"Aditya Birla Fashion and Retail Limited Q4 FY-20 Earnings Conference Call"

May 27, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Fourth Quarter & FY20 Earnings Conference call of Aditya Birla Fashion and Retail Limited. The call will begin with the 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 discussions on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter and yearly performance and to strategic questions only.

Housekeeping questions can be dealt with separately with the IR team. With this, I now hand the conference over to Mr. Jagdish Bajaj. Thank you and over to you, sir.

Jagdish Bajaj: Okay. Good evening, and welcome to the earnings call of our company. Let me begin the call by telling you about the businesses. The company had an almost perfect year for the first 11 months of the year. Our Lifestyle Business, Pantaloons, innerwear, all achieved their target for sales, like-for-like growth, margins, network expansion and cash flows. The business was poised to achieve its best results to date and was reflected in its performance.

As you are aware, the news of the pandemic started appearing in the end of February. And by the beginning of March, we noticed a dramatic slowdown in sales and footfalls. The nature of our business is such that it works on a fixed cost model largely. At normal times, it allows the company to leverage the fixed cost and deliver improved profitability.

However, a sudden and steep shortfall in sales as is the case during the current crisis affected our profitability as it is difficult to cover the fixed cost in the short term. The loss of gross margins on sales immediately reflected in its EBITDA margin, and that is reflected in its business performance this quarter.

As you are aware, the company has made an intimation to the stock exchange on 23 March about the closure of all its stores, even before the national lookdown commenced. Let me take you through the impact of the COVID crisis and the steps that the company has taken to deal with the same.

Number one, the company suffered temporary closure of its stores and offices and also sales and deliveries through our online channels. Number two, with the deep concern around the safety of our employees, we quickly move towards ensuring their safety by ensuring the highest level of hygiene and sanitation across our stores and facilities. Emergency response teams were set up to keep track of our employees across the country. We proactively started shutting down operations, taking cognizance of the increased risk due to the spread of the infection.

Number three, during the lockdown period, we facilitated remote working and enforced work from home with a heightened focus around our employees physical and mental well-being. We also arranged for virtual training and counseling programs, leveraging the group's vast online resources. Number four, we recognized people are our biggest strength, assets and the top management has been in continuous communication with all our employees, addressing their concerns and providing support.

We ensured that their safety and health remains a top priority. Next, we are still on our digital footprint and our digital capabilities to ramp up our ability to deliver through our e-commerce partners and through our own brand dotcom. In addition, this year the Lifestyle Brand has already moved to the digital trade show platform, which will mean that we would not have disruptions in our trade vibe.

Next, we use this opportunity to convert our factories to manufacture masks and PPE kits and have been continuously producing these since the last couple of months now. We have made over 2 million masks and 0.5 million PPE kits for various government organizations till date. In addition, we also distributed masks through various NGOs and undertook other CSR initiatives around our manufacturing locations.

Next, we have actively engaged with our entire ecosystem of vendors, dealers, distributors, e-commerce partners, large-format store partners and most importantly, our store landlords on a continuous basis and have evolved strategies to deal with this situation in an equitable and just manner.

Next, conservation of cash is the mantra for the company for the financial year '21. To this end, we are taking the following measures. First, we are looking at every aspect of our cost, including fixed costs, such as overheads, rents and manufacturing costs to optimize wherever we can. The company will also target to substantially reduce other discretionary costs in advertising, travel and conveyance and other overheads.

Number two, we will control our capital expenditures till we have more clarity. However, we will continue to remain vigilant of any attractive real estate opportunities emerging out of the current crisis. Number three, working capital will be conserved and new inventory buys will be looked at very critically. While we are starting the year with slightly higher level of inventory due to COVID impact in March, a lot of this inventory, space inventory and will be carried over into the next season well up to the winter period.

This will ensure that we optimally utilize the existing inventory and release cash and working capital. Additionally, all our businesses have also moved towards more frequent planning cycles and shorter lead times, which will increase our agility in the market while reducing our working capital requirement.

Next, the strong parentage of Aditya Birla Group had ensured companies to have adequate banking lines. The company has no significant repayment of long-term debt for the rest of the year and has maturity only of its working capital loans and commercial paper, which can be rolled over or repaid by the company from its liquid resources. The company today has liquidity of Rs. 650 crores and will continue to maintain adequate liquidity until normalcy restores.

And lastly, as on today, more than 1,300 stores of our overall network have opened. E-commerce for non-essential goods has also opened for delivery. Our partners like large-format stores and multi-brand operators are also slowly opening in many parts of the country.

Before I explain the results for Q4, let me highlight the trend of 9 months results over last 3 years that exhibits our strong growth trajectory. In this period, the company has achieved a sales compounded annual growth rate of 13%, and EBITDA has seen an impressive compounded annual growth rate of 31%. The company's margins expanded from 6% for 9 months FY '18 to 8.1% for 9 months FY '20.

Now let me take you through the results of the company. The results of the company for the quarter should be viewed from 2 different time periods. One is January and February results, and the second from March as COVID started slowing down the results. The investor presentation details all major parameters in these 2 periods.

It is evident from the numbers that the company continues to have robust sales, L2L growth and increase in profitability during the month of January and February. However, as explained earlier, the sudden headwind of the lockdown resulted in a steep drop in profitability due to a predominantly fixed cost structure.

In order to provide better clarity on company's intrinsic performance, we have also indicated company's Q4 annual performance by normalizing the numbers for the month of March. Normalized financial are based on management estimates that have been completed on the basis of actual operational data for months of January and February and with March estimated is for YTD February run rate.

Now Q4 FY '20 performance. The normalized revenue for the quarter would have grown by 13%, whereas the EBITDA would have grown by 1% to Rs. 151 crores. This is after absorbing onetime cost of Rs. 28 crores related to transition of People brand. The actual revenue of the company was Rs. 1,817 crores, registering a degrowth of 5% over Q4 FY '19.

The comparable losses at EBITDA level was Rs. 43 crores versus EBITDA of Rs. 149 crores in Q4 FY '19. Consequently, losses before taxes of the company was Rs. 167 crores versus PBT of

Rs. 31 crores in Q4 FY '19. The sales loss due to COVID-19 was to the tune of Rs. 339 crores, resulting into a gross margin loss of close to Rs. 200 crores, linked to lower sales of premium brands within our Lifestyle Business segment.

Given the fixed cost structure that could not be corrected in a fairly short period of time, the entire GM loss slowed down to EBITDA. Annual performance, similarly under normalized scenario, our annual revenue would have grown by 12% while our normalized EBITDA would have been Rs. 711 crores, a 15% growth over last year.

However, the reported full year revenue stands at Rs. 8,118 crores, has risen by 8% from Rs. 8,118 crores to Rs. 8,743 crores. EBITDA has seen negative growth from Rs. 619 crores in FY '19 to Rs. 500 crores in FY '20 due to combination of COVID and unexpected onetime transition loss of People brand. The overall EBITDA margin of the company has shrunk by 170 basis points from 7.6% in FY '19 to 5.9% in FY '20. The comparable PBT of the company stand at Rs. 57 crores versus Rs. 149 crores in FY '19.

As the company adopted the new lower tax rate regime, which will help company to save cash flows for next 3 years, the company has to re-measure its deferred tax assets, which has a onetime impact of Rs. 130 crores in FY '20. But for this, the reported losses after tax would have been Rs. 15 crores for FY '20 with the comparable profit after tax stand at Rs. 50 crores compared to Rs. 321 crores in last year.

I will now take you through the performance of individual businesses, starting with Lifestyle Business. For this financial year, Lifestyle Brands business posted a strong growth added by an aggressive expansion of its retail store network. The year saw the opening of more than 400 new EBOs and increasing thrust on the e-commerce business. However, the last quarter saw a heavy impact of COVID-19.

The Q4 FY '20 the first 2 months of the quarter were marked by strong wedding season, leading to a 10% L2L growth for the business. With COVID impact, revenue for the quarter degrew by 5% from Rs. 1,132 crores in Q4 FY '19 to Rs. 1,072 crores in Q4 FY '20 with an L2L negative growth of 6%. The COVID impact on revenues is estimated at Rs. 195 crores.

The EBITDA for the quarter is Rs. 66 crores. In a normalized scenario, it would have been Rs. 161 crores in Q4 FY '20. EBITDA margin for the business are at 6.2% for Q4 FY '20 and would have been 12.7% in normalized condition.

The annual performance, the full year revenue rose from Rs. 4,304 crores to Rs. 4,626 crores, reporting a growth of 7% on a YoY basis. The EBITDA decreased by 12% from Rs. 519 crores in FY '19 to Rs. 456 crores in current year. The EBITDA margins remained healthy at 9.9% despite loss of sales due to COVID. The EBO network expanded to 2,253 stores from 1,980 stores in same period last year. The business is growing in revenues, EBITDA, store expansion and generating healthy cash for the company.

Moving on to Pantaloons business. The Pantaloons business had an excellent year pre-COVID, wherein it has grown in revenues, L2L and EBITDA margins on a comparable basis. It grew its operational store network from 308 stores in FY '19 to 342 stores in FY '20. In this quarter, Pantaloons continued with its extremely strong growth trajectory for the year into the quarter, with growth for first 2 months at an L2L growth of 19%. The strong performance during the early part of the quarter was mainly led through a high successful EOSS.

As COVID struck, the revenues for the month of March witnessed a steep decline due to stores closures and movement restrictions across the country. The impact of the same dislodges the business of its organic trajectory with quarterly sales numbers settling at 1% lower than last year's numbers. The comparable EBITDA was at Rs. 38 crores negative after considering COVID impact.

For the full year, Pantaloons has had an exceptional FY '20 with many of its 4 strategic initiatives taking shape during the year. Significant progress has been made on brand building, premiumization of offerings, addition of new categories and products, agile planning and allocation of expansion of its retail footprint. Hence the revenues for the full year rose by 10% from Rs. 3,194 crores to Rs. 3,514 crores. The EBITDA for the whole year also fell by 4% from Rs. 231 crores to Rs. 222 crores with Rs. 69 crores loss due to COVID. The EBITDA margin dropped by 90 basis points from 7.2% to 6.3%.

Next, we move to Fast Fashion business. The Fast Fashion business has already transformed the People Business to Pantaloons division. The onetime cost of shutting down the People Business is Rs. 28 crores, which is reflected in this quarter. Forever 21 continued on its part of optimizing business model for profitability enhancement, in line with the same strategy we also initiated fresh discussions with the new parent entity in U.S.

And lastly, our rapidly growing portfolio of Other Businesses, which includes innerwear and international brands. Innerwear, the innerwear business continues to scale up rapidly and has reached approximately 20,000 outlets by end of March 2020. This was possible with increased acceptance of our menswear and recently launched women's wear. Van Heusen innerwear is received well in the market and will continue with our excessive growth by further capitalizing on the momentum we have created.

International brands. In the international brand business, we continue to steadily grow our mono-brand business. Our portfolio consists of super premium brands, Ralph Lauren; casual denim-led brand, American Eagle; and the iconic British brand, Ted Baker and Hackett. The Collective continues to remain the leading luxury apparel retailer in the country. Revenues from Other Business witnessed 8% grow in fourth quarter over last year from Rs. 107 crores to Rs. 116

crores. The full year revenue grew by 42% to Rs. 523 crores from Rs. 369 crores. And EBITDA losses stands at Rs. 95 crores from Rs. 85 crores, which is primarily attributed to innerwear business.

Now on to our balance sheet. The net debt of the company is scaled up to Rs. 2,512 crores. This would have been at a level of around Rs. 2,100 crores in the normalized scenario, where due to COVID forward impact, we were not able to liquidate our inventory as per plan. The increasing debt this year was also due to investment of Rs. 266 crores. The year ahead, the management believes the new fiscal year to be full of challenges due to uncertainties related to the pandemic.

We expect demand to gradually come back to normalcy over the next few quarters. Our immediate strategic imperative will be to operate at heightened intensity on safety and hygiene, optimized cost and cash flows, accelerate digital and omni-channel outreach and stay watchful of attractive real estate opportunities.

Now on corporate action, the Board of Directors has decided in its board meeting today to raise Rs. 1,000 crores of equity by offering to existing shareholders by a rights issue. The Board has also constituted a subcommittee to come up and decide other terms of the said issuance at the earliest. The company intends to raise this capital to meets its objective of reducing leverage, strengthening its balance sheet and for general corporate purposes, including working capital.

Subject to finalization of terms, the promoter and promoter group collectively intend to fully subscribe to their entitlement and also reserve their right to subscribe to any additional equity shares in the event of any under subscription. Thanks a lot. We are now open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the innerwear. So full year of FY '20, you saw a 40% growth, obviously, first 9 months were faster and then it got slowed down. Sir, in January and February, how was the growth in innerwear? And you have mentioned that Athleisure will now pick up because of the COVID scenario.

So how much can that benefit? Because there will be downgrading also, your innerwear is not exactly value for most of the Indian consumers. In terms of pricing, would you recalibrate? And can there be a downgrading risk, which can be overcome by the Athleisure going up?

Ashish Dikshit; Abneesh, our innerwear business, you are right. I think it was growing at close to 70% in the first 2 quarters and has slowed down from around December, January, Feb period, which further slowed down during the month of March. Overall, as we mentioned in the call, it grew by about 42%. To your other question about Athleisure, Athleisure is a very important part of our business. I mean for Nomenclature, we call it innerwear, but Athleisure is an integral innerwear, Athleisure active wear constitutes what is the Van Heusen innerwear business.

In fact, on the other hand, Abneesh, my view is not so much about downgrading. Athleisure is a category and as a lifestyle is gaining acceptance around the country. We think a lot of premium customers are getting comfortable with the idea of wearing premium dressed up, easy-to-wear casual wear, which is what Athleisure represents. And that is gaining traction. And therefore, a large number of customers from mid-premium to premium category, it is a large trend in clothing.

And Athleisure will continue to gain ground in it. Van Heusen is very well placed to gain from it. So I think we are sitting on a very large category upside, on which has a very strong outerwear brand Van Heusen has a natural advantage. And I think we will be best placed to benefit from that.

Abneesh Roy: Sir, one follow-up here. You mentioned first 2 quarters, it was 60%, 70% growth and then December, Jan, Feb, all 3 months slowed down. So how much was it because of the base effect or just because of the market benefits in terms of trade receivables, et cetera. Or was it general fatigue now you have reached the size, the growth will be slower?

Ashish Dikshit: No, I think we are at the stage of infancy, Abneesh, in innerwear. We are very, very small compared to the size of the market. We will continue to see, as I said. It is a long-term opportunity for us, and we will continue to grow over a period of time. Much of what happened in December, January, February was primarily to do with the liquidity in the market, and we wanted to make sure that we do not push beyond the point on that part, and we were more cautious in our channel expansion growth. Of course, the story towards the end Feb and March onwards is a different story.

Abneesh Roy: My second question is on the Peter England format. So FMCG company was saying in FY '21, rural and small town India will do better in terms of demand growth than urban India because urban India, you have seen the issues of salary cut, job losses, which is not been seen in the rural and small towns.

So Peter England has done this 200-store pilot project. So would you accelerate that? And for rest of the brands also, is the expansion largely going to be once the COVID scenario normalizes, lockdown normalizes, will the expansion be more towards the smaller towns?

Ashish Dikshit: I will request Vishak to comment.

Vishak Kumar: So actually, on Peter England RED, we were on course for maybe another 30-odd stores which got delayed because of the lockdown, which we will catch up with very quickly. I think the plan is very much to scale up faster. We got slowed down by lockdown. And you must recognize that Peter England RED is still only in 5 states, okay. And we wanted to take a state-wise approach.

We have just about done Maharashtra 50 stores. In every state, we are trying to penetrate that state. So clearly, for Peter England, that is a fantastic model, and the stores are very viable. Most of the franchisees have now opened their third, fourth, fifth store. So it is a good model.

In the other brands, perhaps not to the depth of Peter England where Peter England goes to Tier 4, Tier 5 towns. The other brands may be go to Tier 3 and some kind of Tier 4 towns. And there also, again, we have seen a very strong partnered model emerging, which we have done well with. You will recall, we were on a very good wicket overall for expansion. We have done about 450 stores all together last year.

So a lot of those came from smaller towns as well. Having said that, I must also say, Abneesh, that it does not by any stretch mean that there is not opportunity in the larger cities. There keep emerging new markets in larger cities. In fact, in Peter England itself, with the Peter England men's obsession store, we have opened some amazing business models in malls. Again, all of this, I will keep saying lockdown and some of those things, which have got slowed down because of that. But otherwise, that was also on a very, very good momentum.

Abneesh Roy: One follow-up here. When you say 200-store pilot successful, could you give some metrics why do you call it successful across the store dynamics, if you could give?

Vishak Kumar: Yes. So these are franchise stores. So the most critical thing is franchisee profitability, okay? So that, I think, we have ticked the first box. The second question is, is the franchisee happy enough to scale up and open more stores. That, again, we will tick the second box. Third is consumer model. Is the consumer excited with the offering and so on. I think consumers have loved it. We have scores mission, what we call, mission happiness or Net Promoter Scores from customers.

So the consumer has also given a thumbs up to the model in these towns. So I would say these are the key criterias of course, in a franchise model because the cost structure is largely variable, it makes sense for us. If the franchisee makes money, we will also make money in these stores and we can scale up.

Abneesh Roy: And sir, last question. Any change in plans for your recent acquisitions, Jaypore and Shantanu and Nikhil? Consumer will focus on value and sentiment for quite deep. So would you delay your expansion here in FY '21?

Ashish Dikshit: Innovatively, Abneesh, because of the conditions of, one, the lockdown and subsequent slowdown, there would be delay in terms of rolling out stores for both the formats. Having said that, both these are strategic with a long-term eye on trends moving towards, consumers moving towards both Indian products and Indian sensibility. And both these brands are very well positioned to ride on that.

There will definitely be a delay from the original plan that we had. In fact, in Shantanu and Nikhil new fret brand, which is the ready-to-wear brand, was about to launch its 2 stores, which are nearly ready. Jaypore is also ready with a couple of stores before we got into lockdown. Now all that will get pushed down and perhaps slowdown in the first half of the year. We will have to come back to it in the second half.

Moderator: Thanks, Abneesh. Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead. As there is no reply from the current participant, we move to the next question from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

Aditya Gupta: A couple of questions. First, on the rights issue, so can you just shed some color on what kind of scenarios have you built in as to, how are you going to Rs. 1,000 crores, what would the net debt position look at the end of FY '21? And what kind of growth are you building in? So just some color on what the scenario has gone in, if you get to Rs. 1,000 crores number?

And second is, how do you expect demand I mean, what the demand has been the last specifically many days since the stores have opened. And how do you think demand could look in the back half of the year?

Ashish Dikshit: Okay. So first, on the rights issue. And I think, Aditya, in some ways, your both questions are dealing with the uncertainty that lie ahead of us. I think it would be difficult for anybody to have an accurate view of how quickly the demand would recover because there are simultaneously 2, 3 factors working. One is there is a supply side closure force, which is various governments, both local as well as central government, the issue around mall, et cetera.

We do not know how long will it take to actually settle down. And when would so that is the first part of it. And it gets compounded when you go local authorities supplying their jurisdictions on the store timings, the frequency of store opening and so on. Further, there is also a consumer behavior pattern that we will have to carefully assess.

And therefore, we have to look at and create multiple scenarios instead of having a firm view of how world will look like. And at this stage, we felt that with the combination of actions that we will take, which is cost reduction at our end, control over CAPEX, managing our working capital significantly better by optimizing the current inventory that we are carrying into next few, we will be able to release a lot of cash from the working capital into the business. But considering the uncertainties around the future, we felt this is the right type of rights issue in terms of the size of the issue.

Aditya Gupta: Got it. Any number that we can look at for, let us say, what the net debt could I mean, how much would be used to pay down the debt this year, assuming that the CAPEX is going to be like you said some of the low end assuming some store expansion in both Pantaloons and Madura, it is probably going to be lower than last year. So how much of that could be used just to build a buffer on the balance sheet and how much would be used to pay down debt?

Ashish Dikshit: See, at this point of time, Aditya, our focus is on reducing debt. And therefore, a significant part of rights issue, the primary purpose, I would say, is reducing debt. We would hold on our expansion at this point of time till the situation becomes clearer. We also believe in due course of time, more opportunities will appear in the real estate side, and we should wait for that.

So our primary purpose of this rights issue was first level is to reduce debt. And we will come with the exact number, but more than half, if not significantly more than that, would perhaps go towards lowering of debt at this point of time.

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

Tejas Shah: So I had three questions. Yes, Ashish, I was just asking that this is clearly unprecedented scenario. So how are you actually building your FY '21 business plan? And what is the worst-case scenario you are running with right now in terms of demand recovery?

Ashish Dikshit: See, it would be difficult. If I give you a number, it is as good a number as what you can talk to many other people. So all of us are a little bit sharing in the dark. So we trade in multiple scenarios. Our primary principle is following cases. One is, in all cases, it is fair to assume that this will be significantly lower than last year simply because almost two months have virtually gone out. And that means so we should address lot of our fixed cost.

So that is the first thing with or without the level of impact being certain. The second is fundamentally looking at which parts of our cost structure can be, if not fully variabilize, can be aligned in proportion to the sales. And therefore, whether it is a staffing at stores or the rental negotiations that are going on, that is the second piece, which is to take an important part of our cost and try and variabilize this as much as possible. That is the second. The third part of company's effort is focused on cash reliefs from balance sheet, which is primarily from working capital side.

As Jagdish had explained in his opening remark, we had a sudden loss of nearly Rs. 350 crores to Rs. 400 crores of sales, depending on how you look at it. We had used a normalized method to come to that number to around Rs. 350-odd crores, which meant we were suddenly left with an inventory, which is roughly half of that, considering 50%, 51% margin. So there is a lot of fresh inventory in our system. And that is an asset at these times. We are making sure that we take care of it. We assort it well.

This is the inventory which will travel us with us till August, September, October, and therefore, significantly releasing cash out of that. So these are the 3 things that we are doing with whether it is a 40% reduction, 25% reduction of sales, it is very hard to predict. And we are actually focusing more on structurally reducing cost as we go forward, trying to variabilize a part of our cost structure and ensuring the asset, which is lying on the balance sheet in form of inventory gets converted to cash as quickly as possible. I think our efforts are focused on these, apart from safety and health for everybody, including our customers and employees.

Tejas Shah: Sure. Second, just to be more specific on the cost-cutting part. So what is the fixed cost that we are running with on monthly run rate as of now? And what is the target that you want to reduce it by, let us say, in the coming months?

Ashish Dikshit: See, I do not want to give the exact number on that. You can see your Q4 financials, we have this time called out specifically in our presentation, if you look at it. There is a rent expense. There is other expenses, which includes all other salary, all other costs, including advertising, staff cost, electricity, et cetera, and there is employee expense. As we have mentioned in short term and real short term, all these costs are fixed.

But in medium term, none of this should be treated as completely fixed. Therefore, as I said, our effort is to want to reduce where we have clarity on that. And second is to variabilize. And that is the process that we are going down. We are creating multiple scenarios on how things will pan out over the year. And therefore, working on all elements. Clearly, there are visible costs, costs like not just rent with landlords, which you all must be aware of, but even rents for offices, our factories, our warehouses, our stock costs in various places, electricity costs, which is a large thing.

Our factory costs was a large piece, which we have now managed to recover through the other products that we have started to produce in this period. So we are basically looking at every piece of costs from a zero-base model and trying to create at the end of it, our purpose stages is that 12 months from now, we should be able to create a cost structure which is far more beneficial and far more leaner than where we start today.

And we are trying to avoid an extreme knee jerk reaction, especially with respect to our partners, which is franchisees, suppliers, even landlords. Some of our landlords are our longest serving partners for us and longest partnered people. So we want to make sure there is a spirit of partnership and fairness that we do equitably.

Similarly, with employees, as a part of our Aditya Birla Group company, there is an employee value proposition that we offer to our employees, safety and security of that. We want to make sure that we do not take extreme actions on that. And yet, structurally, we look at how these costs can be deployed either in other mechanisms or transferred to other more productive usages within the system or outside the system.

Tejas Shah: Sure. Ashish, on landlord things. So 45, 60 days back when this whole crisis started, the commentary from landlords were much more amicable and very accommodative. But if we see the curve of that commentary in last 45 days or 60 days have actually gone very, I would say, not hostile, but it is less accommodative. So they are not agreeing on many terms on variable model and all.

So where are we? Because I believe, relatively, we have a better strength with the host of brands that we have. But are we in a better place to negotiate these terms? Or it is just still a hope and some possibility it will happen in the coming quarters?

Ashish Dikshit: No, I think two things. First of all, we must recognize landlords are also in trouble. Many of them, particularly large malls have their own financial obligations. Second, these are not landlords who have appeared on one day. Many of them, we have had relationships at least for 10, 15 and some of them for 20, 25 years. I am very confident that given time for them to reflect, us to reflect that our negotiation and discussions are going fairly well. I think a large part of our High Street and few mall discussions have started to close to very amicable settlement.

There are a few large partners who are still evaluating, and we are in the process of discussions. I do not see a complete standoff because it is an ecosystem where we both need each other. And with the portfolio of brands, with the tenure of relationship and with the value system that we bring to the table, I think we have fair partners to them, and that will get proven to you over a period of time, and I am very confident we will be able to resolve it.

Tejas Shah: Sure. And lastly, the fundraise of Rs. 1,000 crores is right at keeping what target debt-to-EBITDA for the exit quarter?

Ashish Dikshit: So two things. One is Tejas, **(Inaudible 37:49)** this time. What we are trying to do is we do definitely know that there will be a short-term pressure, at least, for till the business recovers fully. And we wanted to make sure that our balance sheet is strengthened to not come under any undue pressure during this period.

And similarly, also, it also positions you well when the recovery happens to be able to come back strongly, either whether it is store expansion, real estate opportunities come back or go-to-market faster. And therefore, we want to be prepared for that. So this is not keeping in mind this fixed scenario. I think it is a pretty fluid situation, and we are trying to make sure that we remain prepared at all points of time.

Moderator: Thank you. The next question is from the line of Amit Purohit from CGS-CIMB. Please go ahead.

Amit Purohit: Sir, two questions. One on you have indicated that you have an inventory which you can utilize till the festive season of December month. Just want to check with you on the freshness strategy that we had on the Pantaloons as well as the Madura business. So I mean, would that, at this scenario, becomes not so much relevant and hence this would be a better thing to do, is that what you think?

Ashish Dikshit: Amit, I will get Sangeeta and Vishak to comment, but let me just start by saying freshness is freshness to consumers. And a lot of what we are carrying is the inventory that we had got into our stores early in spring summer. And consumers have not had opportunity to see that.

So maybe to illustrate this a little bit better, I will request Sangeeta to come in and just take you through how we are thinking about in Pantaloons and then Vishak can probably come in and talk about how this works in a 12-season model, which we had just started last year. Sangeeta, can you come in now?

Sangeeta Pendurkar: Sure, Ashish, thanks. So as Ashish explained, we have got a fair bit of inventory from spring/summer '20, which is available for our consumers in our stores and our warehouses, and we will make sure that it comes into the store at the right frequency once the stores open up to ensure that the principles of freshness that we have put in place still continue to be followed with this inventory.

And what is important is the fact that for autumn/winter '20 how we are planning our inventory, we do expect this inventory to see us through a good part of autumn/winter '20. However, we know the seasonality is the highest perhaps in this season. And there are 2 elements of seasonality. One is because it is a festive period and because winter then sets in soon after or simultaneously.

There is a need to inject some of that and balancing that with the old inventory that we have, the fresh inventory for spring/summer '20. I think we will definitely optimize our buy for autumn/winter '20. But where the assortment requires sufficient injection of fresh stocks on festive and winter, we will certainly invest in that. It will be a small buy for us.

As we said, the non-festive, non-winter, we have got enough. But to make sure the consumer experience is not compromised and to balance the assortment across all 3 verticals of the assortment, we will inject what is required, and that is how we have planned to purchase for autumn/winter '20.

Ashish Dikshit: Vishak, do you want to add something?

Vishak Kumar: Yes, sure. Amit, I must have spoken to about 10, 12 top mills of ours over the last few days, last few weeks. And everybody says, look, you guys were ahead of time with your 12-season model. Because this suddenly gives us so much of flexibility in terms of the way you drop merchandise into the market. And as you will see, at one level, like Sangeeta said, there is a lot of spring/summer, which actually consumers did not see, which will now get into later months.

But a lot of our fabric inventory also can be molded suitably in the way it has to be styled by designers and the way it can be created for a relevant world. Just to give you a sense, we made masks. We made masks out of slot masks, which are 3-layered masks, which are really good quality masks. Not only are we amongst the largest mask sellers in the market with great quality masks, it has also helped us to repurpose our fabric inventory.

Similarly, on a lot of areas, for instance, different finishes, including fabric finishes which gives protection to consumers against, let us say, antibacterial finishes, antiviral finishes, which are being created and designed right now. So there are a lot of opportunities which comes with the raw material fabric, raw materials which we have got. So I think the fact that we have moved to a 12-season model about 7, 8 months back, it really helps us in also navigating through something like this.

Amit Purohit: Okay. And my second question is on the new stores that sorry, the stores which have now opened up. What has been the response from customer side? I mean, are you like 20%, 50% in these stores that you have opened of your normal sales? Can you give some color on that?

Ashish Dikshit: Sangeeta and Vishak, can you give because both formats are different? Just give a flavor and range across multiple town classes, et cetera so that.

Vishak Kumar: Sure. Shall I go first, Sangeeta?

Sangeeta Pendurkar: Yes, sure, Vishak.

Vishak Kumar: Okay. So Amit, this question is also fluctuating depending on pay of the week that you ask and so on. One is we are still not into steady state. For instance, in many places now Sundays are not allowed to be open. So you do not really know what to compare with. In many places, it is alternate day store opening, Monday, Wednesday, Friday for some stores and so on and so forth. So we cannot reach steady state. So after one weekend, we thought hey, we have reached 70% of last year, then it was 50% of last year.

So it is been a bit of a yo-yo. It is hard to say where is the also almost every day, some more stores are opening. And that is again shifting the base itself on what we consider as new comparative stores. I think it will take a couple of more weeks or maybe a month before we get a sense of how much time does it take for a store to get back to the kind of numbers that we were used to, even for us to get a better idea about that.

Amit Purohit: Sure. And fair to assume that Peter England interior stores would be doing better than the urban?

Vishak Kumar: I am not so sure about that, Amit. In fact, there have been a lot of very interesting insights. At one level, sure, T-shirts and shorts and innerwear and Athleisure sell very well, but there are markets where we have sold suits and wrinkle-free shirts and premium apparel in large numbers.

There have been big bills in Louis Philippe, which are Rs. 1,40,000 bill and Rs. 1,60,000 bill. So I am not sure so sure if it is easily formatted into value play and certain usage occasions. While we do see a lot of certain kind of usage occasions which are getting more traction in the early days of reopening of the store.

Ashish Dikshit: Sangeeta, you want to give some flavor because this question will come multiple?

Sangeeta Pendurkar: Yes, Ashish. So actually Pantaloons is concerned, again, we have about 80-plus stores which are open. But like Vishak said, they have opened at different points of time. We see stores which are doing 30% on some days, 50% on another days, 70% on another day. And because we have not had continuity, the rate fluctuates.

But I think what is interesting for us is that because we have invested a lot in terms of our safety protocols and assuring customers, we are seeing the people who are coming in are spending a fair bit of time in our stores with that level of assurance. What we have also seen is the significant shift in the basket sizes. And we have seen quite a bit of lift from the average basket sizes we used to see earlier.

So consumers who are coming in, of course, there is some pent-up demand, but there is also little bit of trying to finish as much purchase as possible in one visit. And customers are able to find good merchandise, especially within our stores. So they are picking up a lot more. And we also see a shift in categories. So casualization has a trend that we alluded to before in terms of Athleisure, comfort wear, T-shirts, shorts, we are seeing a big lift in those, and we are gearing up to serve that increased demand in the market as we move along.

Amit Purohit: Okay. Helpful. And just one, I wanted to check on the debt levels that you indicated. And also on if I look at the financials, I mean, roughly on a quarterly basis, if I look employee cost and the rentals for last year also, I mean, somewhere close to about Rs. 700 crores, Rs. 800 crores of run rate that probably we will be having.

And this we have already Rs. 650 crores of liquidity you were indicating, plus a Rs. 1,000 crores of rights issue. So I mean, this should kind of give some indication, I mean, how are we ensuring this kind of a run rate when drops goes down a bit. And wherein we are at least able to pay off 50% or utilize 50% of our rights issue towards that repayment?

Ashish Dikshit: I am not clear for your question. Let me still take an attempt. I think you are trying to relate the cash and liquidity directly to the cost structure. Let me answer both separately. First on the cost structure. Previous questions. One is about rental. As I mentioned, our effort is to get rental as close to linearly as possible to the revenue. And therefore, a full year, we look at revenue shortfall of 25% or 35%. Our effort is to get rental down in the same ratio.

To a large extent, from the confidence that we have gathered, we feel, while it may be slightly difficult, but it is quite a number that can be attempted, and we are confident that we probably will try and get close to that, which is creating a variability of linearness between our rental and sales. And depending on how the sales move, we should be able to get that benefit in rental. That is how we are structuring our conversations with our landlords.

In terms of other fixed costs, let me also tell you the next large cost is actually cost of employees at the store. Due to an impending, at least, currently visible slowdown at the stores, plus the safety and hygiene norms, which are coming up in terms of physical distance required, we expect that by the time we implement the stores fully opened, we will need to operate with something like 25% to 30% lesser people simply to accommodate the kind of social distance that is required between the consumer and the staff and the staff, et cetera.

And over a period of time, we feel that we will be able to absorb this additional people in either growth of the business or other parts of the businesses or within other activities that we will carry out within the group itself. And therefore, there is a significant, therefore, potential to bring down the unit economics of the stores, both through rental and the staff cost.

On the head office cost, which is the overhead and discretionary expense, there, I think we could be even faster, things like advertising, things like travel, things like communication could come down as much between 50% to 75%. The wages and the salary costs that lie in the head office, they can also be trimmed through restructuring, utilizing people differently, organizing structure differently. So every element of cost, which is what I am saying why this looks like fixed cost in short term, even some of those elements have a fairly large 6 to 12 months variability built around that. And that is really our effort on that piece.

In terms of the cash flow available, I think more than the rights issue, while rights will provide cushion and we are trying to look at that as a primary source to reduce the debt on other side, our largest source of cash is actually not even going to come from rights issue. It is going to come from lowering of inventory, which gets converted into end. And that is a fairly substantial number that internally we are targeting.

The second thing is, you know that we spend between Rs. 300 crores to Rs. 400 crores every year on CAPEX, that will have to be significantly brought down for a year for us to get to a debt level which we are comfortable with without the rights issue. And therefore, a lot of investment philosophy for this year, both on CAPEX, on new initiatives as well as the cash that we will generate from inventory would provide a fairly large cash over and above what we are generating through the rights issue.

Amit Purohit: Just lastly, sir, what could be the gross debt number?

Jagdish Bajaj: Rs. 2,500 crores is the net and Rs. 250 crores is cash. So Rs. 2,750 crores on 31st March.

Amit Purohit: Okay. And there is no additional post that as of now?

Jagdish Bajaj: No, there is addition.

Ashish Dikshit: There will be I mean, a month like April, would increase. So we expect in the first half, there would be an increase in debt, and we will be able to lower out as the sales comes back into it. There will be significant reduction in the second half because we will be consuming a lot of inventory, which as Sangeeta and Vishak described, we have in the system.

Jagdish Bajaj: Amit, as we last, you were just asking for us trying to explain, the CAPEX this year was Rs. 300 crores plus Rs. 260 crores investment, that comes to Rs. 600 crores, plus the fresh inventory which is sitting on my balance sheet. All this will materialize in H2. And on top of it, I have a rights issue. So that will sit on my balance sheet.

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

Richard Liu: Ashish, I have two questions. One is on regarding costs and the other one is on broader stuff. And I will just go with the cost one first, I guess, that is easier. Can you maybe help us in a way to see what are the cost items that you have in your P&L that you can easily eliminate? If I just scan through your last year's annual report, I see like Rs. 445 crores of E&P and other such stuff, do you really need these kind of costs? Or do you think there are levers available to deal with it in a year like this? I just said E&P because that is a large item, but I mean, if you can just give us a list of some of these items where you think you will have some?

Ashish Dikshit: You are absolutely right, Richard. Let me just enumerate that is what I was trying to do in response to previous question. We, as we have repeatedly said over a long period of time, have fundamentally believed that over a long period of time, the strength of brands requires continuous investment, and that is what we have been doing.

If you look at our portfolio, in Madura part of the business, we are spending between 4% to 4.5% on brand. In Pantaloons, I think till about 3 years back, we used to spend 1.5%, 2%, so we did a table shift of about 3-plus percent, 3%, 3.5% last year, 1.5 years, and that has helped the business.

But having said that, that expense, which is Rs. 300 crores, Rs. 350 crores spent year-on-year is a good asset we have created for times like this. In the short term, which is 6, 9, 12 months, taking a large portion of that will not really materially make a difference to the strength of our brands because they have been around and built over a long period of time.

And at times like this, that will create a huge leverage. So you are right, absolutely, that is a very large discretionary item, which we would address and use in this year because the brands are fundamentally strong and we will be able to write through without needing that support at all points of time.

As I mentioned, rental is our next large expense, and we will look to variabilize that just to make sure we take out the shock of the revenue shortfalls on that. The third is employee expense, and I am talking of employee expense at 3 levels. One is employee at the front end. We have 3,000 stores of various sizes put together between our staff and the contract staff we have, a very large number of people on the front end.

That number could, as I mentioned, because of the social safety norms as well as the potential slowdown and the current slowdown of the business, could also offer something like 20% to 30% reduction possibility on a unit level. Now this staff, since we are growing business, we will be able to utilize somewhere else. But essentially, from the unit cost level, we will be able to bring that down. So that is the first level of cost.

The similar action is possible because in good times and growth times, we are growing and feeding several businesses, whether it is a Fast Fashion at one point a time, People Business, a lot of international brands, ethnic businesses. Some of these investments could be shrunk at times like this to create a cost cushion to come back and actually reinvest in good times again. That again provides a fairly substantial from the head office cost.

The third and final thing is the factory cost. I think there we have been smartly able to create enough flexibility in the capability of factories by making new products, by bringing some outsourced production in-house to make that cost irrelevant because we will be able to utilize that cost fully. So advertising employee are the two large costs that I talked about, front end, back end and in the middle.

The third cost is, again, related which is variable cost, which is all other expenses which come, whether it is travel, conveyance, research, a lot of marketing investments that happen outside the advertising above the line that you see. All those costs are also discretionary in a very large manner, and they could be significantly brought down from anything from 40%, 50% to even a lower percentage.

So there is a lot of leverage. Remember, we are a company which were growing at a rapid pace, feeding new businesses, getting into new markets, getting into new segments and rapidly expanding. We just need to slow down for a period for market to recover, pull back some of those investments and costs. And there is a lot of therefore room available from the cost side for us.

The only thing I would say, Richard, is that we do not do it with a shock on day one. These are assets, and we would structurally reduce them over a 6 to 9 months period.

Richard Liu: Sure. That is useful, Ashish. My second question is something I think a lot of us are grappling with this whole work-from-home culture and more and more people talking about it. I know your outright answer will be no, but if you can just help us understand this. I mean, does Madura becoming even less relevant in a work-from-home world?

Ashish Dikshit: Okay. I thought you will give the answer as well. You have given the answer but you should be, by now, be able to telling us how. See, I would let Vishak come in here, but I will start with one factor. Richard, you have seen our brands over the last 15, 20 years. I think our brands are prolific in product creation and very versatile in user adaptation. You would not have imagined 10 years back that Louis Philippe sells more than half of its revenues from casual wear business of jeans and jeans and casual wear LP Sports and LT Jeans.

Van Heusen has VDOT and VH Sport. Allen Solly is largely casual brand. Peter England now has a section in casuals. In Van Heusen innerwear, Athleisure and Activewear is a large part of the business. I think there are large flexibility that we have created in the way we have structured these brands. But I think the best person to answer this question will be Vishak. I will let him feel this and give you greater comfort around this.

Vishak Kumar: Yes, so, Richard, if you look at the consumer, and we must have spoken to about 1,500 consumers over the last one month to understand what is it that they really want from a work-from-home perspective? At first level, they want T-shirts and shorts. There are check. I think we make probably some really, really good T-shirts and shorts, and it becomes very easy for us to be able to scale up. We have already done that.

Second, they want clothes which are easy maintenance, especially wash and wear. So they want to and most people, the dhobi system is not working. They have to wash it themselves, iron it themselves and so on. So if you have clothes which are easy maintenance, easily dried, no ironing required, check. I think we have got some of the best products for that.

Third is they want really soft comfort, okay? Very easy to wear clothes. A lot of our Athleisure range fits in straight there. Of course, they want masks. We have, all our brands have taken on the role of producing really, really good masks, very breathable, very easy, very good-looking stylish fashionable and yet really effective bacterial filtration, 95% plus, we have created some good stuff there. I think, like Ashish was saying, our brand's the biggest strength is their versatility.

And our team as a DNA has really enjoyed this challenge of creating some really good work-from-home lines. In fact, a lot of it, you can already start seeing on e-commerce sites and in our stores. And so I think it in that sense, from a creation perspective, an opportunity which we welcome.

Richard Liu: You have not really spoken about what happens to the formal brands?

Vishak Kumar: So these are I am talking about Louis Philippe, Van Heusen, Allen Solly, Peter England they are as formal when the occasion requires it, they are as casual as work-from-home as Athleisure, these are very large vertical brands. And it is not as if I am saying this for this month or last month and so on. They have always been like that.

We sell million-plus T-shirts. We sell a very, very large number of units in some of these categories. It is good that we have a very strong position also in work wear, also in formal wear, also in wedding wear, also in dressed up wear, good for us.

Richard Liu: Sure, Vishal. My question was that as the owner of some of the largest formal wear brands in the country, do you see a formal wear I know your expertise in many other areas and other types of apparels, et cetera. My question more specifically, was that is formal wear and not really Louis Philippe, is formal wear at risk in a world like this?

Ashish Dikshit: I think, Richard, let me answer the question this way. See, we design our brands and products for consumers. When consumers want us do one formal wear, we have an occasion for that. We have launched Louis Philippe Maharaja last year, Vishak, I think would have talked about in one of the sessions. Similarly, Louis Philippe itself and Van Heusen Athleisure, you are aware of. Louis Philippe has something called ATH WORK, which was launched a year away, a year back.

ATH WORK is very smart dressed-up clothing, which you want to be on a Zoom call, you want to dressed well and still relaxed. So I think the opportunity to I would turn it around, Richard, and say the versatility of the brand offers us, at a large scale, consumers are going to not just dress up well when they go out, but they are also dressing up a lot better when they stay at home.

And that provides a whole new opportunities for our brands to create product segments. And now will we not make formal wear? Formal wear will I think the sheer number of people who come to working class to come back to work, see this situation will improve in 3, 4, 6 months, people will start coming to work, they will start going up, they will go to parties, there will be weddings. Dressing up is an intrinsic human nature. And I do not think that, therefore, in that way, threatens any part of our business.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Just one quick one. Do you think you would utilize this period of cost rationalization to actually look at stores which have been uneconomic and actually shut some of those?

Ashish Dikshit: The short answer is, yes. Garima, we are re-evaluating. Because there are two things. It is not just about the cost structure of stores and slowdown. I think we must also, and all of us as consumers are experiencing the trend, as more and more consumers become comfortable with digital omni-channel world, we will have to go along, keep looking at what configuration of networks suits us there.

So in the short term, we will look at unviable stores a lot more of objectively and, in fact, a bit strongly to make sure that the lower end of the network if it is not viable, if the cost structure is not aligned, if you are not able to convince landlords on that to come to the model that works for us, then I think we will have to exit the store. And therefore, bottom of the stores will get cleaned up in this. And by the end of the whole process, we will probably have a healthier network than what we started with.

Garima Mishra: Got it. And just on that, any CAPEX guidance that you can give for FY '21? You did mention that it will come off from your previous run rate, but any sort of numbers that we can work with?

Ashish Dikshit: I think at this point of time, I do not want to give exact number, but we should look at anything between 60% to 70% lower than what we are used to in past. And that too also we will look at spending it as we find very attractive opportunities in the market and perhaps towards the last quarter or second half when things do come. But fairly significant reduction because one of the things, which a lot of analysts have earlier called out, one of our stated objective is to reduce debt for this year.

And that is a primary task for us, through inventory, through reduction in CAPEX, through cost reduction. And this is over and above what we generate through rights and therefore, it is coming from operations. And to that extent, therefore, our CAPEX will be significantly lower this year.

Garima Mishra: So if I understand correctly, let us say, the Rs. 1,000 crores, we do not account for Rs. 1,000 crores coming into the company via the rights issue, you think you can end the year with actually a YoY flattish kind of debt number?

Ashish Dikshit: That is our target. Just to sort to get to the exact number, but we are trying to see the current balance sheet strength, the cost measures that we are taking is primarily meant around ensuring that we come to stay this is without counting the rights issue, we try and come as close to a number that we ended this year with.

Jagdish Bajaj: Garima, do not set target for me. Do not set KRA in the uncertain times.

Garima Mishra: No, but that is a good sort of thought to have to end FY '21 with the same kind of debt. So thank you so much. That was very helpful.

Moderator: Thank you. We take the last question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: I had a question on the inventory levels. Now I understand the near-term focus on liquidating inventory is kind of raising cash out of it. What I wanted to kind of garner from you is, do you expect the inventory levels to structurally move down from that number? Or is this something that you are kind of highlighting from a near-term point of view? Is there a thought that stores might actually require a more value-focused inventory and hence would be lessened? Any thoughts on that would be useful.

Ashish Dikshit: So let me clarify that. So we are not planning to go on fire sales to liquidate inventory. I think our inventory is very, very good quality. It is just that it is come at the beginning of the season before the COVID hit. And therefore, there is a lot of high-quality inventory that we want to make sure, preserve and sell at good times, which is August, September, October, when consumers are back. It just means that our purchase requirement for the year dropped quite dramatically, and therefore, there is a structural change in the inventory.

Second reason for structural changes, both our businesses have gone for much shorter. You would have heard Sangeeta talked about in Pantaloons, how we are moving to multiple drops, about 7 drops of seasons. In Vishak's conversation, he talked about monthly drops, 12-season cycle. So both the businesses are moving to frequent drop, shorter lead times and bigger agility in supply chain planning.

All this is actually aligned to deliver lower inventory and greater freshness for consumers. Unfortunately, this COVID situation has created a bit of a flux in this, but we want to use this to actually execute that plan fully and deliver that inventory that we think would be desirable. And that would be not a short-term thing, it would be a structural change.

Avi Mehta: Okay. And second was I mean, just trying to understand the gross margins a little more. I am sorry, you said there were unabsorbed the reason was there was unabsorbed factory costs that was the entire reason for the movement from an expansion in 9 months to a contraction in fourth quarter? Or was there some write-down or mix? Or if you could kind of just clarify that?

Ashish Dikshit: Sure. Gross margin to some extent for the quarter 4 due to month of March because we had to we did not have we could not run our factory and we could not run our production from middle of March and little before that, it had started to slow down due to COVID. But we had to keep the costs running on that. And therefore the factory unabsorbed costs which came up in the month of March and therefore got reflected in Q4. On a full year basis, that is a very small number.

Avi Mehta: But the fourth quarter number, the way I mean, I see the gross margin is actually contracting, that would be the primary reason for that. That is the fair way of thinking?

Ashish Dikshit: Yes.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of the management we thank all the participants for joining us. In case of any further queries, you may please get in touch with Mr.

Rahul Desai and Mr. Amit Dwivedi. You may now disconnect your lines. Thank you all for joining us.