Our focus is on delivering the brand promise

On growth in apparel brands, acquisition of Forever 21 marketing rights and developing an omni-channel business

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Retail is a key element of the $41 billion (around Rs 2.8 trillion) Aditya Birla Group, which back in 1988 set up Mudra Fashion and Lifestyle with four brands under it—Van Heusen, Louis Philippe, Peter England and Allen Solly. Over the years, the diversified group entered food and groceries with its More stores operated by Aditya Birla Retail Ltd (ABRL).

In 2012, the group acquired Pantaloons from Kishore Biyani and, in May 2015, set up Aditya Birla Fashion and Retail Ltd (ABFRL), consolidating its branded apparel businesses. Earlier this month, ABFRL announced the acquisition of online and offline marketing rights in India of global teen fashion brand Forever 21.

A separate group company has launched abh.com, an online marketplace which is a front runner for the acquisition of online fashion retailer Jabong.com. That aside, the bricks-and-mortar retail business of ABFRL and ABRL are already sizeable with revenue of $1.5 billion—set to double in size by 2020, said Pranab Barua, business director (retail and apparel) at ABFRL in an interview. Edited excerpts:

How does Forever 21 fit into your portfolio?
We did an exercise a year ago on our long-term strategic plan. All the businesses of the group, including retail, did it. In that we recognized that there are still some white spaces, even after the acquisition of Pantaloons. This is mostly in the young women’s side of the business. We have identified opportunities of luxury business, lounge wear, inner wear, leisure wear segments, and also a pure play casual wear brand for men. So we looked at it to see if we should do it ourselves or go for acquisitions and partnerships, so when the opportunity came with Forever 21, we pursued them. We believe that this is one of the fastest growing segments, growing at 30-40% per annum. We can build a very large business very quickly—about $1,000 crore by 2020. It is about $250 crore in revenue right now.

You closed fiscal year 2016 with revenue of $9,400 crore, just short of $1 billion. What is the next milestone?
We believe that we can build a very large business that will grow at a compound average growth rate of 25% for the next five years. We expect to have revenues of $2 billion by 2020. We believe the entire portfolio of ABFRL will give margins of around 10%.

What about ABL?
If we take into account our retail sector (apparel and ABFRL) revenues, it is $1.5 billion and by 2020 it can be $3 billion.

What about brands like Louis Philippe, Van Heusen, Allen Solly and Peter England?
These are our core brands and each of them is about $1,000 crore in revenues. They will all double in revenue to be in the $1,500-2,000 crore range.

What will drive their growth?
Our positioning is clear about what we want to do. Make sure the merchandise focuses on delivering the brand promise. Louis Philippe is based on craftsmanship, quality and excellence. We will keep on improving that. Van Heusen is based on power dressing and power dressing comes from making an impact with your presence. Impact comes from fashion and Van Heusen will focus more on and more on fashion. Peter England is about exceptional value. It also caters to a younger profile of customers. Allen Solly is about colour and vibrancy. Aligning our product and merchandise and delivering the promise of the brand will be the focus.

The Madder business, which includes Louis Philippe, Van Heusen, Allen Solly and Peter England, slowed down in the past year...
This is due to pressure from e-commerce in the last year. We have taken corrective steps in terms of discounts and pricing, and are now back on track. The Pantaloons business is still to turn profitable and come with a large debt...

We are looking at improving our profitability and reducing our debt in the next three-four years. I don’t want to give you numbers right now. The debt will reduce by increasing our profit and managing our cash flows. Our profits will go up in the next three-four years. We are looking at how to manage our cash better and use fringes for our expansion instead of our own capex and other things like managing our inventory, stock and capital better.

The footprint of your brands and their penetration is still very low. We have a network of 2,000 stores and our distribution expansion continues. Last year we launched a project called Project Bharat under our Planet retail format which will open stores through franchises in tier III and IV towns, and we will add 400-500 stores under this project in the next three-four years.

What about People, your fashion offering for the youth?
It’s a brand in transition. We had started with small formats in big cities. Now we are transitioning to bigger stores and going further down into tier I and II towns to about 100-odd towns. This business is about $100-200 crore and by 2020 it will be a $500 crore brand.

Your luxury multi-brand format The Collective continues to bleed. How will you correct that?
The Collective is making money at the store level with a turnover of under $100 crore. We are not expanding it and will keep the count at seven-eight stores. We have changed the positioning from multi-brand luxury to premium and bridge to luxury.

Have Trendin and Abf in the digital space. What is your ambition for the space?
Abf is a separate company like Myntra and Jabong. However, digital transformation is a big focus area for us, in which we are investing. It consists of creating an omni-channel environment. We are investing in our stores and digitizing them. Right now we have 100 stores digitally transformed and by the end of the year we will have completed 500 stores. This means that you can order online and collect from the store, browse in the store and have it delivered at home. We are launching our own brand sites like vanheusen.com and allensolly.com in the next two-three months and Trendin, which currently sells all our brands online, will become the back-end. Right now online is about $200 crore and by 2020 we see this becoming 10-15% of our overall revenues.

What is the capex planned for the year?
We will spend anything between $300-400 crore year-on-year on our expansion initiatives.

Consumer spending remains muted. Do you think we will come out of the slowdown?
It doesn’t feel like it. Somehow when you talk about a 7-7.5% economic growth you don’t feel it when you walk in the market. For me the key issue is confidence. Consumer confidence needs to come back before they spend. Also the kind of unreasonable discounts that e-commerce companies are doing like selling below cost has also spooked the consumer. The e-commerce impact and the kind of spending they were doing and discounts they were offering, the disposable income that was lying with the consumers they were using. Therefore, the left-over, so to speak, to buy apparel was much less.