



“Aditya Birla Fashion & Retail Limited Q4 FY17 Conference Call”

May 12, 2017



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Moderator:

Ladies and Gentlemen, Good Day. And Welcome to the Quarter Four FY17 Earnings Conference Call of Aditya Birla Fashion & Retail Limited. The call will begin with a brief discussion by the Company's management on the quarter's performance, followed by a question-and-answer session.

We have with us today Mr. Pranab Barua – Managing Director, along with Mr. Ashish Dikshit – Business Head, Mr. S. Visvanathan – CFO and Mr. Shital Mehta – 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 performance. With this, I hand the conference over to Mr. S. Visvanathan. Thank you and over to you, sir.

S. Visvanathan:

Welcome to the Q4 2017 and Full Year FY17 Earnings Call for Aditya Birla Fashion and Retail Limited. Before we discuss the results, I will quickly take you through the macro trends in the economy and the apparel industry and the consumer dynamics that have influenced last year's performance. Let us first look at the macro factors on the economy:

Indian economy continues to be a bright spot in an otherwise gloomy global scenario. It recorded a growth of 7.1% in FY17, which though lower than the 7.9% of the previous year, is still higher than most global economies. Macroeconomic fundamentals of the economy were healthy during the year with moderation of inflation, fiscal deficit and current account deficit. Consumer inflation averaged around 4.5% in FY17. However, consumer sentiment for discretionary expenditure continued to remain cautious. The government is pushing through many reforms, with GST being the most important. Implementation of GST is expected to boost the economic growth.

Turning now to consumer dynamics:

Indian consumers continue to seek discounts and deals encouraged by perpetual promotions by online players. Premium consumers continue to spend more to upgrade to better brands and products. A lifestyle change is leading to strong growth in casual and active category. Lower middle class consumers are upgrading to branded products and organized retail formats.

Having talking about the economy and the consumer trends, let us see how the industry trends have been:



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The industry was impacted by the demonetization in Q3. While retail channel quickly recovered, cash dependent businesses like wholesale customers, suppliers, franchisees took longer and are slowly recovering from the after effects of demonetization. Ecommerce is witnessing rapid consolidation and this will help create large opportunities for strong brands as they can now access a large growing consumer base through these platforms.

At the other end of the spectrum, value fashion has emerged as one of the fastest growing segment with all large players rapidly expanding their footprint. International players in the premium and mid-premium segments are pursuing a clear strategy of expansion and have even adjusted price points for the Indian market.

Women and youth have emerged as two important demographic segments, driving demand for younger, casual and more fashionable products. Overall, the Indian branded apparel market is poised to continue its rapid growth and double in size in the next five years, and this opens up exciting opportunities for players.

I will now come to performance for the quarter of ABFRL and for the financial year ended March 2017:

ABFRL – we will now take you through the highlights of financial performance for FY17:

FY17 sales grew by 10% from Rs. 6,035 crores in FY16 to Rs. 6,633 crores. And EBITDA recorded a healthy growth of 18% from Rs. 405 crores to Rs. 476 crores. EBIT for the year improved substantially from Rs. 67 crores to Rs. 233 crores and a growth of about 250%, but we must understand there was an adjustment of Rs. 100 crores of depreciation in the last year. I am happy to say that ABFRL has posted a net profit of Rs. 54 crores in FY17 as compared to a net loss of Rs. 110 crores in FY16.

Let me take you through the performance for Q4:

Sales for Q4 FY17 was Rs. 1,625 crores, a growth of 13% over Q4 FY16. EBITDA is at Rs. 131 crores, 37% over the Q4 FY16 EBITDA of Rs. 96 crores.

I will now talk about the performance of key portfolios in ABFRL:

We are now from this quarter onwards started present to you the Madura Fashion and Lifestyle segment into a little bit more detail into key portfolios.

The first key portfolio I would like to talk about is the Lifestyle Brands business:



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This portfolio comprises the core brands Louis Philippe, Van Heusen, Allan Solley, Peter England, along with their brand extensions. It also includes the newly signed Simon Carter business.

FY17 sales for the Lifestyle Brands is at Rs. 3,651 crores, was almost flat when compared to Rs. 3,734 crores in FY16. The business was impacted by steep decline post-demonetization in November. EBITDA, however, grew by a healthy 7% from Rs. 397 crores to Rs. 423 crores. EBITDA as a percentage of sales improved to 11.6% from 10.6% in FY16.

Q4 FY17 sales at Rs. 909 crores is a 4% growth over Q4 FY16. EBITDA for the quarter grew by 30% to Rs. 142 crores from Rs. 109 crores.

The Lifestyle Brands had an EBO network of 1,759 stores at the end of FY17. During the year we opened 194 stores and we also closed 189 stores that were either marginally profitable or loss making. This rationalization of stores has helped us to improve EBITDA margins.

Now discuss the Pantaloons business:

Pantaloons grew by a healthy 18% during FY17 with sales at Rs. 2,552 crores and EBITDA of Rs. 126 crores. EBITDA grew by 22%. FY17 like-to-like growth is 3.3%. The move to value fashion and increased share of own brands combined with expansion have helped to record growth in sales and profits. This could have been even greater but for the demonetization impact.

Pantaloons posted a healthy growth of 11% in Q4. It ended Q4 sales with Rs. 586 crores. Own brands now are at 59% of Pantaloons revenue. EBITDA for the quarter was Rs. 14 crores as against Rs. 31 crores last year. In FY16 EBITDA was positively impacted by Rs. 52 crores due to rent straight-lining. The network expanded to 209 stores, up from 180 stores at the beginning of the quarter. At the end of the year Pantaloons had 28 franchisees run stores.

Fast Fashion Business:

The Fast Fashion portfolio consists of People and Forever21. FY17 sales for Forever21 and People brands was Rs. 345 crores while EBITDA was a loss of Rs. 49 crores. Q4 FY17 sales was Rs. 102 crores and EBITDA loss for the quarter was Rs. 19 crores.

We acquired Forever21 in July 2016, and the numbers reflect sales for a part of the year only. People business was operational for the full year FY17.

Forever21 has a network of 12 stores and acquired in July 2016, and ended the year with 16 stores. Total footprint of Forever21 is 185,000 square feet. People operates through 91 EBOs with a footprint of 217,000 square feet.



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In the Other Businesses portfolio, I will highlight about the innerwear business:

The innerwear business was launched in FY17 under the Van Heusen brand in seven cities in South India, and is being currently distributed through department stores, MBOs and other channels. At the end of FY17 it has been distributed to approximately about 1,300 doors. The plan is to rapidly saturate the southern states, while in parallel opening up other markets. The initial response has been very encouraging and we look forward to building a strong business in this category, even while we invest in the short-term to build the distribution and the consumer awareness.

I will quickly touch upon the balance sheet. The total debt of ABFRL stood at Rs. 2,045 crores for FY17 as against Rs. 1,849 crores in FY16. Increase in debt is due to the acquisition of Forever21. Our interest cost, however, remain almost at constant levels as compared to FY16, owing to a steep reduction in interest rates from 9.3% to 7.75% by end of March 2017. Goodwill at 1,860 crores was higher than FY16 by Rs. 64 crores due to the acquisition of Forever21. Our ROCE at the ABFRL level, without good will stood at 19% compared to 7% in FY16.

Our results for the year incorporate the impact of IndAS accounting standards. The detailed bridge is available in the investor presentation uploaded on the website.

I will quickly give you now the outlook and strategy for the medium-term. We have defined our strategy for FY18 around the following themes:

- Continue to maintain the leadership position in Lifestyle Brands with focus on innovation.
- Strengthen Pantaloons position and make it the leader in value fashion business through aggressive expansion in store footprint and improve on value strategy will drive margins and profitability.
- Grow aggressively in the identified new segments with long-term growth potential namely Fast Fashion and Innerwear business through distribution expansion.
- And invest in emerging segments in casuals and denims.

We are working on organizational enablers like consumer centricity, digitization and talent acquisition. With this, I close my opening speech and we are now open to questions. We do have a request, in the interest of time we would request that all bookkeeping and housekeeping questions are emailed to us for our responses and we will get back to you with the responses on these questions. Thank you.

Moderator:

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



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Abneesh Roy: I have three questions. My first is on the Madura business. Your margins have improved significantly, 100 bps for full year and 310 bps this quarter. So my question is, other expenditure is down around 8%, so have you cut on ad spend and how do you see long-term margins? See, this expansion in margins came without SSG strategy, so when the SSG becomes say 4% - 5% then where do you see the margins stabilizing at?

Ashish Dikshit: So, we do not want to give forward projection on margins. But your observations are right, we have controlled cost during the course of the year. As we have shared with you, we are correcting our business model. We are finding some pieces of value both to consumer and internal cost structures. Clearly, our profitability will look lot healthier as the organic growth comes back.

Abneesh Roy: But you are not cutting back at the expense of the brand, you have seen some companies cut down on ad spends, then later it starts impacting. In your case, there is a cut on ad spend which has been much higher than initial years. So, is this healthy ad spend, I want to check on that part?

Ashish Dikshit: No, see advertising is not something that you look at quarter-on-quarter. We have explained, even in the quarters when advertising was very high, this is the phase in which you will do that. This quarter happens to be one which is dominated largely by end of season sale. And therefore, to that extent the advertising is much lower. But this is something that we will keep balancing on an ongoing basis. We are committed to continue to invest in brands which is our largest sort of lever.

Abneesh Roy: Sir, my second question is on Pantaloons. Here what I see is there is a sharp pickup in terms of expansion of stores, and sharp pickup in terms of franchise owned stores, franchise stores. So you have added 79 stores in FY17, so how does FY18 look, will it be same or will it be the 40-50 which was the initial plan? And 40% of this 79 stores is in this quarter at least, so 40% of the 33 openings this quarter is through the franchise, 14 stores. So, why such a sharp pickup? So are you now much more confident on a franchisee model versus previous quarter when it was just 14 stores franchisee which is now 28 stores this quarter?

Shital Mehta: In terms of expansion, I believe that I think it is very difficult to really peg the number, but we believe that we should be able to continue with the similar sort of an expansion trend as we go forward. As far as franchisee is concerned, I think your observation is right that the model is settling down. However, as of now we are planning that probably around 20% of our expansion will come through franchisee, last quarter was an aberration where we had far too many stores through franchisee. But otherwise, I think 20% is a good number which we are looking at going forward in terms of franchisee.

Abneesh Roy: And sir, one small one, this is my last question. Innerwear you had called out has done well, it has met your initial expectations. We do not have specific number for innerwear, it is part of the



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others, and that has grown by around Rs. 10 crores this quarter from a YoY perspective. So, will most of this Rs. 10 crores incremental number be from innerwear?

S. Visvanathan: Not all of it, it has other businesses also. But yes, significant part of it is coming from innerwear growth.

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

Richard Liu: I just want to know what happened on Pantaloons at this time, I think the top-line growth seems to be lower than the expansion in store count.

S. Visvanathan: Can you elaborate your question please, it is not very clear, are you talking for the quarter, for the year?

Richard Liu: For the quarter.

Shital Mehta: So, I think Richard, its large number of stores, if you see even at a year level as well as quarter level they have been fairly back ended. Even on the last week itself we have opened almost more than a dozen stores. So, I think last quarter the revenue has not been captured in the Q4, or in that extent I would say even at the annual level, if you see that more than 50 stores have opened with on an average probably two to three months of lifecycle, as far as FY17 is concerned. So that is why it does not really reflect in FY17 revenues.

Richard Liu: Even if I exclude the comparison with the growth in stores, the trajectory of top-line growth in Pantaloons seems to have come off. I mean, we started with 30% then became 20% and 30%, and I guess there was some time shifting of Durga Pooja between second quarter and third quarter. So versus that we are looking at a number of about 10% - 11% for 4Q, which is not exactly the trajectory we are used to seeing in Pantaloons.

Shital Mehta: That is a right observation, but I think optically Q4 revenue growth looks moderate, there are multiple reasons, Richard, on that. A) Post demonetization we landed up preponing our end of season cycle, so part of the revenue had gone into December. As far as Q3 is concerned, our biggest driver was Pooja which had gone to Q2, so Q2 really went up. Q3, demonetization took a toll but EOSS preponment helped December. Apart from that, I think the reason is that as we move towards value fashion transformation, our dependence on EOSS in terms of revenue as well as the profitability is coming down. And it is part of the design that EOSS is supposed to be shrinking in terms of its overall revenue contribution, given that we are going to limit the EOSS duration, discounting and so and so forth. So that has really played out in the month of January and February. It just so happened that Q4 had also one of the exceptional item for Pantaloons, one is our Mantri Mall in Bangalore had shut down, and the South City which is almost a 5% to



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6% of our overall revenue, South City Mall in Calcutta, there also has almost lead to a mall shutdown. So almost 8% to 9% revenue during the renovation in the two months of Q4 has been lost. So I think these are the multiple reasons why you would see that 11% looks as an anomaly, it is not something which is an inherent trend which is there as of now.

Richard Liu: And any reason why Q4 makes more losses in Pantaloons?

Shital Mehta: So, I mean, it was not the case probably a couple of years back, but as we move towards value fashion, our dependence on revenue contribution which we were seeking from EOSS, we are more and more turning towards full price business. And therefore Q4 largely in terms of industry or a consumer event is EOSS driven. In terms of July, August when the EOSS happened, that means you have a festive season and more so through Pooja which comes early, Q2 gets supported. But Q4, essentially the only real big consumer even which is there is EOSS and our dependence will go down, particularly in the year one which is what FY17 was, there has been a sharp correction in terms of our EOSS mix. It will over a period of time keep getting sort of smoothed, but in year one we took a significant correction in EOSS mix vis-à-vis full price mix.

Richard Liu: And just for the record, what was LTL growth of Pantaloons in Q4?

S. Visvanathan: Q4, Richard, was minus 5%.

Participant: Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Actually one of the question is on Pantaloons, just wanted to get a sense, this minus 5% like-for-like, this would be largely attributable to your these two store or is there anything else?

Shital Mehta: I think apart from that the EOSS itself, as I was saying. And therefore I think let's just sort of take a step back, let's look at FY17 which takes into account the entire full price period as well as EOSS. We had a 3.5% revenue growth and more importantly 7.5% like-to-like volume growth, and this is not withstanding the demonetization. Had it not been there it would have been even better. However, when you split this numbers for full price period as well as EOSS, the picture becomes differently, and the Q4 being EOSS heavy quarter, in the January-February we had a negative like-to-like growth, apart from those two stores really impacting us. That is how the minus 5% looks the way it does.

Abhishek Ranganathan: So, EOSS impacted you negatively in January and February because of the value or the pricing?

Shital Mehta: As we moved to put the value fashion strategy, our entire strategy itself is driven by private brands, full price business periods, sharper pricing, higher volume growth and lesser and lesser EOSS duration. However, if you go back in our past, historical sales have been driven by largely



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EOSS play. So as we move towards from a department store to a value fashion player, EOSS contribution will go down.

S. Visvanathan: See, Abhishek, for the year Pantaloon's 3.3% growth, there is also a 7% volume growth that Pantaloon has done during the year. So, while the value growth seems lower, but the volume growth is actually higher.

Abhishek Ranganathan: No, I got that. What I wanted a sense of that from a positioning perspective, from a seasonality perspective Pantaloon will become a more relevant offering for a customer during the non-EOSS. So from EOSS standpoint possibly the customer may flock towards brands versus flocking towards a Pantaloon store, is that the right way of looking at this, understanding this?

Shital Mehta: Yes, that is a correct understanding. In fact, what we are looking at, over a period of time we would really shrink EOSS period to a very, very small few week EOSS and actually launch the new season when the consumers are walking around in the mall, we would have moved to the next season. So that is the direction we have taken and particularly in the year one you are going to see as we have seen a significant correction in both the EOSS which has gone by.

Abhishek Ranganathan: Okay. The second question I had was on the Fast Fashion classifications you had given, our margins in Fast Fashion as we see here is about close to -14% for the year. This is largely attributable to Forever21 because I think People was what existed last year and that was about 9%, and where do we see this settling down somewhere in 2018-2019?

Ashish Dikshit: Our goal is to turn positive in Forever21 next year, which is the first landmark we have set for the brand. It is going to come both through some of the levers on the margin side that we are playing as well as the rapid expansion and the right business model that we are doing with the new stores that we are launching. So, growing the business rapidly and turning it positive is the first goal post for next year.

Abhishek Ranganathan: And just related to this, where do we stand in terms of positioning in terms of People as a brand? We have considerable number of stores, I mean actually the revenues are far larger than what we thought it would be, but where are we positioned here and what is our three, four-year view on this business, do we want to continue this or do we see us focusing on the Lifestyle Brands, Pantaloon and Forever21 only?

Ashish Dikshit: No, I think People is important part of our overall mix. As has happened in other markets, in India also you will see younger people looking for accessible fashion in a large sort of way. This will have both large online-offline play and People is already beginning to show those signs. We have experimented with various formats, sizes of the stores, we are now comfortable and in fact now beginning to accelerate the expansion of People. So the numbers will look better as we go forward. We have also figured out rest of the economics of it. So, I think from positioning point



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of view it is a brand which will give young college going or early jobbers access to international fashion at very, very affordable prices. Because we control end-to-end value chain, we will be able to deliver that in a very attractive manner, and that is really the plan for it. So in the long run we are hopeful that this will be one of our large next big brand in the portfolio.

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

Tejas Shah: So the first question pertains to the Lifestyle Brand, so we registered inspiring expansion in margins in 4Q FY17 in Lifestyle brands. Now, we are trying to make certain structural changes in the model for last few quarters, so just wanted to know whether that correction phase is behind us, on margins at least, and should we see margins improving or sustaining from here on at this levels?

Ashish Dikshit: Yes, I think most of the fundamental pieces of business model changes that we are doing is just as we are doing in other parts of the business, are pretty much on way, but these things are never old, you keep improving them over a period of time. I think what we now will do is continue to make sure our brands remain relevant, focus on innovation, improve our store look and feel. So, in some ways reinvest in the brands and get back to the growth trajectory. And that automatically, with the leverage that this business has, will result in improved margins going forward.

Tejas Shah: So sir, considering that, there was no robust like-to-like growth in this quarter in the format, but then also the margin expansion happened. So just wanted to understand what are the factors, because in past we have always assigned operating leverage as a key driver for margin expansion.

Ashish Dikshit: So, Tejas, if you look at the mix of Lifestyle Brand business, it would be wrong and incorrect to create a direct correlation with same store sales growth and profitability. While it is a useful factor to improve profit, there are a lot of other levers which is overall gross margins, the growth of wholesale business, there other cost drivers in the business which is rest of the expenses. So there are multiple levers in that, it is not as singularly and uniquely driven as a pure retailer would have.

Tejas Shah: And sir, second question is on GST, there is some discussion going in retail industry on GST on how it will impact the customer discounts offered in the retail at large. Because GST, as I understand, will be charged on MRP and not on the retail realized price. So, just wanted to check how would it impact trade in general and whether does it mean that customer discounts will come down materially going forward?



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- S. Visvanathan:** See, even today sales tax is charged on the MRP, it is not charged on the retail realized price. So, we do not see any change at least from our point of view that discounts will change or will reduce post GST. I will tell you typically what happens is, in the EOSS period in many of the various places people give this thing saying it is 50% off and then add a small line saying VAT extra. So it is in those cases that the confusion comes that you are not actually giving a 50% off on MRP, you are only giving a 46% off on MRP or 45% off, because adding back the VAT charging to them. It is only those specific cases this confession comes, otherwise discounts and all nothing will change.
- Tejas Shah:** And this GST also accommodates credit notes to the channel partners for the balance amount?
- S. Visvanathan:** Yes, I do not think anything in a normal way of trading or this thing changes, except for the fact that you will have to now match invoice to invoice with both your customers and your suppliers for all sales that you make, which is in anyway prevalent in the Maharashtra and now the whole of India will have to follow that.
- Tejas Shah:** And sir, lastly, Forever21 expansion plan and how many stores we are planning in this year?
- S. Visvanathan:** I think we will look at closing next year which is FY18 between 25 to 30 stores. And we will keep looking at expansion possibilities as we go forward.
- Moderator:** Thank you. We have the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** You mentioned about Forever21 where your first target is to turn it around by end of next year. Could you highlight a couple of levers that are available upfront which can help you to turnaround this segment or this brand very fast?
- Ashish Dikshit:** So, I mean, it is a pure retail model, largely a retail model. The levers are looking at the price margin equation, and as we are understanding the business more, I think deeper understanding of what is working, what is not working. So, one lever is that. The second part is the cost side where the future store expansions are coming with a model which is very different from the stores that we have inherited, and that is going to be a far more remunerative model for us. The third, obviously, this year's results reflect a lot of transition challenges with any business we have experienced during the transition goes through. There are challenges of handing over, taking over business and their subsequent inventory availability and understanding the supply chain. So, some of them are organic improvements which are already in place, like supply chain and inventory. The future stores are also looking lot healthier in terms of the economic structures of those stores, and we are continuing to review and refine the pricing margin situation in the brand.



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- Nitin Gosar:** And you have also highlighted on the future stores, it is going to be different than what you have inherited. Could you please elaborate that, like how?
- S. Visvanathan:** Very simple, just size of the store and the rent that we pay.
- Moderator:** Thank you. We have the next question from the line of Manish Poddar from Religare Capital. Please go ahead.
- Manish Poddar:** Just wanted to understand on Madura, for the year FY17 how much was the full price to sale compared to FY16?
- S. Visvanathan:** I would not have that number off hand, because Madura, as I have said is a mixture of lots of channel. I guess your question is only related to a part of its business which was the retail channel.
- Manish Poddar:** Right.
- S. Visvanathan:** So, I do not have the number right away with me, I think we will have to get back to you.
- Manish Poddar:** No problem. So, on the Pantaloons part, for the FY17 I believe you mentioned that 3% was like-to-like growth and the volume growth was 7% and negative 4% pricing. Was this pricing impact primarily lead by mix, negative pricing of 4%, was that primarily lead by mix or is there anything else to that?
- Shital Mehta:** No, so I think the overall reduction or the pricing reduction is the combination of our mix of private brands going up as well as we have corrected the prices as we move towards the value fashion. And that has what has precisely held the register at a store level like-to-like growth of 7% in volume and our own brands actually have at L2L level grown volumes in double-digit.
- Manish Poddar:** And sir, if I have to look at sustainably in this model, what sort of blended like-to-like is attainable, given all those variables which you mentioned let's say from a one year, two-year perspective in the Pantaloons model?
- Shital Mehta:** It is difficult to answer that question, but I think 5% to 6% revenue growth like-to-like even revenue terms it is something which we would definitely be looking at as we go forward.
- Manish Poddar:** And just one thing which Ashish had alluded, with the store expansion which you are looking F21, would it be possible to be margin neutral in FY18 and how confident are you on that?
- Management:** So, these are plans that we make, I think this was sort of a broad goal that we have kept whether we will achieve that in Q3, Q4 or really next year, I think that is something we have to see. Stores would not be detrimental to profitability, that is what you are alluding to. Because the



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new stores that we are opening, we are opening with a very tight business model and hopefully that will only help improving profitability.

Manish Poddar: And just one final bit, is there anything on the working capital cycle that you had to call out going ahead?

Ashish Dikshit: On the entire business, where you are referring to?

Manish Poddar: Probably if you could give on two entities that would be great, the entire is also fine with me.

Ashish Dikshit: I think this year we have talked about it lot during previous calls, and one of the key focus this year was to improve the freshness of inventory, shorten the cycle and improve the working capital. Both are large businesses, Pantaloons as well as the Madura portfolio, has improved the inventory turns in this year. And I think that is a journey that we will have to continue to improve on.

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

Vinod Bansal: You spoke about the road map for F21, could you put some numbers around it, specifically on the gross margin level. I suppose this was around mid-30s to high-30s gross margin business. And you spoke about improving the price margin equation. Can you put some numbers, what exactly are you looking at say from a two, three-year perspective?

Ashish Dikshit: See, I think gross margin is a function of blended mix over a period of time, we will discover the right level. But definitely I do not see not being in 40s even for a brand like this, it offers incredible value even with those gross margins. We obviously understand how various segments, parts of the business respond to different pricing equation, so it is difficult at this point to give an indication, but that is a broad direction that we would look at.

Vinod Bansal: And that would be good enough to get to the mid to high single-digit operating margins you had guided for earlier?

Ashish Dikshit: I said we will move in steps, I think first step is to turn positive. And next four, five quarters our focus will be on doing that.

Vinod Bansal: And what is the typical working capital cycle in this business where you are licensing and you are buying stuff, importing from abroad. What exactly are you doing here?

Ashish Dikshit: It is pretty long today because the import lead time and the entire process of bar-coding and everything else that you need to do, currently working capital cycle is long there, we will need to get it back, it is more than 150 days plus on the stable basis. Right now we are dealing with



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transition issues, we took over certain part of inventory, the store network expansion is also relatively chunky right now. I think it will settle down to maybe 20 - 30 days more than regular domestic cycle.

Vinod Bansal: So around 80 - 90 days, would that be okay?

Ashish Dikshit: I think that is very aggressive. I would still think our target should be 125 - 150 days over next year and a half.

Vinod Bansal: And just to clarify, this is not inventory cycle, this is inventory minus creditor cycle?

Ashish Dikshit: I am talking of inventory, 150 days cycle that we need to get to first.

Vinod Bansal: And if you can hazard a guess on what kind of creditor days you may get, what kind of funding you may get from your partner?

Ashish Dikshit: I think that would not be fair to disclose, this is between two parties.

Vinod Bansal: I mean, not typically in this kind of situation, I mean there are other players doing some of the licensing. Typically, in this kind of a setup what creditor days one gets?

Ashish Dikshit: I think each arrangement is unique, and it depends on two partners. I do not think I would like to place a number there.

Vinod Bansal: And what could be the total opportunity size in this business, it is fast fashion, it is more design, is it something like top few cities, some number on that, how many cities, how many stores you could look at five years out?

Ashish Dikshit: So, right now we have started looking at next set of towns, we have just launched in Punjab, we will soon be launching in Gujarat. So outside Delhi, Bombay, Bangalore, we have just started experimenting it. We have launched a store in Silliguri. I think we will watch for a while. Very clearly, as far as top eight to ten cities are concerned, there is a large opportunity and that is something we will pursue. Through experimentation what we are seeing is how deep does it go, it is quite possible because the store formats are small, the price points are very accessible, there is a reasonable gravity of consumers even in smaller cities. But that is not something that we will be searching too early, we will keep experimenting with few towns here and there. And needless to say that, we still see a very, very large opportunity even in top ten cities for us to be quite busy over the next two, three years.

Vinod Bansal: And one more question on this part, when we discussed some time back, the CAPEX on this business used to be about Rs. 6,000 - Rs. 7,000 square feet. Does that number stays or has it come down lower now?



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- Ashish Dikshit:** It has gone far lower, so that is what we are doing. We are actually fundamentally improving the business economics, a part of it is to reduce the CAPEX per store. It is significantly lower than that, very significantly.
- Vinod Bansal:** And on Pantaloons part, we were earlier looking at 7% to 8% sustainable margins whenever it happens in the medium-term, does that target stays or has there been a change of thought in that?
- Shital Mehta:** Of course it stays. And this is along with the fact that we will continue to grow and in fact accelerate our revenue growth. In that scenario we are still sticking to the similar sort of target in the medium-term.
- Vinod Bansal:** And the 8% - 9% price cut you are supposed to take, you had taken earlier this year, that is the only one level of thinking, nothing more coming up now?
- Shital Mehta:** No. And also it was not 8% to 9%, it was closer to 4% - 5% shaving off of the ASPs, and that has been done. Having said that, as we sort of discover and get stronger and stronger in this space, we would still remain open for any opportunities or corrections further in the pricing. It is a balancing act one needs to have along with rest of the other cost. But that is a journey we will take in terms of our pricing and how far we need to keep correcting that as we go forward.
- Moderator:** Thank you. We have the next question from the line of Chirag Lodhia from Value Quest. Please go ahead.
- Chirag Lodhia:** My first question is on GST. So, if you can help us understand what is your assessment on GST in terms of inventory transition and what will be the medium-term impact on overall trade?
- S. Visvanathan:** See, as of now the transition provisions are not fully out there, so we have to wait for it to understand what will be the impact on us in terms of the transition provision. Our current understanding is that we should be able to get credit for some of the input items for which we have traditionally been taking credit. And that is where the correct understanding is. Maybe in the next couple of weeks we will have better clarity around this.
- Chirag Lodhia:** And in terms of Pantaloons, so if you can just help me understand what is the franchisee economics versus own store, in terms of capital efficiency versus operating margin?
- S. Visvanathan:** See, I will tell you what. We have just started on piloting of the franchisee stores, we are also developing the model along with the franchisees to some extent. We have offered a certain set of margins and CAPEX investment based on which they have done the investment. It will be unfair on our part to come out and tell you this is a clear distinction between franchisee model and us, both in terms of sharing margins and CAPEX investment. Wait for some more time and once we have stabilized the model where we are clear on how it works, then we can share it with you. Because even if there are 28 franchise stores, about 14-15 of them opened in the month of March



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and the balance have been in place only for about average of six to nine months. And we need at least a year and a half, two years of working before we can fully flesh out and say this is the economic model and this is the basis on which we will be working.

Chirag Lodhia: And just last question on Madura. So, what was the volume growth for full year? As I understand, you have taken some price equation correction in some of the brands of Madura, so what kind of volume growth we have seen this year?

Ashish Dikshit: It will be negative volume growth just as the value growth is. It would be about 5% to 6% down.*

-* Our volume de-growth for full year was ~7% and value growth was ~2%. The price correction was done only in Q4 wherein the value has de-grown.

Chirag Lodhia: And can we expect positive volume growth next year?

Ashish Dikshit: Yes, that is the plan.

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

Mayur Parkeria: I just had a couple of questions. When we look at many of the peers Annual Report disclosures, we find lot of disclosure even brand wise. So, would you like to disclose or just give some directional on what would be the size of the brand in the Lifestyle brands.

S. Visvanathan: Which peer's annual report is disclosing it brand wise?

Mayur Parkeria: We look at Kewal Kiran each brand by sales are given over there.

Ashish Dikshit: See, we have created a framework for how you should look at our business where similar businesses in profile and characteristics have been put together. I think this is where we will stay.

Mayur Parkeria: Okay. Since the overall Lifestyle brands have fallen by 2%, at least can you give some understanding about brand wise, how they have done directionally, whether is there a large difference between any of the specific events in terms of the growth which has happened in performance which happened in FY17? Just to understand the color directionally as to which brand is doing better.

Ashish Dikshit: I would again repeat, one, we do not indicate brand wise performance. All I would say is that it is not dramatically different across lines.



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- Mayur Parkeria:** Second was, if we look at the fast fashion FY16, it was Rs.(-13) crores, so that would be only People number?
- S. Visvanathan:** yes.
- Mayur Parkeria:** So, you spoke about the company's intent to turn Forever21 positive in FY18. How should we look at People and what kind of profitability we are looking for that?
- Ashish Dikshit:** It is also a business which requires some investment at this stage. I think it will take some more investment and growing that brand and business before we start to focus on its profitability. I think it will take a little while longer to turn that around.
- Mayur Parkeria:** But will the losses meaningfully rise or does the nature of investment will be able to breakeven for the future or is it going to be slightly more cash draining?
- Ashish Dikshit:** I think the comfort that you can have is that losses would only reduce.
- Mayur Parkeria:** Just reading into the numbers, again in Fast Fashion, the losses for the current quarter have increased to (-19) from (-5), and a large part of growth would have come from Forever21. So, what makes you confident or what makes you look forward in terms of tangible things as to why should Forever21 even at the exit quarter should turn breakeven or should turn positive? Just to add slightly more specificity, if you can add as to what changes in the operating metrics you are looking at which will change it?
- Ashish Dikshit:** As I said, there are three four things, I will quickly summarize them for you, I have answered this earlier. One is that this year had transition challenges of inventory availability, etc. which we are fixing up, that should improve the business on the whole. Second is, we are definitely looking at improving the gross margin level though carefully looking at what are the current prices in margins and productivity across different parts of the business. Third is our store economics, both in terms of size and rental and clearly the newer stores that we are signing are far more economically viable and more profitable, and we are also looking at resizing and downsizing in some cases some of the existing stores which we have inherited. So, it is a combination of margins, availability and store economics.
- Mayur Parkeria:** Sir, just one last small suggestion, we will appreciate. The disclosures in the presentation has substantially increased, and as it is you disclosed in the con-call the volume trend across Madura or Pantaloons. If you can make it as a standard format for the quarter or the year in that period, it would be highly appreciated.
- S. Visvanathan:** Okay, noted this suggestion. We will think about it and come back.



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- Moderator:** Thank you. We have the next question from the line of Sandeep Baid from Quest Investment. Please go ahead.
- Sandeep Baid:** When I see the rent expense and employee expense quarter-on-quarter, both have gone down. Just wanted to understand that.
- S. Visvanathan:** Yes, we will send you the details for that.
- Moderator:** Thank you. We have the next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani:** Sir, how many EBOs did we shut and open this quarter?
- S. Visvanathan:** In which business?
- Mayur Gathani:** Sir, in the Lifestyle business.
- Ashish Dikshit:** So, we have added 22 and shut 32 during this quarter.
- Mayur Gathani:** And Pantaloons, you continue to open 70 - 80 stores for the coming year as well?
- Shital Mehta:** 60 to 80, that is the range which we are looking at, lower end 60 and higher end probably 80.
- S. Visvanathan:** See, we have line of sight, but the location, rent and considerations, our ability to close the deal with the landlord, all these are the factors you have to take into account.
- Mayur Gathani:** And on the Lifestyle EBO, any targets that you would have?
- Ashish Dikshit:** So, we will again look at between 150 to 200 stores, which is what we have been doing. Even in this year we have done around that, net of store closures we are almost same as last year. But I think going forward also Lifestyle would be similar numbers.
- Mayur Gathani:** Sir, the question is, why such high closures?
- Ashish Dikshit:** We looked at the profitability of various stores and the partners and we said, bottom end of the stores which may be profitable or marginally profitable over a period of time will not be productive to have this asset. So we have done the whole business rationalization much of last year at the cost of some revenue as well as losses that you incur on the closures. But I think it has just made our business healthier and stronger.
- Mayur Gathani:** So we would not have that kind of a number going forward as well, I mean, there may be some closures but not this drastic number?



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- S. Visvanathan:** Yes, not as large as what we did this year.
- Moderator:** Thank you. We have the next question from the line of Suresh Kamte, an individual investor. Please go ahead.
- Suresh Kamte:** I have a question related to receivables, year-on-year if I look at receivables, it has increased around 45% and then borrowings also. Can you just comment on this from the receivables point of view?
- S. Visvanathan:** Borrowings have gone up only because we acquired Forever21 in this year and the financing of it has been done through debt. So, receivables are a function of growth in sales also and the fact that as department stores and trade business grows, our receivables grow with that. And as the number of stores grow we typically have about one or two days of sales in these stores.
- Moderator:** Thank you. We have the next question from the line of Dharmesh Shah from ICICI Securities. Please go ahead.
- Dharmesh Shah:** Sir, I just missed on the debt figure in the opening remarks from you. Can you repeat that and how do we see the net debt over the next two to three years?
- S. Visvanathan:** See, as I told in the remarks that debt is Rs. 2,045 crores. If you see the movement in debt from last balance sheet to this balance sheet for the full year, fundamentally it is on account of the acquisition of Forever21 business. The other businesses have been self-financing between Pantaloons and existing Madura business, we have paid for that CAPEX, we have paid for working capital, everything through self-generation. Only the acquisition cost of Forever21 has been funded through debt. Going forward, our current thinking around debt is it should slowly come down below EBITDA ratio of around 3%, 3.2% or less than 3% over a period of one or two years.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of the management, we thank all participants for joining us. In case of any further queries, you may please get in touch with Mr. Rahul Desai or Ms. Niralee Nagda. You may disconnect your lines. Thank you.