"Aditya Birla Fashion and Retail Limited First Quarter FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the First Quarter FY 2021 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the Company's Management on the quarter's 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 -- CEO (Lifestyle Business); and Ms. Sangeeta Pendurkar -- 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 risks that the Company faces.

Please restrict your questions to the quarter and yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

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

Jagdish Bajaj: Thank you. Good evening, and welcome to the earnings call for our Company. The quarter under review has been the most difficult quarter in the history of the Company. The business saw an unprecedented disruption in the month of April and May, as the bulk of our network was closed.

The e-commerce channel too started only in the third week of May. Over 2,500 stores, accounting for roughly 8% percent of our retail network resumed partial operations in the month of June and it was in this month that the bulk of our quarterly revenue was booked. July and August have been better than June and we are seeing a partial albeit slow recovery of business compared to pre-COVID covered.

Now, let me give you a snapshot of the financial performance of our Company. The quarterly revenue is just not compatible with the previous quarter of FY 2020. The Company has recorded Rs. 323 crores revenue, which was down by an expected, but significant 84% over the same quarter, leading to a decline in EBITDA. This is in no way a reflection of the potential of the business and is not a permanent condition as we all know.

The quarterly sales are just a reflection of accessibility of shocks for consumers, given the restrictions imposed on movement as the pandemic stuck. It is noteworthy that April, May months together registered just 8% revenue compared to the same month a year ago, mainly because of the lockdown restrictions in order to contain the spread. Monthly sales recover to approximately 26% of pre-COVID levels in June, as the country opened up.

Needless to say, that the Company has taken cognizance of the market realities and extra environment and embarked upon measures to optimize cash flows and improve liquidity. Over the course of the quarter, our Company is initiated deep and comprehensive cost reduction exercise also.

The first priority was to cut fix cost, majorly rent for our retail network, manpower costs and other discretionary spends like advertisement, travel, etc. The second priority was around optimization of working capital, in line with the scale of business, affected through steps such as repurposing existing inventory, scaling down, buying for Spring - Summer and Autumn - Winter.

We took concerted efforts on significant reducing our rental expenses, most of which have been borne fruits. Our rental savings have partly been locked in during Q1, as part of this exercise, our attempt with our real estate partners was to agree on a predominantly variable cost structure for this year. We have achieved savings through a combination of increase in share of variable rental and reduction in minimum guarantee for the year.

The overall rent cost reduction in quarter one is Rs. 237 crores placed into locations in published results, Rs. 159 crores in other income and Rs. 78 crores in rent item. I would like to highlight, and again, reiterate, that the other income this quarter majorly consists of Rs. 159 crores towards rent concession. Hence, it should be treated as rent reduction.

Our actions on manpower cost optimization were initiated from the month of June. However, in line with our overall group's strength, we maintained the existing salaries and wages for extended employees base fully for the month of April in May, the cost was analyzed at two levels.

First, in the month of June, the Company carried out a comprehensive salary reduction across the organization with varying levels of intensity across levels, with most of the reduction arising in senior management and middle management for this financial year. This involves reduction in fixed and variable pays as well as reduction in other incentives.

Two, the Company also decided to go for the hiring fees, including not to backfill the natural attrition of 15% to 18% of frontline staff, without compromising on our quality of customer services.

In Q1, cost reduction on employees cost is Rs. 35 crores from Q4, which is 12% lower than Q4 FY 2020. The bulk of the savings in manpower cost will start accruing from Q2 onwards to the end of year. It is important for me to say on behalf of entire management team, that our employees are our biggest strength and the way they have supported the organization to gain strength during this unprecedented time is exemplary.

On the other discretionary overhead, other than salaries, we are reducing our costs drastically as compared to last year. This includes costs such as advertising, travel, staff welfare, and office costs. In Q1, other discretionary overhead seen reduction of Rs. 183 crores from Q4 FY 2020.

On the inventory front, as we explain in Q4 FY 2020, Investor Call, we will be focused on using the fresh merchandise, which we have received in our stores and warehouse before the lockdown for sale till November. We will supplement this with much reduced buying in festival period and winter wear. Accordingly, our inventory buying consequently will be severely controlled, enhance on a net basis, we expect cash release from liquidation of inventory.

Finally, as a means to bolster the liquidity in the Company and to set right our balance sheet, the Company successfully embarked on a Rs. 1,000 crores rights issue, which was fully subscribed. Rs. 500 crores of which has already been received, the Company will additionally call Rs. 250 crores in January 2021 and the balance in July 2021.

Rising up to the challenge, all our brands was swift to adapt to the new normal by accelerating that digital initiative. Each of our brands works towards fortifying their e-commerce capability by servicing their customers to the brand website and e-commerce partners. Some of our brands launched their mobile apps in Q1, while others are working towards launching their mobile apps in the coming months.

Targeted digital marketing initiatives have resulted in sharp increase in website traffic and e-commerce sales across our business segment. Our brands also work towards providing their customers on omni-channel experience, enabling them to interact with the brands in the physical environment.

We are already experimenting with the hyper local model and buy online, ship from store model across our brand. To make this possibility, our sales executives are also pursuing customers through WhatsApp commerce, assisting them virtually. We also started reaching out to our consumers' neighborhood with pop-up stores, ensuring their shopping never stops.

I will now take you through the performance of individual businesses, starting with Lifestyle Brand Business. Lifestyle Business has quickly capitalized on this opportunity by creating work-from-home category. Number two, conceptual products such as Tulsi, Neem printed garment. Number three, quickly ramped-up partners e-commerce sales. And number four, we also exhibited leadership in rising to the challenging occasion by creating masks and PPEs for frontline healthcare staff.

In my view, the business displayed tremendous leadership in all aspects during these testing times. Business also collaborated well with various real estate partners to bring down rental cost to reduce the adverse impact due to lower convergence. It gives us immense satisfaction within our wide network of approximately 2,200 stores, we are not being compelled to take any drastic closure actions. Business also help frontline staff improve their utilization levels by making them work on temporary basis with other companies and also, in turn, fulfill the immediate manpower need in initial categories of other businesses.

In line with continuous focus on delighting customers, the business took a leap in transforming itself digitally, keeping brands at the core of its business strategy. The business promoted digital interactions with its consumers through launch of new brand apps and digital marketing campaigns, most of which were made with significant success. Brands also discovered new ways to engaging with consumers through their wide store network, whether it was the buy-online-and-ship-from-store model or through hyper local delivery format through stores. Serves this customer in catchment by opening the store inventory for shopping and delivery within the same day.

E-commerce share business, which has historically been around 6%, grew to 21% during this quarter. Predominantly driven by partners e-commerce along with significantly higher traction at our own brand.com There was a rise 166% on e-com orders through various platforms and through the newly launched apps, Van Heusen and LPF .

Many such innovations, both around products as well as way to customers are the highlight of our business during these trying times. It shows the level of involvement and passion to which our brand managers, product expert, warehousing team, and retail staff, they left no stone unturned to keep serving and delighting our customers.

During the quarter, we managed to open about 80% of our retail network across the country in phases. We also evaluated many new store options and the fact that a lot of prime real estate is presenting itself to us it also a testimony to the strength of our brands.

During the quarter, revenue of Lifestyle Business were Rs. 190 crores, with EBITDA loss of Rs. 67 crores.

Moving on to Pantaloons Business, being large format store, Pantaloons took longer to resume operations as per the guidelines of the local authorities; and hence, bulk of our network remains shut for the quarter. However, they did not deter pantaloons, in reaching out to consumers. Pantaloons displayed tremendous leadership in connecting with consumers through various digital methods to take care of their fashion and apparel brands.

Video calling from stores gained sufficient consumer traction, while pop-up stores proved to be easy access shopping points for Pantaloons customers. Business also piloted store on wheels concept where kiosk was set up at societies, localities to display a wider range and take the bulk orders, a concept that showed tremendous promise.

Pantaloons remarkably accelerated its e-commerce presence with average daily orders growing at 4.2 times on Pantaloons.com, which was launched last year, gained strong traction during this quarter with 75% higher traffic and robust growth in order. Revenue for the quarter of the business was Rs. 82 crores with a EBIT loss of Rs. 72 crores.

Other business innerwear and athleisure, let me rekindle the optimism that all of us need during these times. It gives me immense pleasure to inform you that on a run rate basis, our innerwear and athleisure business has been the quickest to bounce back close to pre-COVID levels. As of June, the sales are 83% of June last year and the strong trajectory has continued through July as well. The success of this recovery is driven by strong pent-up demand for innerwear and newfound obsession with athleisure and active wear and a large part of sales moving to digital channel.

My heartfelt congratulations to our dedicated field force that ensure distributor expansion and strong dealings. Even during this constant and challenging environment, we added 400 distributor outlays in this period.

Our International brands business also turned back to normalcy almost as quickly as innerwear, end of Q1 sales through e-commerce and omni-channel had reached the COVID run rate, while most of the quarter had lackluster growth on account of store closures and most of the stores are in malls, which are the most delayed re-opening. The e-commerce and omni-channel sales covered up the losses to a large extent.

Coming to debt, the debt of the Company as of 30th June, was Rs. 3,250 crores. This net debt of Rs. 3,250 crores are expected to be the peak date of the Company utilizing the proceeds from the right issue of Rs. 500 crores and future cash operations from future, we expect to close debt at approximately Rs. 2,000 crores at the end of fiscal 2021.

Finally concluding, we are thankful to our investors for having reposed their faith in us. During these trying times and making our rights issue successful. I would also like to thank our bankers and other finances for standing beside us.

Many thanks to Aditya Birla Group for their strong support and guidance all through, I would also like to thank our dedicated employees, who despite the hardships and sacrifices, continue to work doubly hard to ensure our success as we pass through these difficult times. Let me assure each one of you that our belief and conviction on Indian consumption story and the large opportunity in Indian apparel space is unpledged. It is very large opportunity and we are here to build a large and profitable business rooted on the philosophy of best brands and best people. We are committed to work hard and make all efforts to achieve each and every goal that we have set for ourselves this year.

Happy to take your questions now please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir I had two questions. And it is actually in respect to the current kind of, what you have done. See, this quarter essentially shows the cost control initiatives part of it, could you quantify the target for cost savings that you are likely to achieve for the year, do you have anything you can share on that, sir?

Ashish Dikshit: Avi, we are living in slightly uncertain times as we look ahead also. I think our effort is to get cost as far as possible in line with the way we see revenue shaping out. As we have taken initiatives, you can see some of the actions that we have taken in the results in quarter one. We will keep watching as the time goes and keep pressing accelerator on various levers that we have with us.

The largest variable cost or in some ways, semi-variable cost that exists in our business is rental costs and operations costs. Now, we have taken one shot at it and achieve very significant savings, most of it with the help of an understanding of landlords. But if things do not improve, then we will have to perhaps look for steeper cuts. So I think it is hard at this point for this year, at least for next six months to predict two things. Very close sense of what the revenue would be? And therefore consequently, what should the cost target be? So, we are constantly moving that target as the situation evolves.

Avi Mehta: So let me rephrase, what I was trying to understand is of the cost savings that we have been able to drive in the first quarter. How much do you think we can flow through or continue as we go forward, I understand the rental part, which is kind of clear. The other expenses bit is what…

Ashish Dikshit: If you look at cost heads, there are three large cost tests. One is rental, which as I said, is an ongoing conversation and will also depend to some extent on how the market shapes up. And we will keep pushing for as much alignment with the degree of sales that we are achieving.

On the overhead side, which is the manpower cost. I think Jagdish briefly mentioned that, our actions started from the month of June. So perhaps the impact of it you will start to see more in Q2 and Q3 then what you have seen in Q1. In Q1 it is pretty muted because one-third of the period was available for us to any correction.

On the other expenses, which is everything else from advertising to other administrative expenses, office expenses, travel, etc., you will continue to see this traveling right through the year.

Avi Mehta: Okay, perfect. Lastly, I just want to get your sense on the discounting level and how you see that trending in the industry. Given that the industry is in a lot of pain and there is a witness slight bit of fear or aversion to make the trip to the store, how should I look at that? And any guidance on that would be helpful?

Ashish Dikshit: I think so far as of now, the way it is played out, discounting this year has been lower than anytime in past couple of years. The primary reason is that people are coming out not coming out not because there is no discount available or less of it. I think, these are larger reason, the elasticity to discounts at these times is much lesser.

Having said that, we are currently undergoing the End Of Season Period and there the discount is roughly similar to what existed last year at the same time. But overall, because most brands and retailers are trying to carry their inventory over to the next season, the level of discounting is much lower than any time before.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: So, sir, some of your read on this quarter, July and August, how consumer behavior has been just an extension to what we asked that are they fearful to step out? And this whole work from home impact on our formal wear, how are they behaving in this recovery phase?

Ashish Dikshit: I think the fear of stepping out you and I know is a fear right across the country. The extent to wherever the impact is highest like in bigger cities and metros where the fear is higher, you see the impact more, as you go down to smaller cities to the extent that the impact of virus itself was less and the normalcy has got slightly more reduced that impact is lesser. But overall, it is fair to say that the impact of this concern about going out continues to affect consumers.

But having said that, I think more and more people are realizing that you are getting to deal with the situation better. We are seeing more traffic building up into our stores, every month and every week has seen an increase in traffic. And perhaps you will start to see some of that recovering happening from August, September onwards.

Tejas Shah: Sure. Sir, second on last call, you had mentioned that you do not want to actually go on cost cutting measures and you perhaps might see opportunity or utilize this crisis to push through some long, deep reaching and earlier reforms on the cost. So you spoke about some of the immediate measures, but you see that there is way to actually redefine the business in terms of cost line items that we have done in the past versus future.

Ashish Dikshit: Some of that work is ongoing and I think, these opportunities get you to reflect over some of the cost, whether there are structural costs in terms of organization or cost in terms of retail costs, the rental, that you would see, the size of the stores, the staff costs, etc. And we are continuously working on it. But these things do not happen overnight. These are journeys that started at one point of time and actually start driving it over a period of time. There are other elements of cost, which has fixed costs in nature and once you learn to live with less, some of that sticks on.

Having said that, our current efforts is to really focus on what we can get in the short-term because remember, we are going through a phase in which there was a time when 80% of the store was shut and even in many places where a store started to open up to shopping, so it was a supply side constraint, which is even larger than the demand situation that you are talking about. So we will also have to see what normal looks like. And some of these cost reductions will perhaps be temporary in nature, but they are the important ones. There are some which will be more structural ones, but they will play out over a longer period of time.

Tejas Shah: And sir, lastly, on this rent, since landlords are accommodating in this phase to us, does it mean that when the recovery happens, the non-linearity that we would not be there, at least in the first place and they will get at least some recovery of the lost amount right now and perhaps in the second year or next year we will see that kind of non-linearity coming in on numbers?

Ashish Dikshit: I did not get your question, Tejas

Tejas Shah: So this in phase one, we are actually accommodating our concerns right now, landlords, is there a catch up phase which has been decided that till that time, when the recovery happens, we will actually share higher percentage of our revenue with them to make good losses which is happening in the recent quarter. And after that, we will go back to the earlier arrangement?

Ashish Dikshit: No clearly, remember, all rental agreements are long-term contracts, anything between nine years, 12 years to 15 years. And therefore, there is a certain value to that contract. What we are negotiating now is the rental concessions for the period where the nominal fee is not restored. Once the normalcy is restored, it is fair to assume you will go back to what the contract is. Of course, at that stage, there will be separate supply demand situation and rentals as you know are driven by multiple other factors in the market. And we will see how things will evolve.

But we are not restructuring rentals for nine years, if that is your question. We are actually getting concessions for the part of the next three quarters, including quarter one, quarter two, in some cases right through the end of the year. If situation continues to remain like this, we will have to go back and extend that.

Moderator: Thank you. The next question is from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

Aditya Gupta: A couple of questions. First, just continuing on the gross block there is a jump in the own contribution of Pantaloons, is that mostly because of availability of third party brands? Or is there some shift happening? And do you think the ratio is probably going to come down in the near-term at least given that humans might preferred established brand going forward?

Ashish Dikshit: So I will get Sangeeta to come in to this question. Sangeeta, could you hear the question clearly? Okay, let me first give you a quick summary. So, obviously, you notice that the share of own brands have significantly gone up. A part of the reason from our assessment is consumers are looking perhaps for value from at least those segments of customers. And the private label brands offered that in ample, also basic and simpler products, perhaps, which is really what is reflecting into it.

Another factor is that the share of kids' wear, if you notice in the charts that we publish along with the investor results, share of kids wear has gone up and kids wear is primarily on brand system. So combination of all this is what it is reflecting in. In the longer-term, our direction to improve, share of private label will be driven by the new businesses and new brands and products that we have introduced.

Sangeeta, you will come in? The question was around the share of private business now? And what do you see happening over a period of time?

Sangeeta Pendurkar: Yes. I think just to add to what Ashish said, we are seeing consumers, of course, preferring products in certain categories, like kids and casual clothes, etc. And I think that provides an opportunity for the private label to grow. Also, I just want to remind you, that if you recall, in the last quarter of last year, we were on this tremendous journey of transformation in Pantaloons, whereby we had introduced many new categories as well, right?

So we had introduced Home, we had introduced Sarees, what we are seeing at this point of time is of course, kids wear and casual clothes going up, but we are seeing a good traction on Home. Also, all of these products are now also available in on our website, as we have strengthened our and accelerated our digital journey.

So given the shift in consumer behavior where most people home has become our world and most people are spending time at home, there is a good amount of traction. All of this should effectively help us improve our private label share. Further versus what we had anticipated, in some ways, it will accelerate our journey of private label going forward. Especially, with the way we have planned our merchandise, with reference of consumer and private label and the new categories that we have.

Aditya Gupta: Got it. My next question was on the e-com side, I think you have a model wherein you are taking orders from the online, your own website, at least the orders coming in from there are being fulfilled by local retailers also. So is that the model, which is probably going to go ahead going forward also. And then in that case, who bears the cost of the last mile delivery in these orders? Are you going to compensate your partners for these costs or is it on the retailer site?

Ashish Dikshit: So let me Aditya, correct you a little bit. Both in Pantaloons and in Madura, wherever we are doing this omni-channel, retailing, which is we take orders on the website and deliver through stores. Both of these interactions are happening or in our own ecosystem. So we have not delivering to third-party retailers. These are our own stores, which are actually delivering the product. So it is complete value capture, we have not distributing third-party retailers products.

Aditya Gupta: No, what I meant was if it is your franchise partner who has a store in that particular geography, where order has come in from and…

Ashish Dikshit: We are doing it with our own stores. Franchisee partner may have invested in capital of the store, a franchisee partner may have be managing the staff of the store. But these are stores where inventory is ours. And therefore its complete value chain is within a ABFRL channel. There is no third-party involved in it. Even if franchisee is there, it is there for running operations of the store for investing in capital in the store. For all practical purpose we are doing it in our own retail.

Aditya Gupta: Okay, clear. And the last bit is on the normalcy expected by Q4 of this fiscal. So I mean just looking for some color on how you define normalcy is that average growth in January February compared to last year or the normal let us say double-digit growth that the business was a delivery in COVID?

Ashish Dikshit: The normalcy would be at this, a sense of normalcy would be to grow over last year in Q4.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, I had two questions. The first one was on the normalcy as you mentioned by Q4. What I wanted to understand is that, how do you expect your channel mix to be at the end of Q4? Do you expect that online could be a much higher share than what it was at the end of last year?

Ashish Dikshit: I think so, I think that is fair to assume, both because consumers are moving. But more importantly, our own effort, you heard, you probably saw a presentation I mentioned it, Jagdish has mentioned in the speech. On multiple fronts, refreshing our own website, using digital marketing more aggressively to drive traffic there, creating fulfillment options through stores, our stores getting customers, because remember, we have close to 30 million customers who are on our loyalty base between Pantaloons and all the brands in our portfolio. So there is a very large number of customers that we can reach out to and serve through multiple mechanisms.

Stores are doing video calling, WhatsApp commerce, we are obviously driving a lot of traffic to our own website. Equally, we are working even closer because the third-party websites, they are also very keen to partner with branded players and therefore, even that is accelerating much faster. So I would assume that our e-com share will go up. But just to put it in perspective, e-commerce shares last year in the branded business was around 6% and in Pantaloons business was even lesser than that. So even a 100% improvement, a 150% improvement would be about 10% to 15%. That is the zone that it would operate it.

Nihal Jham: That is helpful, sir. Sir, the second question was on your debt reduction target. You mentioned that currently at a net debt of Rs. 3,250 crores, which we are looking at to get down to Rs. 2,000 by the end of the year and obviously considering that Rs. 750 crores will be the QIP infusion for this year. Just wanted to understand, what is the kind of inventory or working capital liquidation that we have expecting, which will help in reducing this debt?

Ashish Dikshit: So, we expect our inventory itself to come down between Rs. 300 crores to Rs. 400 crores that is the inventory number. And the rest of the working capital and debtors and creditors also will play a role in that. We are looking to release close to Rs. 500 crores for working capital itself.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: I actually have quite a bit there. So I will just probably start bottom-up. Number one is, if I look at gross margin for the quarter, can you help me understand? How does one come to this level of gross margin of 41% for the quarter?

Ashish Dikshit: So, Richard, let me first reiterate, this is the quarter of least discount in the industry and for us. So therefore, the loss in gross margins primarily because in Madura part of the business, Vishak's business, we have a large manufacturing, which in good times allows us to keep our product per cost low, gives us tremendous flexible in production and unfortunately, at times like this, that cost actually comes back and sits in the product cost, because of the part of the overall manufacturing cost, because the volumes that we have producing is very small. So that is the number one reason. There are other smaller reasons about channel shifts, but I think, those are much incremental.

Richard Liu: Okay. So essentially inefficient overhead absorption because of the scale

Ashish Dikshit: Under absorption of manufacturing overheads due to low production.

Richard Liu: Okay. And this will be permanent in nature, I guess. I mean, it is not about a reverse or offset sometime in the future?

Ashish Dikshit: No, it will quickly offset. As soon as the even the partial sense of normalcy comes back and we start producing it, this will come back to normal.

Richard Liu: No, it will come back to normal, but you would not recover what you have lost this quarter?

Ashish Dikshit: Yes, this part would not get recovered.

Richard Liu: Okay. And second, one more number question, I have actually, if you just allow me to get through with it. Jagdish, you talked about, this whole rental savings of Rs. 237 crores, including the amount of Rs. 80 crores that you spent in the in the rental line, right? But if I look at your rental lines and correct me if I am wrong, the rental expenses under IndAS that you still continue to record, is that the part that is variable and linked to revenue? So if your revenue was down 18%is it not natural that your renters will also be down? I mean, can you actually call this as savings?

Jagdish Bajaj: So, Richard you are right, that part of the rental is primarily, because the revenue is down. So rental is down. You are right. The savings are sitting in that top-line. In terms of re-negotiated, re-contract, yes. The other part, I would also say is, in some of the cases and it is not insignificant, we have converted a lot of fixed cost rentals into revenue share rentals for the period. And that is also flowing into it.

So it is not just the structural revenue share arrangements. It is not of rental arrangements, which have got converted for a period of time from fixed costs to revenue share. And therefore, to that extent, that is also playing a role in keeping that down.

Richard Liu: And is good for the next nine months or is it for the nine-year period?

Ashish Dikshit: No, not at all. I think, most of the rental contracts at this point of time landlords are willing to concede for few quarters, for us more cases than not we have been able to take it till the end of the year.

Richard Liu: And including the conversion of fixed to variable?

Ashish Dikshit: Yes, but they keep varying in different contracts for that.

Richard Liu: Okay. So it is mainly for let us say up to one year period in terms of fixed to variable conversation?

Ashish Dikshit: Yes.

Richard Liu: And if I understood from the notes to account regarding that Rs. 160 crores that you have taken credit for in another income of which about, I think you mentioned a number of about Rs. 59

odd crores that pertains to the future. I am just trying to understand, what is the steady state per quarter rental savings that you have? And our entire Rs. 160 crores that you have taken credit for already formalized by way of a written agreement with the landlords?

Richard Liu: So, let me let me clarify to you, the savings that we have factored in and booked are only the ones where formal written contract has been entered into. As on 30th June, there are a lot of ongoing rental conversations there are discussions, which have happened, continuing discussions, there are rental rates negotiations over and above and differently from what has already got contracted in past because in some cases the delay has been longer. So, all those things will flow. Richard at this stage it will be difficult to predict, but I mean fair to say that we are driving very hard to try and get our rentals as close to the kind of revenue shortfall that we assume.

Richard Liu: Okay. But, I mean, to be fair, I think, the rentals that you wrote down for the quarter, not link to sale is about that Rs. 95 crores number, is that the right way to look at it?

Ashish Dikshit: No. So there are two parts. See, when you sit down with landlord, ideally, what should happen, if you had a purely variable model, you would have no rental and this quarter and we would have to keep paying rental as the sales go up. But typically, what kind of arrangements we are able to get into landlords is how to phase out rental concession over a period of time, which eases a little bit of liquidity for them also.

So while sales will be dramatically down in Q1 and maybe significantly recovered in Q3, it is quite possible our rental concession in Q1, Q3 might be same, because landlords are also looking for a certain liquidity to come to them and that is why they are phasing out some of these concessions over a period of time.

Richard Liu: Okay. So if I just put it a little more differently out of that Rs. 1,250 crore intrinsic rentals that you that you incurred in fiscal 2020, right? Based on your negotiations and based on your expectation of future concessions that you could get; how much can be the savings that is possible? I mean, apart from the one that naturally happens, because you are not selling.

Ashish Dikshit: No. So, even not selling, because remember, very few contracts by contracts are pure revenue share very, very few. So even when you are not selling a part of minimum guarantee comes in at some point of time. But the big number, which is Rs. 1,200 crores, which is actual rentals of last year against that you can see, we have got about Rs. 230 crores or Rs. 240 crores of rent reduction as of now. There are a lot of ongoing discussion happening these rents were only the ones, which were actually find formally sealed from both sides by 30th to June. And therefore, as you go more will flow in the subsequent quarters.

Richard Liu: So that Rs. 159 crores is the cumulative impact or whatever you got till now? I mean, it is not a repeatable number, every quarter.

Ashish Dikshit: Yes, it is not a repeatable number. It is a fixed number, whatever they have agreed at that point of time.

Richard Liu: Okay, thank you. And I just have two more questions, if I may? Ashish what is your view of the attitude of consumer towards the kind of clothing that you sell, how do you think they are looking at some of these at this stage. And why do you think, innerwear, etc. did better versus the other in terms of the June run rate. And if you can let us know what is your take on the other kinds of stuff that is there in your portfolio in general and formal wear in particular?

Ashish Dikshit: So I will start with that, I think, that is where your question leading to. So I will get Vishak to come in on what we are doing in our brands, which is Louis Philipps, Van Heusen, Allen Solly, Peter England, and how are we responding to them, what current traction we are seeing and how do we see at least the medium-term. So Vishak, you are come in here?

Vishak Kumar: Yes, sir. So Richard, I think, this has been a phase of lot of innovation. At one level, Richard, we have become very strong players in a whole lot of protective clothing, okay. So you have masks and we are with very high market shares in masks as we speak. We have clothes, which are antiviral treated fabrics, we have travel garments, which are for safe travel. But there is an entire range, which is created around the protection as the main benefits of consumer.

There is another which has been built around the work from home, comfort, athleisure, easy maintenance, easy ironing, easy dry, and so on, which is another stream altogether, which has also grown significantly. What you are also seeing however, on top of all of this is also the beginning of festive merchandise coming up significantly, people wanting to feel good with the clothes that they wear.

We also found very interestingly Richard that, you would have thought that formal trousers are not going to sell too much in this period. But consumers are saying, look, for the formal trousers that I want to wear these brands, I know the fit; and hence, I know that I can buy it without trying it. And that seems to be important for them. So we have sold a lot of formal clothes like that.

The only area where perhaps, the scale will have to change as things change is wedding wear. And that is a function of the number of weddings in society and so on. And as that changes, we should see traction in that as well.

Richard Liu: Okay. Thanks for that, Vishak. And I have one more if I may and Ashish, if you can help me understand, how are you looking at competitive positioning in such a scenario? Since you have got your efficiencies, you are part of a large group, and obviously, you are definitely much more well placed compared to some of your peers in this phase. When I say peers, I do not necessarily mean the unorganized guys, including the other well-known brands. I mean, do you see some benefits arising out of this for yourself?

Ashish Dikshit: Definitely I think, Richard, as we see today, both because of the strength of the brand, the agility with which she react the systems that they are consumer franchise, strength of distribution and partners, we feel competitively we are just getting stronger than from the pre-COVID level. And at times like this, consumers go back to the brands that they trust more. So as it is there is going to be a share gain for major brands; and among them, I think we feel we are extremely well placed to benefit from the overall competitive landscape as it emerges.

Richard Liu: Would there be any specific illustration that you can give to help us understand or is it just that what you think, is going to happen? In terms of people offering you more your space or let us say your competitors not being to pay rent or anything like that?

Ashish Dikshit: So, I think, Jagdish had mentioned a little bit in the speech. But whether it is department stores, whether it is e-commerce players, whether it is a retail franchisee who want to open stores, whether they are franchisees who are running other brands stores, now looking for more reliable partners. I think in all those dimensions, I would not call out specifics, but in all those dimensions, we are finding that there is a natural gravitation for stronger brands, more importantly for stronger companies.

Moderator: Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir my first question was on the gross margins, value alluded to the fixed cost of operations of the factories unabsorb cost. The mix change which Vishak mentioned of variable mix being lower and selling more essentials. How will that impact the gross margins for the rest of the year?

Ashish Dikshit: No. So, gross margins are less necessarily function of product mix. Most products that we make, by and large speaking, depending on the brands position, our margin structure is consistent. So if you sell t-shirts or blazers or suits or the gross margin structure is pretty consistent, depending on what brand it is how it is positioned, etc. So I do not think, portfolio mix will shift within the brand will create a shift as far as gross margin mix is concerned.

Our current gross margin challenges are coming from absorbing the fixed cost of manufacturing, as we are bringing down inventory and trying to make sure we use existing inventory. That is the period that we are going through, I think another three months - four months that issue will go away.

And our intrinsic gross margin, which is the cost of the product, as well as the price at which we sell, are both very intact and will not see a shift, simply because we sell more of one kind versus the other.

Ankit Kedia: That is helpful. Sir, my second question is on the wholesale channels. We saw steep decline in wholesale mix this quarter. In fact, the decline was more than 90% compared to 60%, in the others, given the online share out there. How is the 12-season model working there and how is the liquidity for the buyers of the wholesale channel?

Ashish Dikshit: Vishak, you want to come in here?

Vishak Kumar: Yes, sir. So Ankit, first things first, the wholesale channel has probably taken the longest to re-open full stores. It so happens that department stores in the sequence of re-openings were quite late in the permissions to re-open. And it is only last week onwards that many of the department stores are now at 70% - 80% re-opening levels.

Similarly, in multi-brand trade also, many states, the multi-brand stores are yet to re-open even today, many parts of East are not yet open. There are markets where weekends are still not open and so on. So, that is one reason why that that part of the business has taken longer to get back to some semblance of normalcy.

Here, in all of this, the monthly model it is and I am so glad we have it, because it allows both imagine if we had produced for all of these retailers based on an advanced booking model, all of that inventory would have been a huge challenge for everybody. The fact that we have got a monthly model helps a lot. The fact that we have got a digital model for booking is, again, a very strong boon for all retailers.

Today, retailers do not really want to have a physical place where they come and book orders and so on. The fact that they are able to book digitally, the fact that they are able to book multiple times when they want to digitally that is also helping them hugely.

Ankit Kedia: That is helpful. And sir, my last question is on the online, by end of the year, we could see a low-teens number shared from e-commerce, how does that change the business overall in terms of stores opening, given that the customer will now be more comfortable for online? So do you think, we will continue to open up 400 stores in the Lifestyle Business and another 50 stores to 60 stores in Pantaloons over the next two years, probably this year could be an aberration?

Ashish Dikshit: Yes. So I think the fact that consumers are getting comfortable to online is a growing trend, which has got accelerated in last couple of months. So it is one little bit of habit forming is happening in that. Having said that, India is a very large and very under penetrated market even buy offline retail. So the kind of opportunity that we see, I do not see why this will not continue for many years. What might happen over a period of time is the role of store and online and offline coming together where you are able to get served in different formats and some of them we already mentioned on the call, we are piloting, whether you get served from the stores through video call, you get local delivery and in many cases, order online and get it straight delivered at home. So those combinations will emerge over a period of time.

But I do want to reiterate, the share of e-commerce at this point of time is high single-digit number getting into early teens as we move forward. And it is a long journey before you ignore the big 90%; and focus only on the 10% that exists, I think the 10% will grow. And we are very well positioned, in fact very keen to grow that share. But we will have to be conscious that there is a very large market opportunity that continues to remain available for strong brands in this country.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: Ashish, first just wanted to understand, you did not mention June trends. How about July and now that obviously even a lot of mall just started opening, where would we be in terms the number of stores being opened and the trends? I am also asking this for from the point of view, there has been a lot of non-discretionary has revived quite quickly. So, I mean, what is the trend we see in terms of revival of kind of apparel sales in the months to come?

Ashish Dikshit: So, by August, we are beginning to see almost 90% of our network has opened, a little bit more than that and whichever small markets, which are very concentrated markets, which are still left to open, I think will over the next couple of weeks will start to open. So, I expect by the end of August, we should have nearly 100% of network opening.

In June, it had started to open towards the end of June, we had reached 70%. But that was only numerically 70%, effectively what was happening is stores were allowed to work only for limited hours, there were a couple of weekends that the stores were not allowed to open, there was big conversation around odd and even.

And therefore, there is many other challenges that stores were having in running the operation. I think, we are now reaching a point where stores are running all days of the week. They are running till 8 o'clock wherever possible in most markets and wherever they are not, I think, consumers are beginning to come out and adjust to that.

Having said that, consumers will take time to come out as often as they did and therefore, that, perhaps is the lag which will take longer time to correct.

Aliasgar Shakir: Okay. And where should we be today in July and August in terms of last year sales, if you can share some numbers around there?

Ashish Dikshit: No, I do not think in this call, we want to share this quarter's numbers.

Aliasgar Shakir: Okay. Second thing, you did mention a little bit about storage and the competitive intensity. I just wanted to understand from the point of view, do you see this phase as a good time to probably open stores with a better economic viability of the store with whatever I mean cost in terms of rent and the other factors.

And therefore, it makes sense probably in the next one or two years to probably, I mean, kind of see, store addition picking-up. I am also asking this form the point of view that one of your competitor did talk in one of their AGM very aggressive to lags.

So as a stronger brand, you mentioned you have a lot of advantage. Do you see taking benefit of that in the next couple of years?

Ashish Dikshit: Absolutely. I think we have the strongest portfolio of brands by far. And the network effect of the portfolio brands that we have in formats like Pantaloons to Madura Brand to portfolio to brands like Forever 21. I think, if you look at the whole portfolio of the brands, we are perhaps best positioned to exploit opportunities as the market recovers and you have very rightly pointed out, there are a lot of questions around structural how much rent will come down in existing contracts. I think, the bigger question is, what structure and what costs will we get the new real estate?

And we are very keen to sort of exploit that opportunity. We think we are very-very well placed to do that. And that is why, I feel at this point of time, while we are digitizing our operations, while we are learning to serve consumers through both online and offline modes, it is also the time to actually look for attractive real estate, good opportunities in terms of rental deals and structure of rentals and build a more efficient and wider retail network more aggressively. So we would come back.

I mean, our worst case scenario would still be opening 200 plus stores in Lifestyle Brand and between 25 stores to 30 stores in Pantaloons. And as things evolve, we will perhaps accelerate it towards the end of this year. But definitely next year onwards, you will see a very, I think, quickly accelerated distribution model.

Aliasgar Shakir: And what kind of benefits you see in terms of range, of courses, I think it is early days. But do you see a very decent kind of I mean a of 15% 20% kind of benefit also coming in terms of rent and other costs for a store delinquency or it would be nominal?

Ashish Dikshit: Difficult to predict at this point of time. I think it is absolute rent as well as the structure of the rental contract, both would be useful. And one more important thing is it is the high quality properties available at affordable rental. It is not just the rental, but the quality of properties that become available at times like this that is another large factor. And I think, on all three dimensions, we will be very aggressively actively looking for it.

As I said, our network expansion ambitions will even this year play out towards the latter half of this year. But will definitely accelerate next year.

Aliasgar Shakir: Okay. And just last question is on the cost, of course, we have seen a quite a significant reduction and commendable cost reduction in this quarter. But I understand a lot of part of that reduction would also be because of the store being closed.

So what proportion of this cost do you see getting reversed in the coming quarters, while against which, of course, you will also have, like you mentioned, some more cost benefits coming through? If you can just share some perspective on how the cost should trend going forward?

Ashish Dikshit: See, I would not be able to give a number, but I can tell you, our cost reduction plans will not slow down, even as you move forward, because there are a lot more rental contracts to be closed. There are many cases where we going back and actually seeking larger concession because the markets have taken longer than what we had anticipated to open.

And the landlord's also, as I mentioned, in the beginning of the call are more comfortable giving you phased out concessions instead of completely giving concession all of it into one quarter, two quarters, etc. So, I think, many of them will continue to flow and you will see similar trajectory even going forward.

Aliasgar Shakir: Okay. Also from the other, I mean, your SG&A have also been down nearly about 45 odd percent. So, there I see of course, there will be some kind of reversal, which stores now opening full-fledged?

Ashish Dikshit: Yes. But, I think, if you look at the intrinsic elements of the costs, rent is already taken out; so that is showing separately. If you are mentioning the rest of the SG&A cost, it exists, as I said of employee cost, where actually the cost savings will start to accrue only from Q2. Q1 we have got a very little of that and other expenses, whether its…

Aliasgar Shakir: Yes, your other expenses, what are seeing down by about 45

Ashish Dikshit: They will continue to remain low.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead. Garima Mishra from Kotak Securities, your line is muted. Please unmute the line from your side and go ahead. Garima Mishra from Kotak Securities, please go ahead with the question.

Garima Mishra: Could you please quantify the absolute amount of inventory that you had at the end of Q1 and in your assessment, how much of this will you be able to very easily unwind over say the next three months to five months, because some of it may be let us say, athleisure or casual wear or things of those sort? So I am just trying over what period do you think this can be totally unwound**?**

Ashish Dikshit: So, Garima, as we mentioned, I mean, just first to answer your question in absolute terms, our inventory has not moved much from Q4 end to this quarter, primarily because the sales are what they are at cost, we would have sold maybe Rs. 150 crores - Rs. 200 crores, etc. So that is really marginal reduction.

At the same time, there was some committed inventory, which will be flowing in the system, so not much change as far as this quarter is concerned. But the good news is that as we are getting into the festive season, as our stores today we have not had to buy any inventory over the last four months and therefore, what was fresh on 1st of March, before we ran into COVID is very fresh inventory in 1st of August. We did not even go through the discounting cycle, which we normally do and therefore, extended the life of it.

I think most of our inventory in a country like India, most of our inventory is valid right through the year. What changes with season is somewhere around November, December, a little bit of winter comes in and very close to festive last 10 days - 15 days, there is a certain sense of festive merchandise, which comes in. Weddings also start to play some role in that period.

I do not see any part of our inventory being getting less relevant, there would be varying velocity and that is really what we are prepared for. Worst case situation will be we probably be carrying it for a couple of months longer. But we do not see any other impact and that will be adjusted by producing less.

Moderator: Thank you. Ladies and gentlemen, that was the last question. 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.