"Aditya Birla Fashion and Retail Limited Q2 & H1 FY-21 Earnings Conference Call"

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MANAGEMENT:	**MR. ASHISH DIKSIT – MANAGING DIRECTOR, ADITYA BIRLA FASHION AND RETAIL LIMITED** **MR. JAGADISH BAJAJ – CFO, ADITYA BIRLA FASHION AND RETAIL LIMITED** **MR. VISHAK KUMAR – CEO, LIFESTYLE BUSINESS, ADITYA BIRLA FASHION AND RETAIL LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Second Quarter and First Half FY21 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. Jagadish Bajaj – CFO and Mr. Vishak Kumar – CEO, Lifestyle Business. Ms. Sangeeta Pendurkar – CEO, Pantaloons will not be joining the call today as she is indisposed. I want to thank the management team on behalf of all the participants for taking valuable time to be with us. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter and half yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team. With this, I hand the conference over to Mr. Jagadish Bajaj. Thank you and over to you, sir.

Jagadish Bajaj: Good evening and welcome to the earnings call for our company. The quarter under review saw a gradual recovery after the very tough first quarter. Our network continued opening up as mall stores were allowed to resume operations let into the quarter wise more than 95% of our network was able to open by the end of the quarter. Footfalls were low especially in the larger cities and bigger malls. Smaller cities and high streets which have been opened for a while now saw a faster recovery of business.

Let me apprise of two key developments that took place this quarter:

- Firstly, the company launched and successfully completed its rights issue in record time, receiving an equity infusion of approximately Rs. 496 crores in the end of July, out of total issue size of Rs. 1000 crores.
- Secondly the company announced a strategic capital raise from e-com giant Flipkart. As part of the transaction Flipkart will buy a 7.8% stake of ABFRL at Rs. 205 per share, translating into an equity infusion of Rs. 1500 crores into the company. The transaction is an empathetic endorsement of the growth potential of India. It also reflects the strong conviction of both Aditya Birla Group and Flipkart in the future of the apparel industry in India which is poised to touch $100 billion in next 5 years. The proceeds will be utilized to strengthen the balance sheet of the company and accelerate its growth trajectory.
- The company plans to aggressively grow its existing businesses where it holds a formidable position while expanding its new business opportunities in inner-wear and ethnic wear segment.

Now let me give you a snapshot of the financial performance of our company:

Quarter 2 FY21, the revenues of the quarter are not comparable with 22 of FY20 given the changed scenario we are operating in this year. The company has recorded Rs. 1028 crores revenue at consolidated level which was down by an expected but significant 55% over the same quarter last year leading to a decline in EBITDA. Our revenue would have been much better but for to specific reasons, the wholesale channel in Lifestyle business performed in line with our retail segment while the retail channel achieved more than 60% of last year sales. the wholesale decline is primarily because we control this space allowing them to liquidate their existing inventory.

The Pantaloon sales must be seen in light of higher base last year as Puja sales fell in Quarter 2 last year as against Q3 this financial year. This is in no way a reflection of the potential of the business and is not a permanent condition. Sales have been consistently growing every month from June to September which is reflected in the tripling of revenue from Q1, we expect this sales improvement trend to continue into the next two quarters.

As already told you in Q1 the company has continued its deep and comprehensive cost reduction exercise of cutting fixed cost in rental, salary and wages and discretionary overheads like advertising and travel. The company could save Rs. 417 crores in this quarter, resulting in a total cost optimization in H1 of Rs. 872 crores when compared to cost expenditure in Q4 FY20. Your company is focused on revenue improvement and continued endeavor to reduce cost has resulted in a turnaround EBITDA performance for this quarter, posting an EBITDA of Rs. 136 crores, recovering from the negative EBITDA posted last quarter.

Losses at PAT level too were significantly reduced from Rs. 410 crores in Q1 to Rs. 188 crores this quarter. I would also like to draw your attention to other income of Rs. 143 crores which includes the rent concession of Rs. 122 crores. These also include concessions for subsequent period amounting to Rs. 38 crores for both the businesses. We also continued to focus on optimizing working capital in line with the scale of our business by scaling down buys for autumn-winter and even spring by repurposing existing inventory. Despite paying our creditors we manage to reduce net debt by Rs. 90 crores from Q1 with the debt figure now standing at Rs. 3159 crores and our net working capital at Rs. 1277 crores. The increase from March is on account of reduction in payable of more than Rs. 100 crores. With Rs. 750 crores of total amount of Rs. 1000 crores of rights issue proceeds coming in during this financial year along with expected recovery in the market over the course of the year, we expect the debt to come down to approximately Rs. 2000 to to Rs. 2200 crores, important to note that this is without taking into the Rs. 1500 crores infusion into the company from Flipkart for the successful completion of the deal.

Responding to the challenges posed by the ongoing situation, our brand teams are constantly working towards finding innovative ways to continue servicing our customers after receiving early encouraging consumer response towards omni-channel initiatives launched in Q1 like hyper local delivery, WhatsApp commerce and buy-online shipped from store BOSS as we call it, all our brands are now working towards rolling out these initiatives across the network. We are also working towards further strengthening our e-commerce capabilities utilizing our expansion in store networks as fulfillment centers for our e-commerce orders relating our customers.

I will now take you through the performance of individual businesses starting with our Lifestyle brand business:

Lifestyle business is innovated to come up with new lines of products that the consumer wanted. The business proudly holds the title of being India's largest premium clothes masks player having sold over 1 crore masks in H1. The performance during the first half of the year is marked by innovation and agility.

Business should be complemented for achieving significant cost optimization which was made possible by collaborating with vendors, B2B customers, employees and real estate partners. The business added 100 new stores this quarter which reflects the confidence our partners have in us.

On the digital front, the business continued building on its transformative journey retailing the focus on delivering a delightful shopping experience to its customers. The own website business for the business grew and 3 times over last year's numbers suggesting a strong customer affinity for our brand and a seamless shopping experience through our websites.

Our hyper local and buy-online shipped from store pilot have rendered encouraging results reinforcing our faith in these innovative models. Our brands are now in the process of extending these models into newer markets, servicing in even wider customer base. During the quarter the business recorded revenue of Rs. 531 crores and posted an EBITDA of Rs. 39 crores.

Moving onto Pantaloon business:

While stores resumed operations gradually as the quarter progressed, the new delivery channels were the business driver for pantaloon in the previous quarter. Investments of highly targeted digital marketing campaign, addition of newer categories on brand website and a stronger assortment of products, all contributed in driving significantly higher traffic to the e-commerce channel which grew 3x. The WhatsApp retailing concept was a hit amongst customer witnessing strong word of mouth traction amongst loyalty customers, who contributed to majority sales and delivering a higher average bill value compared to retail sales. Signaling the start of its recovery journey Pantaloon reinitiated its expansion plan by adding 7 new stores to its network in the preceding quarter. The business also launched its renewed store identity this quarter, promising to give its customer an even greater experience while shopping at their favorite shopping destination. While the new identity has been rolled out in two stores currently, the business will soon renovate more stores in its network. Pantaloon remarkably accelerated its e-commerce presence with average daily orders growing at 4.2 times on pantaloons.com which was launched last year, gained strong traction this quarter with 75% higher traffic and robust growth in orders. The Pantaloons business has achieved revenue of Rs. 369 crores for the quarter and posted EBITDA of Rs. 71 crores vis-à-vis an EBITDA loss of Rs. 72 crores in Q1 this financial year.

Other businesses; innerwear and Athleisure we are pleased to share with you all that inner wear and Athleisure business are selling more than same quarter last year. Athleisure and work from home categories are doing fantastically today with new sales record being established on e-commerce. Business has taken an aggressive expansion target which will result in continuous strong revenue growth in line with our ambition to be a leading player in this segment. International brand this business has been setting new records through e-commerce sales beating our own best estimates both collective and mono brands have had a solid performance in H1 gradually inching towards profitability.

Finally, I will like to conclude by saying that we have achieved our strategic goal for the first half of the year by significantly reducing cost, improving our balance sheet and continuing to innovate with our brand. As we go forward we expect the market sentiment to improve further and see the return of consumers to our stores been much faster manner. Accordingly, we will resume our growth plan with accelerated expansion of stores build on our momentum in the e-commerce business and deeper investments in our brand.

Happy festive season. Thanks a lot and we are open for the question and answers.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We have our first question from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: Firstly you indicated a cost reduction 417 crores this quarter, now how much of this cost reduction would we see continue in 3Q especially as revenues come back?

Ashish Dikshit: Aditya, it's difficult to do. If you look at the elements of cost reduction, they are all different. There are overheads cost reductions which come through operating expense, salaries etc., significant part of that would continue into the third quarter. But it would be lower than what it was in Q2. Similarly on the rent expenses, a large part of cost reductions we have already achieved in the previous two quarters. There are still parts which will flow over into Q3 but it will be lower than that. It's difficult to give an exact number because some of these are linked with variable, some of them, its contracts with individual stores and we have differential reductions that we have achieved across different stores. So it would be difficult to give a number but it would be lower than what we have achieved.

Aditya Soman: I was just trying to understand directionally if let's say sales are up 30% sequentially then where would be we as far as cost in case much more than that or would cost increase at the similar rate.

Ashish Dikshit: It's difficult, I think both are as far as Q3 is concerned both will have to wait and see how sales respond. Cost because it's split, as I said its split across thousands of stores of individual contracts. So, it will be hard to give a number at this point of time.

Aditya Soman: Secondly in terms of sales trend, any indication from how we have done in August-September and October or the festive season?

Ashish Dikshit: I think I would stay with what I had mentioned in the previous call and even in earlier interaction. We had projected at that point that we would do about 20% in Q1, about 50%-55% in Q2, between 70% to 80% in Q3 and perhaps get closer to last year numbers only around towards the end of the March quarter. We are broadly in that range as we speak and as you know this is very difficult to predict at this time. So I would say the overall trend that we are watching it varies across geographies, size of the stores, small versus high-street. But at broad level this has been the trend so far.

Aditya Soman: And if we look at stores in Tier II, Tier III towns and high street stores, will it be fair to assume now that our footfalls are back with to normal or is it still significantly lower even there?

Ashish Dikshit: No they are not significantly lower. I think in smaller towns specially high street stores are much closer to their previous year's numbers. It's only as we come to bigger towns, larger stores that the numbers starts to come down.

Moderator: We have next question from the line of Tejas Shah from Spark Capital.

Tejas Shah: First question on Flipkart deal, so how would you suggest to look at this deal, is it just an exploratory nature right now as we are seeing in many such investments in online-off-line create in the past or you believe there is a long-term partnership and if that is the case then how should one see at synergy benefit from both the sides on this deal?

Ashish Dikshit: Tejas let me first facts of context of the deal. We have very deep partnership with Flipkart and Myntra irrespective of the deal for much longer than past. They are the largest players in online fashion. We are significant portfolio of brand. Six months back we had put 300 to 400 stores which were serving orders which were coming from online into off-line. So the nature of partnership and we have similar arrangement with few other people but sheer size of fashion business on online is very high and with our portfolio brand it makes that a very attractive sort of portfolio even from their point of view. This investment is a purely financial investment in which they have taken a stake and that's strengthens our balance sheet. The strategy part of partnership is outside this and that's being growing over the year. As I mentioned 4 to 5 months back itself we had started operating our omni-channel initiative with retailers, the largest one being—with e-commerce player so largest one being—Flipkart has the largest share of that and that's really where it would do. I don't want you to read anything more than that. Being a very large player in fashion industry, we will continue to sort of remain an important player on that platform and similarly with the portfolio that we bring they will probably continue to look at us as important stakeholder in their business.

Tejas Shah: Our merchandise will be available on other online portals as well?

Ashish Dikshit: Absolutely.

Tejas Shah: Second on the deal proceeds, any reason that why our guidance on debt does not taking consideration of 15 million investment and in fact after the current experience shouldn't we target to reduce that as early as possible to mitigate the situation?

Ashish Dikshit: Which guidance are you referring to?

Tejas Shah: Mr. Bajaj just said that we are targeting 2100 crore debt by the end of March.

Ashish Dikshit: No, so let me clarify; all he was saying so that people don't confuse whether you have factored in or not factored in. The only reason he has called that out separately because there is a timing issue that still needs to be resolved in that. As and when that will come that will reduce the debt level from that.

Tejas Shah: In the quarter fall in Lifestyle brand, a recovery in Lifestyle brand is similar to Pantaloons despite higher share of formalwear contribution and Lifestyle brand. So any reason because intuitively you would have thought that Pantaloon will do much better or Lifestyle will be slightly laggard on the recovery path.

Ashish Dikshit: I think Tejas I will get Vishak to come in here little bit more. But let me tell you we have always maintained, our brands are meant for consumers whether they stay at home, they go to office, they go for parties, they go for celebrations and therefore to that extent as a portfolio of businesses that each of the brand carries they are very-very prolific in terms of occasions that they serve and its getting reflected in the numbers. In fact if you look at the investor presentation, look at the retail sales number in Lifestyle brand, the retail sales of Lifestyle brand across a very vast network is—in Q2 and this is the number which is reported in the investor presentation is—in excess of 60%. It reflects therefore what we have always said, very strong brand, very diverse portfolio and constant ability to move our products and consumers around the evolving needs. Vishak you want to add anything to this?

Vishak Kumar: So Tejas, I think one of our strengths with brands is the kind of versatility we have around our brands. As consumers in the early months wanted protection, we were able to create an entire line around protection, whether it was masks where we sold about 1.1 crores masks in H1 alone, units to protective gear anti-viral fabric, we were amongst the first to tie up with various partners on creating great products on this to where consumers said they want to work from home, we created work from home merchandise, we created very comfortable lines. People said 'look we want to wash and wear, there is nobody to iron the clothes', we created lines which were very easy to wash and wear, quick dry. So lot of product innovations went into making sure the brands were relevant to consumers. Now when the weddings are starting again, occasion wear is picking up quite fast, again the brands are up to it and we have been able to add and thanks to our 12 Season model of creating merchandise. Our ability to respond fast is also a very high order. So all of this together Tejas creates a method by which the bouncing back is much faster for these brands and I think that will continue. The other interesting piece Tejas is that the desire of various business partners who want to put up stores. So the network expansion through a lot of partnered expansion itself we have opened (+100) stores in the last quarter alone and another (+100) stores which are signed up for pipeline. So, all of this will drive in the sense the recovery much faster.

Tejas Shah: Last one on Pantaloons; private-label share has jumped from 62% to 67%, is it much more tactical or any structural lean here?

Ashish Dikshit: So, there are couple of reasons, of course at times like this when such extraordinary circumstances one has to watch over a longer period. But still let me give you some underlying factors, one we have increased the share of private-label as a business. You are aware just before pandemic we had launched Sarees in Pantaloons, we had launched home as a large category, we have extended you are aware of People as a brand which we added into Pantaloon stable and therefore the share of private-label by deliberate action and self positioning. The second factor is that of the total mix kids-wear has been growing very fast and you can understand at times like this while older men and women can probably buy less clothes, pay-out on the kids side it's also happening. Kids are wearing less uniforms because they are staying at home, consume their products actually lot more and kids-wear category contribution has gone up and kids-wear is primarily if not entirely private-label. The third to a lesser extent could be marginal shifts from brands to private brands from the pricing point of view. But I don't see that trend to be visible at this point of time.

Moderator: We have next question from the line of Nihal Jham from Edelweiss.

Nihal Jham: Three questions from my side, first in case Lifestyle brands you mentioned about lower dispatches to the wholesale channel. So just wanted to check the reason for the same and also that are the dispatches now in line with the recovery that we are seeing with the other channels?

Ashish Dikshit: I think Nihal you should see it in context of in retail business we are counting our sales only when the actual consumer sales happen and therefore it's a good reflection of how the consumer markets are behaving and therefore for our brand if retail sales is 60% as reported in Quarter 2 that's how consumers are coming our brand. But for wholesale customers who is buying from us has sold military during April-May-June-July period, he still is sitting on lot of inventory. What we recorded as the primary sale is what we record and reflect in the wholesale business. So our secondary sales perhaps may still be good there but because they are sitting on the inventory our primary sales were lower. In terms of recovery, I presume it will take little longer but definitely it will recover as they start selling inventory exactly like what is happening to our store. Vishak you have any more flavor to add to this?

Vishak Kumar I think Ashish you are right, also the fact that the department stores mostly are in malls which took a little longer to recover, so that is also perhaps a reason why there is a little more lag there. But the good news is all malls have opened already. And what you have seen is its taken 2 to 3 months for a mall to come back to some kind of bounce back after it opens. So most of the malls and the second wave in Maharashtra, Tamil Nadu and so on, opened in August, so there are now in that sense getting back to shape. So I think like Ashish said it's a matter of time that we get that kind of normalcy in these chains.

Nihal Jham: Then just for understanding is it possible that in Q3 there is a primary selling because these guys may be lower on stock of that is not something that may happen?

Vishak Kumar: Not really, in the sense that yes, the way we work is, they work very close to consumers in terms of replenishments. So as they keep selling, the inventory keeps getting replenished, so which is the way we work is. So at some stage once the one time problem of COVID inventory block gets cleaned up then after that it's a steady flow.

Nihal Jham: The second question was on the Flipkart deal again, you mentioned about obviously this first being an investment. But just on the strategic side, as I understand Flipkart and both Myntra have preferred partners, so does this deal automatically make all our major brands as preferred partners and just on the long-term what do you see the share of e-commerce both in case of Madura and Pantaloon which I think around 8% and 1%, so if you can just throw light on that.

Ashish Dikshit: So two separate questions, first Nihal let me assure you we were preferred partners with all leading e-com players, primarily because we carry some of the most desired brands and cost portfolio of such brands. So it's not something that is unique or new to that extent. We will of course work closer and as their business grows and our brands and portfolio grow we will look to grow that business. But there is no new preference that has come in this which we didn't have. As a very desirable set of strong brand portfolio all e-commerce players have given us a fair opportunity to present ourselves, are deeply invested in the technology in terms of building APIs to each other and so on and so forth, so many of those things are already in place. This will accelerate it but this is not unique to this arrangement. As far as e-commerce share is concerned I think you saw several times in Jagadish's speech and also in our investor presentation, our own e-commerce business is also growing rapidly because consumers are getting used to now looking for brands and products at their own website. Each one of our own websites have grown between 3 to 5 times in this. Which has given us also confidence to sort of invest in it, improve base and a lot of work is happening in improving our brand's own business. But clearly there is a very large traffic at third-party platforms. I think there is maybe for short-term exaggerated but a long term also there is a structural shift which was happening all along last 2-3 years, has got accelerated in last couple of months and therefore share of e-commerce in our unbranded business which was around 7%-8% at this point of time. We expect it to get to—when stores also fully opened we expect it to—grow to early double-digit. While Pantaloons business we think should grow first to about 4% to 5% in next 12 to 18 months.

Moderator: We have next question from the line of Vicky Punjabi from JM Financial.

Richard: This is Richard here. Ashish and Vishak why are you all so sure that you will still need that 100 stores every quarter kind of an opening. You are talking a lot about omni-channel, e-commerce etc. Why do you think you will still need these 100 stores? I agree we are in the middle of a once a century event hopefully but before one got a hang of how that will pan out you are already back to your expansion strategy etc. Are you sure the other side of COVID will be exactly the same as the earlier side?

Ashish Dikshit: So I will do Vishak first and then you can add to it. Richard first all the stores are not what we are pushing, these are stores with franchisees are opening in their markets because they see demand for our products. Remember they are putting the capital, they are putting everything else, they are taking risk on rental. Having said that we consider it our responsibility to make sure that franchisers are making sensible decision because their long-term interest is our long-term interest and therefore if anything, we ask more questions, look at the place but what it truly reflects Richard is the deep under penetration of apparel retail in this country. If you compare it with any other category where we are selling products at Rs. 1500-2000-2500, T-shirts at Rs. 800 to Rs. 1500 the overall penetration of retail industry in apparel is exceptionally low and therefore whether it takes 3 years-5 years it has to catch up over a period of time. Your question about consumers moving to digital experiences, online it's a fairly valid question. We keep ourselves asking that, I think that trend will go over a period of time, share of e-commerce will grow but what might grow even faster and perhaps more certain is the more evolved omni-channel method. You have seen it's being a played out in last 2-3 months, imagine when the normalcy is restored, our operations are fully in place, we have time to actually fully play out the technology integration between our stores and our websites and fully evolved local delivery system. I think these stores will be great assets but in terms of visibility of those stores, why these open stores are being open, Vishak do you want to add more flavors on how is it happening?

Vishak Kumar: Richard I think we are a very-very under penetrated industry and within that I guess even though we are better off but there is still huge opportunity for growth. I tell you it's across the country, it's not as if is in some pockets, it's in large towns, small towns, mall, high street, it's all over. I was just as Ashish was speaking I was scrolling through the last 10 stores that we have opened, opened in Surat, Hyderabad, Namakkal, Kumbakonam, Ahmadabad, Thane Delhi, Bangalore. I mean across the country and all of these are business partners so either wanted to change their business or who created a new property and want to grow with the company. So there is tremendous opportunity for creating and all of these, Richard can be omni-channel stores. We have already lit-up 800 of our stores and they are omni-channel stores already and it's an amazing experience where both consumer gets, the consumer who wants to stay at home and shop, also has a real close by source from which he gets it and of course it makes merchandise rotation in the store even faster. So all of this together I would say yes 100 stores but am I happy with that? Answer is no, Richard there is so much potential in this country.

Richard: Is this thing about penetration of apparel retail actually playing out because if you look at the net store opening it is about, I would think 25, right? 25 for the quarter, 100 I guess is the gross number but as you probably closed down 75. So are you actually increasing penetration of apparel retailing in the country?

Vishak Kumar: Absolutely. There was a closure which was perhaps warranted by COVID and some of those challenges including with the places where we couldn't get rent concessions and so on. But the opportunities actually for net expansion of (+100 stores) in that sense and we have (+100) lined up in quarter with no closures in that sense in the next quarter, our marginal closure in the next quarter. So Richard the point is it is truly about increasing the retail density across the length and breadth of this country both in big cities and in the smallest of towns.

Richard: Ashish if I can just trouble you to the piece, what you said regarding your expectation of how revenue recovery will play out going forward into the third quarter and I think you said full recovery by end of March. I just missed some part of that.

Ashish Dikshit: So Richard I was just repeating what I had said in April and while it is very difficult to predict we had made a broad forecast about how this year might look like. We don't give forward estimate but it is coming close to what we had said so had I repeated that. We had said Q1 about 20%, up to Q2 about 50%, Q3 between 70% to 80% and by end of March we expected it to come back to normalcy and I think Aditya had asked that question and I was saying look we are trending that trajectory as we speak.

Richard: One more question on the balance sheet. If I look at your inventory and your trade payables your inventory is down versus March by just about 200 crores odd, 250 may be but your payables are down 550 crores. I know these two items are not strictly related but any perspective you can throw on this?

Ashish Dikshit: So very simply Richard what we have done. These are times where lot of our suppliers and partners, I think the whole industry was in stress, liquidity was the problem for everybody but it was important for us to make sure that in longer-term interest we keep our supply chains stable, we keep our suppliers in a reasonable shape. So we have done everything to ensure that from our side we keep that cycle going at the backend because we are very confident of recovery, we are also very keen that when the recovery happens we are first one on the ground. So therefore that system we have made sure that that system stays vested so in a normal course because you would buy inventory, you are probably stable to remain at a certain base level, if anyone the payable days but what has happened is we have paid for the inventory that we had and we have bought very little new inventory and that's getting reflected in loading of payables.

Moderator: We have next question from the line of Garima Mishra from Kotak Securities.

Garima Mishra: When you disclose your channel wise revenues for the Lifestyle business, where there does the e-commerce component get accounted for?

Ashish Dikshit: In others.

Garima Mishra: So apart from e-commerce what else that others include?

Ashish Dikshit: There is a little bit of exports. It also includes some of the factory outlet businesses with that so we have which is not the first quality business. I think primarily e-commerce exports and value outlets contribute to most of this.

Garima Mishra: I missed some bit of it but you did speak about your store expansion plans. So it's heartening to see that you added stores both for Madura and Pantaloons in the second quarter. What would your guidance be for the remainder of the year in terms of store expansion?

Ashish Dikshit: We had said that last quarter also in Pantaloons we are looking to open between 20 to 25 stores. We have opened 7 all of them in Quarter 2 so that journey has now started and Vishak had mentioned close to 200 stores last year in the last call for this year. About 100 of them have got opened between Q1 and Q2. We think we will exceed that but primarily what's happening is we are rationalizing wherever we are not getting the right framework in terms of rentals or economic model etc. Vishak you want to give more specific number to that?

Vishak Kumar: So, Garima 100 we opened already. Q1 was the only quarter where we couldn't open because of COVID. We figured methodologies by which we were able to get back by Q2, 100 we opened. We have a line of site another (+100) stores which are in project stage which will definitely open in the next few months. But my sense is we will add another 100 beyond that but not all might land in this financial year because after you signed them, you get into development of the properties and so on, so I don't know. So (+200) is a safe number further would be chasing a much larger number.

Garima Mishra: On a net basis you are saying on a YOY basis you may end the year as a flattish kind of count, is that the right way to look?

Ashish Dikshit: Why are you saying flattish. This is pure increase.

Garima Mishra: You are going to close a very large number of stores also, right. That's what you mentioned.

Ashish Dikshit: I don't think we are saying that. Vishak why don't you give a clearer indication of the net number?

Vishak Kumar: So Garima about a 100 closures is what it looks like and hence if you are able to open for the full year 300 it becomes 200 net. If you are able to open about 250 it's a 150 net. That's broadly the number Garima.

Moderator: We have next question from the line of Anitha Rangan from HSBC Asset Management.

Anitha Rangan: With the money from the Rights issue and Flipkart deal what is the kind of sustainable debt which you will look at? In that sense will you also look at some kind of inorganic expansions and so on once you get that money?

Ashish Dikshit: So, nothing that we can talk about. I think if you can understand our primary purpose was to strengthen the balance sheet, so when normalcy comes back we are in a position to grow our business. We have lot of existing businesses which is Lifestyle brands and Pantaloons which can grow faster, our innerwear journey is in very early stage, we expect that to become our large driver that can take some capital. We have just entered ethnic wear; we could not build on the two acquisitions that we have made. We have a longer-term plan around that so there is lot of opportunities in our existing business and if the balance sheet strong, when the markets recover, when overall situation looks good, we will look at opportunities as and when they come.

Anitha Rangan: What is the kind of sustainable level of working capital you will look at?

Ashish Dikshit: Our working capital is fairly balanced. It is only in relation to the sales which went off the gear in COVID that it created and normally for the short-term. I don't think there is any large shift in working capital in a stable state business versus what we had in let's say in FY20 or FY19 and so on.

Moderator: We have next question from the line of Shalini Vasanta from DSP Mutual Fund.

Shalini Vasanta: Just in terms of timelines if you could give us a guidance on when the Flipkart money is expected to come in and second is around working capital as well. So to make the debt come down to about 2000 crores levels by March end where do we see our inventory and receivables position?

Ashish Dikshit: On the first question on the money it is going through the necessary regulatory process. I don't think it will be right for me to put an exact time but it could be anything between sometime in Q4 of this year. It's fair to assume at this point of time. In terms of the second question was on cash flow inventory working capital. On the working capital our inventory levels are where they were just marginally lower than what we were at the beginning of the year; by the end of the year we expect to sustain similar level of inventory because the normalcy by then hopefully would have come back and we would be looking at base level of sales and therefore inventory turns similar to what we had 2 years back or 1.5 years back. So I don't see a big shift in inventory. Our payables have come down primarily because of purchases have come down significantly in H1 as we were rolling over our inventory from this season to the next season. Payables will rise and that will create because our fresh purchases will come that will create stress. On receivables side, I see a marginal improvement but definite improvement over next 3 to 4 months as our customers whether they are large department stores or they are wholesale customers, this is where most of our receivables lie as their business comes back to normalcy.

Moderator: We have next question from the line of Vikas Jain from Equirus Securities.

Vikas Jain: According to one of the lease articles CAIT has wrote to the Commerce Minister saying as this deal with the Flipkart, its migrates in FDI policy. Any take of yours on that?

Ashish Dikshit: See for us we can't comment on what anybody else has signed but what I can tell you that this transaction is in complete compliance of all the laws that exist. Similar transactions you are aware have taken place in the past, this investment is under FDI route, it's a small minority investment of 7.8%. So to our eyes it does not have any merit and we are confident that this is not an important issue.

Moderator: We have next question from the line of Ritesh Gupta from Ambit Capital.

Ritesh Gupta: Just on the cost structure bit you did mention that it's difficult to quantify what kind of cost reduction will continue in the next one or two quarters. When I look at your FY20 cost base barring the gross profit of 400 crores odd, EBITDA of 500-600 crores so implies almost about 3400-3500 crores of cost in employees and other expenses etc. Do you have any target in mind to improve using COVID as an opportunity? I am sure you have taken lot of cost initiatives any which way. So, any number, any percentage reduction that you are targeting from FY22-23 as things normalize back?

Ashish Dikshit: No, I think Ritesh it would be wrong for me to give such a broad number on that. As we said let's look at our individual cost line items, our selling expense which is significant part of our business that's our large cost and we had estimated that we will drive a reduction on selling expense between 30% to 35%. We are broadly staying with that number. As times grow, we will have to of course keep looking at these cost separately, that's a single largest cost, there is an over-head cost which is people and salary etc. we had looked at about 20% odd reduction in that. We are on line; it started a little bit late but Q2 has seen all of it. Large part of it will carry over into Q3-Q4. Then there are lot of discretionary expenditure, if you look at our last year our advertising costs alone will be between 350 to 400 crores, that obviously will be down by anything from 70% to 80% at this level. There will be few small costs which may also go up but that's not significant enough. That's really the broad spate of how our cost will pay out on an annualized basis.

Ritesh Gupta: I understood that because this year was pandemic and for example there were more travel-related cost probably the competition was also not advertising, so you didn't need to advertise, in any case sales are not happening. I am just asking as you get into a normal year how many of these cost reductions, you said 30%-35% selling expenses start. Could you retain 10%- 15% of that whatever will be the sales numbers like let's assuming the store remains the same. 10%-15% cut in selling expenses on pre-COVID base, is it a possibility that you see or do you think no cost were anyways at a pretty decent, well, cost were pretty much anyways at decent levels. So further cutting them from those levels is difficult. This year I understand, probably from a more normalcy perspective, do you think you will be able to peg down any of these cost structure on a structural basis?

Ashish Dikshit: So some of them but those Ritesh to my mind will be smaller reductions. Just to give you again say that rents are contractual for long period of time, some time as long as 12 to 15 years. So you negotiate and get some relief for times like this. If situation continues, we will perhaps have to extend then and ask for greater relief but otherwise they will go back to the level that were. Similarly in overheads and advertising as the world evolves we will have to align those cost little bit to how the sales comes back and some of the structural corrections that will take will probably carry over but I would say the level of depth of cost reduction that we were able to drive, significant part of it is one-time which will not roll over into next year.

Ritesh Gupta: And just on the hyper-local delivery bit, have you rolled it out across India or across metros etc. or any specific cities you have rolled it out?

Ashish Dikshit: So, we had started in, Vishak you want to give examples of what we have done both in and other?

Vishak Kumar: So we have kept it at two kinds of pilots, one is a Bangalore pilot and another is a small town pilot, just to see if there are differences in consumer behavior and so on and both have their own merits. Right now what are we tracking? We are tracking to see how many people are interested in this, how many people, we are tracking, how quickly are we able to deliver, we have kept a 4-hour internal timeline by within which we are able to deliver. We are also seeing that those who availed of this service, are they happier with it and would like to continue. So that's the nature of the pilots, we have been honest for about 2 months now. So its early days very-very encouraging results, both in big city and in small towns so we should be able to scale this up as the pilot succeeds.

Ashish Dikshit: What we have also done Ritesh is in Pantaloons and some parts of Madura's branded business also the WhatsApp commerce which is either video shopping where a store has a limited set as defined set of loyal customers and he either sends a catalogue to them or sends an invite and take them video shopping, that's happening at a much larger scale but in Pantaloons alone about 100 stores and large number of Madura stores are able to do that. The specific hyper- local that Vishak is talking about is being able to make your local inventory available digitally to you and you shop as if you shop from e-commerce player, in 2-3-4 hours delivery happens to you.

Ritesh Gupta: On the wholesale side you said that you are doing some inventory correction in the wholesale side but I would understand that by the end of September you would have started to pick some inventories because I would understand that the wholesale is much stronger in Tier II-Tier III-Tier IV towns and the demand has been pretty okay in those towns versus the metros. So any reason for your sharp decline in the wholesale barring the inventory correction and especially now getting into October and the end of September you would have anyways started to push out the festive inventory?

Vishak Kumar: Actually a large part of our dependence is on department stores and these are department stores which are big box department stores, most of them are in malls and here the bounce back has taken longer and hence the right kind of inventory to get into that groove has taken longer. You are right about small towns but that in our wholesale is not that larger component of our business.

Moderator: We have next question from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: Just a kind of clarification of probably you can give some insights on this. Were you in discussion with multiple partners for the stake share? I am just wondering the premium that the party is willing to pay for this transaction for a minority stake? Does it come up with any kind of future carrot of board seat or any kind of first right of refusal for incremental stake sales?

Ashish Dikshit: No, I don't think we want to comment on that but it is what you see there. It's a financial investment by a party which has tremendous belief in our brands and our business model and they feel it's an attractive thing. There is no future linkage on this part.

Moderator: We have next question from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: My question is with regards to you just said that Pantaloons, you are trying to renovate the stores and few have been renovated and others in line. So would that involve certain CAPEX in that sense and just in relation to this, what will be the CAPEX guidance for this and the next year?

Ashish Dikshit: So I think this year as we said we have about 20 odd stores, 20 to 25 stores which will be the fresh store opening. We have fully at this point of time; we are opening new stores in new retail identity for this year. Next year as we go forward when we look at normalcy coming back, we will look at a select set of 8-10 stores where we would renovate the existing store with the new retail identity. In terms of capital guidance our full year number remains what it is therefore that has not changed. We had projected about 150 crores odd as the number for the full year CAPEX for the year and that's where we will stay.

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