



# “Aditya Birla Fashion and Retail Limited Q4 FY-18 Earnings Conference Call”

**May 11, 2018**



**MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR,  
ADITYA BIRLA FASHION AND RETAIL LIMITED  
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER,  
ADITYA BIRLA FASHION AND RETAIL LIMITED  
MR. VISHAK KUMAR – CHIEF EXECUTIVE OFFICER;  
LIFESTYLE BRAND.**



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

**Moderator:**

Ladies and gentlemen good day and welcome to the Q4 FY18 Earnings Conference Call of Aditya Birla Fashion & 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. We have with us today Mr. Ashish Dikshit – Managing Director, Mr. Jagdish Bajaj – CFO and Mr. Vishak Kumar – CEO, Lifestyle Business. 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 full-year 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 for Aditya Birla Fashion & Retail Limited. The company has achieved encouraging results for Q4 FY 18 and for FY 18 and we feel confident that it will continue to build on this strong platform.

Let me briefly discuss the key trends in the apparel industry before I turn to the results. First, the biggest economic event for FY 18 was the roll out of GST. It caused disruption in the short term impacting footfalls. Our most of the channels recovered as rates was largely neutral for the industry.

Second, the value fashion and mass fashion players continue to dominate the market with very aggressive store expansion. Third, rising influence of globalization led to a robust growth of international brands. Fourth, e-commerce business is seeing a steady growth and forcing many established players to ramp up their omni-channel play. The year also saw shift in seasonality and second half of the year performing better than first half aided by a strong wedding season at the end of Q3 and Q4.

Now let me give you a snapshot of the financial performance of our company and the individual business segments.

During this quarter, our sales were at Rs. 1754 crores, a growth of 8% over corresponding quarter last year. The EBITDA for the same period was Rs. 174 crores, a growth of 33% from last quarter from Q4 FY 17 Rs. 831 crores. For the whole financial year, our sales grew by 8% from Rs. 6633 crores to Rs. 7181 crores in FY 18.

The EBITDA grew by 5% from Rs. 476 crores to Rs. 501 crores in this financial year. Net profit for the year stood at Rs. 118 crores compared to Rs. 53 crores in FY 17 which included a deferred tax asset recognition of Rs. 69 crores. I will now take you through the highlights of the individual business segment starting with Lifestyle Brand business.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

The focus on strengthening brand and expanding distribution has led to a strong performance for this business. The segment had an EBO network of 81, 1813 stores at the end of the FY 18 which was 1761 at the end of FY 17. The business recorded a strong like- to- like growth of over 9%. This is despite the impact of GST felt in H1 and the reduced export. While retail bounced back whole sale is expected to recover slowly over the next few months.

The segment has achieved revenue in this quarter of Rs. 1015 crores, a growth of 12% for the same period last year. EBITDA for the quarter was Rs. 166 crores as against Rs. 142 crores grew by 17%. For the whole year, the sales for the vertical were Rs. 3866 crores which is 6% growth over FY17. EBITDA for the whole year was Rs. 476 crores pre- GST adjustment as against Rs. 423 crores for last year FY 17.

Our Pantaloons continued its rapid expansion and opened 66 new stores during the year. The business continued increasing its portion of franchise stores with 48 COFO stores that exit FY18 versus 28 last year. The focus on profitability is reflecting in our results. The EBITDA for the quarter was Rs. 27 crores as against Rs. 14 crores in Q4 FY 17 while achieving a healthy sales growth of 9% in this quarter. It ended Q4 sales with Rs. 641 crores. The network expanded to 275 stores from 256 stores at the beginning of the quarter. For the whole year the sales were at Rs. 2862 crores, a growth of 12% and EBITDA at Rs. 171 crores grew by 36%. In FY 18 the business performed satisfactorily and would have been better but for the GST impact in H1.

Next we move to the Fast Fashion business. Overall our losses in the Fast Fashion business have reduced. In FY 18 sales for the segment was Rs. 398 crores with an operating loss of Rs. 53 crores. Fast Fashion revenues grew by 15% over previous year. During this quarter, network rationalization and cost optimization initiative which time and again were reflecting has reduced our losses by 74% over Q4 FY 17. We expect losses to come down significantly in FY 19.

And lastly our all other businesses, the innerwear business has seen a good full year of operations with the reach extending to 6700 outlets across 75 cities. Our product has been very well received and product differentiation continues to be the core of our business strategy. For FY 18 sales for this segment was Rs. 205 crores, we have seen a growth of 73% over last year sales of Rs. 119 crores. Operating loss for the year was Rs. 47 crores as against Rs. 31 crores loss in FY 17.

Our balance sheet, the total debt of our company stands at Rs. 1861 crores for FY 18 as on 31<sup>st</sup> March, compared to Rs. 2044 crores as on 31<sup>st</sup> March 2017. We could reduce our debt by Rs. 200 crores. One special fundraise announcement, we have taken an enabling approval from the Board to consider raising funds up to Rs. 1000 crores by the equity, any other instrument



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

convertible into equity through one or more mode to add strength to balance sheet and drive growth.

The outlook and strategy for the medium-term across the business segment continues to be for each business segment. In Lifestyle Brand, will strengthened our brands, launch innovative product and drive growth across all channels. In Pantaloons, we will aggressively expand our store network and start focus on improving same-store performance. Our Fast Fashion business will continuously grow in the right markets and format with clear focus on profitability. In our other business, including innerwear, Athleisure, we will continue to expand our product portfolio and distribution network.

With this gentlemen, we are open now to questions.

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

**Abneesh Roy:** Sir, congratulations on strong EBITDA growth. My first question is on the Madura business. You have shown consistent improvement in the Madura business in terms of margins, which is at a multi quarter high and even same-store growth is good. My question was with respect to the Wall Mart deal, which has just been announced. Do you see promotions again increasing in e-commerce and what is the way forward if that happens? Or do you see promotions actually reducing in the medium term?

**Ashish Dikshit:** I think it is early days but the way we look at it, probably this consolidation will bring stability along with growth that the industry is seeing in the e-commerce side. We feel that some of the behavior will be more favorable as businesses look for sustainability. Going forward growth of course will remain an agenda and that is driven by consumer dynamics as well. Our sense at this stage is that we will probably be more stable environment of behavior on their part.

**Abneesh Roy:** And in the Madura business could you share some numbers on how e-commerce percentage as you mentioned e-commerce, there has been steady growth and 2 to 3 years back that was a key reason why same-store growth had become negative for many quarters. So how that has scaled up and how is the relationship with Amazon and beyond Amazon because I understand there is a warehouse for Amazon in the factory? Anything apart from Amazon also you have done in terms of tie-up?

**Vishak Kumar:** So first things first, we are there with all the key players. We are there with Myntra, Flipkart, Jabong, PayTM, Amazon all of them. We have a very strong marketplace infrastructure whereby our inventory is available on each of these sites and that creates a very high inventory efficient method of working with a partner. This is a fairly fast-growing business and we have been growing at about I think 40 to 45% in a year- on- year which is in a way apples to apples



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

growth. So that has been a fairly, in fact, the outlook for the next year is also a similar kind of growth. So we should continue to grow very aggressively in these channels. We have also significantly improved our full price realized sales in these channels. So as Ashish was saying these people are also trying now to improve their full price, convenience-based products which are selling by virtue of their fashion by all of that, rather than only discounts. So that should again augur well for us as a business going forward.

**Abneesh Roy:** And online in Madura will be mid single digit, as a percentage of sales?

**Vishak Kumar:** Yes, that is right.

**Abneesh Roy:** Sir my last question is on Pantaloons, here again, what I'm surprised is margin expansion in spite of same store growth being limited, normally in retail, you need at least a 5% same store growth for margin expansion I understand the cost initiatives if you could discuss that. And now in FY 19 those cost initiatives will be a bit more difficult because that has mostly happened in FY 18. So do you expect same-store sales growth, good recovery now? If you could discuss that part.

**Ashish Dikshit:** So I think first, your point is fair. I think it's difficult to improve profitability in retail without same-store growth and we haven't seen strong sales growth this year. But Pantaloons will also benefit, the margin expansion is also coming from operating leverage going up apart from the cost reduction. So we have looked at network, we have rationalized the pieces of network through either operating cost reduction or store rationalization where it was required. But the largest lever on profitability has been through the leverage on the fixed cost that strong growth of Pantaloons is also helping us. So it is a combination of cost and operating leverage. I think that same story will remain, it will get better when the like- to- like performance also improves and that is really what we are looking at going forward.

**Abneesh Roy:** Sir one follow- up here. Are you now confident of the Pantaloons model? You have expanded a bit fast I understand competition is also doing that. But my question is there are even lower priced players for example FBB, Zudio etc. so do you need to lower pricing further or you think now the pricing and the format is okay?

**Ashish Dikshit:** No, I think we are very comfortable with where we are today. Our sense of pricing in Pantaloons is at a confident level of pricing, where the consumers feel good value. We don't need to alter that too much. Of course, we will keep responding to better opportunities. But I don't think pricing is a significant piece to play around right now.

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



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

- Tejas Shah:** Hi sir thanks for the opportunity and congratulations on good set of numbers. Sir Madura like-to- like growth for the full year was 9% and Q4 retail sales like- to- like was 7%. So, are you seeing any deceleration in growth trend there?
- Vishak Kumar:** No, actually, we must recognize that the overall growth number, there is a method of accounting where both are net of GST or net of tax, so the base is different. If you correct it for GST actually the overall growth number will reflect the correct number which is closer to about 10%.
- Tejas Shah:** Sure and you also mentioned in the presentation that wholesale has still not bounced back. The expectation was that by at least Q3 or Q4 they will be back in the business to the full extent. So where do you see that settling down?
- Vishak Kumar:** First thing first, Q4 was a lot better than the first three quarters. So we are about 8% growth in the wholesale business. So it seems to be coming back even within that it is primarily south which is still slow the rest of the regions have picked up. What we are also doing to accelerate this is also building our own channel of exclusive stores in the trade business itself, in the wholesale business itself where we have partnered expansion for a lot of exclusive stores. And that should also fuel a lot of growth for us particularly in smaller towns Tejas.
- Tejas Shah:** Sure and sir I missed on SSG part on Pantaloons. What was the number for this quarter?
- Ashish Dikshit:** It was (-6) for the quarter.
- Tejas Shah:** And sir while accounting SSG Pantaloons for franchise stores do we deduct commission from the top line or does without commission?
- Ashish Dikshit:** No commission is a part of the cost; revenue recognition method is at the sales to the consumer.
- Tejas Shah:** And sir last one, we have passed an enabling resolution for the Rs. 1000 crores so what is the purpose that we have outlined for the same?
- Jagdish Bajaj:** See we already said that this is an enabling resolution and it is towards adding strength to our balance sheet as you know for driving our growth. This is the purpose.
- Tejas Shah:** And that order the first will be to strengthen balance sheet or drive growth just to understand the priority?
- Jagdish Bajaj:** It all depends on our business plan and balance sheet. You are familiar, so I don't need to tell you what we need to do. But you know raising equity will certainly add strength to our balance sheet and it will help us for our growth.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

**Tejas Shah:** And sir last one we are seeing some good initial success and values as per our last call you were saying that you are investing to actually expand the whole business to much broad franchise and not to only to Van Heusen. So where are we on that plan?

**Ashish Dikshit:** No, I feel it is too early you are taking of innerwear I guess Tejas.

**Tejas Shah:** Yes.

**Ashish Dikshit:** No it is too early. It is two years away we think Van Heusen Innerwear itself is in early stages. While we have done well, expanded our distribution and recorded good sales in the 1<sup>st</sup> year. Our focus in the immediate term is to leverage the base that we have created wide distribution, goods brand equity, innovation in product. So in the immediate term we don't look at expanding that to other brands because that would require a fresh round of investment and I don't think we have sort of discovered the full value in this one.

**Tejas Shah:** And sir, what turnover you believe that business can be EBITDA positive, the innerwear business?

**Ashish Dikshit:** The question in that business is not to become EBITDA positive. It is a reasonably variable cost business unlike many other formats which are typically retailed heavy which are more fixed cost. So it is easy to become EBITDA positive in that as soon as we start leveraging the fixed cost. But the issue that we are, our focus is really to drive growth to build a sizeable business. So at this time the intent is really to invest and make sure there is a strong presence in the market, there is a wide diversified team, distribution is in place and that is really top of priority.

**Moderator:** Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

**Richard Liu:** Hi and thanks for taking my question. Just two thing on accounting, the fact that you have not done or provided for any impairment for either Forever21 or Pantaloons can one assume from this that all the interim problems that you saw in these two segment or sub segment are largely done with and everything is hunky dory now?

**Ashish Dikshit:** So I think Richard the question on Pantaloons is I think very farfetched from the reality of the business. The business is going extremely well. We are adding tremendous strength in terms of expanding distribution. For the last 3 years continuously, the profitability itself is increasing. Pantaloons has become a fully EBIT positive business. It is in very strong place so there is really not even a question of any impairment.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

On Forever21, we have plans we have seen over the last 3 or 4 quarters the improvement in performance, we talked about that and we will remain committed to the category. It is a long-term investment, it is a very valuable brand, it has very strong consumer franchise as we are rationalizing the network and building the new retail which is a more viable format there is pretty strong reason to stay invested in that idea.

**Richard Liu:**

But the fact that you didn't need to impair anything it doesn't mean that these are actually going as per what you planned at the time of acquisition. I would think that at the time you acquired both these assets, respectively, one would have thought that after this time past, the performance would have been better than what they actually are at this point in time. Isn't that?

**Ashish Dikshit:**

No but I think that has got nothing to do with the question of impairment. Clearly, expectation at the time of acquisition of Forever21 Brand more ambitious, we have not achieved those levels of growth and profitability. But Pantaloons I don't even think this question is very relevant. It is a very strong growing franchise, proven model, financially strong. So it's really not an issue.

**Richard Liu:**

Oh sure. And just for the quarter, what is the reason Pantaloons have an LTL of (-) 6?

**Ashish Dikshit:**

I think the largest factor was January, which was the end of the season performance and we are seeing in our valuable business that historically because Pantaloons was next stop for multi brands and own brands, the share of Pantaloons during the EOSS constantly dropping. In this quarter we saw the same thing. January was slightly negative, by end of March we had reached double digits. But for the end of the quarter that is quarter in a whole we are still operating with negative like- to- like.

**Richard Liu:**

And what is the like- to- like number for the year?

**Ashish Dikshit:**

(-2.6).

**Richard Liu:**

And Ashish Q4 result obviously is quite pleasing compared to what we have been used to in the last couple of quarters. Are you more confident today than you were let's say, 365 days back? And if so if you can tell us what are the top three factors that is driving this confidence?

**Ashish Dikshit:**

I think your confidence seems to have gone up. We were very confident of our businesses. I think during the course of the year the big learning and corrections have been in Forever21 business where are we very initially quite optimistic about turning that around much faster than we eventually did. Other brands we have helped and consistently maintained a very strong, we took a pause to rationalize the cost structure, strengthen the pieces around the brand. We continue to remain confident as confident as we were before and very positive. Some of the outcomes of the action is showing.



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

Pantaloons also, there have been a little bit of blip in same store growth, particularly during both the EOSS, which has dragged down the years. Remember Pantaloons numbers were also impacted by about 2% both of the same store growth as well as overall growth by the GST impact. To that extent, therefore, if one were to ask for commentary on the entire portfolio I think Madura brands are very strong and starting to come back to very robust performance. Pantaloons has gone through let's say little bit of lows but again, with an expanded network, continually improving profitability sitting on good position. In Fast Fashion business we seemed to have recovered the downward trajectory that we have found ourselves in the middle of the year. Our innerwear has been a good story, a very strong story and promises much further opportunity going forward. Our portfolio looks both balanced and strong. So yeah, good place to be in.

**Richard Liu:** And we should stop assuming that these Forever21 losses disappear next year?

**Ashish Dikshit:** That is the target that we have internally, but we have to see.

**Richard Liu:** And last one, Jagdish what is this deferred tax as in that is created?

**Jagdish Bajaj:** See if you have seen in our income tax we are continuously having unabsorbed losses and with IndAS coming into change from earlier system to this, now we have a reasonable certainty concept for considering the deferred tax asset. Based on unabsorbed losses and depreciation we have created deferred tax asset for this financial year.

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

**Neha Bhotra:** Sir could you give a guidance in terms of what is the number of stores you plan to add in FY 19?

**Vishak Kumar:** Specifically, Madura I can talk first. So approximately we are looking at adding 350 new doors in Madura in the coming year, in this year. This will be across various formats including where we invest in the fixtures ourselves versus where partners invest and where they invest in stock. So across various formats we are looking at about 350 stores. This is could be a significant increase like Ashish was saying earlier we wanted to make sure that we've got all the elements of the model fine tuned which we have done over the last year and the results are a very healthy same store growth that we have seen. So there is lots of opportunity that we are seeing in expansion now. So we just built that as we go along in this year and the years to come.

**Neha Bhotra:** So what is the total number now, like after consolidation where do we stand now?

**Vishak Kumar:** So we have about 1800 stores across our various formats in Madura.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

- Neha Bhotra:** And sir, what about Pantaloons how many stores we are....
- Ashish Dikshit:** I think Pantaloons today stands at about 270-odd stores and we will be opening between 60 to 70 stores each year. I think this year also we should look at (+50) stores.
- Neha Bhotra:** And this Rs. 1000 crores will it be utilized for the store expansion as well like is it a part of the amount we would see like used for adding new store?
- Ashish Dikshit:** No I think the Rs. 1000 crores are of course for the overall strengthening of the balance sheet as Jagdish talked about. Most of the store expansion that Vishak talked about in Madura significant part of it is done through franchisees. I think most to 75% comes through franchisee, if not more. Similarly, Pantaloons also almost 20% of the expansion comes through franchisee role. So capital of course will be helpful in this but the purpose of the fund raise is to overall strengthen the balance sheet.
- Neha Bhotra:** Sir in FY 18 what is the number of stores we have shut? And also the consolidation would continue in FY 19 as well?
- Ashish Dikshit:** No, I don't think there is need to do too much of it. In a network of 2,000-odd crores you will always have the percentage of store which will get rationalized. So 4%-5% happened in the due course as we go forward, some years little more some years little less.
- Neha Bhotra:** And Sir in FY 18 how many have we shut?
- Ashish Dikshit:** It is about 9%.
- Neha Bhotra:** Okay and any further debt reduction are you looking at? Because you managed to reduce Rs. 200 crores. So would you look at bringing down the debt further?
- Ashish Dikshit:** So that is a constant endeavor, although that in itself is not the goal. We are focused on building and growing businesses and most of it is currently we are able to finance through internal accruals. So that really is not the goal but as an outcome, I think we are constantly looking at optimizing working capital and most of the deals come from there.
- Moderator:** Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.
- Garima Mishra:** Hi thank you so much for the opportunity, Ashish two questions. One is could you on Pantaloons highlight any specific initiatives being taken for improvement of like- to- like growth of which for FY 18 came in fairly tepid?



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

And the second question is essentially on the Rs. 1000 crores. Is there any timeline by which you would like to come to the market?

**Ashish Dikshit:**

So on Pantaloons I think the basic drivers of improving store performance remain universal and that is same thing valid across. But in terms of specific focus first, let me start by saying that lot of Pantaloons same store growth looks much lower primarily because the share of business from very old stores is very high. Our new store addition has only begun in last two years. Much of that will start to come only from this year and next year. So therefore, addition of new stores to the like-to-like bucket will include same store performance is the first piece. But in terms of organic actions clearly improving availability, freshness, increasing shares of own brands are two or three areas which are likely to drive store performance.

On your second question on fund raised, we haven't at this stage chosen the time to go to the market. I don't think I'm in a position right now to indicate any period. We will evaluate it we have taken an enabling resolution from the Board. We will look at both of the timing as well as the actual extent of the fund raised apart from looking in the right instrument.

**Garima Mishra:**

Sure, thanks and just a follow up on Pantaloons itself. So from a like- to- like growth perspective, is there any sort of target that you are working with for say the next couple of years which would be sort of acceptable performance to you for this particular line of business?

**Ashish Dikshit:**

Clearly I think businesses do run on targets. So we have targets and the idea is to really achieve them. I think getting high single digit should be the first goal for Pantaloons.

**Garima Mishra:**

And do you have any plans for Pantaloons online because Madura, for instance, you know you are fairly well connected with all key market places. Pantaloons you will have similar initiatives in mind?

**Ashish Dikshit:**

Yes, so Pantaloons will definitely have similar initiatives. Pantaloons.com is going online very soon. And equally significantly Pantaloons is partnering with the same large players which is Amazon and Flipkart specifically to build that their private-label business around that.

**Moderator:**

Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

**Sandeep Baid:**

Good afternoon Ashish. My first question was on Pantaloons now we have about 48 franchisee stores there and that would mean that over the last 2 to 3 years since we have started adding franchises may be about 30% of the new additions have come through the franchisee stores. So how has been the experience and would you say that this model has settled down and you have the confidence to increase the share of franchisees in the new stores going forward?



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

- Ashish Dikshit:** Yes, I think the fact that we have nearly reached 50 stores of the network of 70-odd stores is an indication that we feel strong about it. But, retail investments typically have long term payback 3, 4, 5 years for franchisee. We want to grow it and make sure that our franchisees are also profitable and making money. And therefore, I don't think we will go and excavate that path more than what we are doing, which means close to 20 odd percent of our stores. We will look at through this work may be 25 to 30 in some markets, depending on which kind of markets we're going in. Typically, smaller towns, we feel more confident with franchisees there, local knowledge is better. Our ability to reach and serve those markets is poorer. So that is really how we will grow, we will keep growing at between 20 to 25% of our network expansion through this.
- Sandeep Baid:** Secondly on Fast Fashion, would a breakeven at EBITDA level be possible in FY 19?
- Ashish Dikshit:** I don't want to set numbers in the call here for each segment. But clearly you have seen that we have been focused on improvement and profitability even at the cost of growth. That does remain a target and hopefully will be closer to that.
- Sandeep Baid:** And as you said on the other businesses which is primarily innerwear and of course a few other businesses. But for you the focus there is growth and not so much of profits there, but would you say that whatever losses that we incurred this year, which is about Rs. 47 to Rs. 48 crores that would be the peak or you think the losses can be higher for the segment?
- Ashish Dikshit:** So I think we may have to stay invested at this level roughly little bit up, little bit down but we are committed to doing what it takes to create a meaningful business in that. We are confident of profitability going forward in the segment and therefore we want to make sure that we don't miss out on the opportunity that market offers.
- Sandeep Baid:** And lastly this question is for Jagdish, the depreciation in the quarter has gone up by more 20 odd crores, quarter- on- quarter as well as year- on- year. So any specific reason for that?
- Jagdish Bajaj:** Actually, if you see we have added stores in Pantaloons business segment there for the deposition is higher.
- Sandeep Baid:** As compared to your December quarter, also depreciation has gone up by about 20 crores.
- Jagdish Bajaj:** That is right. So if I add this and I have to provide for depreciation based on our policy. So that is reflected in increase in depreciation.
- Moderator:** Thank you. The next question is from the line of Shariq Merchant from Quest Investments. Please go ahead.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

**Shariq Merchant:** Hi, good evening and thank you for the opportunity. Sir, coming back to the capital raising part, so considering that the amount that you are raising is fairly meaningful, can you talk about the segments where you see this opportunity that is giving you the confidence to raise equity?

**Ashish Dikshit:** I think principally as Jagdish has said when we looked at our balance sheet and our growth ambition we find the level of debt that we have maybe sufficient to keep running at this level. But if you want to organically grow the business faster across each of the segments, and each one has a different growth opportunity then perhaps it would be better off and feels more confident with slightly better ratios on our balance sheet.

**Shariq Merchant:** Sir you are saying that this will be more organic related growth versus inorganic?

**Ashish Dikshit:** See at this stage it is difficult to say. I think overall growth as we have expanded portfolio offers opportunity on both dimensions. As a group we will continue to keep looking at all options. This is not specifically targeted at anything in specific, it will improve the overall balance sheet and that will give us these options, both to grow organically faster and if and when there is any opportunity we need to execute that.

**Shariq Merchant:** Alright. My second question is on Pantaloons so you all did a Rs. 27 crores EBITDA during the quarter. However, at an EBIT level it is a Rs. 21 crores loss. It's almost Rs. 50 crores swing of depreciation. So, I couldn't quite understand why that depreciation number is so high? Is that an exceptional item over there or change of policy?

**Ashish Dikshit:** There is no change of policy. What happened is just for your understanding when we expand in the same year some part of each store which gets written-off in the same year and therefore faster expansion leads to higher depreciation during that quarter, also while typically, the asset created gets depreciated over a 5 year period, 6 years period in Pantaloons store. But there is a part of capital in every store that gets depreciated same year also, which is why in quarters when you see very large expansion, you will see depreciation number rising. And this has been the consistent policy. So there is no change in that and there is no exceptional item.

**Shariq Merchant:** So if I were still to look at the annual number that would be a fair representative of an average number to look at, even going forward.

**Ashish Dikshit:** Yeah, considering the expansion remaining fair.

**Shariq Merchant:** And also could you talk about the operating margins that you expect both from Madura and Pantaloons going forward, the margin expansion?



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

**Ashish Dikshit:** We don't want to get forecast, an outlook on those specific matters but you have seen our trajectory, the business performance. So I think we have opportunity to improve in each one of our businesses on that.

**Shariq Merchant:** And lastly on the quarterly financials, there was a decline in both rental and staff costs anything to specifically read into?

**Ashish Dikshit:** No rentals are mostly network rationalization related so it is a direct thing there is no exceptional item or any other treatment that's come in. On the staff cost, what happened in Q4 every year when we actualize the actual cost whatever outcome comes that flows into Q4. So that is really the buildup to staff cost.

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

**Vinod Bansal:** Hi Ashish, couple of questions on Pantaloons, I think maybe I am repeating one of the questions. You said that there is the benefit of cost optimization during the year in the quarter that is driving margins in the business. Any sense on how much juice is left here that can further drive margins next year after which would require SSGs to come back?

**Ashish Dikshit:** I think there is always an opportunity. There are three dimensions Vinod, one is and undeniably the largest lever for margin lies in SSGs in retail business and you're aware of that. So that remains as the number-one focus.

The second is a change in the product mix, which drives gross margin in this case increase of private label share the remains second lever in Pantaloons we haven't done such a good job this year on that. But that is something that we need to do a lot better and more often.

The third is simply the expansion driving overhead leverage, whether it's fixed costs, marketing, operating, corporate cost, etc. Then comes the actual cost reduction within the same box. Now it's only the fourth which operating teams keep looking at it and then keep finding, some years the opportunity is higher, some year lower, but if you look at the top three, which is SSG growth I think there is a big headroom available. Share of private brands mix going up again significant opportunity for us. And finally, this growth leverage giving the fixed cost leverage that is also a piece. I think there is an opportunity in all three.

**Vinod Bansal:** But absent the first three, the fourth one, which I suppose was the big driver this year, are you suggesting that that may not lead to any significant margin expansion next year, assuming the three do not play out as well? Just for the sake of it.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

**Ashish Dikshit:** No every business at all of points of time we are constantly looking at it. I think there will be something that constantly comes every year.

**Vinod Bansal:** And in the last call we had discussed that you have been stating some issues in Pantaloons regarding the planning availability and freshness of products that have hit SSG. How close are we in sorting out those issues? That you highlighted was the primary reason why SSGs have been weak for the last 7 quarters.

**Ashish Dikshit:** No I won't say last 6 to 7 quarters Vinod, but during this season last year, which is the period between August to October-November, which was a good period traditionally that we have missed out some of our slight possibilities on that and that did hurt our business. I think most of it is behind it, we have started this season very well and I think at least that dimension should improve as we go forward.

**Vinod Bansal:** So that is not our concern anymore at this stage?

**Ashish Dikshit:** Yes.

**Vinod Bansal:** And on this issue of the average age of the network you mentioned that we have a fairly high proportion of old stores which are not growing as much and the new stores that will start getting count that is G&A for SSG will start looking better. Isn't just a mathematical issue of what is being counted, what is not being counted because as I see is when you are quite Pantaloons back in 2013 you were about 19-odd stores which over the years have now to 70. So fairly large number of stores has been added in the last four years, excluding the last year, which should have been a part of SSG and therefore the drag of old stores would not be the reason or the primary reason for SSGs being weak.

**Ashish Dikshit:** The answer is in fact it is. Let me give you a little quick maths around that and we can get details subsequently later. Of or 270 store network we have added close to 150 stores, just in last two years, which was the year that has just gone by FY 18 and FY 17. All of these, 150 stores don't count in the like- to- like calculation. Of the remaining 120 stores we had acquired about 65 stores when they did the acquisition. So there are only 40 stores or 50 stores that we had opened between 2014 to 2016, which gets counted. So that is the first part.

The second part is the size of the stores, the old stores that we acquired both in terms of the physical size of the stores as well as the revenue contribution is much higher because we have pivoted from large format stores to mid size stores. So even today, at least till FY 18 the contribution of old stores and many of them are very old stores is very high.

**Vinod Bansal:** And last question, the private label mix, we have 60% coming from own brand do we have a target for this year? How much you want to raise it to in FY 19 and FY 20?



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

**Ashish Dikshit:** I think I had indicated earlier in high-70% kind of thing, we are not making the progress at that pace. Every season as you plan the season that is the shares that we plan to increase. We see about 3 to 5% increase in next season and another 3 to 4% season after that.

**Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

**Hiren Dasani:** Good afternoon sir. What is the total debt now for us on the balance sheet?

**Jagdish Bajaj:** It is Rs. 1866 crores.

**Hiren Dasani:** And most of it would be working capital debt if I'm.....

**Jagdish Bajaj:** No it consist of long term loan of around Rs. 1200 odd crores and remaining is working capital.

**Hiren Dasani:** I was just curious that on the one hand we are talking about the profitability improvement in South in newer businesses which that you have demonstrated that already Forever21, even the innerwear businesses you are saying that the losses will not increase from here on an already kind of funding 60 to 70 store openings through internal recruits and all that. So where is this need for capital raise coming from?

**Ashish Dikshit:** So I think if you just look at the structure of the balance sheet and the growth options in the markets, there is opportunity to expand each of the businesses faster. Other than period of pause when Fast Fashion because we have already held that consistently over the last 3 or 4 years. Any business going through a bit of exhume we take a pause; make sure we correct things before we go. We feel at this point of time. We are well placed to grow most of the macro situation is also improving outside, our businesses are feeling stronger, parts that need improvement or at least at least this journey is beginning to look quite positive. So I think every part of the business has an opportunity to grow faster.

**Hiren Dasani:** Wouldn't it be somewhat prudent to first let's say, show the proof on how the business is in terms of let's say Pantaloons on the SSG side and on the newer businesses in terms of complete loss reduction side and on the Madura business also a bit of a turnaround before we start about expanding the product portfolio?

**Ashish Dikshit:** No I think these are businesses proven over 20 to 25 years. Few quarters here and there do not change our medium-to long-term view on the business. As I said, we continue to remain responsible to the extent that first of all we will raise after carefully thinking through these issues as well as issues of timing. But we feel that we are in a phase where I think the time to invest deeper and grow faster is ahead of us.



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Hello team, just a few questions on the Fast Fashion, Forever21. So like what kind of a sense, you can give on the revenue side like are we done with the store rationalization or whatever the restructuring we had to take in terms of growth numbers, revenue side? Is this the base PSA starting for the FY 19 or we still have to do some of the work there?
- Ashish Dikshit:** I think 70% to 80% of the work is done; we will still have some left-over work which will go into next year. The task is also to grow the profitable network, which is the new store that we have opened. Hopefully some of those results will start to show. But we are feeling better in terms of the quality of the network we have today versus what we had 12 months back.
- Giriraj Daga:** When you say that losses in Fast Fashion will be significantly lower like where should we start with? Should we start with the Q4 loss number, or do we think that was slightly lower loss compared to what we were expecting? Where do we start with?
- Ashish Dikshit:** I can't take you in terms of actual numbers of next year, but I think clearly quarter- on- quarter the profitability as we discovered areas of improvement we have acted on. Some of it will flow into the next year and hopefully at a year level we should be able to show reasonable reduction in losses.
- Giriraj Daga:** My next question is related to balance sheet. We see a significant increase in the trade payables side of it and that is one of the reasons our working capital deployment has gone down. Was that any one of case or we have actually increase the credit to our vendors?
- Ashish Dikshit:** No, so there are parts of businesses which are operating at lower trade cycle. We have corrected that and aligned with the overall features and therefore that's impacted. That is a one-time thing, we will probably play it out this year, but that is where it is.
- Giriraj Daga:** And going forward, payable dates should remain stable at FY 18 days levels....
- Ashish Dikshit:** Yes.
- Giriraj Daga:** And just one clarification, if I look at the Q3 presentation the numbers what we had given in terms of the number of stores at Madura, it was above 1900. But if you look at the Q4 presentation that number was about 1793. So had you given any press release in between like how do I see that?
- Ashish Dikshit:** So I think there was an error on that and we have corrected that.



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

- Giriraj Daga:** So now you're looking at 20% increase this year in terms of numbers stores for addition that is what you had mentioned?
- Ashish Dikshit:** So 1813 is the closing number of stores.
- Giriraj Daga:** And you have guided about 350 stores will be opening this year across....
- Ashish Dikshit:** Yeah across all formats.
- Giriraj Daga:** So what is the CAPEX we are looking there?
- Ashish Dikshit:** So as I said of Madura business as a whole, operates with a CAPEX of between Rs. 120 to Rs. 150 crores.
- Giriraj Daga:** And how about Pantaloons?
- Ashish Dikshit:** Pantaloons is slightly lower than that.
- Giriraj Daga:** Maybe about Rs. 100 crores?
- Ashish Dikshit:** Yeah around that Rs. 100 to Rs. 120 typically year-on-year.
- Moderator:** Thank you. The next question is from the line of Niraj Mansingha from Goldman Sachs Asset Management. Please go ahead.
- Niraj Mansingha:** What would be the growth of Pantaloons if you would have added those stores that you have added in FY 17?
- Ashish Dikshit:** You are saying SSG growth?
- Niraj Mansingha:** Yes sir.
- Ashish Dikshit:** I think we will have to do that number and come back to you. We will be in contact. You basically want is to add FY 17 stores into the same store network logic and figure out what it would be? We will have to do that separately can come back to you Niraj.
- Niraj Mansingha:** But any ways you can think of?
- Ashish Dikshit:** No I think our team will have to do that work can come back to you.
- Niraj Mansingha:** And can you share more about inner wear, the scale up, how much is left in whatever you have planned and how much more time you see before, I know you are doing in investment phase



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

but how much time you see before those numbers can throw up some reasonable margins from the EBITDA side?

**Ashish Dikshit:** I think in terms of where we have reached as we had indicated we wanted to touch close to Rs. 100 crores this year we are roughly around that. We expect next two years business to grow at 70 to 80%, if not higher than that. In terms of EBITDA getting positive I think we should look at that may be 3 years from now because till then we want to make sure that growth is not compromised.

**Niraj Mansingha:** And can you also talk about the other brands which are part of the other segment in Madura and where do you see that growing and any performance indication from them?

**Ashish Dikshit:** So other portfolio consists of our super premium network, which is collective store and all the new brands that we have added around that which is Ted Baker, Hackett we have a couple of stores and some of the new signings that we have done. The other significant brand that we have signed which has scaled potential is American eagle which has not shown up in the results as yet, because the first few stores will open this year. The current size of the business is small but with the possibilities that American Eagle has as well as addition of new brands where we have just started to launch stores with Ted Baker, Ralph Lauren etc. I think that business will grow strongly on a smaller base.

**Niraj Mansingha:** And when you're talking of the growth that you would like to raise funds for the growth where do you see more investments happening? Is it Madura or the Pantaloon or some other brands like American Eagle, etc.?

**Ashish Dikshit:** No in absolute terms these new brands are small. You just heard Vishak talk about (+300) stores, Pantaloons opening 50 to 60 stores. So our primary growth in absolute numbers will come from our mother businesses which are very strong. The new businesses, whether it's inner wear whether it's new brands that is expanding still it remains a small part of the overall story.

**Niraj Mansingha:** No, what I was trying to understand is that you have actually grown at a similar pace in the last one to 2 years in terms of expansion like your range of Pantaloons store addition is similar to what you added in the past in FY 18. Madura also you're talking of a similar number. So where does when you are taking of a growth coming from raising funds? Where do you see additional growth coming on in terms of, because those were funded internally from here across? So wanted to know where is that additional growth coming in, which requires funds for you growth?

**Ashish Dikshit:** As I said, we have gone through a phase of last 18 to 24 months wherein several businesses we were more in rationalization and consolidation mode. Last year, you wouldn't have seen



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

Lifestyle Brands talking about 300 stores that is a very significant piece. All aspects of our business are growing, but that is only one side of the story. I think if you are alluding to the fact that could you have grown without raising capital, the answer is yes. But does that leave our balance sheet in a strong position probably not as much and that is really why we want to make sure that we are well-placed on that account.

**Niraj Mansingha:**

True I was not trying to understand the fundraising issue I wanted to understand where the additional CAPEX need is coming from? Because if you look at Pantaloons, the number of stores you have added the guidance that you have for next year is also similar in number of stores and what we have seen is over a period of time the Pantaloons store size have also come off slightly so which means that Pantaloons CAPEX needs would actually remain probably the similar to FY 18 numbers. If I look at Madura, Madura percentage of franchisees is also higher. So as a whole the CAPEX needs I am not able to understand where you're more fund needs coming from? Are you planning to buy some brands, you planning to go further from these run rates of expansion? That is what I want to understand.

**Ashish Dikshit:**

No, you are linking the fundraise as I said the primary purpose of fundraise is not really that we have run out cash to expand stores. That we have on an ongoing basis. But when we look at the structure of our balance sheet, we feel that if you look at the level of interest that lies in our P&L that is high. And therefore, there is an opportunity to both fund more aggressively and Lifestyle brands, for example, can do with little bit more CAPEX because the sheer number of store expansion that they are doing is much higher than what they have done before. The percentage of franchisees still remains the same, but own stores will also grow proportionately. Some of the new brands that we have acquired have an opportunity to grow as we are building those which is that the smaller brands like Ted Bakers, Fred Perry, etc., or the bigger and more scalable brands like American Eagle. Innerwear business can be expanded even faster. Pantaloons perhaps you're right, the level of ambition that we have today is very similar to what we had last year also. So that may not dramatically change but the fundraise issue is not linked with expansion alone.

**Niraj Mansingha:**

Got it. Sorry to take this question extendedly, you hinted that there were some recoveries in the sales in Pantaloons in the month of March. Can you elaborate on that, if possible?

**Ashish Dikshit:**

So I would say don't read too much into one month here, one month there. My statement was in response to the quarterly performance, somebody had asked what happened in the quarter. And typically, we are finding that during the end of season sales Pantaloons sales have been seeing same-store decline. It has got recovered subsequent month but that was primarily to explain, the Q4 performance.

**Moderator:**

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



*Aditya Birla Fashion & Retail Limited  
May 11, 2018*

- Tejas Shah:** Hi sir, a couple of follow-ups. What was the like- to- like store count that was taken for calculating, SSGs for Pantaloons for this quarter and this year?
- Ashish Dikshit:** So all the stores that we have open till FY 16 has become part of all the stores that are there, which we have opened in FY 16 become part of it which is about 118 or something. The stores opened in FY 17 don't form part of that nor do the stores taken..... So we take an annual view on it we don't take monthly or quarterly view.
- Tejas Shah:** Sir FY 17 and 18 are not part of it?
- Ashish Dikshit:** Yes, FY 17 is not part of it.
- Tejas Shah:** And sir growth obviously not like- to- like but, sequentially when monitor the stores which were opened and not part of the like- to- like bucket yet. Is it materially different or higher than the stores eligible for like- to- like bucket?
- Ashish Dikshit:** Yeah that is what I was explaining we have stores in our like- to- like bucket, which are as old as 15 years and some of them even more. At least a significant part is even more than 10 years old. So clearly, the performance is different across these two sectors.
- Tejas Shah:** And sir lastly, is there any absolute target to bring down the two or are we targeting in the number in terms of debt equity or debt to EBITDA that we would like to achieve in the coming years?
- Jagdish Bajaj:** Ashish responded in his last question that you know for balance sheet strength, we are doing this exercise. We don't have any target, but ultimately debt reduction will help in our increasing profitability. Because with rising interest rates, it makes sense to have ideal norm for debt and equity which will help us in our growth.
- Tejas Shah:** The question was for that only. So let's say if you raise equity, then your ability to accommodate more debt in terms of, if you monitor the debt equity or debt EBITDA level will be much higher, or if you target absolute debt than even after raising equity you will like to bring down the numbers. So that is why I asked this question.
- Jagdish Bajaj:** I understood when I already have around 1800 to 2000 crores debt on the net worth of thousand crores. You know, we have to think afresh link to our growth plan. What should be the ideal norm? What should we do for our growth sales? So right now, I will only say that this exercise is to add strength over balance sheet which will be done at an opportune time with proper thought process and all and you know it will help us in our growth.



*Aditya Birla Fashion & Retail Limited*  
*May 11, 2018*

**Moderator:**

Thank you very much. Due to time constraints, we will take that as the last question. Ladies and gentlemen of 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 for joining us and you may now disconnect your lines.