"Aditya Birla Fashion and Retail Limited Q3 FY 2018 Earnings Conference Call"

February 02, 2018

MANAGEMENT: **MR. ASHISH DIKSHIT -- BUSINESS HEAD, MADURA FASHION & LIFESTYLE**
MR. S. VISVANATHAN -- CHIEF FINANCIAL OFFICER, ADITYA BIRLA FASHION AND RETAIL LIMITED.
MR. VISHAK KUMAR -- CHIEF EXECUTIVE OFFICER, LIFESTYLE BUSINESS.

Aditya Birla Fashion and Retail Limited
February 02, 2018

MRS. SANGEETA PENDURKAR -- CHIEF EXECUTIVE OFFICER, PANTALOONS

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3 FY 2018 Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the Company's management on the quarters' performance followed by a Q&A Session. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

We have with us today, Mr. Ashish Dikshit -- Business Head; Mr. S. Visvanathan -- CFO; and Mr. Vishak Kumar -- CEO, Lifestyle Business; and Mrs. Sangeeta Pendurkar -- CEO, Pantaloons. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter's performance.

With this, I hand the conference over to Mr. S. Visvanathan. Thank you and over to you, sir!

S. Visvanathan: Thank you. Good Afternoon and Welcome to the Q3 FY 2018 Earning Call for Aditya Birla Fashion and Retail Limited.

We will start with the apparel industry update for the quarter. This quarter witnessed and early EOSS before Christmas and a strong wedding season in November and December. Thereby helping tide over the otherwise subdued sales in the month of October which was impacted due to the shift of festive season to Q2.

The disruption caused by GST roll out in the earlier quarter seem to be normalizing now and we believe that the wholesale channels will completely recover and the next few months.

And with that brief update about the apparel industry for this quarter, we will now move on to the performance of Aditya Birla Fashion and Retail for the third quarter. We will through the highlights of the financial performance of ABFRL and the individual businesses.

In Q3 FY 2018, ABFRL recorded sales of Rs. 1,855 crores; this is a growth of about 8.7% versus the corresponding quarter last year. These sales do not exactly match with the sales of last quarter because of the GST impact.

Our EBITDA for the period was Rs. 148 crores, which was 54% higher than the corresponding quarter previous year. However, this Rs. 148 crores does not include a Rs. 3 crores provision for a one-time expense for our shelved projects. If one were to account that I think it will be Rs. 145 crores EBITDA.

The key portfolio performance has been uploaded in our Investor Presentation on our website and I will take you through the brief summary of the performance of these businesses.

Lifestyle Brand:

Our portfolio Lifestyle Brand as you know comprises Louis Philippe, Van Heusen, Allen Solly and Peter England. These businesses did well during the last quarter and they grew well and significant improvement in profitability in this quarter.

Q3 sales were at Rs. 983 crores, a growth of 8.2% over Q3 last year and like-to-like growth for this quarter was 4%.

EBITDA for the quarter was Rs. 115 crores as against Rs. 87 crores last year representing a growth of 32% over last year. EBITDA margins for the business expanded to 11.6% compared to 9.5% in the corresponding quarter last year.

The total EBO count in this business were at Rs. 1,906 crores at the end of Q3 FY 2017.

Moving over to Pantaloons:

Pantaloons posted a robust revenue growth of 12% in the third quarter. However, the like-to-like remained flat and with sales of Rs. 750 crores growth **compared** to about Rs. **667** crores in Q3 of last year.

EBITDA for this quarter in Pantaloons as Rs. 65 crores, as against Rs. 36 crores last year representing a growth of 81% over the same quarter last year. And EBITDA margin of 8.7% versus 5.4% last year. This improved profitability was due to tighter cost control arising from better select management rental renegotiation and efficient inventory management.

Pantaloons expanded its network to 256 stores, up from 243 stores at the beginning of this quarter. We plan to continue to expand Pantaloons going forward with more stores coming up in new locations.

Fast Fashion Business:

Our Fast Fashion Business comprises Forever21 and People brand. Q3 FY 2018 sales for the Fast Fashion Business was 99 crores, 14% decline over Q3 FY 2017. This decline is primarily due to store rationalization of legacy stores of Forever21 where such stores were shut down or resized to achieve targeted profitability.

EBITDA loss for the quarter widened to Rs. 23 crores versus Rs. 16 crores last year. Primarily due to inventory markdown in Forever21 business and cost related to store resizing and closure which are one-time in nature.

People business has successfully established the large format store model which we will now use as the model for going forward for expansion.

Other businesses, International business, and Innerwear:

Other business reported sales of Rs. 56 crores, 80% growth of over Q3 of last year. EBITDA loss for the quarter was at Rs. 8 crores as against a loss of Rs. 10 in Q3 FY 2017. The growth in this portfolio has been driven by the Innerwear business which was launched in FY 2017 under the Van Heusen brand. The business has grown rapidly in the last one year with the product now being available over 6,000 outlets across 75 towns. We expect the business expansion to continue at the same pace in future as well.

In our International Brands business, the collective continues to perform well and we have expanded our portfolio with International brands with the recent signing of Polo Ralph Lauren.

With this, we now have American Eagle, Ted Baker, Polo Ralph Lauren, and Hackett in our portfolio. Ted Baker and American Eagle stores will be launched over the next two quarters.

Outlook and strategy for FY 2018:

We planned to continue with our strategy for FY 2018 as below: Maintain our leadership position in Lifestyle Brands. Strengthen Pantaloons position and make it the leader in the value fashion business through aggressive expansion in store and improve on the value fashion strategy to continue to drive margins and profitability. We grow the Fast Fashion Business through distribution expansion. Even while rationalizing the stores and cutting down loss-making stores. Invest to create a presence in emerging segments of the future like Men's Casual through brands like American Eagle.

With this, we now close our short opening speech and we are now open to questions. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: First question pertains to Lifestyle Brand. So we had decent growth on relatively okay base. So just wanted to know like-to-like 4% growth what would the volume like-to-like if I have to compare? In case, if there was a price cut?

Ashish Dikshit: I do not think we have made a significant price change. There may be a marginal change in it but we expect volume and value to be similar.

Tejas Shah: So if I look at the channel break-up then clearly wholesale contributed a lot in this quarter's Lifestyle Brand revival. So if you can comment on whether wholesale has actually reached to the optimum level in terms of pre-GST and post-GST kind of transition issues? And second, if you can also comment on retail how it is shaping up for Lifestyle Brands?

Ashish Dikshit: So Tejas, I think to look at wholesale numbers in right perspective for this quarter, I think the impact of demonetization is more severe in the wholesale part of the business. Q3 happens to be a relatively low wholesale business in terms of other quarter's because most wholesale customers buy in Q2 and early part of Q3. Last year was impacted and therefore, to that extent, the wholesale growth is slightly exaggerated in this. In terms of have, they come back to normalcy? That is the point that Vish made in his comment that it is more or less back to normalcy. The impact of GST and other changes are more or less settling in and I think we have achieved the normal business cycle as far as wholesale is concerned.

Tejas Shah: Sure. And one question on Pantaloons, if I can squeeze in. Sales grew by 12% and like-to-like remained flat. So we are still not reaching the earlier trajectory in terms of like-to-like growth. So just wanted to know our thoughts on the same.

Ashish Dikshit: No, clearly I mean this is a performance where we would like to do a lot better. As far as Pantaloons like-to-like growth is concerned both in Q2 and Q3, first of all, there is an impact of how the months have played out. We had mentioned in the last call in the previous quarter that September like-to-like was as high as 23% - 24% both for Lifestyle Brands as well as Pantaloons. Part of it was preponement of sales into quarter two this year. Pantaloons being a slightly heavier on the east part of its business has a relatively larger share of the impact of the Q2 shift. And to that extent, Q3 was a disadvantage but clearly, this is an area that we have to work further on

Tejas Shah: And sir would it be the right metric to see at least for Pantaloons that you would have taken price cut post-GST. So volume like-to-like will be higher than value like-to-like or is that a wrong metric to look at?

Ashish Dikshit: So it is right metric to look at because we indeed have taken prices down. But I think Pantaloons business is a blended business of our own brands as well as external brands. As the share of the two move that also affects overall price out of the door. To that extent, the impact in pricing average price in Pantaloons is not as much as the price drop itself in our brands is.

Moderator: Thank you. The next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.

Richard: Hi, this is Richard here. Thank you for taking my question. My question is on Pantaloons and Sangeeta if I may ask this to you. Now that you have got an opportunity to spend some time in the business, can you give us a snapshot of based on what you have seen till now, what you think are the change needed and what the positives that you would like to definitely build up upon and if there is any tinkering in strategy and our vision that you may have Pantaloons? And how do you think, you can use your vast brand building experience which is where your earlier role are about to Pantaloons advantage?

Ashish Dikshit: So, Richard, first of all, Sangeeta is just about a month in the business. But since you have asked the question directly at her. I will let her respond to that.

Sangeeta Pendurkar: I think, it has just been a few weeks since I have been in business. An earlier observation I think there is a great opportunity to grow this business. It is a great brand. But I think I will come back to you with a more detailed answer as days go by and perhaps when we are in the next call. I will have a better sense of you know where the opportunities are and obviously how we are going to tackle some of the challenges around the like-to-like growth as well. So you will have to bear with me and give me a little bit more time but for sure, we will address this in detail next time.

Richard: Okay, sure. We will look forward to that. And one sort of housekeeping stuff what is this shelved project for which there is this Rs. 3 crores of expense during the quarter?

Ashish Dikshit: Richard, we were working with a brand for developing in India business for last few quarters and therefore, we had invested some capital into that and that is really the write-off that we have taken. A part of it was taken in the quarter two and remaining part in this quarter.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: I have a question on Pantaloons. What will be the nine months SSG for Pantaloons?

S. Visvanathan: Sorry, can repeat that?

Chirag Lodaya: Nine months SSG for Pantaloons, Y-T-D?

Ashish Dikshit: It is more or less flat because we had a Q1 of plus 15%; Q2 which was minus 12% or so and Q3 which is roughly flat. So it will be marginally positive.

Chirag Lodaya: Okay. So when I look at your SSG, it is almost flat and at the same time margins have improved substantially. So if you can help us understand what are the drivers driving the margin despite SSG being flat?

Ashish Dikshit: So our gross margin at product margin level there has been only a margin improvement. Your question is perhaps about EBITDA improvement. That improvement has come through optimization of selling expenses. We have reviewed the entire network looked at which stores can be optimized, what elements the cost within the stores can be optimized and that is the project which has been going on for the last couple of quarters. This quarter is where you have seen the difference in that. So it is largely cost optimization store restructuring, store resizing as an ongoing profit improvement were planned.

Chirag Lodaya: So first nine months we have seen very good growth in store additions. So how one should look at going ahead and what should be normalized SSG say for next one year - two years, one should build in?

Ashish Dikshit: So in terms of store additions we added close to 80 stores last year, we have added about 50 stores net of close to 47 stores or 48 stores in the first nine months of this year. We broadly expect to be between 75 stores to 80 stores addition for this year as well. Our strategy will be to continue to look at expansion because we see the opportunity Pantaloons new stores are working well; it is a very democratic strong proposition for most markets. So we will probably look at 60 plus store as a one number for expansion. Year-on-year we will have to either accelerate that or moderate that a little bit here and there. But we think around 60 stores to 80 store expansions is something that is possible in the coming year.

Chirag Lodaya: And normalize SSG?

Ashish Dikshit: So that is a tough one to answer. Obviously, our goal is to get to high single-digit to double-digit same-store growth, we have not achieved it now for the last couple of quarters. So there is work to be done on that account. And really that is our endeavor.

Chirag Lodaya: When I look at your consolidated reported numbers, a whole lot of margin expansion has come through rent as an expense. So, if you can just help me understand, you eluded the fact that Pantaloons margins have improved mainly because of all this selling expense and another initiative. But when I look at your reported numbers it is majorly from rent.

S. Visvanathan: Yes, when we mean select**,** we mean rent.

Ashish Dikshit: . See, how does it happen? It happens through store rationalization closing less profitable stores or resizing the stores and other expenses. So that is one-line item which gets affected by all businesses. And in our consolidated report actually, the impact is not so much coming from Pantaloons. There is an equal amount of work that is happening on Madura business there is a big work which is happening on the rental line as far as Forever21 is concerned where we are rationalizing the business. So, it is not really a reflection of Pantaloons numbers. I think Pantaloons may have a smaller role in terms of that difference. All other businesses are also focused on that aspect of our business.

S. Visvanathan: So when we mean select just to clarify with you, we mean including rent also. Yes, it is not just a select without the rent. For us, selling is including rent.

Chirag Lodaya: Okay. And lastly on this F21. So last quarter, we guided about H2 being almost EBITDA flat, so this quarter we have seen losses because of inventory. So, if you can just quantify the loss of inventory in this quarter and how one should look at this EBITDA breaking even in coming quarters? What would be the guidance going ahead?

Ashish Dikshit: So I would first focus on this quarter itself. This quarter, significant part of that Rs. 22 crores - Rs. 23 crores loss in Fast Fashion Business that you are seeing has come from Forever21. About Rs. 15 crores to Rs. 16 crores have been the one-time inventory charge off that we have done after rationalizing the business and looking at the business. That is a part we hope will not get repeated. The other part we will have to obviously bring about the business improvement. So there was a one-time impact of about Rs. 15 crores - Rs. 16 crores which is inventory charge-off which we have taken this quarter.

Chirag Lodaya: And store addition guidance in F21? Current store count and store addition going ahead?

Ashish Dikshit: So I think current stores we are at about 18 stores and we will continue to remain reasonably conservative because our strategy going forward sorry we are at 22 stores having added the 4 stores in this quarter. I think, our store addition will remain moderate for some time. Not because of any other reason but because we are ensuring that the new store model, every store that we are signing is on a very tight commercial model. And if we do not get it. We do not move forward. I think the important thing is this business is to get a right the economics of the business and that is what we are focused on. Currently by restructuring the existing stores but also making sure the new stores come at the terms that are more commercially viable

Ashish Dikshit: Also, the new stores will be relatively smaller to their existing legacy so that we take it on a smaller footprint.

Chirag Lodaya: Correct. But sir, is it fair to assume Q4 exit will be EBITDA breakeven for F21?

Ashish Dikshit: See, we had given our guidance towards the H2 turnaround. It has turn out to be longer and more difficult then what we had assumed. We are hopeful that by Q4 we will be able to bring it closer to that.

Chirag Lodaya: Okay. And just lastly on Madura, if you can help us understand how overall demand environment is looking and in terms of this quarter, we have seen some 1,906 stores versus 1,769 stores Q-o-Q there has been the addition of around 130 stores - 140 stores in the quarter. So how one should look at this number going ahead?

Ashish Dikshit: No, I think you have got something wrong there. 130 stores in the quarter is not the addition during the quarter. Probably you will have to tell us where you got that number?

Chirag Lodaya: From the Presentation itself.

Ashish Dikshit: No, so Presentation in past did not have**.** It is not a one-quarter addition, we are talking for full-year addition, is that what you are saying?

Chirag Lodaya: It is a Q-o-Q number.

Ashish Dikshit: I think we will have to explain to you how those two numbers have come. We will probably come back on the call and explain to you that numbers. We have not had 130 stores added in the quarter.

Chirag Lodaya: I think value stores is the difference?

Ashish Dikshit: That is right. Value store earlier we were counting them separately, so it was not appearing in the base numbers. In this quarter, we have consolidated all formats of the stores**.**

Chirag Lodaya: What will be the number of that value store if you can just give me?

Ashish Dikshit: Just one second. Yes, we will go to the next question; in the meantime, we will give you the values for the number.

Chirag Lodaya: Sir, overall demand environment if you can just throw some light? Madura growth trajectory?

Ashish Dikshit: Vishak Kumar, are you around? Do you want to comment on that?

Moderator: Sir, Vishak Kumar has got disconnected a while out, we are trying to reach out to him.

Ashish Dikshit: Fine. So will go forward on that. See, Madura brands as we took you this strategy was to consolidate the network, reinvest in the brand, get back the same store growth performance and which is what we have done, I think the heartening part for us as far as that business is concerned that our same store is for nine months is about 8.9% - 9%, which over a longer period of time is a trajectory which wanted to get to I mean referred to the previous question even on what is the stable like to like performance that we want to have, which fundamentally means the organic part of the business is going well. The brands are now clocking much faster and much better performance than in past year or so. The overall environment I do not think is any different for Madura brand than any other part of the business. I think the business has seen a fair bit of ups and downs starting from November last year to July this year, a shift in dates preponement of EOSS are further factors which have sort of impacted the overall industry as a whole. But I think our had been if you look at our performance for last three quarters or four quarters, what stands our sales is the consistency of those business in terms of same-store performance, shape of profitability and we think we have not got fairly good platform going, as we expand a little bit more aggressively which we have not done in last couple of years because we were more in a consolidation mode as far as the business is concerned. I think we will be able to record not just a solid profitable business but even in terms of accelerating the growth momentum. In the immediate short-term, I think we will have to see how the consumer demand picks up. Right now there just been too much volatility as far as the demand pattern have been concerned and it is difficult to see when the stable long-term settle demand would come.

Moderator: Thank you. The next question is from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant: I have two questions. One is on the rent straight lining, we have seen a Q-on-Q decline in rental expenses and you alluded to the fact that it has been driven by renegotiation essentially on the Fast Fashion piece. Now, a part of this would also be a non-cash item purely driven by accounting you will be straight lining and future rentals would be lower. So, would it be possible for you to quantify how much of this will be a one-time accounting adjustment and what should we look at it in terms of a sustainable rental expense going forward?

S Visvanathan: I think, okay, let me take your rent straight lining question. First, there is no impact of rent straight lining in this quarter versus last quarter. The reduction in rent is basically because as Ashish explained to the earlier caller has been the focus that we have brought in terms of rent renegotiation across all our businesses led by Pantaloons and rent resizing basically rent reduction arising or resizing of the stores and a little bit of impact from the GST credit that we have got. But fundamentally across all our businesses we have been focusing on rent as a cost and looking at rent renegotiation and rent reduction in most of this thing. And some of the rent reduction has also happened because of the stores that we have closed and rationalized over the period of this time.

S. Visvanathan: So this is not a one-time accounting entry there is no accounting entry in that account.

Shariq Merchant: Okay. So this should be a sustainable rental expense going forward

S. Visvanathan: That would be the base from which we start. If you expect to get this every quarter may not be right but as we go forward this is a sustainable base from which we will start.

Shariq Merchant: All right, got it. My second question is on the Fast Fashion pace. So the way you have been looking at the business say two quarters or three quarters ago is slightly different given what has changed. Now, going forward how you are looking at growth for Fast Fashion and how do you look at margins more from two years to four years perspective.

Ashish Dikshit: So we have two components of Fast Fashion one is the People business, which is the homegrown own brand business. We are comfortable with an overall business model that we have achieved there. We are almost nearing the breakeven as far as that business as a whole is concerned. And therefore, there is a focused effort on expansion there. You will see over next couple of years and if that is the directional question that you are asking a lot of growth coming out of that business because we are confident of the business model, we have achieved the stable sort of price valuation creation with the customer and the economics of the business. The other part of the business and that is where the assumptions have changed significantly as you alluded to versus what we were saying about three quarters - four quarters back was for Forever21 business were we recognized that the current business needs significant restructuring which is what we are undergoing right now on all elements. The store resizing the new store model, the existing store, everything from closure to resizing to renegotiation. Forever21 at this point of time will probably will open 6 stores to 8 stores a year and only the model that works for us which is more sort of driven with lower revenue or pure revenue share models with capital investment from builders and so on. Our focus is on Forever21 is unlike a year back when we were investing a lot and focusing on growth is really getting the right business model right here. So two different parts of the business and two different pieces of strategy as they played out.

Shariq Merchant: So but so now you would say that you broadly got the business model right for incremental stores?

Ashish Dikshit: Yes.

Shariq Merchant: Okay. And so for the existing stores what would be excluding the stores that you shut over the last two quarters - three quarter what would be a like-to-like growth? And what do you think is a normal like-to-like growth for this business?

Ashish Dikshit: So at this point, the business is a whole experiencing high double-digit like-to-like growth as we are undergoing this restructuring in many parts of these stores. So that is something that some of it is a function of the fact that we are resizing, restructuring the stores. Some of them is the organic state of the business as it exists. Obviously, our first task is to make sure that we have a network which is healthy which allows us to reinvest once again in this brand and that is really what we will do over this quarter and next quarter. Hopefully, this will turnaround in next coming few quarters. And that is when I think we will start accelerating.

Shariq Merchant: Okay. Margin sir the inventory correction that was taken during this quarter was the old inventory prior to the acquisition?

Ashish Dikshit: No. I think what happens is as our internal assumptions of growth were very high for this business as you yourself alluded in the question. A lot of our inventory was built around those growth assumptions as we realize that the profitability of business requires deeper correction. We also found that we had in the meantime built up a lot of inventory. So we had to take a few tough calls in terms of what to do with that inventory to get back to the healthy state of business and that is what we have done in this quarter.

Shariq Merchant: Okay. And sir, my final question is on the Innerwear business. If you could just talk about how you are looking at growth in this business and when we can expect a breakeven and how long will you continue to invest behind this?

Ashish Dikshit: So I think our intent is very clear in this business. We are currently growing, I mean the percentages do not make sense for the business, it is small. The first goal is to get to Rs. 100 crores or somewhere close to that by the end of this year. We would still probably grow at 100% on top of that over you know next couple of years. Now that kind of ambition to build up Rs. 500 crores in next three years to four years would require consistent reinvestment. I do not believe that we will be able to or we should be trying to turn profitable in this business at least for the next one year or two years. So in the short-term, we will have to invest in building distribution capabilities and building strong field force in creating traction at the counterpoint of sales visibility, lot of investments which is on the mode of investment and not really on the expense side because that part we will manage pretty quickly. So as I see, the idea is to get to Rs. 500 crores over next three years as far as Innerwear business is concerned and with that ambition, I think we will have to be ready to make the investment. I do not see therefore investments coming down over next two years.

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

Abhishek Ranganathan: Couple of questions, one is on the Madura's wholesale channel. At what percentage of the pre-GST level is the wholesale channel operating at? How much headroom we have? Have we covered up pretty much all the ground? And the other question I have is with regards to the brand in Madura as to where each of these brands scaled up, are there any distribution gaps in the brand which we can plug and particularly I am keen to know more about Allen Solly, where Allen Solly is space how it is performed?

Vishak Kumar: Okay. Abhishek, to your first question, this is Vishak here. GST most market seems to have recovered probably the South is still not back to the normal levels that it was before GST. Tamil Nadu particularly, Andhra to an extent but in general South has been the one which has taken the longest to come back, okay? Also, there are smaller towns which are probably taking longer to recover then the larger cities. But clearly month-on-month things seems to be coming back to normal.

Abhishek Ranganathan: And when do we see this stabilizing and what portion of our business in South or this particular states which you are alluded to?

Vishak Kumar: We are fairly strong in the South, okay? So to that extent, it did affect us. The good news Abhishek is that it is coming back so I guess we do not have to worry too much there. To a large extent come back especially big cities have come back much better. To the second question, in fact, Allen Solly has been our fastest growing brand this year. So it looks like a lot of good things happening on the brand. A lot of innovative products, a lot of exciting stuff which is happening on the brand. Distribution opportunities frankly we have been growing pretty deep into the Tier-II, Tier-III towns across the country, in fact, we have had a Project Bharat which took us to many-many towns across the country, and that is something we see even in the next few years to be able to continue growth opportunity. So that is something we have done a lot in the last few years and it will continue over the next couple of years as well I am sure.

Abhishek Ranganathan: Sure. Thanks. The last question is on Pantaloons and Forever21 both. I mean in both we were quite bullish, and we have demonstrated certain numbers to be bullish on. But on both sides what we have seen particularly in Pantaloons where we had actually lost the SSG trajectory for quite some time. Now barring 1Q FY 2018 we have seen almost I think in four quarters or five quarters of same-store growth. I just wanted to get a sense when we will see this business come back to same-store growth? What are the gaps which are holding us back there? And in terms of network expansion, do you see taking a pause on Pantaloons, for now, adding the same-store growth back and then focus on the network addition, something which you talking about building in Forever21.

Ashish Dikshit: So Abhishek, I think the two businesses are in very different phases of both have confidence in our business model as well as how prepared are they**.** So the first question is as far as Pantaloons is concerned while it is admittedly been a business in which the same-store growth has not been where we want to be. Our confidence in the business remains high. Our store performance at least of the newer stores is as we would have liked or just marginally below that. So we are actually going through the excise of what is required to be done to get back to the same store growth and what has been causing and primarily there are two factors to look at. In terms of our next step of analysis and action. One is if you recall about a year and a half back when the first set of growth came was due to significant price reduction that we have taken and for some part of that period, we got the volume growth well ahead of the price drops we have taken and therefore that strategy seems to be working out. It was also aligned with our long-term strategy of going deep in Pantaloons in terms distribution because the market opportunity lies in all parts of the country. So I think while the second assumption remained true the first part of taking price down and getting equivalent volume growth that really not played out well and some of the reasons have been more internal in terms of planning, availability, freshness, etc., which is what we are addressing and I would say we are confident in next couple of quarters some of these fundamental issues that have dragged down what is otherwise a very sound business proposition, we should be able to address and took forward. So I continue to remain very sound and bullish as far as Pantaloons is concerned. I would not look at it with the same eye that we are reviewing our other business which requires a deeper restructuring which is Forever21. So our expansion will continue but please be assured that we are very mindful of the fact that we are missing on the same store growth and there is a lot of action inside the company which is happening to address that.

Abhishek Ranganathan: Sure, sir. Much appreciate that. And Forever21 you mentioned, you mentioned that there will be economics have to be revisited for this business because if we did not ramp-up as per your expectations and is that because of (a) location or is it because of cost or because of competition, which should be like the single largest, single most important reason among these three to cause you to reevaluate the business economics.

Ashish Dikshit: So we probably covered 90% of what you need to look at which is size, cost, and competition and I think we are equally impacted on the legacy stores on all three accounts. The stores were much bigger than I think what the business model deserves. The cost of the early stores was much higher than what we are signing up now or what we think we should have the size of the store and honestly, this is the part of the business which got competitively most affected because it is large stores, expensive stores, we were in top 8 or top 10 locations stores that we inherited where there is kind of competition in Fast Fashion space has been more fierce. Therefore, a lot of challenge is really to restructure these stores. So the combination of reinvestment, resizing, closure, renegotiation, every combination that is required to make that happen. At the same time because the brand continues to remain very strong and we see the evidence at any every research that we do consumer interaction that we have with the store. It is a digital response to customers, its strength in e-Commerce. So there are enough reasons for us to believe that these few stores and the current business model in those stores should not take away our long-term view on this brand. The new stores that we are opening and we have opened about 6 stores - 8 stores this year are performing much better. The business model is **(Inaudible) 39:26.4**. It is just that we want to make sure that we do not move too fast and move in line with performance.

Abhishek Ranganathan: Sir, if I may, I just one question on capital allocation and new businesses. The question I have on new businesses capital allocation is one is we read articles of you getting into Women's Innerwear some of these luxury fashion in terms of Polo Ralph Lauren. I mean our Men's Innerwear is still we are still where we want to get into and we have still not got achieved the scale which we are aspiring would still early days. In that case, why do you want to start evaluating women's Innerwear as well and given the fact that Collective was not a very successful offering? Luxury has been a very tough market. Why do we want to devote our energies into the luxury part of the market? I understand possibly may be the long-term opportunity but I think pardon me if I am wrong or seeing it from a different lens but we have enough on our plate here.

Ashish Dikshit: So adding few things Abhishek. One strategy that we build is with a long-term in mind. Some of our investments do seem to be happening simultaneously and I appreciate the pressure on the capital allocation that you are raising for us. So I will clarify both in terms of strategy and our current treatment of capital allocation strategy as far as that is concerned. See, our long-term opportunities that we have identified, we have identified men's casual wear. Innerwear is a large segment simply because of the change in lifestyle that consumers are going through, more active, healthy lifestyle and you have seen in the men's side I think our opportunity is even larger on the women's side because that market is even less branded in that sense. There is space for large play to be built. And therefore, we are doing not want to wait for five years for one to get settled to this because some of the capabilities are pretty common especially in the distribution side. We have chosen to synergize our effort by going with one brand which allows us to leverage the brand. We are building a large field force which probably will be able to leverage that whole thing. But coming back to the capital allocation thing most of our capital is going into expansion as far as Pantaloons is concerned, reinvesting and strengthening the Madura brand portfolio. Small part of capital is going into building these new businesses. So some of the international brands that we are talking about are in a year store brand and ideal is not really to build a very large business quickly but to create, have a portfolio which gives you a meaningful presence and as the market matures and grows allows you to play that opportunity. So even Collective for example will be in the round now for 10 years. In last two years, the Collective has been the single largest business as far as the same-store performance is concerned. Now, it is not saying much on our network of 8 stores. But if you look at post-demonetization, GST the entire industry has gone through so many ups and downs but the Collective as a network has proven our sort of investment and faith in that piece. And is consistently grown over last 8 quarters - 12 quarters. So take your point, in terms of management effort and capital allocation in new businesses. But we are doing it in a manner that we do not lose out a long-term opportunity yet do not burden ourselves both in terms of effort or investment possibly on this business.

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

Vinod Bansal: Just a couple of small questions. One on this Innerwear part that we are starting now or wanting to start in women's innerwear. Does it extend our time to profitability or time to breakeven? We will be talking about one year or two years more of losses as it extends that further?

Ashish Dikshit: I think Vinod; marginally yes because I think it will be two presumptive for us to believe that we will get everything right first time around. But I think two things and even referring to Abhishek's earlier comment that I want to make, our innerwear our investments saw losses whichever way you look at it are not fairly large and these are reasonably small compared to our size of the business. And also, the incremental investment that we will have to make in the women's innerwear side is more on capabilities, supply chain understanding. We have the distribution, we have the brand, and we are building muscle around playing in the market. I think while, yes it will take a little longer and therefore, expand the breakeven journey for innerwear by maybe a year or so. But it is something that we expect will in overall investment that we have made in incremental terms will probably turn around very quickly.

Vinod Bansal: Right. But it does expand beyond two years in that case?

Ashish Dikshit: Yes, because by the time you would launch it perhaps be a year from now or 6 months - 9 months from now.

Vinod Bansal: Let me repeat what Abhishek asked, you said that it will be too presumptious to think that whatever we do will get right in the very first time. And yet we are doing many things at the same time for the first time. You said that the opportunity is large. But what is the hurry to do luxury fashion, we have quite a few brands there, Ted Baker, Simon Carter included in a way now F21 last year, Pantaloons a couple of years before that. If I look at 2010 to say 2014 - 2015 we were growing very well without adding much and now we are adding a lot of platforms to our growth while the organic growth has been fairly weak. What is the whole thought process here I mean are we looking at just building a lot of capabilities and then wait for growth when it comes by? If you can explain that a bit more?

Ashish Dikshit: So Vinod, I think as I said the long-term strategic questions need to be answered differently, we do not look at our business in only buckets of a year, three years, five year kind of thing. If you look at the longer-term story of our business. We have seeded businesses which have given us next ten years run. If you look at our portfolio and that is a question that use to be presented to us in past. Our portfolio got concentrated around brands which were largely men's wear, more formal in nature and there was a large market opportunity outside and many other players were actually playing that market. As we look at the entire consumption story the portfolio required to be widen both in terms of extending these brands into occasions, new segments, which is what we did, it is not that we did nothing, and we grew from 2010 to 2015. In fact, it is exactly the opposite. It is the number of things that we did between 2007 to 2010 which gave us the runway post 50% to 60% of our incremental revenue in last five years - six years came from investments in new businesses, new products, sub-brand extension that we did in the period prior to that. And I think, somewhere along the journey because we were growing extremely well, we missed out investing on the further platform for growth. I think, if you look at Indian market story and you do not have to look at us alone, you look at how the industry has played out. There are few large areas of opportunities which were next five years - ten years will play out. It does seem to appear that many of these are sort of getting clubbed. But if you look at our own journey, Pantaloons investment there was a period where we were investing a lot of money and cash flows into Pantaloons business to as much as Rs. 200 crores - Rs. 250 crores. Today, we have come to a stage where after having expanded that we have brought that business to a point where it is generating cash to be reinvested into other businesses. So our deep investments in Pantaloons, despite some of the glitches that we have currently has allowed us to build a business which is actually generating positive cash flow to be invested in other businesses. I think we are in a journey where both our Lifestyle Brands and Pantaloons have got to a pace where they are not just self-sustaining but they are actually generating investment for themselves and for other businesses and we are not playing out, therefore, which other businesses and which other spaces should we play. The final point I want to highlight, I think it is again to Abhishek's and your question, our investments in these businesses are very small. We will open five stores in this luxury space over next one year. We opened two stores last year. So we have been very conservative selective and careful in terms of expanding each of these spaces. Our innerwear business has also grown after a year of research and in the first year I mean the proof of the pudding is that in the first full year of operation we would be at Rs. 100 crores business. Now, that required an investment, our ambition is slightly higher and therefore, we have got a trajectory, it is working well. People as long as we were not happy with the business model we are not investing in it. And it has been a business which has been around. So I would actually go ahead and state that we see a lot of projects, we see which one of them deserved the capital and we we give them capital as they start showing performance and that is the strategy that we will continue to play. However, our long-term play in the apparel business overall opportunity that we see continue to be strong in many new areas and we will continue to explore some of them.

Vinod Bansal: Right, that is helpful. Okay, so one question on the F21 and again somebody asked this earlier. We have spoken about incrementally newer challenges that you are facing. These challenges and you have said that you are being more cautious about expanding your store network and asking for a specific agreements with the malls shop owners, does it sort of reduce the overall addressable market for F21 apart from reducing the annual growth rates, the opportunity size may be smaller because you are being more specific about what you wish to have and you may not get your kind of agreements in all cities with all kind of malls. So does that reduce the overall size of the business from a five years point of view?

Ashish Dikshit: Yes. I think the short answer at least from one year to two years point of view, the answer is yes. And again, that is a careful choice that you are making again coming back to the question of capital allocation. We want to put capital where we feel comfortable the business model gets proven, we get it right. And therefore, that business will have to deserve that capital and that is a journey in which we are going through. If we feel more confident a year or two years down the line, we will probably accelerate that.

Vinod Bansal: Right. If I may persistent a couple of questions on this one again. If this is the first licensing business we are doing on any large scale I suppose, is it that because of the royalty that we have to pay to the brand owner, profitability less and therefore, if you do not get the asset turns, it does not make money. Secondly, what kind of growth you are looking at in this business and third, you bid Rs. 175 crores to the Indian franchise the previous franchise, you might have had or what Rs. 75 crores or Rs. 80 crores of losses already in this business might have Rs. 20 odd crores in the next quarter. So Rs. 275 crores - Rs. 280 crores of loss already sitting from this business by when do you think you can recover that money?

Ashish Dikshit: I think, it is going to be the longer horizon. You have done the numbers; you probably have a good sense of it. But having invested the brand with a view of at least two decades of the run, it is our investment in space which is extremely competitive globally. We wanted to partner somebody who has shown the capability to compete well in a global scale. The initial hick-ups, the investments, the journey of a turnaround, etc., is taking longer and therefore is the difficult one. But it is a very important segment of the market young women buying fashion is the largest part of the market everywhere else in the world. I do not believe it will be any different in India in next 10 years. We have got in the international brand which has proven capabilities strong brand, great franchise; we will have to get few model issues of business right on that. And in terms of the royalty and other pieces, it gets compensated Vinod to a large extent by what we do not need to do ourselves. We do not need to design, we did not need to source, and we do not need to invest as much in the brand because the brand is familiar. And therefore, to that extent, there is a fair balance that comes through on the other side. I mean, we will have to get the other pieces of the business model right in terms of store productivity, rentals, and other pieces. And therefore, it remains an important piece for us. The acceleration of pace will be a function of our overall capital allocation strategy but need to build a meaningful strong play in this segment is a very long-term game for us.

Vinod Bansal: And fair to assume that right now we do not have a great clarity on what could be that model and how far we are from achieving that model? I mean forget the return on capital, I mean on getting some sort of sense on profitability?

Ashish Dikshit: No, I would not say that Vinod. I think, in the stores that we are opening, we are opening because we believe that model works in the new stores. The weight of this business is still very small. Most of the business lies with the existing stores that we have which is much larger, more expensive as I described earlier. So I think, it is not that we do not know how it is, we need to figure out how quickly we want to expand that. So we will keep weighing it as you said we will get those businesses and stores at terms that we have sort of laid down for ourselves. So these are boundary conditions that we have defined for ourselves.

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

Sandeep Baid: My question is on bank loans. We started experimenting with the franchise model I think about 12 months - 18 months back. So I wanted to know of the 47 stores that we have added this year how many are on the franchise model and going forward of the 60 stores to 80 stores that we are planning to open every year, how many of them will be on the franchise model?

Ashish Dikshit: So I think of the 50 stores that we have opened so far this year about 11 stores - 12 stores are in the franchise model. We currently have a network of 256 stores of which about 40 stores are on franchise model which is on a total basis about 15% but if you look at the incremental stores that we are opening close to 20% stores are coming on a franchise model. I think that is a fair balance that we will continue to keep at this point of time. We will see the long-term viability of how much should we have but it is a balance we started with testing in few stores now nearly 40 stores that we have in the network. I would think close to 20% of the network is a fair medium-term balance that we will have to keep, and we will get there.

Sandeep Baid: So incrementally will it be a higher percentage to achieve the 20% overall?

Ashish Dikshit: I mean 20% to 25% incrementally to get to from 15% today to about 20%.

Sandeep Baid: Okay. And secondly, I think, this quarter margin was probably the highest ever for Pantaloons. So just wanted to understand what should we pencil in as a sustainable margin on the annualized basis for Pantaloons going forward?

Ashish Dikshit: So I think, one should be careful in apparel with large fixed cost business like Pantaloons to attribute one quarter and reads too much into that. We would love to have this every quarter. But I do not think, I think if you look at our nature of the P&L it is practically static although we have exhibited that there is a lot of room to exercise control. But fairly fixed cost model so revenue will decide, and I think it will come back to the question that was previously asked our ability to move same-store growth to high-single-digit to double-digits is what is critical for this to improve from the current profitability which is about 5.5% - 6%.

Sandeep Baid: So would you say that you are some one-time thing in the current quarter?

Ashish Dikshit: No, absolutely not.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. On behalf of the management, we thank all participants for joining us.

In case of any further queries, you may please get in touch with Mr. Rahul Desai or Mr. Amit Dwivedi. You may disconnect your lines. Thank you.