2750 odd stores hence. Maybe I can it offline.

Ashish Dikshit: We will do a recalculation come back to you but please be assured the store numbers have only gone up.

Gaurav Jogani: The second question is with regards to I would like to congratulate on the ethnic foray that you have done and the TASVA collection seems to be really good. I want to know if you can comment on how your ethnic wear is pacing out now given you have already done around 211 crores odd sales now? How it's planned over the next 1 year and are there any further acquisitions or wide spaces that you see in this ethnic space?

Ashish Dikshit: I think we have done a very rapid fill up of portfolio and as you can see this quarter result, I think we have commented about 400 crores as run rate. This run rate itself will grow by 50% to 60% for next couple of years because our big expansion opportunities are in TASVA which has just started and it's not even included in these numbers because our first two stores only open at this point. You will see very rapid expansion over next 2-3 years and we had projected in our plan to be 1500 crores ethnic wear business by FY26. By '23 probably we will do better than that.

Gaurav Jogani: Last question is with regards to during this pandemic time, a lot of companies have done a lot of efficiencies program or improvement in their inventory count a little bit. Any specific measure that you would like to highlight as to how you have gone about improving the inventory turns in your business? As you have rightly pointed out that with an 800 crores odd capital employed you are able to do these 10,000 crores odd of the revenue. So, any specific measure that you would like to highlight on this front and the further step that you are taking to improve returns further?

Ashish Dikshit: I can take this from a Madura perspective, Lifestyle business perspective. One is that with this COVID and the now three waves that we have seen of COVID, we have figured methods by



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which we can become more nimble in managing the ups and downs in inventory. Also, it's important that while you do so you don't compromise on what is required from a season specific perspective. For example, winter wear is independent of how your summer went. You have got to be strong on some of these segments. What we have also done is and I have said this a few quarters back, we have done away with the whole concept of two seasons. We have moved to a 12-season model and in that we have done away with the entire concept of the end of season sale. What this allows us to do is to do true, active merchandising of the merchandise we have got where bestsellers keep selling out fast and it's the tail which gets marked down actively on the real-time business through the 12 months of the year and hence drives freshens. Many of these picks plus working closer with the vendor partners, with mills, quick response mechanisms, vendor managed inventory program; many of these are methods by which we are trying to keep ourselves as nimble as possible in managing inventory.

Gaurav Jogani:

You would like to quantify this like how lower can we bring down our inventory days from say FY20 base?

Ashish Dikshit:

Hard to put our days of cover color to it because one is that our days of cover does keep changing every quarter because of the seasonality in the business. On top of that now we also have to deal with the uncertainties of COVID waves etc. We have to be prepared to build up- build down etc. The better approach that we are making at is to say how do we become agile or make sure that even if we add inventory, it is fresh inventory and you do not get to any kind of old inventory. If at all you have some inventory which gets built up because of a lockdown or because of something is fresh inventory and you can very quickly deploy that as soon as things come back to the market. I don't want to give you a number to it because that wouldn't be the right strength to measure this efficiency.

Moderator:

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