# "Aditya Birla Fashion & Retail Limited Q2 FY 2020 Earnings Conference Call"

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**MANAGEMENT:** **MR. MR. ASHISH DIKSHIT -- MANAGING DIRECTOR, ADITYA BIRLA FASHION AND RETAIL LIMITED**
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**MR. VISHAK KUMAR -- CHIEF EXECUTIVE OFFICER, LIFESTYLE**
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**Moderator:** Ladies and gentlemen, good day and welcome to the Quarter Two and Half-Yearly FY 2020 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the company's management on the quarter's and half-year performance, followed by a Question-and-Answer Session.

We have with us today Mr. Ashish Dikshit -- Managing Director; Mr. Jagdish Bajaj -- CFO; Mr. Vishak Kumar -- CEO (Lifestyle Business); and Ms. Sangeeta Pendurkar -- CEO (Pantaloons). I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. Please restrict your questions to the quarters and half-year 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:** Good afternoon and welcome to the earnings call of our company. ABFRL has reported very good results this quarter riding on strong performance across all its business segments. It is noteworthy that this performance has been delivered in otherwise tough market, which is marked by poor consumer sentiments and continued lower discretionary spending.

Both the brand business segment of Lifestyle and Pantaloons have been a remarkable growth achieved through strong like-to-like growth and rapid channel expansion.

Lifestyle Business saw an L-to-L growth of 7%, while Pantaloons reported L-to-L growth of 10.4%. The company has continued its focus on growth areas like accelerated store additions, product innovation and intensified marketing, in line with our long-term strategy.

Let me begin by giving you the key figures on ABFRL standalone financials. The quarter Q2 FY 2020, the revenue of the company is Rs. 2,297 crores registering a growth of 14% over Q2 FY 2019.

The comparable EBITDA of the company stands at Rs. 177 crores versus Rs. 162 crores in Q2 FY 2019, which is a growth of 10%. The EBITDA margin stands at 7.7% in Q2 FY 2020 as compared to 8% during the same quarter last year. However, the reported EBITDA is now Rs. 362 crores after taking IndAS 116 adjustments into account.

The comparable PBT of the company is Rs. 59 crores versus Rs. 43 crores in Q2 FY 2019, an increase of 39%. Reported PBT after IndAS adjustment is Rs. 36 crores. This year, we have utilized deferred tax of Rs. 29 crores, which was not there last year.

Hence, the PAT is Rs. 30 crores, which is lower than Rs. 43 crores reported last year. H1 FY 2020, the company posted a strong business performance, recording 11% growth in revenue at Rs. 4,363 crores versus Rs. 3,921 crores during the same period last year, with improvement in EBITDA margins by 40 basis points. There is a 132% increase in comparable PBT, which is at Rs. 112 crores over last year and comparable net profit of H1 is Rs. 70 crores.

Let me give you the highlights of balance sheet as of 30th September 2019. And before that, I will begin by first assuring you that our net working capital growth is completely in line with our business growth.

Inventories are at Rs. 2,341 crores and if I compare it with September 2018, Rs. 2,008 crores because March numbers are given in the published results. Inventory in September will have buildup for festive season. The inventory days to COGS compared to September 2018 has come down from 188 days to 185 days. Trade receivables are at Rs. 1,067 crores versus September 2018's Rs. 977 crores. The growth in receivables by 9% over September 2018 is in line with wholesale sales growth of 15% over the same period.

Net debt has increased by Rs. 526 crores from Rs. 1,646 crores on March 31st to Rs. 2,172 crores on 30th September, primarily on account of investments in subsidiaries of Rs. 166 crores, payment of accrued interest on NCDs of Rs. 142 crores and Rs. 218 crores is on account of working capital requirement due to preseason inventory buildup, which we believe will grow back in H2.

On the new corporate tax rate, the tax rate reduced by the government, the company is still working currently in the process of making a detailed evaluation on this impact.

Now I will take you through the performance of the individual business. Starting with Lifestyle Brands business. Our Lifestyle Brand outperformed the market, reflecting strong brand equity and resilient business model. The business continues to focus on network expansion, product extensions and enhanced digitization. The business is also rolling out a strategy of 12-season model across all it is major format to accelerate their go-to-market frequency and shorten their supply chain cycles. This will help the brand respond quickly to market opportunities and shift in consumer taste. The revenue of the division is Rs. 1,254 crores, registering a growth of 15% over Q2 FY 2019. The comparable EBITDA stands at Rs. 150 crores versus Rs. 140 crores in Q2 FY 2019, which is a growth of 12%.

Revenue increased by 11% during the first-half of FY 2020, with a growth of 16% in EBITDA. EBITDA margins improved by 60 basis points from 10.5% last year to 11.1% this year.

Moving on to the Pantaloons business. Pantaloons posted a robust growth on the back of early festive season, riding on its continued focus on product value enhancement, rapid store expansion and heightened marketing and brand building efforts. Business posted an outstanding

L-to-L growth of 10.4%. The revenue of Pantaloons division is Rs. 915 crores, registering a growth of 16% over Q2 FY 2019.

The comparable EBITDA stands at Rs. 64 crores versus Rs. 52 crores in Q2 FY 2019, which is a growth of 23%. The higher EBITDA was despite 34% higher spend on marketing. Pantaloons is growing EBITDA in consecutively last seven quarters out of eight.

For H1 FY 2020, revenue of Pantaloons segment grew by 13% at Rs. 1,805 crores versus Rs. 1,600 crores last year. The business recorded an EBITDA growth of 16% at Rs. 151 crores for H1 FY 2020, with improvement in margins from 8.1% to 8.4%.

The Fast Fashion business, the transition of People brand from a standalone retail format into Pantaloons is well on track, and we plan to finish it by the end of this fiscal. Also, we continue to focus on improving the performance of Forever 21 business. The EBITDA of Fast Fashion business is at breakeven during the quarter as compared to a loss of Rs. 10 crores in Q2 FY 2019.

During H1 FY 2020, the business posted a comparable EBITDA loss of Rs. 9 crores as against Rs. 15 crores during the same period last year. However, in the second-half of this fiscal, we will see a marginal increase in losses on account of winding down of People stores.

Other business segment includes innerwear and Global Brands. The innerwear business continues to scale up rapidly and has reached approximately 18,000 outlets, posting a year-on-year revenue growth of 67%. The business segment continues to grow aggressively with a strong consumer uptake of our men’s and women’s innerwear products. The success of this category is also reflected in higher secondary uptick in departmental stores and leading MBOs. With immense confidence in the brand, distribution channel and consumer franchise behind this business, we continue to aggressively build this business into a really large business in future.

In Global Brands business, we continue to grow our multi-brand format, The Collective, purely through L-to-L. The L-to-L growth in Q2 FY 2020 is at 15%. American Eagle, which is a foreign casual wear business is also showing good traction and has posted a strong L-to-L growth despite a tough market. The mono brands business is also comprehensively scaling up for the company. Revenues from other business witnessed a 59% growth over same quarter last year from Rs. 84 crores to Rs. 134 crores with an improvement in margins.

In H1 FY 2020, the revenue grew by 67% at Rs. 259 crores versus Rs. 155 crores last year with losses at EBITDA level remaining flat and improvement in margins.

During this quarter, the company forayed into ethnic wear by acquiring 100% stake in Jaypore and TG Apparel and also entered into a strategic partnership with India’s leading designers, Shantanu and Nikhil by taking 51% in Finesse. The company is on track in integration process of these brands.

Thank you. And we are now open to questions. Request you all to kindly restrict your questions to Q2 performance only.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Avneesh Roy from Edelwiess. Please go ahead.

**Avneesh Roy:** Sir, so my first question is on Lifestyle. So women and kids wear has seen very strong, growth of 60% and 30%, respectively. So what portion of Lifestyle Brands is now coming from this? And do you see this strong growth rate sustain in the coming quarters also?

**Jagdish Bajaj:** Yes, thanks, Abneesh. I think we have been building up for this for quite some time and the foundation has now started to reflect in the kind of growth that we are getting. It is still a relatively small part of our overall business. We have two brands where we have women's business, Allen Solly and Van Heusen. In both these brands the number will be below 25% of the overall, okay? So it is still not very large in the overall context of things, but the growth trajectory even though not as spectacular as perhaps last quarter, will continue to be pretty good, it will be high double-digit growth that we should get in both Allen Solly and Van Heusen women's. Likewise, in the juniors or the kids business again, we are seeing some amazing traction. We have also put up exclusive stores for juniors, which has also done very well. The unit economics are quite good for a junior store. So that should again, continue to grow for us.

**Avneesh Roy:** But sir, kids wear we have seen is not that easy a business given price points which your brand has. So do you need to be a bit more cautious here? And any sense on the numbers? You discussed the women's 25% around for those two brands. On the kids, what will be the percentage?

**Jagdish Bajaj:** Again, even women's is less than 25%. In fact, closer to perhaps 20% kind of number. In juniors, again, it is only in Allen Solly, we have juniors. And you are right Avneesh, we have been trading very cautiously in the juniors business. But here again, I think the tipping point has happened, and we should be able to see significant growth from now. Again, unit economics are working, individual store profitability is working. So scaling up now becomes relatively easier. You still have to be on trend, you still have to create great value for money. That is true for a large part of our business. But I think this should be able to see sustained growth for times to come.

**Avneesh Roy:** My follow-up question here is on the digital trade show and 12-season cycle. So what is the revenue potential from this longer term? And any cost implications on this?

**Jagdish Bajaj:** The cost implications were on technology, which we have already digested, okay? Now it is only to keep the technology up-to-date. The revenue potentials are tremendous, okay? Both revenue potential as well as keeping your inventory more relevant to what the market wants is very exciting. What it also does is since we also have a very significant wholesale business it also strengthens the quality of merchandise which is held by each retailer. And hence, helping our partners to grow better also. So what this does is to allow the retailer to order what they want for next month rather than having to order six months - eight months ahead, okay? So it allows a much greater nimbleness in the market to be able to respond very quickly to needs of the market. And as you know, Avneesh, the market is moving very fast. So our ability to respond fast is very critical. So a lot of infrastructure was required to be built for this which we have done, okay? We are fine-tuning the process as we go along. We have gone live early November. We had tested it in September - October. We have gone live early November. So it is a very good start. Retailers also like it. It also helps them to keep their inventory more relevant. For example, it will allow them complete flexibility on size ratios on half sleeves, full sleeves and the kind of fits that they want. So it allows them much, much closer to market decision-making.

**Avneesh Roy:** Right, my last question is on e-commerce. So Lifestyle e-commerce, what is the percentage of sales coming from there? And if you could tell what was the growth rate? And Pantaloons, what is the plan in terms of online, can that become a significant medium long-term?

**Vishak:** Okay. I will take the Lifestyle part and then I will request perhaps Sangeeta after that. Lifestyle, it is high single digits in terms of share of business from this. It continues to grow quite aggressively. In fact, we have to be careful in the quality of growth that we get. And that is why we keep it very tight in terms of control on discounting. Our thrust is to sell fresh full price merchandise in this channel great products, great value for money is what we want to drive. So with that in mind, it is been very exciting growth. It continues to be on a good momentum. What we also do is to create unique lines. Based on data analytics of the kind of customers that are coming into these channels, we create unique lines which appeal to those customers. Sangeeta, you want to answer the second part?

**Sangeeta Pendurkar:** Yes. Hi, Avneesh. So as far as Pantaloons is concerned, e-commerce is still quite small as a percentage of our business. It is low single digit. However, it is an area of priority for us. We are pretty confident with the strategy that we are putting in place for e-commerce. This is a business that will grow sevenfold in the coming months and coming quarters. So still small but huge opportunity for us to grow.

**Avneesh Roy:** So one follow-up on what you mentioned, unique lines. So these will be specific SKU for online, right? These would not be available on your physical stores in Lifestyle?

**Vishak:** Yes. They are collections. They are unique collections, which we do. We create exclusive lines for our exclusive stores. We create exclusive lines for our department store partners. So likewise, we create selective exclusive lines with some of our e-com partners as well.

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

**Aditya Soman:** Two questions from me. Firstly, in terms of like-for-like growth both for Lifestyle Brands and Pantaloons, why has this accelerated so much, especially compared with 1Q when most of the other companies we look at have recorded a deceleration in sales? And second question is on Pantaloons, with regard to margins again, I mean the margin improvement trajectory continues to remain very strong. Can you again, break down the margin improvement, how much of that is sort of leverage over fixed cost as you are top-line is accelerating? And how much of that is sort of saving from costs that you are seeing both on fixed and delivery cost?

**Ashish:** So Aditya, I think your first question is, how like-to-like growth across business is strong. I do not have a new answer for it. I think we continue to invest behind the brands and product freshness and innovation. I think it is all coming together well. Vishak mentioned some of the factors that you can see in Lifestyle Brands, the categories of women’s and kids, which were much smaller percentage. They are beginning to add to the store performance. In Pantaloons also, it is largely driven by product improvement on one side and availability, which is outcome of a better planning system, which we have implemented. So if you are looking for one silver bullet so to say, that really is not there it is like a lot of things coming together in this quarter and working well for us.

**Aditya Soman:** That is clear. I think what I was trying to understand was just the acceleration compared with 1Q. So if I look at Q1 for each of these brands. The Lifestyle grew at 6% and Pantaloons grew at about just short of 10%. This quarter, we have got both these growing almost 50% or more faster. So I just wanted to understand what is changed between sort of 1Q and 2Q to see this level of acceleration? Or is there something, some bigger sort of channel fill before the season or something of that sort that has played out?

**Ashish:** So in Pantaloons case, you know it is a retail business. There is no channel fill. And even in Lifestyle Brands, what we report is our actual consumer sales. So there is no channel fill in that. Absolutely, this is the sale to end consumers. And so both cases, there is no aspect of channel fill. Channel fill happens for those companies which have wholesale business or which account for retail as wholesale. What we present to you as like-to-like sales numbers are consignment to direct-to-consumer sales. And therefore, they are truly reflective of the actual consumer uptake.

**Aditya Soman:** Understand. So is this sort of trend something that we should look forward to in terms of growth in the second-half of the year as well?

**Ashish:** Yes, Aditya, this is what we hope for all the time, but difficult to predict for H2 at this level. And just to add to that our business has a lot of seasonality built in, which is getting season Diwali season and so on and so forth. Quarter-on-quarter it will be very hard to be exactly on similar numbers but by and large the trend should be along these predictable lines.

**Aditya Soman:** Understand. So sort of mid-teens is something that you would target in terms of growth for both the categories Lifestyle and Pantaloons?

**Ashish:** That Aditya, are you talking of total growth or same store growth?

**Aditya Soman:** No, top-line growth, total top-line growth.

**Ashish:** Yes, yes. I think, that is what we have indicated and those are the kind of numbers that we have delivered in past also. So if you go back look at annualized number for last year Lifestyle Brands grew at about 13%, Pantaloons were again between 14% - 15%. This year if anything, the growth is slightly ahead of those numbers.

**Aditya Soman:** And on the second question on Pantaloons margin, if you could?

**Ashish:** So I think Sangeeta, you want to talk to that?

**Sangeeta Pendurkar:** Yes. So I think, again, there if you look at our trajectory over the last few quarter, and Jagdish alluded to this in his opening talk that we had a very positive trajectory in terms of margins. Our efforts will be to of course, sustain and to the extent possible improve this margin going forward. We are also making a lot of investments in the business around various parts of the business some of which are beginning to show results, but we would like to continue to sustain this.

**Ashish:** I think, Aditya, if you look at Pantaloons performance, seven out of last eight quarters, we have had significant growth in EBITDA over previous years like-to-like. So it is been a longer-term trajectory. It has been very, very consistent and it is built on therefore more foundational stuff which is improved product better price realization and better availability lower markdown throughput. So it is a combination of all that which has resulted because it is not a one quarter shift in that sense.

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

**Tejas Shah:** Sir, one of the highlights and it is extension partly of the earlier questions, but that is something which has surprised all of us. So one of the highlights of this quarter performance has been Pantaloons SSG and this performance came in one of the challenging environment that you would have seen in recent times. So should we see this SSG as a sign of structural themes in response to our long-term merchandising strategy, which we are trying? Or will you still wait to call it out a structural and wait for one or two quarters more?

**Ashish:** To this, we would love to keep it this way. But at Lifestyle, we will have to look at longer-term trends. And I mentioned about Pantaloons EBITDA increase seven out of eight quarters. The same store growth is now beginning and beginning to now trend better. Q1 was better than previous year Q2 is better. But I would not take one quarter as Vishak said, and make these assessment. Some of these will have to see what is the annual same store growth performance and that Pantaloons still has a lot of catching up to do. And I think it will be fair to say that we are systematically and consistently improving in all dimensions of business, including same store growth.

**Tejas Shah:** Great. Sir, moving on to Madura, positive surprise there as well and this is also a very healthy base. Now based on the numbers here, how should we read the consumer sentiment because when we reconcile with the broader read through on consumer sentiment that is really negative. So is it that we are gaining market share disproportionately or you believe that there are signs to be happy about on consumer sentiment as well?

**Ashish:** No, Tejas. I think markets have been tough. We can feel the challenges in the market. I mean it is very hard to quantify some of this, but we would have gained some share in the business. I think there are three - four things which we have been able to do well, primarily the retail expansion has done well for us adding up stores. Good, successful stores have done well and we have been able to launch them quite effectively. That definitely has been strong. Like I was telling earlier, the women's and kids business again, has grown very well. Some of our efforts around merchandise especially in terms of making the most of the wedding season again has had even in tough market conditions the wedding market has been quite strong which has helped our brands. That again has gone for us. So I do not think there is any difference in terms of the sense that you are getting on market overall market. So it has been a challenge. It has been a lot of stress in that sense. I think we have found ways to grow in spite of that. So with tailwinds we should hopefully get better, but the market has been tough.

**Tejas Shah:** And the store expansion target in Madura Lifestyle brand?

**Ashish:** So you remember, I said this last time also that we are looking at 400 stores in the year. We are well on track for opening 400 stores. So we have done a little over half of that already in H1. So in fact, we also know what we actually did in October. So we are well on track for achieving that expansion target also.

**Tejas Shah:** Great. And if I can squeeze in one bookkeeping question. Debt has increased**.** So on debt, debt has increased versus margin, obviously, this must be because of seasonal variation, but we had last year some plan of reducing debt on annual basis also. So if you can guide on some thoughts on that part as well?

**Jagdish Bajaj:** So Tejas, if you remember in September 2018, last year our debt was over Rs. 1,900 crores. But by September, we brought it down to Rs. 1,700 crores - Rs. 1,710 crores. This time again the debts have peaked as I said in my opening speech Rs. 210 crores is invested into the inventories which we should realize in the H2. So the plan is to bring this debt down to by Rs. 225 crores to Rs. 250 crores by March.

**Tejas Shah:** That is the near-term targets but long-term target because once you spoke about bringing it down below Rs. 1,800 crores level as well?

**Jagdish Bajaj:** Yes, so that is the plan I am targeting.

**Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** Sir, my first question is, can you comment about your phasing out strategy for the People store. And by that what I mean is that how much of the revenue would there be in the People store in FY 2019? How many of the stores have actually got converted to Pantaloons? And I mean, as you have alluded that by the end of this year you would be able to do this. So some lines on this would be grateful, sir.

**Ashish:** So our drop strategy was to find alternative brands, which can host stores. If you recall, People stores are between 2,500 square feet to 3000 square feet and the other set is between 4,000 square feet to 6,000 square feet. Most of the stores fit better with brands which are in Lifestyle Brands portfolio. And therefore, nearly 30 stores to 40 stores will go into that brand portfolio. There will be Pantaloons perhaps will have a very small number of stores which will be converted into it. And therefore, most of the stores will transition into either Lifestyle or the ones which are unviable fundamentally those will be shut down and that is the process which has already started. We expect to complete this exercise by the end of this year. And by which time, we probably may just keep 8 stores to 10 stores running only to finish the tail end of the inventory for summertime but that is really the plan for People stores.

**Gaurav Jogani:** Okay. And sir, can you help us out like what kind of revenue you did in the People in FY 2019? And I mean will this go to zero from the next year from the People brand per se?

**Ashish:** So People brand, it is running at full speed was revenue in excess of Rs. 100 crores. Some of that revenue to the extent stores are getting transferred to bigger and more powerful brands. Those stores will actually revenue will go up except that it would not show up in People it will probably show up in respective brands. So wherever we are converting stores we are very confident that revenue of that will not only be sustained but it will actually grow a little because it will get converted into a much stronger brand portfolio. But rest of the revenue will, of course the stores that we shut down will disappear. People in itself will then sell through Pantaloons but that will be part of Pantaloons revenue.

**Gaurav Jogani:** Sure. And sir, the next question is in terms of the sequential growth that we have seen in the wholesale business and the Lifestyle. So that growth has been quite sharp in this quarter. So is it because of the advancement of the seasonality here the Pooja being falling into the 2Q as compared to the 3Q?

**Ashish:** Yes, largely that. I think this is a phasing issue. This has been an early Diwali. So you get early Diwali, early Pooja effect of that. Having said that, it is not as if next quarter is going to be dramatically lower or something like that you do get a small spike in Q2 because of the Diwali phasing effect.

**Ashish:** It is a one big shift. So it is not a dramatic shift in that sense.

**Gaurav Jogani:** Okay. And sir, just a follow-up on this. I mean if we see the wholesale channel especially has been seeing a liquidity impact across various segments are you also facing any such challenges, anything that you can share?

**Ashish:** Yes, Vishak, question is around wholesale channel liquidity.

**Vishak Kumar:** Yes, I think it is the whole industry. There has been stress on the whole industry. Various people are trying to find solutions around it. Our approach has always been that, look, we have to help the wholesale channel to sell-through to consumers. And to that extent, even the digital trade show that we have built for 12-season model is actually to help our partners be lighter on inventory and more nimble on inventory so that they do not have stress on liquidity while there is pressure on liquidity there is a lot of opportunity also for greater efficiency and management of inventory particularly in the front end. So some of those initiatives should help us in sharpening that but to answer your first question, in general, in the market there has been some stress. I think we have also got the kind of partners we work with they are better off. So to that extent it affects us less so.

**Gaurav Jogani:** Sure. And sir, just two bookkeeping questions from my end. First is that the inter segmental revenue and EBITDA both have seen quite a sharp jump. If you could allude, why is this so? And is this trend expected to continue in the future as well?

**Ashish:** So I think the inter segmental revenue, which gets net off is largely the share of both Lifestyle Brands and innerwear business that sell out of Pantaloons. As we noticed, both Lifestyle Brands, Vishak talked about womenswear growth, kids wear growth accessory products are going extremely well. All these are categories which are strong in Pantaloons as the brands have become stronger in it. They are gaining share and you have seen that reflecting even in the Pantaloons business. To that extent that sales need to be netted off. I do not think it will keep increasing because it is not that we are increasing space. It is just the productivity of some of these categories has dramatically increased. And to some extent, I would say, with a marginal plus 1%, minus 1% level, it should stay at this level.

**Gaurav Jogani:** Okay, so the current levels are sustainable?

**Ashish:** Yes.

**Gaurav Jogani:** Okay. And sir, the last bit on the tax rate? I mean what sort of a tax rate we should build in for FY 2020 and going ahead given the deferred tax asset adjustment you have taken in this quarter?

**Jagdish Bajaj:** See, right now, company is in MAT. And as I said, there we are evaluating whether to move to new tax rate or not. So we are in MAT.

**Gaurav Jogani:** So sir, should we build any tax rate, any guidance on that if hidden?

**Jagdish Bajaj:** That is MAT now, MAT rate.

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

**Amit Purohit:** Sir, just on this increasing seasons from 4 to 12, your thoughts on how does this have an implication on maybe some inventory write-offs or provisioning you might have to do otherwise in these brands annually? And does that also leads to improvement in some bit of gross margins in the Lifestyle business going forward?

**Vishak:** Amit, no write-off required. No. This in fact, if anything, should only make our inventory healthier. It makes it a lot more nimble. So that is the easy part. The going ahead it has to make the front end inventory a lot more efficient as while it makes our overall inventory also more efficient. It is basically saying, how do we respond faster to what is happening in the market. The four season or the two season models have a lot of efficiency built into creating a large range and so on but they are so far away from the market that it becomes difficult to react faster so this requires a lot of investment in technology working very closely with mills and other supply side partners and then working with frontend partners, booking orders with them 12 times a year. So the effort required is more but once you streamline that the gains are in terms of being much closer to what the market wants.

**Amit Purohit:** And just actually follow-up on this. What I was referring to is, sir, historically, when we were running a four season model probably annually there will be some write-offs or we never have to take a write-off in the Lifestyle portfolio on the inventory, some of the old inventory, is that what you are saying?

**Vishak:** We have a dormancy policy for that which is based on age of merchandise. That does not change. That dormancy policy will continue. So basically, the dormancy policy is a reflection of what is the value at which this inventory is going to sell. And it is a system generated thing, which happens in our organization. So it does not change because for the market there are broadly two seasons. So our entire buildup of inventory is still built around formulas of spring - summer and autumn - winter, while we procure 12 times a year.

**Amit Purohit:** I thought actually since you are reducing the age of the inventory probably that would make it much more...

**Vishak:** So I do not think we are changing that, no.

**Amit Purohit:** No, okay. And sir, also on how difficult is to scale up this to maybe one or two years down the line to the Pantaloons business model and retail stores as well? Or it will take a while for you to implement this in the business similar strategy of 4 to 12?

**Ashish:** So Vishak, you were explaining about the dormancy policy and continue please.

**Vishak Kumar:** Yes, I think the question that Amit has how soon can we expect this in Pantaloons?

**Amit Purohit:** Yes.

**Ashish:** So Pantaloons because Pantaloons has a benefit of being a complete retailer so the drop frequencies have already gone up. And the challenge is more in Lifestyle Brands because it is a multi-channel retailer, where you are not just buying for yourself but many partners have to come into force in buying. That is why it made the supply chain that much more complex.

**Amit Purohit:** Sure. Okay. I thought probably SKUs would are higher in Pantaloons and probably partners have some kind of hindrance in terms of taking this forward. You do not think that should be a challenge?

**Ashish:** No. So Pantaloons is already sharpening its lead times and increasing the frequency of drops. So...

**Sangeeta Pendurkar:** We have already done that. So for example, starting Q4 of last year and Q1 of this year we already one of the things we realized is that the consumer was seeking more freshness and we solved that by changing our entire launch strategy of a season. And versus launching a season right at one point of time we split our season into multiple drops. And today, if you go to our stores, you will see new merchandise every fortnight which has been received very positively both by the consumers and our store stock.

**Amit Purohit:** Right. Is that safe to assume for a Pantaloons store that almost 60% to 70% of the inventory gets I mean is recycled or a new fresh inventory is visible in a month's time. I mean is there some benchmark or a percentage, which is there that you track just to see the freshness, which gets implemented on the store?

**Ashish:** So I think, see 60% to 70% is too high a level of change. I think the best way to look at it, how often these customers revert, and does we see a reasonably large merchandise. And if customer makes a visit let us say four times a year or five times a year or six times a year, I think that would probably see the refresh. Typically, in both our businesses we like to see our products to last between 6 weeks to 12 weeks depending on the nature of the product. Most basic products perhaps should last in the store about 10 weeks to 12 weeks and higher fashion products between 6 weeks to 8 weeks. So that is really what we try and do.

**Amit Purohit:** Okay. This is helpful. And lastly, on this NCD that we plan to what is the purpose of that NCD of Rs. 500 crores?

**Jagdish Bajaj:** Actually, we have term loans outstanding. This is refinancing of the existing loans. So this money will be used for refinancing of the term loan in this financial year only.

**Moderator:** Thank you. The next question is from the line of Ridhesh Gupta from Ambit Capital. Please go ahead.

**Ridhesh Gupta:** I think, on Pantaloons, I just wanted to get a sense on like you had about 13% top-line growth in the first-half and almost 30 bps margin expansion. So is there any margin expansion targets that you probably have or any aspirational EBITDA margin, let us say on a next two year to three years point of view, where you would like Pantaloons to see in the next two years to three years? That is one question. Secondly, on the Lifestyle Brands let us say what is the growth and male formals apparel business? And how much of the growth is actually coming in from the other new segments that you have launched within the brand whether it is bags and other accessories and of course the casual segment there?

**Sangeeta Pendurkar:** Okay. So I will take the Pantaloons question first. Like both Jagdish and Ashish mentioned, if you look at our last 8 quarter performance we have shown consistent increase in our margins. And we would like the trajectory to continue. Let us say again, hard to predict but aspirationally, we would like to target anywhere between 2% to 3% over the next few years to improve our margin from where we are today.

**Vishak:** Okay, speaking on the business of formal. First of all, I think the definition of formals itself is evolving and changing, what people wear to work, the kind of formals that are contemporary formals. So that overall business grows for us. It is a very important part, we have workwear formals. We also have ceremonial formals. So that business continues to grow for us. Of course, we are getting extra lift because of some of the other categories, including women's and kids and all of that. But the base business is a growth business for us. Having said that, if you saw the formals of today versus the formals of three years back there would be a difference in the kind of products we create then.

**Ridhesh Gupta:** Okay. But would it be fair to say that let us say, I mean the risk of being repeating session. I mean it is like 11% growth in top-line could it be a formal growth? If any way, you could classify it or you could define it would be like 6% - 7% would be formals.

**Vishak:** Yes. The kind of products that you have and also, it varies brand to brand the kind of handwriting of each product and I will give you a sense, we have got a line called Ath Work from Louis Philippe which is Louis Philippe's expression of modern formals. There is a Move Labs from Van Heusen, which is Van Heusen expression of modern formals. There is an Airport Collection, which is an amazing line of suits and shirts and trousers which we have. Now these are all very,

very contemporary products. And people wear them to work people wear them to serious occasions but they are what formals are evolved into? So there are some amazing products, which are new formals which drive our growth.

**Ridhesh Gupta:** Sure. And on coming back to Pantaloons, and so 30 bps of margin expansion with the kind of growth you have seen this year. Is it something which is satisfactory? Or you think that there was some investments which are there in the margins because of which the probably the 30 bps come in?

**Ashish:** Sorry, I did not get the question, what was it?

**Ridhesh Gupta:** So on Pantaloons, the top-line was pretty impressive. And I have always believed that Pantaloons, there is a lot of scope for margin expansion or at least an equal expansion that could happen. So on the top-line growth that you had for the first-half the 30 bps expansion in the overall margins in the first-half that we have seen so I see the margins going up from 8.1% to 8.4%. Is it something which is fair to see a 13% sort of growth rate? Or you had a certain amount of investments that you think you would like to call out which kind of grow a 30 bps expansion in the first-half?

**Ashish:** So I would first start by reiterating what I said. Seven out of eight quarters, we have seen similar improvement in margins in Pantaloons, consistently and steadily improving business. There are no sort of big swings on that. The swing in Pantaloons business comes more from seasonality. And that is what gets reflected differently in different halves and quarters. But otherwise, it is intrinsically and consistently improving business.

**Ridhesh Gupta:** Okay. And just on the innerwear side, like I see other losses also kind of declining. And I also see that and what has being experienced on the innerwear so far? Because I do see a lot of slowdown in the innerwear category as such. And any sense on like how your like-to-like growth rates have been on the stores where you have been there for let us say more than one or two years especially on the male innerwear side?

**Ashish:** Very strong. Look at our innerwear business has grown 60-odd percent, 67% or 70%, one of those numbers both for quarter one and quarter two. So it is a very strong growth. Most of it is men’s innerwear. And most of it is in there we have already been around for 1.5 - 2 years. So it is a business which is showing consistent growth. When you launch a business, you launch the cream of the distribution so now we are present from weighted average point of view from numbers the distribution is only 18,000 but it is a fairly decent quality of distribution that we received. And most of the growth that is coming is coming through growth of that. Having said that we are still relatively new to this business and quite small compared to the overall size of the industry. So it is quite possible that the overall market may be witnessing trends which are different from us because we are new and at this stage quite small.

**Ridhesh Gupta:** Got it. And just on this ethnic piece I mean, what is the plan there? I mean I think now you have two brands. So any aspirational number in the revenues over let us say next three to four years that you are looking at and any kind of burn rate that you are looking at in the business? Or let us say the amount of financial capital you are ready to invest in this business from next one or two years point of view?

**Ashish:** So when we looked at these businesses, we had a medium-term outlook of at least building Rs. 200 crores to 300 crore business in medium-term period. At this point, it is too early for us to sort of change that or have a view, which is different. We want more sort of study on that because it is just a couple of months. Also both businesses have very different objectives. In Jaypore, the task is to take what is essentially an online business into off-line through distribution of stores and leveraging the strength that the company has. The partnership with Shantanu and Nikhil is at slightly different price points. And the idea there is to get designer wear more accessibility for broader Indian consumers. So both will play out slightly differently, but I think in next two years three years we should be able to bring a meaningful business in both.

**Moderator:** Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

**Vinod Bansal:** A couple of questions. One, I think on margins part gross margin was down some 180 bps year-on-year. Any specific reason given that festive was slightly earlier this quarter something in that?

**Ashish:** Vinod, our gross margins are more a function of mix of businesses because Lifestyle Brands, Pantaloons, new businesses have different gross margins and the mix effect of fastest growing businesses are low margin business which are relatively new at this point of time. Similarly, within the brands also within Lifestyle Brands function of channel and brand drives the margin. So I do not think there is anything other than the business mix, which is resulting into the numbers that they are.

**Vinod Bansal:** Linked to higher growth. And we are let us say Pantaloons as opposed to core Madura that is the only kind of mix change.

**Ashish:** Yes.

**Vinod Bansal:** Okay. Then looking like EOSS in the earlier part of the quarter, which was high on the expectations, which dragged the margins down gross margins?

**Ashish:** No. I think on a like-to-like basis end of season sales in this quarter versus the same quarter last year are not dramatically different.

**Vinod Bansal:** All right. Given that, the SSG versus the margin expansion. I know you have answered that partly. I am repeating the question just a bit more clarity. Let us say, retail business like

Pantaloons the 10% SSG leads to a 40 bps margin expansion without any high discounting. So if gross margin is same 10% SSG should have led to far higher margin accretion. So where is the gap then?

**Ashish:** No. I think if you look it at the very gross margin of Pantaloons business, nearly two - third of the revenue is in the like-to-like bucket and that is what reflect when we show the like-to-like sales. So part of the sales leverage that happens in that store that is the one which travels down additional sales travels with additional cost. So the one - third actually travels differently. To that extent not all of it travels down. The second is on a fixed cost basis both overheads and advertising also take away some of the gains that you have. Overheads have been reasonably well managed. Advertising, as you know for last two years we have been consistently increasing. Even this quarter we have talked about 30% plus increase in advertising nearly 35% increase in advertising over last year.

**Vinod Bansal:** So SSG is not the best number to look at, you are trying to tie in with margins because that takes only part of the sales?

**Ashish:** That is right.

**Vinod Bansal:** So if you look at sales per square feet versus SSG and when I do sales of course, it is simply the current quarter sales multiplied by four and divided by the area square feet and the same done for last few quarters that has consistently lagged the SSG number that you report. So at some stage the sales per square feet growth has to sort of come in line with SSG or the gap has to narrow down. You have a fairly large network now. When does that happen?

**Ashish:** I am not sure I understand the reconciliation that you are looking at.

**Vinod Bansal:** Let me put a number. You had Rs. 915 crore sales in the current quarter in Pantaloons, multiplied by 4, divided by the area, 4.3 million square feet you get the annualized sales per square feet of Rs. 8,594 - Rs. 8,600 a square feet, right? That is the simple calculation of sales per square feet which I do for earlier quarters as well. And then I find the growth in sales per square feet is 5%. This was 2% in Q1 versus Q1 of last year. Now this 2% and 5% compared with 4% and 10% of SSG as you report. My question is, when will this gap between 10% and 5% narrow down because you have a large network...

**Ashish:** I get your question, Vinod. I think I believe the gap will be zero if there is no network expansion happening in which case your entire sales will get converted to L-to-L. That is the bridge because you are trying to build. Our business consists of like-to-like which I said in Pantaloons is nearly about 60-odd percent of the sale that is annualized stores, which means the stores which opened during the course of the year last year have not seen last full year, so they are not also part of the like-to-like because they have not seen some of those periods. And there are new stores that you opened during the year. So either very mature in the network where the incremental store addition as a percentage is a small percentage to the base or absolutely no growth structure is the scenario in this bridge will be

**Ashish Dikshit:** This is Ashish, the growth in the network is not so fast, 3.8 million square feet in 4Q 2018, at the end of FY 2018 now at 4.3 million square feet. So it is a very stable growth. So that it does not impact the base as much.

**Ashish:** No, it is a function of the gap between LTL base and the total base. See if your non LTL network is operating at different productivity versus LTL, it is that difference which is actually causing the difference that you have.

**Vinod Bansal:** Okay. Also you mentioned that you had only one week preponement of the festive season. Any broad sense on how the current quarter is going to be halfway through? Are you happy, confident, optimistic or not too much?

**Ashish Dikshit:** I will try and stay away from predicting this quarter, as you said only half is done. And anything that I will say might turn out to be totally wrong in the next half. So we will wait for...

**Vinod Bansal:** How have been the first-half like first-half of the quarter like, is it still good?

**Ashish Dikshit:** Varies because they are part, these days festivals have become more concentrated. They get closer only very close to the festival you get to see the real thing which is also in some manners unique because this is a quarter where winter wear plays a very strong influence and both onset of winter and how your product does can dramatically alter. Vishak talked about wedding periods which are also very critical in this quarter. So I think there is a lot to be seen before we are able to reasonably give you a sense of what this quarter will look like.

**Vinod Bansal:** Sure. Also, on the Pantaloons business, one of our stated objectives has been to expand the share of our own brands. And we did reasonably good work last year. I think we reached 62%, which was 64% in 1Q, has dropped back to 62%. Are we looking at 64%, 65% this year or it is more going to be flattish to last year?

**Sangeeta Pendurkar:** So I think our approach to take this number up will continue. And as we told you in the previous calls all efforts that we put in place and all changes we put in place right from improving our merchandise to revisiting our pricing to putting better planning systems in place, to improving our freshness, to making our brand younger and more contemporary, investment in advertising these are all big parts of our strategic shifts that we have carried out, and we have seen shifts in some quarters. I think what you need to realize is in this quarter if you look at the impact of the festive period the consumer behavior in terms of purchase changes slightly. So consumer is looking for more branded products. The share of premium brand does go up at this point of time. And that is what we have seen also in early part of festive. So that I think, to some extent has negated some of the efforts that we put in place, but we are very confident of moving this number forward as we have committed to you in the past.

**Vinod Bansal:** Okay. A couple of more questions, if I may slip in. In the Fast Fashion business, you are now breakeven. This was not exactly a planned strategy. So is there a one-off benefit? Or do you see a breakeven continuing in the rest of the quarter, in the coming quarters as well?

**Ashish:** So I think one-off event Jagdish mentioned in his speech is the impact that may come as we accelerate the closure of People stores. On an ongoing basis, Forever 21 has started to hit breakeven. People at this point of time, we were running that business. But I think the impact of People close there was some hit which is maybe marginally higher than what we have had in H1 in the second-half of the year.

**Vinod Bansal:** Okay. And while this has become zero, you have a new initiative the whole ethnic thing. I thought the business was not loss making, Shantanu and Nikhil, when you acquired it, eight quarter loss for the part of the quarter, is there any additional investments you have made that you consider loss? And what is the expectation for the year?

**Ashish:** So it is not Shantanu and Nikhil business that has lost that money. It is Jaypore plus that and a lot of it is in Jaypore, which is an online business and currently a loss making business. So the turnaround challenge there is larger. Of course, in both the businesses when we acquired, we are required to build sufficient strength from a scalability point of view. So there will be investments which will go in both of them in sampling, modernization and other pieces. But the part which is Shantanu and Nikhil brand that we expect to not have much losses. It is the Jaypore, which is actually the business that we will have to turn around from the level where it is today.

**Vinod Bansal:** Right. Any sense on what the annual number you are looking at annual loss number, because is only part of the quarter?

**Ashish:** Yes, we are good, it may stay in high single-digit EBITDA loss but we still have to see it for H2.

**Vinod Bansal:** I did not get you, you said high single-digit little less than Rs. 10 crores?

**Ashish:** Yes, that is around, that is the number that we should to take a shot it in H2.

**Vinod Bansal:** Okay. And Madura margins again also have not expanded Y-o-Y. So, (A) are we still on track to deliver on expanded margin expansion guidance that you have spoken about earlier in Madura? And specifically, you said as well why it is flat despite a reasonably good SSG?

**Vishak:** There are two things. One is, if you look at H1 to H1, there is a margin expansion in Madura of 20 basis points, okay? So that is one. Second is the absolute margin in Q2 is pretty healthy. We are also expanding in some of the smaller towns, investing into smaller towns and so on especially in Peter England business which takes away some of the margin we are investing that into building these markets. Similarly, the women's wear business comes with a slightly lesser margin. But otherwise, if you look at it at an absolute level 12-plus percent margin is fairly good for the business and which is keep that momentum going

**Vinod Bansal:** Sure. What is the medium-term sustainable margin that this business can sustain I mean given men's, women's, kids all put together in the core Lifestyle?

**Ashish:** I think we will manage a mix to stay where we are in thereabouts because as we to improve as strength in newer businesses is improving. Qualitatively, our women's business is doing well. I think you will have tremendous opportunity at some stage to scale that up. As Vishak was mentioning, we are finding that some of our attempts in growing this category is larger. That will offset some of the qualitatively margin increases that we are benefiting from our core business brands. At a blended level, I think these are the margins, which we can manage in medium term we will be looking at.

**Moderator:** Thank you. The next question is from the line of Kunla Bhatia from Dalal & Broacha. Please go ahead.

**Kunla Bhatia:** Sir, just wanted to understand in terms of the working capital improvement. You have already mentioned with regards to inventory, but how about in case of the other two that is the trade receivable and the trade payments part because even that, in case of our business are running on the higher side. So what could one look at it from a next three years to four years perspective?

**Ashish:** So I think some of the numbers that you say, and Jagdish you can comment there, are grossed up numbers which is therefore to that extent receivables are gross of all provisions in the way we do accounting. I will give you the broader numbers. For Lifestyle Brands, we have been operating with a net working capital, which is operating net working capital of about 12%. And Pantaloons has been about 9% and that is the number that we have steadily been either keeping or marginally improving. So I do not think there is a concern on that account. Some balance sheet numbers look higher because of gross reporting which has changed in last year post IndAS.

**Kunla Bhatia:** Okay. And for the summary of journey, as a percentage to sales if I am not wrong.

**Ashish:** Yes.

**Kunla Bhatia:** Okay. And sir, also, just if you could be a bit more elaborative in terms of what happened in terms of the deferred tax entry this time. So because there is a bit of confusion in terms of the whole year tax rate to be accounted for. So what was exactly in terms of this deferred tax entry if you could specify clearly?

**Jagdish Bajaj:** Okay. So let me tell you, in the last two years till last year we were not paying any taxes because we were having the income tax losses in our books which are still continuing. So you remember in last year we created deferred tax asset to the tune of around Rs. 269 crores, which is sitting on that balance sheet. With every assessment passing, I am utilizing that. If I am utilizing, then I have to expense it out. That has happened in this quarter, and this will be spread in next two quarters.

**Kunla Bhatia:** Okay. So next two quarters, we will again having reversal of this deferred tax asset?

**Jagdish Bajaj:** That is right. Not reversal, it is not called reversal, it is reassessed. So when we created the deferred tax asset, now in this year, we have to reassess and whatever is the gap, whatever we have consumed I have to expense out.

**Kunla Bhatia:** Okay. So next two quarters, we can assume a similar number?

**Jagdish Bajaj:** Yes.

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