November 7, 2022

BSE Limited
Scrip code: **535755**

National Stock Exchange of India Limited
Symbol: **ABFRL**

Sub.: Transcript of Q2 FY 22-23 Earnings Call of Aditya Birla Fashion and Retail Limited *("the Company")*

Ref.:
1. **Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;**
2. **ISIN: INE647O01011 and**
3. **Our intimations dated October 28, 2022 and November 4, 2022**

Dear Sir/ Madam,

Pursuant to the above referred, the transcript of the Q2 FY 22-23 Earnings Call held on November 4, 2022 is annexed herewith.

The above details along with the audio recordings of the Earnings Call are also available on the website of the Company i.e. www.abfrl.com.

Thanking you,

Sincerely,
For **Aditya Birla Fashion and Retail Limited**

Geetika Anand
Digitally signed by Geetika Anand
Date: 2022.11.07 18:03:58 +05'30'

Geetika Anand
Company Secretary and Compliance Officer

Encl: a/a

“Aditya Birla Fashion and Retail Limited (ABFRL)

Q2 FY ‘23 Earnings Conference Call”

November 04, 2022

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 – DIRECTOR AND CHIEF EXECUTIVE OFFICER – LIFESTYLE BUSINESS – ADITYA BIRLA FASHION AND RETAIL LIMITED
MS. SANGEETA PENDURKAR – DIRECTOR AND CHIEF EXECUTIVE OFFICER – PANTALOONS

Moderator: Ladies and gentlemen, good day, and welcome to the Second Quarter and First Half FY '23 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 Q2 FY '23 performance followed by a question-and answer session. We have with us today Mr. Ashish Dikshit, Managing Director; Mr. Jagdish Bajaj, CFO; Mr. Vishak Kumar, Director and CEO, Lifestyle Business; Ms. Sangeeta Pendurkar, Director and CEO, Pantaloons. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risks that the company faces. Please restrict your questions to the quarter and yearly performance and to strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

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

Jagdish Bajaj: Thank you. Good evening, and welcome to the quarter 2 earnings call of our company. Let me take this opportunity to first wish you all and your families a very happy festive season. The quarters are the highest ever quarterly revenues for the company at both stand-alone and consolidated level. This was driven by aggressive network expansion, strong e-commerce performance and new category expenses and by encouraging performance during EOSS and early festive season.

The solid comeback seen during last quarter in the off-line channels continued in Q2 as well indicating a strong return of the market to pre-COVID conditions. This return should also be viewed in context of higher brand investments after a gap of two years, and our investment in scaling of Ethnic and other new businesses in line with our long-term strategy.

The company delivered a sales of INR 3,075 crores at consolidated level during the quarter, which is 50% above same quarter last year. Consolidated EBITDA for the quarter was at INR 418 crore, growth of 24% above last year levels. Please note that this is despite significant rent rebate in same quarter last year and also significant investments into marketing INR 100 crores approximately, and organizational buildup into our subsidiaries this quarter.

The company earned a consolidated PAT of INR 29 crores, which is almost 6 times of the last year level. Please note that this is also despite higher Ind AS 116 impact due to relatively large store additions versus same quarter last year without the PAT at consolidated level would have been double of the reported number. Our current performance and the investments which we are making in building of newer businesses are in line with our long-term strategy that we shared with all of you during our annual investor conference in March 2021.

The company continued to focus on building digital channel with higher focus on omni capability, e-com revenues of the company operated at an annual run rate of INR 1,300 crores, which is 40% higher than last year's e-com revenue. For the quarter, the company's e-com revenue grew 41% versus previous quarter. It is important to note that we continue to deliver a strong e-com performance even though there was a strong rebound of offline business. This is the testament to the strong strength of our omni capability that has helped us to build a resilient e-com business model.

The company made rapid network expansion during the quarter with the addition of 85 branded stores, including 13 ethnic stores, further in line with this plan of opening 70 new stores in Pantaloons during the year, 21 stores on net basis added to network and Pantaloons during this quarter. We have completed takeover of Reebok India operations, which will help us to build a strong play in the sportswear market.

We are pleased to announce that Masaba has launched the brand LoveChild catering to Beauty and Personal Care segment, which is in line with the strategic objective while collaborating with House of Masaba. The brand is already available across major marketplace and gaining a strong consumer trust.

Now let me take you through the performance of H1 of FY '23. Sales in FY '23 grew by 108% versus last year to INR 5,949 crores. EBITDA grew by 375% over last year to INR 918 crores. PAT of INR 124 crores versus losses at the net level of INR 347 crores. Earnings per share of H1 is INR 1.44 per share, company's ROCE for H1 FY '23 is over 30% of operating capital employed of INR 1,922 crores.

The net debt of the company on 30th September stands at INR 243 crores versus INR 504 crores in March 2022. I will now take you through the performance of individual businesses, starting with Lifestyle brands. Lifestyle brands continue to deliver impressive business performance at the back of a strong retail performance as reflected in L2L growth of 27% over last year and aggressive e-commerce growth, which accounts for the 16% of the quarterly revenue for the segment.

Revenue for the quarter stand at INR 1,680 crores, 45% higher than last year. EBITDA increased by 52% over last year to reach INR 286 crores. E-com revenue grew by 18% over last year. The growth in this business segment is driven by premiumization, casualization across all brands along with rapid channel expansion. Retail business grew by 45% over last year on the back of robust net addition of 157 stores during the last one year, new category introductions and impressive L2L growth. Wholesale business also showed a strong recovery from the COVID impact with 79% growth over last year.

We also continue to penetrate deeper into smaller towns and now we have presence in 550 stores. In addition to our core categories that did exceedingly well, this quarter was also the best quarter for our women's and kids business as the segment showed strong growth trajectory across brands. Moving into Pantaloon business, before I explain the performance of Pantaloon, let me take this opportunity to share that Pantaloon is celebrating its 25th anniversary this year when Pantaloons has become a 400-plus store network, serving to its customers across 195 cities . Pantaloons posted highest quarterly results on the back of accelerated network expansion, strong

EOSS and Pujo performance. Revenue for the quarter stands at INR 1,094 crores 64% growth over last year. EBITDA at INR 176 crores versus INR 125 crores last year.

Pantaloons opened net 21 stores in the quarter, in line with its aggressive expansion plans for the year, which is the highest quarterly network expansion in the past five years. E-com revenue grew 20% over last year, led by strong consumer pull during the first ever festive event held on app and website. Other business segment continued with outstanding performance. The portfolio comprised of active Athleisure Innerwear, Youth Western Wear brands and Super Premium Brands.

During the quarter, this portfolio has posted revenue of INR 307 crores, a 31% growth over last year. Let me begin by talking about Innerwear business performance. The Innerwear business continues to scale up rapidly and reached 30,400 trade outlets at the end of the quarter. The brand is also present across 111 stores, exclusive business outlet and would continue to grow exponentially through retail format in line with our long-term vision of building a strong brand loyalty.

The revenue for the quarter grew by 27% over last year. The brand also started its kids wear category this quarter and now offers its product for the entire family. Now let me talk to you about youth fashion business and super premium brand. Youth fashion consisting of Forever 21 and America Eagle and Super Premium brands that have kept their growth trajectory from throughout the first half of FY '23. American Eagle posted its highest ever quarterly revenue with 70% growth over last year.

On the back of its strong product positioning in the denim segment, robust e-commerce performance and continued expense and trajectory. Forever 21 grew 40% over last year, with net addition of two new stores during the quarter. The collective and other Super Premium Brand posted 35% growth over last year, with a strong like-to-like growth the segment is consistently maintaining high growth trajectory with a strong profitability over the past few quarters.

E-commerce channel witnessed 100% growth in revenue over last year led by strong traction on website and encouraging acceptance on the market. Our Ethnic business, we are executing our comprehensive strategy to build a complete portfolio of strong ethnic wear brands across multiple occasions and price points. It gives me immense pleasure to inform you that our portfolio has a seven strong renowned brand with presence in more than 60 stores.

Sabyasachi has shown a strong growth momentum in its business and is now executing its strategy to be a first India based global luxury brand. We are pleased to inform you that we have opened an exclusive Sabyasachi store in New York spending across 5,500 square feet. Revenue for the business grew by 60% over last year with a strong growth across all the categories. Tasva, our premium men's ethnic wear brand is on its rapid expansion trajectory aiming to end the year with 70 stores. Operating at 21 stores at the end of quarter, the brand also launched its first comprehensive marketing campaign, which is currently live across prominent digital platforms. Jaypore is present across 13 stores and witnessing a very strong traction on its off-line channel.

The brand continues to grow on the back of network expansion and growth in new categories that it was also added such as home accessories. Revenue for the brand grew by almost 80% over last year. Shantanu & Nikhil delivered the highest ever Q2 business with revenue growing by 48% over last year. The brand added two stores and is now presence across 14 stores. The brand continued to invest on brand building activities with revamping stores and celebrity tie-ups.

The first half has seen ABFRL progress with its growth plan, achieving record earnings while consolidating its balance sheet. The company is well poised to continue the momentum with improvement in profitability while gradually transitioning towards a business model which is highly capital efficient and be able to generate higher returns. With this, we can open the house for Q&A.

Moderator: Thank you very much, Mr. Bajaj. [Operator Instructions] The first question is from the line of Tejash Shah from Spark Capital

Tejash Shah: Just first question pertains to, versus pre-COVID level, there seems to be stronger bounce back in Lifestyle segment. And when we see -- compare it with Pantaloons, it is relatively muted while on margins, it is actually opposite scenario. Lifestyle segment margin is still tracking below pre-COVID levels while Pantaloons phenomenally well on that count. So how should we read this divergent trend on growth in margins between the two segments?

Ashish Dikshit: Tejash, we read the numbers carefully. I don't think you should be concerned about margins for Lifestyle. I want to first start with that. Because if you look at the reported margins for -- EBITDA margins for Lifestyle segment, they're almost same level as Q2 of FY '20, 17% versus 17.4%. So I think we don't need to be concerned about that. It's pretty much in line with what the base was.

Even the marginal difference, if I were to explain is largely coming from the shift in channel mix. E-commerce, which is relatively less profitable channel that share of that channel has grown and therefore, it's marginally compensated by the strong growth that you've seen in the retail channel. But overall, margins are pretty much on line. I think on an annual level, you won't see any difference. It's a very small quarterly phenomenon. On the growth front, yes, you're right.

There is a much greater buoyancy on the premium end of the market. I think consumers at that in the market are less affected by everything that's happening around and the recovery seems to be. And this is not something, which has happened in this quarter. This was the case previous quarter also and therefore, is reflected even in entire half performance. We continue to see continued buoyancy around the better to do, well to do customers, more urban markets and more premium parts of the business.

Pantaloons on the other side, has operated in an environment where consumers have been probably more affected in this current inflationary environment. And therefore, it had to deal with a more difficult business situation. What is, as you've rightly pointed out, is creditable is that despite that, Pantaloons has managed and continued to show strong profitability trajectory both with respect to pre-COVID level with respect to last year with respect to -- so it's a continued solid consistent improvement in profitability that Pantaloons have been executing for four, five consecutive years, before COVID and continue to come back now to improve that journey for the last couple of quarters as normalcy has come back. So I think both businesses are very strong ground in that.

Tejash Shah: Sure. This is Tejash again. Second, clearly, at least on the ongoing work up, it is clear that we are putting a lot of mind behind values in innerwear in terms of branding support. So how should we think about opportunity and scalability in this brand, at least in terms of guidance, how should we think about this year or next year, can you give ballpark figure also in terms of scaling up from here?

Ashish Dikshit: So Tejash, we had indicated INR 500-plus crores revenue was our first goal. We'll easily cross that this year. So we would have got the business to a level where it's no longer a small player in the segment. Of course, you know the market size and the large opportunity ahead, we'll continue to invest. This year, as the normalcy has returned, two factors we need to keep in mind. One is, as we see the opportunity and step up our ambition from INR 500 to INR 1,000 in the next two, two and half years, Clearly, the investments will go up perhaps in the second half of this year and part of next year to get the next level of step jump that we want to achieve in that business.

The fundamentals of that business are very strong, branded premium price points are high. Now the basic economics is also working out simply because the size of the business is achieving reasonable scale, but our ambition will continue to remain. We had guided to INR 1,500 crores revenue in FY '26. Our endeavor is to get as close to that as possible. So that's as far as innerwear is concern.

Tejash Shah: Yeah. And then last one on ethnic wear. So clearly, the investment we have made has shown up in terms of expenses or losses also this quarter. But what will be the nature of this investment? Is it largely on network that we are creating or branding support that we are putting, because that's also visible? And just an associated question there, with seven brands in this space now to play the portfolio there. Are we done in terms of having a number of brands that we wanted to do in the portfolio of it? Or you would like there are some gaps that you would like to fill in organically or inorganically in the space?

Ashish Dikshit: I think Tejash to a large extent, we have played out the portfolio well. There is -- there are two brands in -- in fact hold the four designer brands, which are Sabyasachi, Tarun and extreme high end of luxury followed by Shantanu & Nikhil and Masaba all playing the wedding destination shopping, which is evergreen and long-term potential that we have seen.

Below that, we have launched a range of pret brands either from designers, which is S&N from Shantanu & Nikhil or organically build like what we are doing in Marigold Lane in the regular women's wear segment -- premium women's wear segments or Jaypore, which is a 100% subsidiary and beginning to get scale for the first time this year.

Coming to your first question, which is really what we are doing in this business. If you look at the numbers, we started this business in FY '19, '20 with a small acquisition of Jaypore and stake in Shantanu & Nikhil. Size of the business in just three years back before the COVID was zero. We have now got to a quarterly run rate of INR 110 crore. But I think this is based on the businesses that we had acquired. A journey forward is singularly built around our large ambitions in one single brand, which is Tasva, the men's premium ethnic wear brand most of our investment.

And therefore, I want to make sure that you don't treat all the brands at the same level. Most of our investments and therefore, current quarter losses and maybe going forward a little bit for some more time are currently in Tasva. And the nature of those expenses are building an organization for scale. We have given an indication of INR 500 crores in five years. Now we feel more confident. We are probably trying to look at that number in a shorter period of time. This year, we would be looking at close to 65 to 70 stores. 25 of them have already been launched. Another 40, 45 will get launched in the remaining part of the year.

Advertising campaign has just got launched. I think that's not fully factored in Q2 results. You'll see deeper investment going in Q3 and Q4 as wedding season comes in. Clearly, this is our single largest amongst the ethnic portfolio in terms of organically building a very sizable business very quickly. That's our largest investment vehicle. Needless however to say that Jaypore has now studied the business model is fine. We now need to accelerate that and that you will start to see.

So this number of INR 100 crore a quarter will quickly move to INR 150 crore, INR 200 crore a quarter, as we go forward, you'll start to see some of it in quarter three, but I think the Tasva story will get played out in the next 12 to 18 months, where the first round of sort of investment, both in terms of opening 7,500 stores, as well as behind the brand and the organization will become a principle.

Tejash Shah: Sure. And last one, just a Tasva will be on COCO as of now or it's a mix of COCO and COCO?

Ashish Dikshit: Currently, most stores of 25, I think, 20-odd plus stores at COCO. It's early stage for the brand. We are very selective about giving it to franchisees right now. We want to perfect the model before we bring in franchisees. As you know, we operated close to 600 franchisees, 2,000-plus stores which are franchisee written. It's an easy thing for us to do, but we want to be very, very responsible and careful about where we get our franchisees to invest capital. And that's been our approach. Early stage of brands, we want to perfect the model before we hand it over to franchisees.

Moderator: The next question is from the line of Nihal Jham from Nuvama Institutional Equity. Please go ahead.

Nihal Jham: Yeah. Thank you, so much, and good evening to the management. Three questions from my side. First, is on Pantaloons. This quarter would have seen the full benefit of the EOSS, right? Which was not in Q1. Is that the right understanding?

Sangeeta Pendurkar: Yes, that's right. That's right, Nihal.

Nihal Jham: So from the perspective of EOSS is coming in for this quarter, plus, say, Pujo, would you say that maybe the sales were a little lower than expectations given as we highlighted that maybe there's some stress at the lower end of the market?

Sangeeta Pendurkar: So I think if you look at our journey over the last few years, we've been constantly trying to strengthen our proposition with our product that has got premiumized and significantly better quality of product and with our stores looking good. I think we feel today a lot more confident in terms of our growth. And I think what we've seen in this quarter with the concentrated EOSS, I think it's quite in line with that expectation. As Ashish mentioned, yes there is some impact at end of the market, but I think the growth is perfectly in line with our expectation. Given everything that we've done to strengthen our proposition.

Ashish Dikshit: Just to add to Sangeeta's response. See, what we are also doing, and we are seeing that in the consistent solid profitability performance of the business is we are not chasing growth at disproportionate cost. And therefore, the growth is organic. It's high quality, and it's reflecting its strong profitability. And to that extent, there is a marginal loss of potential growth, but that's the improvement in qualitative part of the business that Sangeeta was talking about.

Sangeeta Pendurkar: Yeah. And equally, I think it reflects in our margins. I think the fact that we've been able to keep our markdowns despite a full EOSS quarter under check, I think, has helped us improve our profitability as well.

Nihal Jham: Understood. Moving to the next question, which is on ethnic. Ashish, you highlighted that there could be some more investments coming in. I would assume that maybe -- is it that this quarter, you'll see the full campaign in terms of appointing the brand ambassadors and maybe this is where most of the investments are in terms of P&L will play out? Or is it that this is going to be something that will require regular investments over the next 12 months?

Ashish Dikshit: So Nihal, first of all, I would request you go to the website. Go to our presentation. There's a beautiful ad with Tasva's launch. We've given the link there. We've already signed our brand ambassador, Ranbir and Ananya and it's a lovely ad, which is getting very good feedback and response. So have a look at that.

But coming to your question, I think what we have right now in the business is an organization, fully fleshed organization. We have expenditure, which is in creating the brand, creating retail identity, creating the stores but our revenue is very small because at this stage, by the time we were in the middle of the quarter, we had only 10 stores leading towards the end of the quarter about 20, 25 stores. What you will see in the next 12 to 18 months is clearly deeper investment but that would be in marketing. The organizational investments have already been happening.

But it will hopefully be and then certainly be compensated on the other side by revenue buildup these stores will bring, as the brand becomes popular, as the number of stores expand. So, you would perhaps go for a couple of quarters of deeper investment and then the investments will get balanced by the revenue numbers that we expect. And therefore, in this, the whole strategy is deep investment, quick ramp-up to establish a brand which by the end of next year should be anything between closer to INR 200 crores in terms of revenue and at least revenue run rate by that time and has started to become a visible and a meaningful proposition for customers.

Nihal Jham: Sure. Just one last question is that we've received a first tranche of investment from GIC in the first half. Now with the remaining amount that is going to come, any plans of that repayment or any allocation thoughts that you want to share?

Ashish Dikshit: So I think no new news for you, if that's what you're looking for. Our next round of money is due in March 2024. If you look at state of our business, Madura business is generating strong EBITDA and cash flow to fund its own capital and growth, in fact, leave something for other businesses. Pantaloons also, now you can look at and credibly believe that the cash flow generation of that business is good enough to fund its -- if you have noticed, perhaps it doesn't come through Pantaloons operate with very high return, net working capital turns are exceptional and industry-leading. So very strong cash flow generation there, which will fund Pantaloon's growth.

And therefore, to that extent, the excess cash coming from here or from additional capital that will come back, which is still about 14, 15 months from now will be to ramp up these businesses, which is Innerwear, Tasva and rest of the Ethnic businesses, Jaypore, Shantnu & Nikhil, Sabyasachi, et cetera, which we believe are very, very powerful brands, very strong consumer proposition and currently subscale and will dramatically change with the investment that we will be able to put into those businesses.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Sir profit or in fact, the EBITDA margin of businesses other than lifestyle in Madura segment. We were operating at about 10%, 11%, which got dropped to about 2% in this quarter. I just wanted to understand what are the factors that led to this decline? And how should we see the margin trajectory of these businesses going ahead?

Ashish Dikshit: So I think you're right, that's part of the segment, which internally we put three businesses there. One is the Super Premium business, which is collective and the high end of the international brand. Second is the value fashion business, which is American Eagle and Forever 21 and third is Innerwear business. The larger part of the shift in margin profile currently is coming from Innerwear. We expect that in another 6 to 12 months, as Innerwear starts to chase the next step of its growth, which is INR 500 crores, INR 600 crores, where it's running today to about INR 1,000 crores, may take some more time for that, but that would be the one.

The other businesses, which is the Super Premium businesses, and the Youth Fashion businesses are quite profitable. The Youth Fashion business is slightly above breakeven and Super Premium business with double-digit profitability.

Devanshu Bansal: Sir, within Lifestyle, the wholesale channel is still about 20% lower than pre-COVID while retail has seen exceptional growth trends. So I wanted to pick your thoughts on the trajectory for this tenant going ahead for Lifestyle?

Ashish Dikshit: Devanshu, we've managed the entire quarter actually for many quarters now without Central, okay? So that is -- it was a very large customer account for us, which is not there. So that is one thing which we have to recognize. We have also significantly scaled up our own retail business in many markets, okay, to be able to create very, very strong retail formats. We -- having said that, the business with the rest of department stores and the -- the traditional trade business is strong, and we should be fine with that. In fact, we expect that, that momentum will continue. So it's primarily a function of -- the gap which Central left in the system.

Devanshu Bansal: Got it. Last question is on new value format style where we are seeing some launches. So we already have a strong expansion plan for Pantaloons in Tier 2, 3, 4 town. So I wanted to understand if this would be an additional platform other than Pantaloons to play the Tier 2, 3, 4 opportunity. So how should we think about this?

Sangeeta Pendurkar: Yes. So Style Up, we are testing the proposition, and it's in a pilot phase. This is not a Tier 2, 3, 4 town proposition necessarily. It is targeted towards a different consumer segment. And here, it is truly the value segment, where we believe there is a very large opportunity. And I think our Pantaloons over the last few years has premiumized and moved up in terms of price point, we felt there's an opportunity here to target this consumer and therefore, Style Up should be seen as a completely different proposition, which will be in large towns and over a period of time in small towns as well.

So it is a completely different consumer segment. It's a very large opportunity as we know. And I think that's the way ABFRL wants to play in that segment. So that's how we should think about it. At this stage, we're just launched a few stores, about four stores with Style Up a new proposition. And as I said, this year is a year to pilot our proposition. And as we are ready to scale it up, we will come back to you and tell you more about it.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: The first question is with regards to the net debt. The net debt right now is around INR 250- odd crores, as mentioned in the press release. And I'm assuming that the INR 750 crores of the GIC money has also come in into this. So effectively, if you take off that GIC money, the net debt should be around INR 1,000-odd crores. And if we see at the end of March '24, it was somewhere around INR 500 crores. So it means that without that, our net debt has effectively increase of INR 500-odd crores or maybe this is due to some losses. So if you can explain this difference here of this INR 500-odd crores increase in the debt?

Ashish Dikshit: So I think you're right, the way you have calculated it and that's the reason we raised capital because we feel -- and we have talked about in the past, our business is set for very, very aggressive growth. We expect to grow more than 50% or thereabout this year, and we feel even going forward, that's the kind of growth rate that our business is set for. When you're growing that fast, and you could see that in the numbers of Madura, Pantaloons over last year, we also need to build in inventory.

And therefore, at the beginning of the season, the regarding the buildup of inventory. In a fast-growing business, that requires due to planned inventory ahead of the market. So September is particularly in that point, at the point where your inventory needs to be fully loaded. Your stores need to be fully ready for the rest of the season to come through. And we are in a very strong growth phase and this is largely a inventory-led.

Of course, there may be some capital investment pieces also, but most of it is largely coming out of and inventory build them. Net working capital at a total level, if you look at it, that remains pretty much under control on the operating capital that we have, the net working capital number, which you can see in the last part of the presentation is about -- actually only about INR 19 crores. So a lot of it is inventory, which has come perhaps in the last month to 1.5 months and gets balanced on that.

Gaurav Jogani: Sir, just one follow-up on this. Actually, if you see payable, are these payables have also commensurately increased in line with the inventory? So if we see the payables, the payables actually right now among this amount of around INR 4,700-odd crores. And if we take it in terms of the number of days, it's actually coming up around 150-odd days, which is -- I think would be the highest in the industry. So don't you think as this number increases in absolute terms, this could have some pressure on the margin because ultimately, these vendors who are giving us the product on credit would be also charging as higher margins on the product price?

Ashish Dikshit: So if that's the assumption that must already be built in margins. So don't worry about it. Margin is after all that, because this is not something which has happened now. We have consistently explained to you our rationale for building a business where the front end of the business in a largely retail format, where average inventory is about 120 days. A part of our business is into manufacturing. We hold working capital from fabric to RL because we do 30% of our manufacturing.

We want to make sure our business model is aligned. The front-end investment, which is inventory needs to be as close to the backend credit period that we have. And therefore, we operate with 120 days as back in period, some seasons, it shows up in the -- at one point in a little bit higher and lower. And that balances are working capital. And which is why -- while you are focusing on one part of it, we have delivered, if you look at the first half of INR 6,000 crores with the net working capital of INR 20 crores. So that's an outcome.

And this is primarily done the business is engineered carefully around this. So that we can grow this business from INR 6,000 crores first half to, let's say, INR 12,000 crores to INR 12,500 crores next three years into INR 20,000 cores, INR 25,000 crores without blocking large working capital into that. And the whole model is designed around that. And it's -- it's been consistently and carefully done over the last 4, 5 years. So it's not a one point phenomenon that sense.

Gaurav Jogani: And sir, the last question is with regards to the Pantaloons margin, while on an absolute basis, it has increased to around 16 -- the margins are around 16% odd, but if you see that this is around 540 bps on a Q-o-Q basis. Although, I agree that there was also a [EFS 0:36:00] element in this quarter? But do you think it is also impacted because we opened 20-odd stores in this quarter and most of them would have not contributed in terms of the revenues. And so going ahead, as the store scale up, the margins could improve further?

Ashish Dikshit: Let me first tell you our historical fact on this. The business has grown from 100 stores to 400 stores. And every time we have expanded our margins have only expanded. Pantaloons is one business, you can go back and check. Every single year from 2014, '15 onwards, percentage margins have increased despite every single year, network expansion being added network being added to it. So I don't think -- I think we have a strong operating leverage. As we add stores, our profitability improves. One quarter, 20 stores, which would have operated maybe for about 10, 15, 20 days or maybe a month on an average on a network of 396 stores. I don't think that would have an impact.

Moderator: The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Couple of questions from my side. First is on the private label contribution in Pantaloons. For last 3, 4 quarters, this number is around 62%. Previously, you guided that you want to take it up to around 70% in the medium term. Where are we in that journey given that bulk of the stores are going to be in Tier 2, Tier 3 cities for Pantaloons where private label could be more suited comparative sense?

Ashish Dikshit: So I'll come to your central question, but the assumption that Pantaloons expansion only in Tier 2, Tier 3 of that ratio is dramatically higher, it's not true. In fact, as a format, we are finding increasingly greater opportunities in bigger cities as urbanization is driving a lot of concentration of population, new establishments are coming up, etcetera. So I don't think that mix is changing significantly. We are clearly short on what we have indicated and set goals for ourselves as far as the share of private label increase is concerned.

But it doesn't -- it's an endeavor, we will have to get customers to choose. As you know, just before COVID, we had launched a series of new brands and categories. We've launched Saree, we had launched Home. We've launched Marigold Lane. We've launched a couple of brands on the menswear side. I think we'll have to wait for these brands to play out in early stages. And I expect as we proceed forward, the shares will keep going up but clearly, the progress on share of private label hasn't been as much as we had sort of indicated in past.

Ankit Kedia: So from the EBITDA margins for Pantaloon, one of the levers could also be from a next 3-year perspective while updating leverage and scale, gross margin expansion due to private label should play out.

Ashish Dikshit: Yes. That's a lever which we have not been able to fully play out. I think as Sangeeta said, what has worked for us is our improvement in product, overall product proposition, the premiumization marginally that we have been able to do, the store, the brand identity. And I think the next lever, which will shift the next trajectory of margin would be increase in private label share, but we will attempt, and I have to admit that we were short of what we wanted to do on that account.

Ankit Kedia: Sir, my second question is regarding the capex. In the first half, we have done around INR 300 crores of capex. And based on your guidance, the stores opening in the second half will be pretty much double than what we have done in the first half. So based on that, where do you think the capex would be? And if you could just break it up between the three, four verticals which we have.

Ashish Dikshit: So I think capex will be more than the double of the number that we have as in will double annual capex will be perhaps closer to 700 to 750 kind of number. Remember, part of our expansion comes through franchisee route. So while we may add stores faster, the capex necessarily doesn't need to follow that cycle. Amongst the businesses, I would say the largest share will come from Pantaloons. Pantaloons is the largest expansion ahead. We had guided and we are still on track of opening between 60 to 70 stores. We hope we'll be closer to 70. So far this year, we have opened 22 stores, which is a net addition, we have another 40 to 50 stores to go. So that will be the largest part of capex.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Service. Please go ahead.

Aliasgar Shakir: Couple of questions. First is on Pantaloons. So when I see the area addition versus the revenue growth, let's assume, over pre-COVID, it's somewhere about 20%, 21%, both of them. Does it -- I mean, how do I read this? You've said before that your revenue per square feet probably changes depending upon where you're opening stores. So is it because of that factor? Or else, how do I look at the SSG? That's the first question.

Ashish Dikshit: So I think, Ali, at a very high level, our sales per square feet on the like-to-like stores has started to exceed pre-COVID level. If that's the question you were looking for. The -- as you rightly mentioned, the square feet addition and productivity additional shift necessarily not directly correlated because it's a function of where you open the store. And we have very large variance depending on the tier of town that you opened the store as far as SSG is concerned, while it may be same space in terms of square footage. Does that -- are you looking for anything more specific than that?

Aliasgar Shakir: This partly answers my question, but you also mentioned in the previous question that we also have a lot of opportunities of opening stores in larger cities. So I mean I was just trying to understand if this area addition has been so much in the smaller town that the like-to-like doesn't reflect in this? And if you can just quantify what is the like-to-like versus pre-COVID?

Ashish Dikshit: I think you have the exact number. It's low single digits. We'll give you the exact number on pre-COVID basis.

Aliasgar Shakir: So this compared to Lifestyle is still -- hasn't grown as much. I understand Lifestyle business has done far better in terms of like-to-like growth. Is that a fair understanding? I mean is just to do more because of the category in opex, which could be slightly lower end or I mean, if you could just share some light?

Ashish Dikshit: I think -- Ali, you're right. I started the call with that observation that the premium part of the market is seeing very strong traction. Our brands particularly are seeing very strong traction. We probably in that side of the market, gaining market share from other premium brands. The market got slightly lower ended and it is probably more affected by overall inflation that consumers are experiencing in their life and everything.

Therefore, that part of the market is more affected. Also, Pantaloons is more widely distributed. The urban markets are less affected versus the next Tier of town. So all that is probably resulting into this differential outcome. And that's why as a company, our portfolio player allows us to write good times for each segment, just as we need to grind through the tougher periods, which Pantaloons has done remarkably well in the last 12 months.

Aliasgar Shakir: This is very helpful. And we are not seeing any material change in the trajectory at that lower end, right?

Ashish Dikshit: So it's improving. It's improving, of course, every quarter, we'll have to -- I'm very confident that, that trajectory will also come back as more and more consumers come back. But we have built a business model which is resilient enough to withstand this kind of thing. And that's reflected in the last 6 months. If you look at Ali, the inflation in textile value chain is perhaps one of the highest in the last 10, 15 years, that's been experienced. So Pantaloons has absorbed a very high pressure on its cost and yet deliver the kind of quality of profitability, which is very, very strong.

Aliasgar Shakir: Understood. This is very detailed. Second question is on the D2C. So there have been news about a few brands that we are in the middle of acquiring. I mean, I just wanted to understand, given the fact that we've received money from GIC, you've said before that money will not be deployed here. It's a separate subsidiary. But if you could share your plans, are these two, three or whichever ones we are looking for companies relatively smaller play so far, and that's not a very sizable player versus our overall portfolio? Or I mean, if you could share how big these investments could be and what kind of investments we are looking to do here?

Ashish Dikshit: So Ali, we had indicated the time of announcement of launching D2C business that at that stage, we were looking to invest about INR 400 crores to INR 500 crores from parent company, which is ABFRL into that subsidiary. That subsidiary now named as TMRW, which is the brand that D2C company runs with is now looking to invest into about eight to 10 investments by the end of this year. Obviously, all these investments will be much smaller compared to the businesses that we have, and these are fundamentally early stage digital-first brands, which we will take a majority stake in early stage. The journey is on. I think maybe another quarter or so, we'll be able to give you a much clearer update on where we stand on that.

Moderator: The next question is from the line of Vaibhav Agarwal from Basant Maheshwari Wealth Advisors. Please go ahead.

Vaibhav Agarwal: Sir, you said that this year, we will grow by 50% and our revenue would be around INR 12,000 crores, INR 12,500 crores. And next year, we would also grow 50%. So is that...

Ashish Dikshit: No, Vaibhav, I think now you're putting words into us. I said, look, last year, revenue was INR 8,000 crores. Our first half revenue is close to INR 6,000 crores. Second half is always better than first half. It also comes with greater expansion. So it should be reasonable for you to assume that the overall revenue for this year would be more than INR 12,000 crores, INR 12,500 crores in that sense.

And therefore, that would be 50% growth. What I said about next few years is in context of our investment that we are a company, which is poised for -- we have multiple levers of growth, and we have now established the platforms. And therefore, we will be in strong growth phase even going forward. I don't want to put a number on that. You already have the numbers that we have given out as forecast for our FY '26. Our Chairman at last AGM has also stated that we are confident of not just achieving but exceeding those numbers. So that's the only thing I could say at this point of time.

Vaibhav Agarwal: So would we look at changing these numbers? Because I think we have got the additional funds from GIC and after that, we have not changed any guidance over the longer term. So do you have anything in store for changing these numbers?

Ashish Dikshit: Vaibhav, yes, we will -- we do, what we want to do is to come back to all of you and other investor community and come up with a fresh update on our strategy update sometimes in the quarter 4 of the coming year. We would have greater visibility, and we'll provide a fresh update and we are reasonably confident that we'll be ahead of what we had said earlier.

Vaibhav Agarwal: Sir, my next question is that we have been in this investment phase for a long period of time. We have invested in Ethnic, we have invested in, we are investing in D2C, so we are investing a lot. And when do you think that this investment phase would be kind of over for us? Or would be -- the revenue growth would be much stronger and the profitability would be much higher. So when do you feel that the operating leverage would kick in and we would have a higher margin compared to the last few years that we had?

Ashish Dikshit: So I think it's a difficult question to answer. I'd only say we operate in one of India's largest consumption spaces. Apparel, as you know, it sizes the bucket. It's larger than most consumer categories that companies operate in. As a leading brand, we have one of the widest portfolio, which addresses everything from Pantaloons, Peter England, One End and Style Up that Sangeeta is talking about, all the way going up to the luxury end of the market.

We operate in men's brands, women's brands, we now extended into sportswear, activewear, Athleisure, Innerwear. And therefore, it's a very comprehensive play. Our view is built around that, and that is what is giving us confidence that we could state that we will a company which last year was INR 8,000 crores will be north of INR 21,000 crores, INR 22,000 crores, which is what we had given in the public domain, which is nearly tripling in a short period of three years, 3.5 years.

All this, of course, will require investment, and that's why we had raised capital in line with our growth strategy. Clearly, there would be two level of shifts, which will come as far as profitability is concerned. One is the leverage that large businesses, and I wouldn't call them mature because the runway for Lifestyle brands and Pantaloons is very-very large. But these large established businesses will start to create operating leverage, which will improve their profitability as we go forward. Coming purely from the size of operation that we have, and I'm not factoring in any significant shift in intrinsic profitability improvement. That itself will drive one shift for the company.

The second would be the investment that we are making currently. I explained at the beginning of the call on Tasva, Jaypore, Ethic wear brands, those investments will again make those businesses from currently very small to suboptimal to reasonably scale business. In almost no period of time, we have quickly built a business of INR 600 crores, INR 700 crores run rate of Ethnic wear. We'll quickly take it to our next level of trajectory. And that's when the losses in those businesses also start to reverse, and we'll start making money. Similarly, Innerwear is an investment growth. That trajectory will shift in 18 months, 24 months. So what you will see the picture of the company at that point of time will be significantly different in its profit. And all that we have actually guided in our last investor deck, we are pretty much on track as far as that is concerned.

Moderator: Thank you. The next question is from the line of Swati Jhunjhunwala from VT Capital. Please go ahead.

Swati Jhunjhunwala: So most of my questions have been answered. I wanted to know what was the percentage of ad spend this quarter as the percentage of the revenue and what is the outlook on this advertising spend going forward?

Ashish Dikshit: So I think in the immediate terms, advertising for next couple of quarters will continue to grow because it's a necessary nourishment that brands and businesses need when they want to be on such high level of growth trajectory that we are on. The classical ad spend percentage that we have kept for the branded side of our business is closer to 4%. For a short period, it goes higher to maybe 4% to 5%.

On Pantaloons, we had operated at 2.5% to 2% to 2.5% percentage, maybe for a short period, it may go up to maximum 2.5%, 3%. But as scale comes, that will again start to wind down. And at this point of time, we are almost after two years, 2.5 years are seeing the kind of growth that our businesses are capable of, and we want to fully fuel them and nourish them. And therefore, for next quarter or so, you will see a more elevated expenditure. But the range would be pretty much what I've indicated, it is 3% to 4%.

Moderator: The next question is from the line of Nirav Joshi from Artifice Distributors. Please go ahead.

Nirav Joshi: The question is with regard to the Lovechild, the new cosmetics brand, which you have recently launched, how we are taking it forward? And when it comes to marketing and ad spending, how aggressive we would be on the Reebok in the coming quarters?

Ashish Dikshit: Quarter is a very short time to comment on, but Lovechild had just been launched. It's largely being sold online and with few stores that House of Masaba has. At this stage, we are more interested in making sure our consumer proposition is working. Our product receives good feedback. And therefore, most of the spend is largely digital in creating awareness among the young consumers.

It is nothing which is out of ordinary. And we'll wait for brand to get established, the whole range of products to get launched, which will happen over the next couple of quarters, before we scale advertising as far as this is concerned. On your question on Reebok, I think Reebok is a business which we have just taken charge of from 1st October is when the management control has effectively moved to us. We will definitely spend a couple of quarters, understanding that business, perfecting the model, ensuring that health of the quality of retail stores, building capabilities and team. Perhaps the shift in advertising or anything else is a couple of quarters away, till we actually get a complete understanding of the business and hold of the business.

Nirav Joshi: And we said the part of our growth comes from the franchisees, we transferred the business to these franchisees. So what are the returns to the normal franchisees make on taking over the stores and stores are being managed by the franchisee or we only manage these stores?

Ashish Dikshit: You're talking about Reebok or you're talking about anything else?

Nirav Joshi: On the majority of brands in the capex.

Ashish Dikshit: So our view and franchisee model has been fairly stable and has been tested over two decades of franchising. Fundamental principle is that it's a business where franchisee puts capital and he takes risk on capital on each store because he's equally apart in terms of selection of property in selection of brand. He therefore comes along and gets returns, how well the business does? Is the upside can be higher.

And similarly, if the store doesn't do well, it's a risk that it takes. So we don't offer guaranteed margin, fixed cost structures, etcetera. Our fundamental business is built around, franchisees having deep understanding of local market, a good understanding of business, ability to serve customers well or local tastes. And therefore, he brings not just capital, but brings his knowledge and to that extent, he takes the risk in the business. So some franchisees make a lot of money. Some franchisees don't make money. Some stores are very successful, some are not. We have learned over a long period of time. That's the only sustainable model of building franchising business.

Nirav Joshi: And the expansion we take forward, what percentage would be through franchisee and the company stores?

Ashish Dikshit: So if you look at our two primary businesses, our branded business of Madura close to 3/4 or even higher expansion come through franchises. And this is not a choice we make. This is when franchisees approach us for the business. We look for -- we want to make sure that it is something that they are doing with open eyes, they talk to each other, their franchisees have a great community. They look at which businesses work well and close to 3/4 of them. In Pantaloons' case, the number is closer to 15%, 15% to 20%. That's our historical number. And that's the level of franchising that we will continue to operate it.

Nirav Joshi: And in the D2C space, which segment we are looking at Ethnic, kids wear or the cosmetics and the acquisitions side? Any broader….

Ashish Dikshit: At this stage we will start with broad category of fashion, which will cover everything, Ethnic, fast fashion, casual wear, Athleisure and so on and so forth. Obviously, some of these brands could have extendability into other spaces where they're not today, and we will leverage that. But these are broad spectrum of fashion companies that we are investing in.

Nirav Joshi: And for each brand, we have a different brand than managing from A to Z or in the hierarchy, we have a person in the systems looking after multiple brands?

Ashish Dikshit: D2C you're saying? Or you're asking about the rest of the business.

Nirav Joshi: [inaudible 0:59:06] since a decade?

Ashish Dikshit: Sorry, I didn't get.

Nirav Joshi: The other brands, all the Madura fashion brands and we recently added Sabyasachi, Shantnu & Nikhil and all. So how does the operations line approach in that gives me?

Ashish Dikshit: Our philosophy is always been that a brand is an entity by itself. It's the most important entity and therefore, we invest in leadership at that level. Every one of our brands, big brand, big business is headed by a very senior professional, the brand teams are complete, the product, the design, the marketing, the retail every aspect that affects the brand and the business is embedded inside that system.

So we don't have one design team that serves everybody or one product team it serves. Only the absolute front end of the business, which is acquiring stores or absolute back end, which is manufacturing or sourcing, is where there is a benefit of consolidation. The heart of the business is embedded in independent structures.

So there's nobody common between Louis Philippe or Van Heusen or Sabyasachi or Pantaloons for that matter. The whole team operates in that manner and each of the brand is a unit. For a long period of time, we have believed that this is what has driven scale. There were a lot of brands which were our size five years, seven years, 10 years back, many of them got left behind. Our focus on -- to that extent, there is a little bit of lack of synergy, but we believe for creating distinctive brands and a wide portfolio, it's a good thing to sacrifice.

Moderator: Thank you, very much. That was the last question for today. Ladies and gentlemen, on behalf of the management, we thank all the 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 now disconnect your lines. Thank you.