“Aditya Birla Fashion & Retail Limited Earnings Conference Call”

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MANAGEMENT:  MR. ASHISH DIKSHIT – MANAGING DIRECTOR
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER
MR. VISHAK KUMAR – CHIEF EXECUTIVE OFFICER, LIFESTYLE BRANDS
MS. SANGEETA PENDURKAR – CHIEF EXECUTIVE OFFICER, PANTALOONS
Moderator:
Ladies & gentlemen, good day and welcome to the Aditya Birla Fashion & Retail Limited Earnings Conference Call. We have with us today on the call Mr. Ashish Dikshit – Managing Director, Mr. Jagdish Bajaj – CFO, Mr. Vishak Kumar – CEO, Lifestyle Brands, Ms. Sangeeta Pendurkar – CEO, Pantaloons.

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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jagdish Bajaj – CFO. Thank you, and over to you sir

Jagdish Bajaj:
Good afternoon. And welcome to the Earnings Call of Aditya Birla Fashion & Retail. Aditya Birla Fashion is the leader in the branded apparel space with a diversified portfolio of a strong brand and retail formats. It’s strategy to build a strong brand, launch innovative products, continuously expand distribution channel and focus on customer centricity has helped deliver a stellar performance for the year FY19. We continue to pursue this strategy even in difficult market conditions like Q4 FY19 as evinced by our increase brand investment. We have significantly increased the marketing spend in Q4 FY19 by Rs. 54 crores over last year. The annual spend for FY19 is higher by Rs. 112 crores over FY18. This, we believe is good for our long-term growth, but has impacted the profitability in the current quarter.

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

Quarter four 2019, the revenues of the company were Rs. 1,915 crores, registering a growth of 9% over Q4 FY18. The EBITDA at Rs. 149 crores versus Rs. 174 crores in Q4 18 seen a decline of 14%. Consequently, the PBT of the company was Rs. 33 crores, which is lower by 31% from Q4 FY18.

For FY19 on a full year basis, the company recorded a stellar performance with 13% growth in revenues, which has risen from Rs. 7,181 crores Rs. 8,118 crores. EBITDA has seen an impressive growth from Rs. 501 crores in FY18 to Rs. 619 crores in FY19, even with huge spend on advertising and marketing. The overall EBITDA margins of the company has expanded by 60 basis points from 7% in FY18 to 7.6% in FY19. Both our businesses, Lifestyle and Pantaloons have improved their margins, Lifestyle from 11.7% to 12%, and Pantaloons from 6% to 7.2%. The PBT of the company has tripled from Rs. 49 crores to Rs. 149 crores. The company is provided for the first time Rs. 22 crores towards minimum alternate text, and also created deferred tax assets of Rs. 194 crores towards SS losses linked to reasonable certainty and other timing difference. With this, the PAT stands at Rs. 321 crores compared to a PAT of Rs. 118 crores last year.
I will now take you through the performance of individual businesses, starting with Lifestyle brand business:

The business continues to focus on product design, category extensions, network expansions, along with increased investment in marketing, which is leading to tremendous business performance quarter-on-quarter. The strategic marketing focus of the business continues to drive growth. In Q4 19, revenue of the segment grew by 12% from Rs. 1,015 crores to Rs. 1,032 crores in Q4 FY19. The L-to-L growth in the quarter was 6%. The EBITDA for the quarter is Rs. 169 crores versus Rs. 166 crores in Q4 FY18, after approximately spending Rs. 40 crores towards advertising and branding. This is an incremental thing from last year. EBITDA margins will remain healthy at 15%. For the full year, revenue rose from Rs. 3,866 crores two Rs. 4,304 crores, recording a growth of 11% on the year-on-year basis. The EBITDA increased by 15% from Rs. 450 crores in FY18 to Rs. 519 crores in the current financial year. This is with a 60% higher spend on marketing and advertisement. EBITDA margins remain healthy at 12%, and also expanded by 30 point from last year. The EBO network expanded to 1,980 stores in Q4 FY19 from 1,814 stores in same period last year. The business is growing in revenue, EBITDA, store expansion and generating healthy case for the company. We expect to accelerate the growth momentum going forward.

Moving on to the Pantaloons business:

Pantaloons continues to grow steadily, driven by continued product improvement and strong brand investments. In Q4 FY19 IndAS 115 has impacted revenue of the quarter due to net accrual, instead of recording full sales in our books. The impact of IndAS is Rs. 35 crores in revenue, resulting in a lower reported revenue of Rs. 633 crores compared to Rs. 641 crores in Q4 FY18. Adjusted for this, Pantaloons would have reported revenues of Rs. 668 crores versus Rs. 641 crores in Q4 FY18, a growth of 4%. The reported EBITDA at Rs. 13 crores is lower than Rs. 27 crores, but this is with higher advertisement spend in the quarter and one-time inventory markdown provision, the total impact of both these items are Rs. 15 crores. Adjusted for this, EBITDA of Q4 FY19 would have been Rs. 28 crores versus Rs. 27 crores in Q4 FY18. The revenues for full year has risen by 12% from Rs. 2,862 crores to Rs. 3,194 crores. Adjusted for IndAS and GST impact the growth would have been 15%. The EBITDA for the whole year has risen by 35% from Rs. 171 crores to Rs. 231 crores, with 62% incremental advertising and marketing spends. The EBITDA margin has expanded by 120 basis points from 6% to 7.2%. The retail network has now expanded to 308 stores, including 61 franchise stores, and we will continue expansion in newer market.

Ladies and gentlemen, FY19 has been a year of transformation at Pantaloons. We have made significant improvement in several key aspects such as product aesthetics, quality, freshness of merchandise, and strengthening its brand equity. These have resulted in significant improvement in the overall performance, particularly in the second half of the year. More importantly, the business is now on a sound footing and ready for accelerated growth.
Next, we move to the Fast Fashion business:

We continue to focus on improving the profitability of the Fast Fashion business by rationalizing the existing stores and implementing tighter cost controls. The business has posted a steady performance with EBITDA losses for full year reducing from Rs. 53 crores to Rs. 32 crores, a reduction of 40%. Also, the quarterly numbers for Fast Fashion were largely remained flat. The company has also decided not to pursue PEOPLE brand in Fast Fashion segment as a standalone retail format going forward. Over the next year existing PEOPLE stores will be converted to other branded stores of the company. Considering the equity of brand PEOPLE amongst young consumers, the brand will be launched as a youth brand within Pantaloons stores. This will rationalize our Fast Fashion portfolio and address Pantaloons’ strategic need to attract younger consumers to their stores. This initiative will enable company to reduce losses in this segment from FY21.

And lastly, our rapidly growing portfolio of our businesses which includes innerwear, an international brand:

The innerwear business continues to scale up rapidly and has reached 14,000 outlets at the end of March 2019. The revenues of the segment have doubled to approximately Rs. 200 crores, this was possible with increased expectations of our menswear and recently launched women's wear. Van Heusen Innerwear is received well in the market and will continue with our aggressive growth by further capitalizing on the momentum that we have created.

Global brands:

In the global brands business, we continue to steadily grow our mono-brand businesses. Our portfolio consists of super premium brands, Ralph Lauren; casual denim lead brand, American Eagle; and the iconic British brands, Ted Baker and Hackett. The collective continues to remain the leading luxury apparel retailer in the industry.

Revenues from other business segments witnessed 65% growth over fourth quarter last year from Rs. 65 crores to Rs. 107 crores. The full year revenue grew at a staggering 80% to Rs. 369 crores from Rs. 205 crores, and EBITDA losses stand at Rs. 85 across from Rs. 53 crores, primarily attributed by innerwear business.

Now on to our balance sheet:

We manage our balance sheet well in terms of net working capital, and generated cash which enabled us to reduce our debt from Rs. 1,861 crores to Rs. 1,703 crores.
Finally, ABFRL in FY19, with a strong strategy has witnessed overall robust growth in sales, profitability and cash flows. We are well placed to accelerate this journey and leverage the growth potential of the Indian fashion and apparel industry.

Thank you. We are happy to answer your questions and queries.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My first question is on the innerwear, you have seen 100% growth. So, my question is, you are targeting retail distribution increase from the 14,000 outlet to 20,000 to 25,000 in FY20, so the sales growth will also be broadly in line with the distribution expansion or you are targeting even higher than that?

**Ashish Dikshit:** See, sales growth will be driven by not just the channel, which is a multi-brand channel that you talked about, which will hopefully grow by 50% to 60% next year. We are also now with the launch of women's innerwear, in a position to launch standalone innerwear stores. So, that's a new channel that will be opening up, which becomes viable only after the launch of women's wear. So, that will add further impetus to our growth momentum. Women's innerwear in itself is in early stage, we have launched only in select markets, so that will grow separately. So, I think there are multiple drivers of growth of sustaining the kind of growth momentum that we have kept. And therefore, to that extent, it will grow much faster than what you would estimate if you were to just grow distribution linearly.

**Abneesh Roy:** And sir in terms of market share in innerwear wherein you compete with the market leader in the same store, or say the multi-branded or the departmental, any numbers you can share in those stores, how the market share is? Have you largely taken the market share or its the expansion of the overall category?

**Ashish Dikshit:** So, I think both happened. Category expansion is definitely happening and that's not to do only with us, as more players come in, as consumers’ habits shift, there is clear premiumization happening in this category where everybody in the market is benefiting from. Having said that, in individual stores as a new brand, obviously, we are gaining share. But it's still early stage, and I think larger task is to benefit from a very large market, which is rapidly upgrading.

**Abneesh Roy:** My second question is on Pantaloons. So, if I see the two-year performance, in two years you have added 100 stores, 66 in FY18 and 33 in FY19. In spite of that, when I see your EBITDA, it has not grown in two years in this quarter, I understand all the three reasons you mentioned, winter, EOSS and IndAS. But still, are you know disappointed with this kind of a margin? Because ad spend is not that high, it's only Rs. 5 crores higher for the Pantaloons part of the business.
Ashish Dikshit: Abneesh, are you talking about Q4 or you are talking about full year? Because if you look at two years performance, our EBITDA has doubled from nearly Rs. 130 crores to Rs. 230 crores, which is 70%, 80%.

Abneesh Roy: No, I am referring to Q4. See, sir, quarterly result is also equally important.

Ashish Dikshit: No, so since you mentioned to two years, I was talking about that. The same store growth for the quarter has been affected by several reasons, in pantaloons for this Q4, and that's a one-time phenomenon. There have been some exceptional items that have been taken up and advertising is a small part of it, because that's the normal course of the business. We also have provided an accelerated one-time inventory markdown for Rs. 10 crores in this quarter, so that's an additional hit that is there in Q4 of this year. Having said that, I think Q4 performance is soft.

Abneesh Roy: Sir, two follow ups here, one is, in Q3 you had said 40 to 50 store addition, but you added only 33. So, in one quarter why so much miss? And would you still maintain 50 to 70 store additions in FY20?

Ashish Dikshit: So, Abneesh, when we had talked about 40 stores, we have ended the Pantaloons year with exactly 40 stores that we had talked about. There have been seven closure during the course of the year, of which four or five are small format. If you recall, two or three years back we had forayed into small format Pantaloons kids and women's stores, so some of those stores is what we are rationalizing. And that's really what has led to the resultant number 33 that you see. In terms of going forward, I think if you just pull back and look at how Pantaloons has performed over last two years, our margins have from 5% to 6% to 7.2%, most other factors of the business have performed extremely well, this year has been exceptionally good. We feel actually encouraged to accelerate, this year has been more of a focus on turning around the EBITDA margin, but I think we are now well placed to rapidly expand. And next year you will see much higher store expansion than you have seen in the previous years.

Abneesh Roy: And sir last question, so ecommerce growth very strong, 53%. So, could you tell us how the margins are in this part of the business? What is the percentage of sales now coming from ecommerce?

Ashish Dikshit: So, I think most of that growth is coming in lifestyle brands. I will let Vishak address that.

Vishak Kumar: So, it’s a high single digit share of overall business, it is growing rapidly, it is reasonably okay on profitability. And I think we are also gaining significantly from creating strong marketplaces where we provide inventory solutions for ecom partners. So, that has also given us significant growth, Abneesh, in this business.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
Tejas Shah:
Sir, my question also pertains to Pantaloons SSG. I understand there were a lot of one-offs and we should not see quarter-on-quarter. But just wanted to understand, is this model still not stable enough or mature enough to give us some trajectory which is less volatile than what we are witnessing for last eight quarters now?

Ashish Dikshit:
So, Tejas, I would actually flip the question other way around. If you look at Pantaloons’ growth through the last three, four years, we have grown in high double digits, consistently on revenue. We have added between 40 to 50 stores, some year 60 to 70 stores every year consistently. Our EBITDA margins have moved from 3.5%, 4.5%, 5%, 6% to 7%. If this is not consistent improvement, then I don't think you can... So, if you leave one quarter aside, and therefore, some one-off events which happen once in a while, if you look at three, four year trajectory of Pantaloons, it’s a consistent, solid, very reliable and consistently improving performance, not just for a quarter, but I am taking it back to three or four years. And as we have stated, that’s the trajectory that we see going forward. One of the things that we had done this year, FY19 in particular, because we wanted to get to look at a shift, a big shift in sort of profit trajectory, we had not focused on expansion as much. I think as the expansion journey resumes, which is what we will do going forward, you will see continuous improvement in the trajectory that we have shown.

Tejas Shah:
Sure. And sir, what will be the guidance for this year in terms of store expansion in Pantaloons?

Ashish Dikshit:
We are looking at between 60 to 70 stores.

Tejas Shah:
Okay. And this will be the same format or there is some economic format which has been talked about?

Ashish Dikshit:
No. It is the same format, it’s the Pantaloons format. I don't know which economic format you were referring to. I think in earlier question I had talked about, Pantaloons Kids and Women’s which two, three years back we had started to open some stores, we are talking a full-fledged Pantaloons store, 60 to 70.

Tejas Shah:
Okay. We were also planning to do something on Tier-1, Tier-2 in terms of smaller store size. And I am not sure if we are using the same format for that expansion, that's a different format altogether.

Sangeeta Pendurkar:
Yes. So, I think the format is primarily the same in terms of the business model. Based on the town class the size of the store varies. And we will continue with that approach, because like we have talked in our previous call, our model is obviously working very well in terms of it being profitable, and it being productive as well. So, we adapt the sizes based on the town class. And that is what we will continue with, but we will accelerate our journey as we move forward. One of the other interesting things is, as we go down the path straighter we realize that the assortment...
of our products needs to be different, and a higher share of private label is what we are driving as we go down the path straighter, which is in line with our overall strategy.

Tejas Shah: Sure. And last question on Lifestyle brands. So, a very good stable performance continuing there. Just wanted to see what is our aspiration for FY20 store expansion, because FY19 also we are coming on a very high base of expansion.

Ashish Dikshit: Tejas, the momentum will continue. I think there is a lot of our opportunity for expansion across the country. It was primarily led by Peter England last year, it will continue to have a strong Peter England component. But in each of the brands, we see a lot of opportunity. This is not just in the large cities, it's also in smaller towns. So, we will continue to expand aggressively. In fact, we want to beat the number. Last year we had opened about 300 stores, we want to go about 100 stores more than that this year. So, we should be aggressive and expansion, Tejas.

Moderator: Thank you. The next question is on line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Sir, just wanted to understand, has the overall mix between the trade versus retail mix in our revenue changed from FY18 to FY19?

Ashish Dikshit: Not too much. Sorry, can you just sharpen your question a little?

Resham Jain: So, out of Rs. 8,000 crores of revenue, I just wanted to understand that how much is pure retail sales for us and how much is the trade sales for us? And how does it change between the last year and this year?

Ashish Dikshit: So, Resham, I think your question is more pertinent for Lifestyle brands, because Pantaloons is a 100% retailer and innerwear is nearly 100%.

Resham Jain: I am actually asking for the whole company, just to understand the balance sheet metrics.

Ashish Dikshit: No. Again, to repeat that, for the company the wholesale business largely lies in the Madura portfolio, because Pantaloons is a 100% retailer. In that, the revenue of wholesale which includes not just the trade multi-brand outlets but department stores and everything else, is really about of the company's revenue maybe about 25% as a whole. For Lifestyle brands business it will be about 40% and that hasn’t shifted any significantly in last year versus this year.

Resham Jain: Okay. So, 75% is basically the retail sales?

Ashish Dikshit: It includes other channels, retail stores, it also includes ecommerce, which is nearly high single digit.
Resham Jain: Okay. And other thing which I just wanted to understand is on the credit period which we enjoy from creditors, what's a typical? Has there been any change in that? And what are we doing? Because it looks like it's like close to five to six months. So, if you can just highlight that part.

Ashish Dikshit: No, it's not that long. Credit period from suppliers varies between 90 to 120 days, that's the normal norm. For MSME vendors, of course, it's shorter credit bureau.

Resham Jain: Okay, because your total raw material is roughly around Rs. 4,000-odd crores, and your payables is roughly around Rs. 2,200 crores. So, just roughly I came to that figure of 180 days,

Jagdish Bajaj: No, no. See, you are reading various provisions which we made. And with this IndAS115 coming into both side of my asset and liability of the balance sheet has been impacted with sales return, cost of goods sold, and the return provision.

Ashish Dikshit: Yes, I think we can give you a separate number for this.

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

Ritesh Gupta: Sir, just on the innerwear piece, I think you said that Rs. 80 crores loss that you saw in that others portfolio was entirely because of innerwear business, is that a correct understanding?

Ashish Dikshit: No, it's not correct. That's only a part of it. There are several other businesses which lie in others, all our international brands businesses lie there, a couple of other experiments that we are doing in the company lie there. So, innerwear is a significant part of it, but definitely not all of it.

Ritesh Gupta: Okay. And could you attribute a bit of losses there? I mean, because the losses have increased on a YoY basis, so would the increase be entirely attributable to the innerwear business there?

Ashish Dikshit: No, there's several businesses, so there is movement around them. But yes, significant, the part of the increase would probably mostly come from innerwear.

Ritesh Gupta: Okay. And so just to understand it a little bit more, I mean, what I want you to understand is that, the leisurewear business that you have, I mean the Athleisure business that you have, it is also part of that business?

Ashish Dikshit: Yes, within Van Heusen. Of course, we have Athleisure in Luis Fillip and Allen Solly, etc. But perhaps what you are referring to is what we club inside innerwear and Van Heusen includes some of those categories as well.
Ritesh Gupta: And sir, how has been the response to the product over the last few months? I mean, I think male innerwear has been there for a reasonably long time now. So, probably in terms of customer response, how has it been? And how things have been picking up for you on the innerwear side?

Ashish Dikshit: Extremely good. I think in terms of our own experiences, it’s one of the most impactful launch and successful launches that we have done across categories. The acceptance, both from consumers and from channel has been extremely high. It is now nearly two years from the first time that we launched the business, or less than that or around that, and it continues to grow at a fairly rapid pace. And a lot of that success, I would say, would be attributable to just the product’s success.

Ritesh Gupta: Okay. And one thing I was noticing is that your brands are already on discount, let’s say, for some of the Mumbai stores that I went to, I mean, the large format stores. I think the brands are already at a discount. So, is it some kind of, is it the natural discounting that you do or is it something to do with the demand trends and you are seeing recently? I am talking about the lifestyle brands?

Ashish Dikshit: Ritesh, first things first, no, we are not on discounts, okay. What does tend to happen is, there might be a small section within the department store chain where they might have some liquidation of previous season merchandise or a specific promotion which was being run for a weekend or something like that. We do not expect the EOSS before the end of June. It’s not as if discount season has started early or anything like that. Absolutely not. So, if your question is, is there a stress in the environment? The answer is, no.

Ritesh Gupta: I mean, this was fairly prominent discounting I could see, pretty much across brands, it was one of the Lifestyle stores actually.

Ashish Dikshit: Some of retailers do that and they do either a mid-season or the weekend thing, but that's more tactical promotion. I don't think it's anything more than that.

Ritesh Gupta: Okay. And anything you see in terms of, because slowdown seems to be the thing of this earnings season and have you seen anything that kind of happening in your category?

Ashish Dikshit: As we have indicated in our presentation, it started off a little bit softly in the beginning of the season. But I think things are beginning to pick up and I wouldn’t call a sustained slowdown call at this stage.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Sir, a couple of question. PEOPLE business that you talked about, will be now shifted to Pantaloons, so reporting wise we will be changing PEOPLE’s business number in Pantaloons?
Ashish Dikshit: So, let me explain that. We were building PEOPLE as a standalone retail youth fashion brand and it had its own 100-odd stores. Over the last few years we have invested in the brand, made it younger, it has a good target customer. But we found that amongst the several initiatives that we are running in the company, it would probably be prudent to take some calls on which ones we want to push harder on and which ones we want to focus less on. And as a part of that rationalization we felt that a standalone PEOPLE brand development will require further the sustained investment for few years. And therefore, we have decided to withdraw that as a standalone retail brand. And those stores will then be converted into other brand stores and Allen Solly or Peter England or if it's a large enough store, maybe even Pantaloons store. However, we have built certain franchise and customer equity as well as design capability in the PEOPLE business, and therefore we would launch it inside the Pantaloons, as several others have Pantaloons’ private label. So, the business will get absorbed inside Pantaloons. It won't get reported as a standalone business, it will just be one part of amongst many private brands. We will continue to run a little bit of ecommerce business that PEOPLE has, because it has a strong attraction amongst ecommerce young consumers. So, we'll keep running that on ecommerce, but most of PEOPLE business will be as one of the brands inside Pantaloons.

Nitin Gosar: Okay. And what are the losses here right now in PEOPLE’s business?

Ashish Dikshit: So, we don't report brand level, but it was a double-digit loss sustained over a few years, which is really what we were trying to curtail. Losses were shrinking and reducing, as you can see from the Fast Fashion portfolio. But we felt at this point of time we needed to invest resources in some of the other new initiatives as well as accelerate Pantaloons and Lifestyle brands, and therefore we decided to rationalize it.

Ritesh Gupta: Okay. So, once PEOPLE business moves out of Fast Fashion segment, then the only meaningful piece would be Forever 21?

Ashish Dikshit: Yes.

Nitin Gosar: And where are we in terms of course correction in Forever 21?

Ashish Dikshit: So, I think as you can see from the results, it's constantly improving Forever 21 performance in terms of losses has been coming down. It has not yet reached a level of profitability that gives us confidence to invest aggressively and grow that. Brand continues to have reasonably good consumer franchise, but as I said, until we are convinced of the economic model we will not invest faster. So, we are continuing to run with the stores and open three or four stores in the year, that's the trajectory that we have.

The progress that we have made, and we have called it out in the investor presentation is that we have now agreed with the principle to start locally manufacturing some of the products. As the portfolio of that local manufacturing products increase, it will both improve our customization
of product for Indian market as well as improve the gross margins in the business. As that share increases, it will give us confidence to grow faster. At this stage, we will watch for another year to improve the profitability and stabilize the local production.

Nitin Gosar: Okay. Innerwear business couple of years back was considered to be a year where it will breakeven. Now with women innerwear been considered, where do you see the losses, when do you see these losses to start reducing and maybe breakeven?

Ashish Dikshit: So, in terms of our, with the combined portfolio of men plus women's innerwear, since women's is in early launch phase and we are also looking to expand rapidly through retail expansion, we would expect that we will have to continue for one more year to sustain at this level of loss, which so FY20 losses similar to FY19. We think if FY21 we should be much closer to our promised breakeven agenda. But that's something we will take a call when we are closer to that.

Nitin Gosar: And one clarification, you talked about aggressive marketing expenses of around Rs. 54 crores higher than last year's fourth quarter, predominant part of it has gone into Lifestyle brands?

Ashish Dikshit: Yes.

Nitin Gosar: Okay. And when should we now start seeing Lifestyle brands delivering on operating leverage? Because for last couple of years the aggressive spend behind Lifestyle has continued. So, I think it's a sustained performance, our growth rates which had fallen to single digits in last two years have grown well. This year full year IndAS adjusted growth for Lifestyle brands would be about 13%, which is a much higher growth than what we had last year or the year before. So, one of the pieces, and as Vishak mentioned and talked about distribution expansion, which we have done both this year and planning to increase next year, the results of that will start to appear in subsequent years. So, I think growth trajectory ensure that the brands remain very contemporary, energized and fresh, is really what we are investing on. It's a very solid, consisting business and I think that's the way we want to keep growing it.

Nitin Gosar: Sir, the reported EBITDA numbers that we are seeing as a margin, this is where the optimum number may hold on to in Lifestyle piece?

Ashish Dikshit: For FY19 we have reported 12%, which is an improvement over last year. As the scale grows, because our current growth rate is still at 12%, 13% on a back of 8%, 9%, 10% in previous years. As we get into a more consistent trajectory of 13%, 15% growth our leverage will start working even faster on this business.

Nitin Gosar: Okay. Pantaloons business we called out aggressive store expansion program going forward, would it result into higher OPEX first and then maybe the operating leverage playing out?
Ashish Dikshit: No, no, I think we explained that in several calls in the past, our Pantaloons stores perform extremely well, right from the year one. And therefore, store expansion, as you would have seen in the past, in the last two, three years we have expanded stores and the margin has almost simultaneously increased. A part of it is because operating leverage comes from nearly day one in that business.

Nitin Gosar: So, the new expansion is not going to compromise on the margins that we are displaying in Pantaloons?

Ashish Dikshit: No.

Moderator: Thank you. The next question is from the line of Neeraj Mansinghka from Goldman Sachs. Please go ahead.

Neeraj Mansinghka: Ashish, few things. One, marketing expenses that you have increased. How do you see the trajectory of that expenses over next year?

Ashish Dikshit: I think, Neeraj, again, I would summarize our state of business and how we are thinking about it. I think if we pull back a year, year and a half when we were emerging from a phase of low growth in Madura brands, slightly lower profitability in Pantaloons, we had to manage costs at a level that these businesses were able to sustain. The whole understanding of the business and the confidence the businesses have done significant turnaround in last 12 to 18 months, Lifestyle brands is on a very strong growth trajectory, second consecutive year of like to like, Pantaloons profitability has grown by 35%, 40% year on year for last two years. As we, therefore, look ahead, we look at our business with tremendous confidence of position where we stand, and we think we have a strong platform to grow more and more aggressively. A part of that aggression must be supported by higher level of spends, and which is what we have seen somewhat of a table shift as far as FY18 to FY19 spend is concerned. I don't think in percentages term we will require to now create the shift, now we will grow more organically where the growth will follow the advertising spend pattern. But we had to do a one-time correction as our own confidence in the business has grown. And that's really what you have seen in FY19 results.

Neeraj Mansinghka: Okay. And regarding your innerwear business, can you speak something about your same store growth or how you are looking at it, because you are also expanding distribution simultaneously, revenue growth may not explain so much of how the market is absorbing or how much re-ordering was happening. Can you give some color on that side?

Ashish Dikshit: See, it is a wide distribution on which, unlike the pure retail store where metrics are very clear, it's difficult to give one number to that. But needless to say, this is a market of very experienced retailers in the country who sell multiple brands, who have been in the business long enough, they will give you a chance one time, second time, but your product has to speak. And the word of mouth carries a tremendous value in the channel. And therefore, if you are not performing, it's
difficult to attract new customers. So, I may not have very quantitative measures of same store performance, but from our own friends we are gaining shares, starting from 10%, 12% within the shops to now more than a quarter of space, and even higher in some of the shops. So, we are clearly gaining shares in the existing stores, sustaining performance, network is fairly robust and it's not... Otherwise we wouldn't have been able to sustain this level of growth consistently over the last, now 24, 36 months.

Neeraj Mansinghka: And what was the revenue share of women versus men innerwear in your innerwear business right now?

Ashish Dikshit: FY19 women's is negligible.

Neeraj Mansinghka: And quarter four?

Ashish Dikshit: Quarter four is, again, small, a smaller number, we have just launched it in seven, eight places. You will see the full effect of that in FY20.

Neeraj Mansinghka: Okay. And the last question is on the on the Pantaloons like-to-like which is negative 4.4%. Can you speak something about that, because negative number on Pantaloons was a surprise? And how you see the environment, is it environment that is impacting you, or is it the one-off products that you had or it is a particular segment of that business which got impacted or some region, anything more to explain how you see that LTL negative?

Ashish Dikshit: I think three factors one should highlight on studying Pantaloons performance. First, we had a very impressive Q3, which had like-to-like of 17% and total growth of about 29% in Pantaloons last quarter. A part of that reason was that EOSS was heavier in the December side than on January sides, so we suffered on account of that, and one could therefore partly call it as preponement of EOSS into last quarter.

The second, of course, was the overall conditions were somewhat soft and that has been experienced across the industry in various segments. The third more specific to Pantaloons was, we had a small disruption in supplies of our winter wear, and that affected January sales and a part of early February sales. Unfortunately, it happened at a time in a year in which the winter was pretty extended and we could have had much greater opportunity. But purely on like-to-like basis also we were affected by that. I think these three were sort of underlying factors. And most of the loss of life like-to-like happened in the month of January and February, I think the business is coming back, we have absolutely no problem on the product side, our inventories are fresh, freshness levels are high, we launched the season and time and the performance in spring summer is back on track.

Neeraj Mansinghka: Okay. But the margins should have been increased if your EOSS percentage would have come off?
Ashish Dikshit: No, it doesn't operate like this. What happens is, your gross margins may increase but because your sales in absolute terms come down and because of fixed costs, the margins actually dropped in that period.

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

Vinod Bansal: A bunch of questions from me. One on the innerwear business, you mentioned that fiscal 2020 losses would more or less be in line with fiscal 2019 and FY21 you might see improvement. Are you suggesting a breakeven of FY21 or just a narrowing of losses there?

Ashish Dikshit: I mean, it's a little further away. But let me still stick my neck out. In our own internal plan, we look at near breakeven in FY21, that's what we are targeting.

Vinod Bansal: And what will be the corresponding sales number you are looking at?

Ashish Dikshit: Difficult to guess, see we will have to see after this level of growth, we have grown 100% last year, we will probably grow closer to that, maybe 60%, 70%, 80% in the year ahead. We will have to see the number after that, I think maybe another 40%, 50%. So, I wouldn't want to forecast a number. But when we launched this business, we talked about getting Rs. 500 crores in the timeframe, which is two years from now. And we hope that we will be closer to that number at that stage.

Vinod Bansal: So, approaching breakeven would be a function of us scaling back some of our discretionary spends we have had in this business on the marketing and promotion side, is that the lever that you are looking at that will drive losses lower?

Ashish Dikshit: No, there are three elements of costs which are actually sitting there, which are impacting the profitability of the business. One is, low scale of the business keeps your product costs and gross margins relatively deflated. And that's one primary reason, with scale you solve that problem. And I think we are getting there already, but we will definitely improve in next two years.

The second is basically of the nature of fixed costs, which is overheads and advertising, because you want to launch nationally, want to sprint lot of markets, have to have a strong sales and distribution network to make sure availability and all that. So, you put that up front before the sales have come in. Now that's the second thing which will get leveraged, this is a cost that you have put in will get leverage as scale goes up.

The third thing which is sitting in the costs here is, as we launch in every channel as we launch it, there is a one-time fixed expense as we do up the shop, put in shop-and-shop, gondolas, etc. So, there is a somewhat semi CAPEX, OPEX sort of expense that you do as you increase and make investments in the share of visibility in the store.
Now, the third one is obviously reducing as the number of stores we have already reached 15,000 - 20,000, over next two, three years we will get to 80% of the universe that we want to get there. So, that number will drop in absolute terms. The first number, which is the gross margin number will increase as a percentage term. And the fixed costs will get leveraged simply because of scale.

Vinod Bansal: Okay. You spoke about the universe that we target to hit by fiscal 2021, let's say any broad number that you have in mind, how many retail outlets do you wish to be there?

Ashish Dikshit: So, Vinod, our ambition is obviously to get to between 30,000 to 40,000 effective outlets. And we are also looking at the weighted distribution, not just absolute distribution, because absolute distribution in this industry is much, much higher. But I don't think that's the only game that we have. With the strength of the brand and as a company our ability to deal with multi channel businesses, we see a significant opportunity for this in ecommerce and department stores. As well as, as I mentioned earlier in the call, we will start to roll out exclusive stores for Van Heusen Innerwear, both men and women together, and some of them women separately. So, that would be a third channel of distribution. So, it's not just in the MBOs, but it's other channels which will also drive growth.

Vinod Bansal: Right. Coming to the main business, you mentioned about marketing spends being higher than normal, near the same reason third quarter as well. Could we have some number around on what is it as a percentage of sales for fourth quarter and also for the full year?

Ashish Dikshit: So, Vinod, I will give you a broad number, I think in Lifestyle brands our advertising spends are typically between 4% and a little higher than that. In Pantaloons, it is about 3% odd. So, as I was mentioning in response to the previous question, this year the spends have moved between almost 100 basis points. If you look at our ad spends, they have moved Rs. 100 crores on a turnover of Rs. 8,000 crores. So, that's really the kind of shift that we have created. Going forward, I think our advertising will remain at the increased percentage level, which means it will grow in line with the revenue. And this percentage increase perhaps we will not have to do, it was a one-time shift we felt we should make in the business.

Vinod Bansal: So, it's not a one-off, because that's the message I was sort of getting as I read through the presentation that it looked like a one-off that you would want us to sort of, we need anything to add back to see the normalized EBITDA. It's called a one-off, it's business as usual now?

Ashish Dikshit: Yes, increased advertising spends are business as usual. I think what we were explaining is some cases Q4 performance, etc. The one-off item was only in the context of Pantaloons where we had a Rs. 10 cores inventory adjustment markdown, one-off adjustment. But otherwise, these are increased advertising investments, which is a reflection of our confidence about the future and the investment that we are making. But this is a level at which we will maintain our advertising.
Vinod Bansal: Right. And a small clarification, where does this fit in the P&L, this will in the quarterly P&L come in the other OPEX, isn’t it?

Jagdish Bajaj: Yes, that’s right.

Vinod Bansal: Interestingly, that item hasn’t gone up really by the amount of ad spends have gone up. So, you know, if look at it Rs. 376 crores versus Rs. 338 crores in Q4 2018, that number isn’t really going up. What instead has gone up is staff cost. I was wondering why have staff costs gone up so much more? And why haven’t other OPEX gone up if the marketing is so high?

Ashish Dikshit: So, I think we will give you separately a breakup of that. But because we track marketing separately, it’s clear that that number has gone up. There may be an offsetting element. In terms of staff cost, we started a new factory in Orissa, early this year. Typically, the costs of the factory, the wages, the workers, etc, in a classical accounting system would have been part of the product cost. But in the reporting system because the factory employees sit on your cost, every time you set up a factory, the employment cost goes up. So, other than the nominal cost that is a one-time increase. Ideally, that should go into a product cost in the way we run our business.

Vinod Bansal: So, this becomes a normal then?

Jagdish Bajaj: Yes, additional two factors of the increase in our staff cost is, with improved performance we made provisions, they are normal in nature. We also provided for minimum wages for the contract workers in our factory. So, this is one-off. Actually, this is based on the decision which has come out recently. So, Rs. 9 crores is the impact on account of that.

Vinod Bansal: On the wage as well?

Jagdish Bajaj: On the wage as well.

Vinod Bansal: These marketing spends are your typical ad spends that come on TV or print media?

Ashish Dikshit: Absolutely. These are these are not promotions and gifts and all that, these are advertising and marketing spends. Everything else falls in discounts.

Vinod Bansal: On Pantaloons margins, I think we used to speak about 100 bps improvement every year and sort of target around 8% in fiscal 2020. This was before the elevated marketing spends. Does that 8% guidance stay or we are looking to work it a little lower now, given that the ad spends are 100 bps higher on a sustainable basis?

Ashish Dikshit: So, I wouldn’t shy away from, except that we don’t want to give specific guidance. So, those were directional guidance. I think our trajectory of improvement will continue. There is a marginal
shift in our base as far as advertising spends is concerned, but hopefully we will be able to do better and cover up through rest of the business leverage.

Vinod Bansal: So, we know this is, if I may, doesn’t help my question. Are we looking at sort of 50 bps improvement or 100 bps plus improvement every year going ahead, if SSG remains 6%, 7%? And what is the sustainable medium-term profit margin in this business are we looking at, 8%, 9% is the number at which we sort of stabilize or 10% plus in the context that we are at now?

Ashish Dikshit: No, I think closer to 10% is the margin that we have always said we want to target in this business. We were very far when we said that, we were at 5% when we said that, but we have consistently been improving. I would still hesitate and not give a specific guidance for next year, since it's closer to the year. But trajectory will remain in that path, Vinod.

Vinod Bansal: Right. And one of the levers for that guidance was improving product mix, specifically private labels. And we seem to be stuck at this 60%, early 60s range, now it's been nearly two years, we have opened more stores and we used to comment that all the new stores are coming at 80% private labels. But that does not seem to be sticking to the overall mix up for the Pantaloons business, it's still at 60%. So, what is the lever that you are looking at to raise margins by 300 bps if private labels don't improve, their share doesn’t improve?

Ashish Dikshit: I think quick facts; private label share has increased this year by 2 percentage basis point in FY19. Having said that, for somebody who has watched Pantaloons over a longer period of time, your observation is still right that our increase in private label share is still lower than what we had indicated three, four years back. A part of it was, Vinod, in a FY17 and FY18 we did a fairly significant portfolio rationalization within Pantaloons brand labels. We felt there were too many brands and there was a bit of a confusion as far as consumer is concerned. So, we have rationalized the portfolio. In that bargain in 2018 and 2017 our private brand share actually didn't go up. Having said that, the trajectory is very positive. I think, two clear indicators are share of private brands, if you look at any time in last one year, quarter-on-quarter report, that share has been increasing by 1.5% to 2%, this full year it has gone up by 2%. We plan to be a little bit more aggressive and target maybe closer to 65% next year and accelerate that journey. But yes, trajectory had slowed down. But that's behind us.

Vinod Bansal: Ashish, just another fact checks. You said 2 percentage point private label mix has gone up. But I think our understanding of the guidance was 5% plus every year and hitting 75% in three years. 2 percentage points jump in private labels means about let's say 20 bps on the overall portfolio, assuming they have 10% higher gross margin. That's not taking us to 300 bps margin improvement in three, four years for Pantaloons. So, it has to substantially go up.

Ashish Dikshit: I agree. I think our trajectory is much, much slower and our current situation is much lower than what we had indicated earlier. So, absolutely point taken. Having said that, that's not the only margin lever, so I think when we talk about the EBITDA margin improvement, it's a combination
of three things, gross margin which will come through private label, gross margin improvement which will come through better markdown management and there is a lot of work that has happened on that side, overall leverage on fixed cost, which is SSG where we are not performing at the level that we would like to. And faster store addition, so that total revenue and fixed cost goes up. So, it will be a combination of all three. I think as you go forward, you will see combination of all three playing out in a journey from 7% to 9% or 10%.

**Vinod Bansal:** And the last question, you have put a Board approval for some debt issuance from NCDs. Is it an enabling revolution or do you have a firm plan to raise money?

**Jagdish Bajaj:** No, actually, this is a routine item. Every year we have to inform to Board that this is the maximum level we want to keep it, so there is no change from last two years. Our debt will remain in that range. Whatever we repay we may have to refinance it, that’s it.

**Moderator:** Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

**Ankit Kedia:** Sir, in Pantaloons we have started project Phoenix in the month of January, February. Just wanted to know when can we see the benefits of that coming in the system on the freshness assortment of the product?

**Sangeeta Pendurkar:** So, project Phoenix is a project that we undertook to improve the availability and freshness of our goods. We have already implemented it from this season, from spring 2019. And it’s a big initiative versus one-time season launch. We now launch our season in six-odd drops, six to eight drops. And that has already been implemented. And we are seeing some very good early results.

**Ankit Kedia:** Sure. My second question is on the new store addition, how many of these stores would be on franchisees? And could you just hint on the geography expansion, because some of your comments would also be targeting the Tier1, Tier-2 cities. So, some idea on that?

**Sangeeta Pendurkar:** So, at this point of time, as Ashish mentioned earlier, about 20% of our stores are franchisee stores, we will continue with a similar ratio. And in terms of the geographies, in the past, we have opened, so for example if we look at last year, we have opened about 20% of our stores in metros and the rest in Tier-1, Tier-2, Tier-3 towns, that is purely a function based on our mapping exercise where we believe the potential is. But having said that, there could be a very few stores and metros, but a large number of the new stores that will come up will come up in Tier-2, 3 and 4 towns.

**Ankit Kedia:** And some CAPEX guidance, both on the Lifestyle business and the Pantaloons business?

**Ashish Dikshit:** Ankit, company has intended to spend approximately Rs. 350 crores in FY20.
Aditya Birla Fashion & Retail Limited
May 15, 2019

Moderator: Thank you. The next question for us on the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: I have a couple of questions. One is on our recent foray in this Value Fashion category with the launch of Style Up? Could you give us some qualitative, quantitative perspective about what we are looking to do? And broadly some perspective in terms of numbers?

Ashish Dikshit: So, it's a test format for us, we have launched Style Up, we have about 15 stores across the country at this point of time, most of them in eastern UP and Bihar. So, we have taken a small narrow geography, where we have gone to Tier-4 towns and other towns which have relatively less sort of access to organized retail. The idea here is to test a product proposition between Rs. 500 to Rs. 600, Rs. 800 and test the format viability, proposition of mix and economic model. Once we test all this we will decide whether to scale up in this form or it could be something that we could do under Pantaloons or something. But at this point of time, we want to test these markets where in the normal course of the business our brands or our formats will not travel. This is really about wanting to discover the Tier-4 consumer, their habits, their price points, their shopping, and finding the right format for that. I would still say it's in the lab phase with 15, 16 stores, we will probably open another 10 stores and get the economics of it right before we decide how to expand that.

Aliasgar Shakir: The point is we have so far gone with a separate brand sort of indicates that even future growth will be separate instead of including it in the Pantaloons umbrella?

Ashish Dikshit: No. See, the idea is to test the purity of the concept. And when you take existing brand you take it, then you end up doing things around that brand. We wanted to understand, because it's a very large opportunity, I think if you just add up the kind of towns that we are going in there, its maybe a 1000 town opportunity and more. Therefore, we want to make sure that we do the right economic model, brand proposition, product portfolio, pricing and so on, which an existing brand within existing brand may sometimes be a restrictive experiment. So, both are possible, we could take it as a new brand format and scale it, or we could merge it at this stage in a format like Pantaloons and use that as a vehicle for that.

Aliasgar Shakir: Right now it’s about in the range of 6,000 to 8,000 square feet?

Ashish Dikshit: Yes.

Aliasgar Shakir: Okay. So, probably a year from now, you will have a clue about what is the kind of aggression we will show or maybe it should be next quarter that you should have an understanding because we would get 25 stores like you mentioned in the next quarter’s time or so?

Ashish Dikshit: Yes. So, we will take a call at the end of next year.
Aliasgar Shakir: And this is currently sitting in our others portfolio?

Ashish Dikshit: Yes.

Aliasgar Shakir: Okay. And are we able to share any numbers related to what kind of loss is this business doing or what kind of scale that we are doing?

Ashish Dikshit: No, not significant and I don't think it's material right now.

Aliasgar Shakir: And second question is coming back to Pantaloons, I understand you mentioned the SSG, and also after you account for the IndAS adjustments, growth has been about 4% odd. But just to understand, when I compare Pantaloons with Lifestyle business, the growth has been very different. So, if it was related to EOSS, I mean, one of the only factors that you mentioned which is related to the disruption in supply, I can understand that is linked to Pantaloons. But other than that, all the other factors would be same for Lifestyle segment as well, which has done commendable growth this quarter. So, if you can just share about what is the gap between these two in this quarter?

Ashish Dikshit: So, I think both the businesses have very different seasonality affect. Lifestyle businesses is a combination of wholesale and retail in equal measures, there is a large wholesale offtake that happens in the Q4, as conventional retailers MBOs and department stores stock up for the season. And that balances with wholesale and retail. Having said that, Lifestyle brands have done better in retail as well, on a standalone as reflected by their like-to-like performance. Part of the reason is that as I mentioned the EOSS shift in Pantaloons is more prominent, and our judgment is increasingly over a period of time as bigger brands, more premium brands become more available on discount, the value fashion segment suffers during that period in terms of consumer has access to more premium brands at more affordable prices. Seen that trend over the last two or three EOSS, and perhaps that's what is getting into the base to some extent.

Aliasgar Shakir: Got it. But there should not be any timing related mismatch in the revenue growth that we see in the two segments, right? I mean, like you mentioned this is because lifestyle has also the wholesale part of the business, there should not be any timing related impact that we should see in Lifestyle?

Ashish Dikshit: I mean, I didn't get a question on this.

Aliasgar Shakir: So, what I meant is, basically, like you mentioned that some of the sales would have been for the beginning of the season.

Ashish Dikshit: That's normal. That's there in the base, that happens every year for all the businesses.
Aliasgar Shakir: Fair. But what we have seen in Pantaloons should not be seen probably in the next quarter in Lifestyle, we don't anticipate that, correct?

Ashish Dikshit: No, please remember, Pantaloons is a 100% retail business, Lifestyle as a combination of multiple channels, each of the brand operates in multiple channels. So, therefore seasonality is what I am saying you should not compare in the two channels, one is a one single channel business or there is a multi channel business.

Aliasgar Shakir: Yes, I get that point. My only point was that since Pantaloons saw on the retail segment a little weaker business, we are not anticipating the same in the coming quarter for Lifestyle?

Ashish Dikshit: No, not at all. I mean, see it's difficult to predict quarter-on-quarter performance, but Lifestyle brands is on a very strong footing, two consecutive years of good like to like sales growth. So, I do I don't see a problem at all.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. On behalf of Aditya Birla Fashion & Retail Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.