“Aditya Birla Fashion and Retail Limited Q2 FY 2019 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good day and Welcome to the Quarter Two FY 2019 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 performance, followed by a Question-and-Answer Session.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Ashish Dikshit -- Managing Director; and 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 quarter and first-half performance.

With this, I hand the conference over to Mr. Jagdish Bajaj. Thank you and over to you, Sir!

Jagdish Bajaj: Good Afternoon, Ladies and Gentlemen, and welcome to the Earnings Call of our Company.

The second quarter for this financial year was challenging for most of the consumer-facing businesses. This was mainly because festive season, which significantly contributed to sales shifted to the next quarter. Additionally, a few regions in the country faced severe natural calamities which impacted sales.

Despite this, our company reported a very robust performance this quarter as reflected in the revenue growth of 11% and if I consider the impact of IndAS 115, the growth will be 12%. This result, we could achieve through a superlative performance across each of our business segments. Not only did we expand our footprint to new towns and cities, we launched targeted campaigns and revamped retail identities to enhance brand equity and the salience of our customers.

Now, let me give you a snapshot of the financial performance of the company, before I delve into the individual businesses.

For Q2, the company is continuing its momentum and is on track for a long-term profitable growth trajectory.
The revenues for the quarter was at Rs. 2,007 crores registering a growth of 11% over Q2 FY 18. Growth in profitability continues to be a key focus area for the company. In line with that, even in this quarter, we have shown a spectacular growth of 62% in our PBD'T that is EBITDA over last year with EBITDA at Rs. 162 crores versus Rs. 100 crores in the previous period.

The H1 EBITDA has also seen a strong growth of 56% and reached to Rs. 284 crores compared to Rs. 182 crores last year. The profit after tax for the quarter is at Rs. 43 crores compared to a loss of Rs. 10 crores in the same period last year. The Y-T-D PAT is at Rs. 48 crores compared to a loss of Rs. 30 crores in previous years.

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

The business has a strong focus on product innovation, category extensions, network growth and cost optimization, which is leading to superb business performance quarter-on-quarter. The new brand campaign should have a significant impact in rejuvenating the brands in the minds of the consumer. The business posted a strong EBITDA growth of 35% from Rs. 104 crores in Q2 FY 2018 to Rs. 140 crores in Q2 FY 2019. On the H1 basis, EBITDA has increased from Rs. 169 crores to Rs. 218 crores, 29% growth. The revenues have grown by 12% from Rs. 977 crores in Q2 to Rs. 1,090 crores in Q2 FY 2019. Y-T-D revenues have risen from Rs. 1,868 crores to Rs. 2,035 crores, recording a growth of 9%. The EBO network expanded to 1,897 stores in this quarter from 1,769 stores in the same period last year.

Moving to the Pantaloons business:

Pantaloons continue to post strong performance driven by continued product improvement and strong brand investments. Sales have seen 6% growth even adjusted for IndAS, our growth is 8% from Rs. 740 crores to Rs. 787 crores in this quarter. This is despite the shift in festive sales to the third quarter. The profitability enhancement journey of Pantaloons continues. The EBITDA for this quarter was Rs. 52 crores, as against Rs. 35 crores in Q2 FY 18, a remarkable growth of 47%. The retail network now is at 288 stores. We will continue to expand in newer markets.

Next, we moved to the Fast Fashion business:

We are continuously focusing on improving the profitability of the Fast Fashion business by rationalizing cost and rightsizing the stores. The EBITDA losses for the first-half have reduced from Rs. 26 crores loss to Rs. 15 crores, a reduction of 41%.

And lastly, our other businesses which includes Innerwear and international brands, the Innerwear business continues to scale up rapidly and has reached 9,500 outlets at the end of
September 2018. The quarter also saw a grand launch of Women’s Innerwear which met with an excellent response. With inclusion of women’s Innerwear in our portfolio we have a comprehensive offering with which we expect to increase our pace of growth going forward.

In the international brands business:

We continue to scale up our mono-brand business. In line with the same, we launched the first Polo Ralph Lauren store in New Delhi. As part of our long-term objective of building a stronger play in the casual segment, we partnered with American Eagle which is a denim-led casual brand for youth. We have 3 stores in operations already and the brand is being very well received by the youth. We are planning to expand this to many more cities in the near future. We are selling this brand through a major e-commerce platform also and its own online portal.

Revenue from the other business segment witnessed 88% growth over the second quarter last year to reach Rs. 84 crores from Rs. 45 crores. EBITDA losses remain at Rs. 17 crores, as similar to last quarter.

Finally, I conclude with the future outlook and way forward for each business segment:

In Lifestyle, we will continue to grow the business through network expansion, category extensions, and high impact advertising and marketing campaigns.

In Pantaloons, we will continue to focus on enhancing the brand perception, improve product and expand our range.

Fast Fashion, we will reignite growth post business model realignment.

Innerwear, we will build on the growth momentum and expand our distribution. And finally, we aim to gradually build up our international brand’s portfolio.

Thank you, and wishing you all a happy festive season ahead. We are now open to questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, you have mentioned a shift in festive season impacted. So, has it impacted Pantaloons more? Because numbers suggest that. So, does it also mean in Q3, Pantaloons should have a higher delta vis-à-vis Lifestyle because of the festive?

Ashish Dikshit: Abneesh, hi. This is Ashish here. Your observation is right, Pantaloons has a much higher share of a hit as a part of its overall business and therefore, when the shifts where the crossover is
closer to Puja, shifts to Q3 the business gets more significantly shifted in Pantaloons versus other businesses which do not have such high share.

**Abneesh Roy:**
Sir, you have done well in the Innerwear, you have started the journey well. Now I see women’s Innerwear and Athleisure. So, one, Jockey the market leader is also doing the same thing. So, is it just expansion of the market which will happen? So, if you could elaborate on how big is this market Athleisure and women’s Innerwear, how big is that market? So, some color if you could give on the overall Innerwear and these 2 specific, which you have now started?

**Ashish Dikshit:**
So, overall, Innerwear side see, we are a very late entrant in terms of where the other players are. But we are very early in trend, in our opinion, in terms of where the opportunity lies. We expect overall Innerwear market to be anything between Rs. 55,000 crores to Rs. 60,000 crores. More than half of that marketplace lies with the Women’s Innerwear segment. If you count from the supply side there are very few players of significant size. And therefore, I think the journey of premiumization movement towards brands to superior products has just begun as far as that category is concerned, and particularly so in the Women’s Innerwear. So, we see a great opportunity. It is early days for us to figure out how the revenues will flow out. So, we have just launched it in September in Calcutta, in Bangalore, in Delhi and in the next couple of quarters, we will see how the consumer responds. But it is a very large opportunity, market perhaps even bigger than Men’s Innerwear, and with even fewer brands than in Men’s Innerwear.

**Abneesh Roy:**
But at your price point, what will be the size? Because this I think, is overall size.

**Ashish Dikshit:**
No. The point is Abneesh, size gets created. Sometimes supply creates demand because the unmet needs of the customers in terms of quality, in terms of solving their basic consumer needs, is what drives premiumization and place for products and brands and that is really what we are investing in.

**Abneesh Roy:**
And last few quarters, Pantaloons store addition has been aggressive but same-store sales growth has been disappointing. My sense is both seems to be linked because there is cannibalization. Are we able to make out what can be the cannibalization impact because of such a sharp expansion of stores?

**Ashish Dikshit:**
I do not think there is any impact of cannibalization, Abneesh. We have explained the 2 phenomena in different calls very differently. One is the supply creation through store addition and not all Pantaloons store additions have come in the same city. We have expanded the markets. We have entered a lot of new towns. The issue of same-store growth, each quarter has a different color to it. But I do agree that over a period of 6 months to 12 months, the store growth for same-stores has been somewhat subdued and work on the Pantaloons theme on that will continue to happen. This quarter particularly, it is more a shift of festival which has depressed the same number there.
Abneesh Roy: But sir, why is not private label rising in Pantaloons? It is been at 62%, for a long time now?

Ashish Dikshit: Yes, I think the portfolio continues to do equally well on both sides and while our intention is that, we have not been able to create and add new brands. There is been a portfolio churn where we have within private label also rationalize the brand’s network. So, while we have added something, something is been reduced. Effectively, we have been pretty much around 60% to 63% for the last almost a year or so.

Abneesh Roy: But do you think that number is changing in the next 2 years?

Ashish Dikshit: No, definitely, that is our intent. We have said that several times but we will have to wait for our consumer response to the new thing. We also wanted to rationalize our one of our observation was that perhaps we had proliferated the store with too many brands and both on the external brands and internal brands, we were trying to create a more rational portfolio there. And to that extent, there has been a little bit of exit and rationalization of even internal brands. But our ambition to grow our private label share to first 70% and then 75% continues to remain. The journey is going to take a little longer than what we had imagined but it is pretty much on track in that sense.

Abneesh Roy: And sir, the last question in Lifestyle business, how much is Women’s and Kidswear and how do you see that number again from 2 years to 3 years perspective?

Vishak Kumar: Hi, Abneesh. This is Vishak here. The good news is on both Women’s and Kids we have seen some very-very aggressive growth, okay? All be it on a small base, okay? So, our like-to-like on Women’s Business Women’s stores was about 42%, okay. So, very-very aggressive growth on a low base. Having said that, both these together each would be about Rs. 110 crores - Rs. 120 crores kind of zone brands. We have 2 brands: Allen Solly and Van Heusen in Women’s wear. Both are posed for very significant growth in the next few years. The growth on Kids wear again, is a huge opportunity which is waiting to happen. Again, we had north of 20% like-to-like in first-half. So, there is again huge opportunity in this as well.

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

Tejas Shah: Sir, if you can help us understand the demands scenario in general because different channels seem to have different feedback on how the consumer sentiments are panning out. And especially what is your read on online channel intensity of this quarter, this festive season?

Ashish Dikshit: So, Tejas, you are talking of October - November situation or it is a broader question over a longer period?
Tejas Shah: It is a broader question, sir. It is a broader question. In general, what are you picking up as a sentiment?

Ashish Dikshit: See, I think to my mind a reasonable degree of equilibrium has been achieved. It is undeniable that the growth in online will be much faster. Consumers are getting used to this channel and therefore organically over a period of time, the customer will keep experimenting. There was a very large burst as when the channel was introduced. And therefore, in the first few years you saw very rapid growth. I think some of that will probably taper off from that feed, but it will continue to remain a very large growth as far as that channel is concerned. What happened over a period of time is that consumers have sort of settled a fine balance between online, off-line in both our retail formats, in Lifestyle Brands and Pantaloons where we run a very large distributed retail network, consumers are coming back to offline our growth trajectory in both businesses. Even in same-store, the point of view is very good. Pantaloons numbers do not show up today. But the organic performance that we see for Pantaloons stores give us the strong comfort of good improving off-line sales. So, I think we are living in a world where online will definitely continue to grow this year of the market. Our sense is that it will probably not grow as fast as it grew in the years but that is what happens with every new channel or trend that comes in. It starts with a very large high and then starts to settle down at a slightly lower level, but in this case, it will continue to be large. But the threat and the challenge for all off-line and therefore, consumer buying from both off-line and online is finding a better equilibrium today than it was 3 years - 4 years back. Particularly, in festive periods you see very aggressive promotions by almost all online players and big platforms. Our own business suggests that, that does not significantly take away at least from the categories and business that we have and that is really why we feel strong and confident about our off-line stores in the festival period. Across the network, our performance has been extremely good despite pretty aggressive promotions which are currently running in the market.

Tejas Shah: Sure, that is helpful. Sir, second, if you have to double click on Lifestyle brand growth for the last few quarters, we have seen some momentum coming back. So, which sub-segment is contributing most to the growth? Is it casual or is it formal?

Vishak Kumar: Okay, Tejash, hi, Vishak here. Actually, there is overall growth. There is a good amount of resilience in formals, okay which is good to see. Formal’s also taking more modern expressions. For example, we have a line called Athwork by Louis Philippe which is a very modern expression formal wear, does extremely well for us and so on in each of our brands. A lot of our growth is also coming by better throughput out of existing stores, okay? And also moving into newer towns, smaller towns and so on. Plus, of course, overall there has been in general, there is a fairly healthy growth across brands. So, like I was explaining to Abneesh earlier, for instance, the Women’s and Kids business has again shown some amazing numbers. So, it is hard to pinpoint that there is a particular silver bullet which is giving all the growth. There are many of these things coming together which is giving us this healthy double-digit.
Tejas Shah: Sure. And we started this year with a very aggressive expansion plan for Madura Lifestyle Brands. So, where do we stand there?

Vishak Kumar: Well on track, Tejas. We should be able to cross that number.

Tejas Shah: Can you put that number again, sorry?

Vishak Kumar: Okay, so we had said 300. So, we should be able to beat that number.

Tejas Shah: And what will be the number as of today, half year?

Vishak Kumar: About 140 odd stores in H1.

Tejas Shah: Okay. So, do not you think that for second-half, which will have 1 quarter post-Diwali the run rate looks slightly aggressive?

Vishak Kumar: No, no. Why? I mean, our properties are not so dependent on Diwali and all that. Yes, there is a set of customers or set of franchise outlets which like to open their stores coinciding around Diwali. But that is a small part of our overall thing. So, there will be many properties which are in pipeline. So, we know the visibility already of these properties. So, give or take 1 month, these stores will happen.

Tejas Shah: And the last one for now. On observation from Jockey expansion curve, if you see Women Innerwear actually happened much later in this journey. And again, we also realize that it requires a separate retail network for long-term engagement with women consumer. And hence, we have a separate DBO line for women as well. So, first, do you think that we are slightly ahead in the journey entering into Women Innerwear also? And second, how do we plan to leverage the current network to target that set of the consumer?

Ashish Dikshit: So, Tejas, fair question. I think, the question of being ahead or late is a function of where you think journey began. We have been at it for more than 2.5 years - 3 years in developing our capability, building teams, testing products, doing consumer research, doing fit trials across the country. It is been a very-very well researched and deeply tested entry into the product. It will, however, take time to perfect it, and we will learn as we go along. Initially, in terms of so really speaking, I do not think we are too early or too late. I think it is a large market opportunity there is a place for the brands to come back and create unique and distinctive products and upgrade women consumers from the products that they are getting today. Van Heusen has a role in that and we feel pretty confident that the product that we have created will do that. On distribution front, we will while initially start with the distribution that we have built and which is essentially the wide distribution of multi-brand outlet we are experimenting other formats which is 2 I can mention, which is men plus women EBO which is very similar to what you find in some of the
other brands which have both men and women, exclusive Women Lingerie EBO as well as you must remember it comes from a brand called Van Heusen which in itself as Vishak has told you is finding momentum in Women’s apparel. And there is an opportunity to create a distinct and very-very attractive retail format for apparel plus lingerie for the Van Heusen brand. So, we have multiple levers and how to play it. And I do agree that I think category growth, eventually, its explosion will happen when we give women consumers the kind of format which they are most comfortable with in terms of both service, as well as the product range and EBOs, will play a role. But we are probably too early on that journey. I mean, these are thoughts and plans but we will have to execute them and see how it works.

Tejas Shah: Sure. And the last one on Innerwear, are you seeing current growth as more of a displacement growth as on today or are you seeing genuine optic like-to-like in the earlier markets also when you started placing it first?

Ashish Dikshit: Well, absolutely, it is a genuine same growth like-to-like happen because you cannot keep drilling the pipeline for so long. And remember, we had launched the earliest markets more than 12 months back and we continue to grow in that. So, the growth is very strong, we are still scratching the surface in terms of our distribution reach. We have a long way to go and there is no reason to believe at this point in time that in fact the market feedback and everything else suggests that the reason we are finding traction with customers and also, consumers is, primarily because of the experience that we are able to offer and what they have heard and seen. And therefore, it still is driven by how well the product is doing in the market. That is on the Men’s side; on the Women’s side, we will have to learn. I mean, it is too early for me to comment.

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

Abhishek Ranganath: Few questions from my side. So, my question is that on the number of brands in Pantaloons, you said that we have reduced some of the brands and therefore, you also made a statement that the journey of profitability or rather a journey of own brands, share our own brand as being longer than what was expected. So, what is our view on the number of brands which we are going to have in the stores (a)? And (b) because of this journey being delayed, how should we view the journey towards profitability and for optimal margins?

Sangeeta Pendurkar: Yes, hi, this is Sangeeta. So, I think, just going back to the rationalization of brands. I do not think there is a right answer in terms number of brands it is driven by some signs around what are the right occasions that we want to play in and what is the right fit of a number of brands that must service different discrete consumer needs to bring in different consumer segments into our store. There were brands that we believe did not have a role in our portfolio and some of those brands have been rationalized. Our journey, as Ashish mentioned earlier, has started in terms of really trying to improve our shares and taking north of the 61% - 62% that we have been on.
And if you look at our profitability in terms of EBITDA as in this quarter I think it is been a remarkable increase in growth in our EBITDA. That is primarily led by a very concerted effort in terms of improving our product and that has been our biggest focus over the last few months.

We believe that is the foundation of really commencing our journey towards improving our private label share and obviously in the quarters to come, you will see results being borne out. So, I think product improvement which has led to improvement in our gross margin leading to better EBITDA is our story in this quarter and going forward, we believe there will be an optimal set of brands in each of our segments to play into very separate occasions set of consumer needs. We are sharpening our label positioning for each of those occasions. And from a profitability standpoint I think, we have made huge shift in the first quarter, in the second quarter versus H1 of 5.6% on EBITDA. We are sitting at H1 of 8%, which I think is a significant shift and we feel pretty confident that both our top-line and our bottom-line growth, we are on track to move forward in that journey in the quarters to come.

Ashish Dikshit:

Yes, Abhishek, what I would say is that by improving the product by our own brands we have managed to shift the needle pretty significantly as far as profitability is concerned in the short run, in a very short period of time. As our confidence in our product performance will improve and which is now significantly much higher than what it was let us say a year back our confidence to increase the share of private label will also be higher and therefore, there will be another opportunity to further accelerate that profitability journey. Now, the only thing that Sangeeta also has mentioned, we need to balance it is that we do not have a supplier mindset on it on just increasing it simply for the sake of it. We will have to let each of our own brands also deserve the right level of they get what they deserve. So, therefore, they need to perform to a certain level. And as our performance is improving, you will see in the next few quarters that the share will start to move up.

Abhishek Ranganath:

Sure. And on Madura, I just have an observation and to your and Vishak’s comment on this is, if I look at the retail sales of Madura for the second quarter we are pretty much where it was in second quarter financial year 2017 and maybe slightly lower than what we were in second quarter FY 2016. So, wanted to get a sense of how should I read this? When something running at Rs. 420 crores. Now we are at something like around Rs. 350 odd crores. How do we read numbers? Is that because post the demonetization GST piece there was some significant erosion that which has now we are just catching back because we had significant 2 years have gone by and our run rate on the retail sales is pretty much same.

Vishak Kumar:

Okay. I think, Abhishek, all valid observation. First things first, our Q2 like-for-like is about 8%, okay? So, there is inherent growth in the network, okay? Second is, as you remember we discussed here the last time we have rationalized the network, okay? We have cleaned up a lot of networks so that overall top-line there would be an impact of that. The third is, you also have to consider the Diwali effect when you are considering Q2, so that is the other thing and of course, GST also impacts the way you record net sales, okay? So, all of this together, I think
what we need to take is extremely healthy. If you remember we had a double-digit like-for-like last year full year and then now again, we are on a very healthy like-for-like journey and we are expanding aggressively. So, with all of these together with 300 new doors with a very aggressive like-for-like, I think our retail is going to be significantly keep increasing in share.

Abhishek Ranganath: Okay. So, you are saying the share of retail business for us in the scheme of things, the share will keep going up compared to let us say what there were in the past? It might grow faster than the wholesale and...

Ashish Dikshit: I do not know because we have equally aggressive plans there. All I will say is that these retail networks per se we will see a disproportionate increase in a number of doors that we add up.

Abhishek Ranganath: Sure, okay. One last thing from my side for now is, this is on the inventory. We have seen a significant increase in inventory for the company is something which is higher than usual. Is there a sense of what is driven this increase in inventory which particular business we have seen this (a)? And (b) also, if you could also help us understand the allocation of other income in the segment EBITDA? Because if you just look at the reported EBITDA the company level EBITDA, it is net of the other incomes Rs. 142 crores whereas the dividend wise EBITDA works over Rs. 160 odd crores. So, it includes the Rs. 18 crores other income. I was just wanted to know, how it gets allocated between the segments?

Ashish Dikshit: So, let me take this. Our net current assets have increased by Rs. 130 crores. But this year, IndAS 115 is coming into place from 1st of April, 2018. So, that is why you are seeing movement in our disclosure practices, movements in inventories, debtors at the same time, our liabilities and other liabilities have gone up. So, this is the thing. So, do not worry much on that, it is a disclosure requirement, the net impact of Rs. 130 crores which is linked to our festive build-up and all. The second question is on other income. Other income is the 2 reasons, because it is a corporate income sort of thing because M2M FOREX cover, we take for our import needs and all. So, there is an M2M gain of around Rs. 6 crores and another is a Rs. 2 crores some case settle. So, we have to take it another way.

Abhishek Ranganath: Which segment is it allocated but because...

Ashish Dikshit: This is a corporate segment. Madura segment.

Moderator: Thank you. We have the next question from the line of Niraj Mansingka from Goldman Sachs. Please go ahead.

Niraj Mansingka: Can you bucket out about Pantaloons? I think you opened there was a phase when you stopped opening stores and then you started opening again. Is it possible to give some numbers or thoughts on how the stores are which are slightly older, not the oldest category ones? And how
are they performing in terms of your pickup in revenues per square feet or whatever number you want to use?

Sangeeta Pendurkar: Yes. So, if you look at the stores, a large number of stores that we opened in the last 2 odd years. If I look at the performance of our stores I think, from a productivity standpoint and a profitability standpoint all our stores as we have said in our calls before stand as profitable stores. And our stores break even pretty quickly. And I think, in terms of productivity, yes, the newer stores take a little bit more time but there is not a significant difference between our old stores and our new stores.

Ashish Dikshit: So, Niraj, we have mentioned several in times in the call. If you look at our longer-term picture which is not just 1 quarter or another quarter. If you look at for example be after 6 months or a year we are finding that our new stores are able to get to within 1 year or 1.5 years within 2 per points or 3 percentage points profitability of old stores. It basically indicates a reflection of both the title stores that we are opening. Our newer stores on an average are smaller size compared to the much older stores and also, a reflection of the business model our product working and everything else.

Niraj Mansingka: Yes. Is there a way you can quantify like, if the average store revenue per square feet is today of Pantaloons is Rs. 8,000. How much would be a 2-year-old revenue per store for us for a Pantaloons?

Ashish Dikshit: There is a reason where we do not give out numbers because personally, I do not believe in that number because it is a function of the distribution expansion opening a store in South Bombay versus Saharanpur versus Coimbatore you get very different numbers of productivity and profitability. And therefore, the more valuable measure is the profitability of the percentage. Of course, there are other measures of return on capital and other things. But just to keep it simple, we look at store profitability and see where it reaches and that is where I am saying, store profitability on newer stores within 1 year - 1.5 years comes to within 2 percentage to 3 percentage of profitability of more mature stores.

Niraj Mansingka: Got it. And second, on the Madura wholesale business, how is the business doing there? Because to me, it seems like that the business of wholesale has been the drag in the entire, if you break up the retail-wholesale LFS and others. So, any thoughts on that?

Vishak Kumar: Let us split to department stores and what we call the smaller format multi-brand. Smaller format multi-brand has gone through a lot of challenges here. For instance, the whole Kerala business with NIPAH and all of that and we have a very strong wholesale business in Kerala. So, that took an impact, significant impact on what we call trade, okay. So, that is one challenge. In department stores, there is also a challenge that they have not expanded too much in the quarter. So, a lot of the growth in department stores also comes from the number of new doors that they
put up where there is been a little slowdown in the last quarter. Fundamentally, our throughputs are very healthy in these stores, okay except for Kerala where like I said we lost out a couple of months first to NIPAH and then to the floods, okay? Again, in multi-brand trade, they are not too many new doors which are coming up in this small format, okay? So, it is the existing stores in those throughputs which is driving our overall growth there.

**Niraj Mansingka:** Yes, Sir, the last question if just you will allow me. A number of stores that you have said what I am seeing is the number of Lifestyle stores net opened, 86 in the last H1. But we were told on the call that you have almost 140 stores opened. So, when you are talking of a number of stores, are you talking of the gross number of stores being opened or you are talking about the net number of stores being opened?

**Ashish Dikshit:** Yes, we opened gross about 140 and like I was explaining earlier, the network rationalization, so there were about 50 odd closures, okay? I see it is 45 odd closures. So, the rationalization effect is what gives you that net number of 90 or whatever.

**Niraj Mansingka:** And a number of stores in Forever 21 and People would be how much?

**Ashish Dikshit:** So, Forever 21 has 20 stores, no expansion in the quarter and People has about 90 stores.

**Moderator:** Thank you. We have the next question from the line of Garima Mishra from Kotak Securities. Please go ahead.

**Garima Mishra:** Just a follow-up on the Madura NSV by channel. Now, could you just explain what comes under the other segment and does e-commerce sales also get included in others?

**Ashish Dikshit:** That is right. So, there is e-commerce. There is also what we call branded exports which also comes in this and there is a depletion value channel there. For instance, we sell to Brand Factory. We have our own factory outlets that also comes in others.

**Garima Mishra:** Okay. Why I ask is because this is the one, while it is a smaller proportion of your overall sales. But this has also being the one which has grown the fastest. Sir, could you give me in the second quarter what has been the proportion of overall Madura sales through e-commerce?

**Ashish Dikshit:** So, it is very aggressive. In fact, e-commerce sales have been very good for us. I think we have found a very good rhythm of working both through a marketplace e-commerce and a B2B e-commerce. I think about 7% of our business is now e-commerce. And it has been growing very steadily and it is been a good period for us.

**Garima Mishra:** Okay. Pantaloons, could you help us with what your current store opening target is? Is it the same as before? And what proportion of this do you think you would open in say Tier-II, Tier-
III cities? And based on your last couple of years of experience, how has the response to Pantaloons been in these Tier-II, Tier-III cities?

Sangeeta Pendurkar: Right. So, if you go back to the calls that we have had earlier, we have called out that our plan for this year just close to 50 stores. We are on track to open those stores. Our plan as we started the beginning of the year was a little back-ended, so we feel pretty confident that we will end up opening the planned number of stores. As Ashish mentioned earlier, that we have been expanding our stores a large number for stores have been in Tier-II, Tier-III, Tier-IV towns and most of our stores end up being profitable within the first year. So, I think our experience has been very positive which gives us the confidence that we will continue to expand our network in these terms.

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

Vinod Bansal: Hi, a couple of question from my side. One on the Fast Fashion business, your losses seems to have gone up again Q-on-Q. Any specific factor this quarter, you know the stores have more or less been the same? And escalated your view, when do see it coming back to breakeven?

Ashish Dikshit: So, I think the first question, business consists of both People and Forever 21 businesses. Forever 21 losses have come down significantly. It is the People business that still continues to bleed at a certain level and therefore, while the losses for the period has come down, it is not gone up, it is come down from Rs. 12 crores for the quarter last year quarter to Rs. 10 crores. But the progress has been not as deep as the Forever 21 progress has been.

Vinod Bansal: But the Q-on-Q jumped, is it because of losses in the People businesses?

Ashish Dikshit: No. Q-on-Q, actually, you shouldn’t look at Q-on-Q performance is very different factors of seasonality come in. So, really, that is a difficult one to compare and that is true for all our business, not just People, not just for Forever 21 or Fast Fashion. The quarter-on-quarter variance will remain in our business. I think the bigger picture to look at it H1 level. And at the H1 level our losses have come down by almost 40% - 45% from Rs. 26 crores to about Rs. 14 crores - Rs. 15 crores in the presentation that you can see and that is really the trajectory which is broader strategically for us.

Vinod Bansal: I agree with the 1H - 2H comparison. But I will stick on quarterly one I mean if I compare 1Q to 2Q sales, they are pretty much flat. So, does not look like a seasonality as hit sales for that segment 1Q to 2Q and yet losses have gone up. I was just wondering if there is something that has played out in this quarter.
Ashish Dikshit: No, we are looking at the net effect of both the business put together. Losses are largely related to the period in which that happens because both quarters have very different behavior, there is an EOSS in one quarter, the other quarter is clean. So, really the seasonality is a fairly significant thing. Do not just look at 1 number and believe there is no seasonality. The profit pattern, the gross margin patterns is absolutely totally different between the 2 quarters.

Vinod Bansal: Okay. And if you could just help us again your sense on when do you see it coming back to breakeven?

Ashish Dikshit: I think at this point in time, I would not get into that because we are still, while the losses are narrowing, and we had said we will target having losses for this year, we are nearly there in the first-half and we will have to continue with this trajectory in the second-half as well. And therefore, after that maybe end of the year, we will take a look at it and be able to sort of reliably predict how the journey after that would be.

Vinod Bansal: Okay. And on Pantaloons, despite fairly weak SSGs, you have had constant margin expansion in the last 3 quarters - 4 quarters. In the past, we have attributed this to cost controls. Is it the same reason this quarter as well? Or again, do we have some gross margin benefit as well in the quarter?

Sangeeta Pendurkar: So, I think this quarter like I mentioned before I think primarily led by our focus on improving our product. Our product mix leading to better gross margins and the gross margins being better across both our own portfolio and the non-Pantaloons portfolio is primarily what is led to the increase in our bottom-line.

Ashish Dikshit: Entirely due to gross margin, is your answer.

Vinod Bansal: Okay, fair enough. And just to sort of since there is a season shift, can one assume that in the third quarter Pantaloons might see a reasonably strong positive SSG? Is that the sense you are getting in the quarter that has gone so far?

Sangeeta Pendurkar: We feel pretty confident of the third quarter. I think we are just towards the fag end of the festive season. But we feel pretty good about this quarter.

Moderator: Thank you. We have the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead. Mr. Parkeria, please go ahead with your question. Your line is unmuted.

Mayur Parkeria: And congratulations to the entire management team for delivering a stable and a good set of numbers. Just a small suggestion and then I will ask the question is, now while we have our eyes set on the profitability and the long-term consistent performance, we should continue to focus also on the balance sheet side which will be equally important. With that background, just a
couple of questions on the balance sheet side. Somebody asked from the inventory side, and I think there was a clarification that it is mainly related to the accounting disclosure. So, I had a similar question on also the receivable side. The receivables also seem to have increased. And the fact that, though debt has marginally increased, the interest cost has also increased. So, that was on that side.

Jagdish Bajaj: Okay. So, let me tell you, since I tried to explain that because of this IndAS coming into the net current asset that our net current assets is not increased, it is at Rs. 130 crores increase in overall. But the inventory, debtors and the counter impact on the current liabilities and other liabilities they are seeing the fluctuation, primarily because of this IndAS 115 requirement on account of sales return.

Mayur Parkeria: Even the receivables?

Ashish Dikshit: Yes. Okay. And is well because if you know if you… If there is a sales return, earlier we used to adjust it from the debtors. Now they say that you show the debtors gross and show it separately in the other current liabilities.

Mayur Parkeria: Okay. Sir, we have almost Rs. 500 crores of long-term liabilities which are due to the fact that it is now part of current maturity it will be due in the next 12 months. So, do we plan to repay that with some part as an internal accrual or will we have to refinance that?

Ashish Dikshit: See, H2 as you know my colleagues from businesses in Lifestyle and Pantaloons said that it will be good. So, partly we will consume our cash and partly we have to re-borrow.

Mayur Parkeria: Yes, so we do expect yearend debt levels to come down, by how much any rough idea about that?

Ashish Dikshit: See, in a growing business when my turnovers are going I have to keep the adequate level of inventory. If I do not keep, then I will deprive consumers. So, considering all this, if I remain at the same debt level I will prefer to have debt. But of course, our efforts will be to reduce the debt.

Mayur Parkeria: Okay. Sir, one small suggestion here we club the other income as part of the Madura segmentation for segment profitability. So, since this is a corporate line item, if you can club it as a non-allocable income and adjusted there we will get a better picture of the Madura profitability. So, just think it over on that side.

Ashish Dikshit: No, I can. But you have to understand as I was telling you, this is towards import hedges M2M gain. So, where does the import takes place, I have to give credit there. That is the requirement.
Mayur Parkeria: And what is that inter-segment profit? Because that is one item we have not seen in many companies like that reporting. Inter-segment sales is adjusted we understand but inter-segment profitability is reported separately. So, where should we look at in a segmental profit, where should we adjust from which segment to which segment is the profitability switch?

Ashish Dikshit: See, there is a transfer of goods from Madura to Pantaloons. So, if there is the unsold inventory, we have to reduce the profitability, the profit component on that.

Mayur Parkeria: So, from Madura to Pantaloons?

Ashish Dikshit: Yes.

Moderator: Thank you. We have the next question from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir, my question was on the aggressive store growth particularly in Pantaloons. So, I just wanted to understand the thought process of the management here. Because the other way to grow would be to milk your existing store network and try and increase your SSG to a level and then go on to a more aggressive store expansion. So, why has the management taken the former route? Sir, the second question is, are we seeing a decrease in rental rates over the last 1 year 1.5 year? And sir, if you could just give a number to that? And sir, lastly, knowing that the online sales are here to grow and the way they have been growing for in the last couple of years why is there such an aggression in the store expansion, so what is giving the company this kind of confidence? Are we opening stores in areas that we feel that online sales penetration has not been there or is low or would be low in the future? So, that is it from me.

Sangeeta Pendurkar: So, for Pantaloons, it is important to be present in the towns where we believe there is potential and where there is demand. As you have heard on the call before that our track record over the last couple of years that we have opened a very large number of stores across different pop strata which have yielded us a good productivity and good profitability gives us the confidence that it is a model that works. And hence, wherever we believe there is potential we will continue to open stores to provide access to what we create and what we offered as a proposition to our consumers. Our journey in e-commerce is fairly nascent, it is fairly new. We just launched pantaloons.com exactly a month ago towards the backend of September. And that is a new journey, which offers one more way, one more channel for consumers to buy us. We have the capability to deliver across multiple pin codes across the country with pantaloons.com and that is a channel that we will continue to invest in. As you heard Ashish say earlier that there are 2 channels that will coexist. And I think for most brands they have to have the option for the consumer who want to go and experience a store to have offline stores as well as have online stores. So, the short answer is, because we have a model that works and where we believe there is a demand we will continue to open stores. Equally, we want to provide consumers the
convenience to buy at the click of a button sitting in their drawing rooms and bedrooms and have access to our merchandise. So, we will continue to build both.

Shivan Sarvaiya: Okay. So, ma’am, is it, say, can we assume that for say 6 month - 8 months the SSG would be on the backbone of the management and store growth would be in the front running in terms of priority?

Ashish Dikshit: So, let me clarify that. I think, clearly for management not just today but even in past, SSG is the single largest driver of our focus. Having said that, every network and we have explained that in earlier calls, every network has its own distribution of aged stores, new stores, etc. which creates a differential outcome on just SSG parameter. As we go forward we see these as 2 different opportunities of growth not competing with each other but 2 independent opportunities. One is to grow your business in the stores that you have and second is to take India is a very large country. For a brand like Pantaloons, we having only 300 stores is a very-very underpenetrated state of distribution. So, therefore, these are 2 independent opportunities. We continue to focus on both of them. Growing organic business is clearly from the capital point of view from a productivity point of view is great. But exploiting and reaching different market remains an independent opportunity which we will continue to pursue.

Shivan Sarvaiya: Okay, sir. And sir, my last question was on the rental rates, sir, have you seen a decreasing trend over 1 year - 1.5 years? And how do you see going forward? If you could just give me a number to it also.

Vishak Kumar: I think, Shivan, the simple answer I think, it is high-term rents did go down. And I think, it is important that more and more of mall start seeing that. Having said that, we have not seen any significant trend in that area, okay. The good malls and the good properties still command high rentals, okay and maybe in your own experience, you might be seeing some change in the average mix because there are players like us going on the smaller towns as well so the weighted average might come down. But I Connaught Place property or a Linking Road property or a good mall property. Still, there has been no change in rentals, per se.

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

Tejas Shah: Couple of follow-ups. Sir, perhaps you have explained it in earlier calls this is for Ashish. But just one basic question, how is your target audience for People format different from Pantaloons?

Ashish Dikshit: So, People is the young fashionable brand and Pantaloons serves the whole family. So, People is the sharper position, narrower segment brand. And therefore, you would not find, for example, kids in People, you would not find ethnic in People. You would not find Men’s classic Formal wear in People. Pantaloons serve a much wider need and address almost everything that in
average Indian consumer would need for the family. It is the ultimate destination for them to go.
So, the proposition is very different and People is much narrower. And it is, of course, a smaller format in line with narrower customer segment that is targeted.

Tejas Shah: But the social economic profile of both the formats will be the same for consumers, right?

Management: It could be the same or different. People is not cut by the social cut as much as the cut on age.

Tejas Shah: Okay, fair enough. And the second question is for Vishak. Vishak, what is the usual set of reasons you have encountered for store shutdowns?

Vishak Kumar: Sorry, reasons for store shutdowns?

Tejas Shah: Yes.

Vishak Kumar: So, there are 2 - 3 buckets broadly. At one level, there is the completion of the lease duration, okay? Many of these properties would have been at whatever role rentals and we also sometimes use this opportunity to be able to find another bigger or larger place in the same market, okay. So, for instance, I have closed a store in Brigade Road. I have opened a store in Brigade Road for Van Heusen, okay. So, while my total count might say 0 addition, net addition, but I have opened a larger, more impactful store on the same street, okay. There are some which are unviable stores where the location was wrong or the location has become less appropriate now. For instance, a fly over comes in front of a metro work starts in front of the store and so on that again makes it unviable. So, these are broadly the 2 buckets of either we are using it to create a better store for ourselves in the market or wherein some elapsing of leases or where the location or the property has become wrong or was wrong in the first place.

Tejas Shah: Sure, fair enough. And lastly, in our channel checks, we are picking up incrementally that unorganized or small-time peers in the industry have more hurt by online than the organized players. So, the whole Madura expansion journey if we see we have leveraged on India’s entrepreneurial spirit to have their own business along with national brands. So, are you seeing that the potential candidate to associate with the brands that pool is shrinking as we go along?

Vishak Kumar: I was talking to a franchise in Dindigul yesterday and he was so thrilled with the business there that he said, “Sir, I want to open 4 more stores with you.” So, that is the power of local entrepreneurship and partnerships that this is how the business can grow. And there is a tremendous power of this at might be in Rajajinagar in Bangalore, it might be in various markets and across the country. Having said that, there are even in the multi-brands those who do not perform or those who do not do well will be challenged, okay. So, the mall market has become more competitive and multi-brand have raised their game. And there are many of those who have done extremely well. Because please understand this is also a business where understanding
consumers, serving his needs, being close to the market, all of those are very critical. Those needs do not go away.

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

Abhishek Ranganath: Sir, one follow-up question on the innerwear which I have and Ashish, this is to get a sense of the complexity of the Women’s Innerwear is very-very different from what we have seen in the Men’s Innerwear. And at this point of time, considering the various buckets of businesses and the growth and the focus on SSG and growth, how geared are we to handle this complexity? Or are we just going to limit ourselves to very few SKUs in the Women Innerwear and very targeted focus market?

Ashish Dikshit: So, Abhishek, our ambition is deep in the segment. We think it is a market with a significantly larger than even the Men’s Innerwear. We believe that the complexity provides an opportunity for a player to create distinct barriers. In fact, it could be a part of a competitive advantage that we deal with these complexities better than others. However, that is all hypotheses, we will have to test it. We have entered in the market with a fairly wide portfolio of products. We have understood broader consumer needs. So, it is not a tentative entry, it is a full-fledged entry in terms of consumer proposition. Having said that we will test it in key markets like we did in the Men’s side, it will take 5 months - 6 months to receive consumer feedback. We will probably alter our strategy, but this is not a defensive move. It is a move with great ambition, with deep understanding of 2.5 years of product testing, product learning, building a capable new team, building a whole new plan for this. And therefore, the plan is to offer a very attractive proposition to the consumer in terms of variety, range and the new proposition which they do not currently get. But having said that we will learn along the way and keep correcting it as we go along. It is not a tentative small portion task, it is within the intent of a large play.

Abhishek Ranganath: Sure, and we feel the burn on this business could be longer in the same quantum because we are looking at something around with the amount of burn which we have been doing, it is about Rs. 100 crores burn for the year. Now investment in Women wear going to end possibly corrections would mean that a wider inventory portfolio at some point of time you may have to deal with some kind of inventory correction. So, burn on this going to a learning curve a part of being a part and part be a learning curve, the burn on the business could (a) widen? Is that possible and it would be longer?

Ashish Dikshit: So, Abhishek, first just to correct you our Rs. 100 crores burn that you talked about at EBITDA consists of all businesses: Fast Fashion, new business, Innerwear business, International brands business, etc. So, only a smart part, not insignificant but a small part of it comes only from Innerwear. Because the Women’s Innerwear business is more complex in terms of SKU complexity and inventory management and at this point of time, we do not have a very good
sense of what will work. We will test it in a few markets and grow post that feedback. I do not think it will carry significant risk as we keep learning and keep improving because our intent is long-term and deep but we are moving with enough caution as far as inventory and product is concerned to make sure that it does not become a drag on our business. In terms of overall drag that the business as a whole will create actually, we feel maybe after 1 year, our drag will significantly come down because most of the investment which is fixed investment in overhead in sales structure in distribution that is made already and most of it is leveraging the investment that we have made on the Men’s side. On the Women’s side, the incremental investment is likely to be lesser, therefore.

**Moderator:**

Thank you. Ladies and Gentlemen, due to time constraints, 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. Thank you and you may now disconnect your lines.