



“Arvind Limited Post Results Discussion for Quarter
Four Financial Year 2015-2016 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Arvind Limited Post Results Discussion for Quarter Four Financial Year 2015-2016. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Jayesh Shah. Thank you and over to you, sir.

Jayesh Shah: Thank you. Good afternoon all of you and welcome to this conference of Arvind. I have with me J. Suresh -- MD and CEO of Arvind Lifestyle Brands and Kulin Lalbhai -- Executive Director of Arvind. Both of them will also talk about the future plans of Arvind.

So let me outline today's agenda. First, I will like every quarter, I will begin and briefly take you through the performance of quarter four as well as financial year 2015-2016. Last five years, the company has been transforming itself, we believe that we are half way through and in this journey and we have plan to further accelerate the growth and improve the returns.

I will request Kulin after my presentation to discuss this medium-term strategic plan. After this, we will take your question.

So let me first give you some highlights. I am happy that in a very difficult market conditions, in a very difficult macro-economic environment Arvind has done reasonably well in the full financial year and more particular in quarter four. While we on one hand we have maintained margins in fabrics and garments business based on moderate growth we have achieved 130 bps improvement in margin for branded retail business. Of course quarter four recorded 390 bps improvement in margin partially because of the base effect but more importantly because of a robust 30% top-line growth that brand and retail business achieved in quarter four.

This year our key subsidiary company Arvind Lifestyle Brands Limited which is on our brand and retail business which has been in the investment made for more than now three years recorded PBT for the first time. This year also saw a very-very successful launch of our specialty retail vertical and we launched four formats like GAP, Sephora, Aéropostale, these four retail formats are likely to be key growth engine in coming year. This year we completed the critical phase of restructuring of Megamart which is closing down all that not making sense which was making losses. We launched our value retail format under the new brand name Unlimited and it is too early to say but we are happy with the progress on bringing this format to healthy profitability over the next two years to three years.

Now, let me talk to you about some numbers. So as you would have already read in our review notes, our revenue grew by 14% to Rs. 2,317 crores in quarter four and EBITDA and PAT also grew by similar percentage.

For the full financial year, our revenue growth has been 8% because as you know the first two year, first two quarter we are still reeling under the pressure of a very bad Diwali and pre-

Christmas seasons last year. Our PAT was lowered for the year by 6% but our PAT for the quarter four has been very robust at 14%. One of the reasons why our PAT for the year has been marginally lower is also a tax being almost now at a 30% tax rate.

Talking specifically about now brand and retail business margin, so the margin for brand and retail as you would have seen has grown to 7.9% amongst the highest in the recent past that we have achieved, it is a 390 basis points improvement in quarter four. More importantly, this itself has led and helped us to achieve 130 basis points improvement to 6.5% as we have kind of forecast in the beginning of the year that we will increase our margin by about 1.5% we are happy that we are very close to that achievement.

Textile segment as I said earlier maintain margin more or less to 16.2%. Now this margin of course is as a result of mix between fabric which is a high margin business and a very fast growing garment business which has relatively lesser margins. So the weight average has been marginally lower but respective business fabrics and garments have done better.

As far as revenue is concerned, textile grew by 4% on account of the significant growth came on account of 27% rise in our garment revenue. While denim volumes declined by 4% to 25 million in quarter four. Woven volumes actually increased by 5%.

Now, as I had mentioned in my last call that we had a kind of a product mix change in denim which resulted into some capacity bottlenecks where our effective capacity had dropped and as I said, we would be investing in some balancing plant which we have completed. So we expect that from May or this month I would say current month rather, our volumes will go back to its original level of about 108 million annually. Denim price realization was up by Rs. 9 and woven prices were up by Rs. 4.

So in all a very-very robust growth in quarter four very reasonable growth in both in profitability as well as in revenue for the whole year and we have built a strong base for us to kind of grow significantly in coming years.

Finally, on number that some we would be of interest that we have brought down our debt by Rs. 230 crores in quarter four as compared to quarter three. Our year end debt have been Rs. 3,539 crores as against Rs. 3,996 crores at the end of March 2015. As I just said that currently the businesses are textile business has been almost at a 95%-98% utilization and we believe we will continue with that utilization in coming year in the current year rather. At the same time we are looking at a very healthy robust growth of about 24% and above in our brand and retail business. This should give us a healthy EBITDA margin on a consolidated basis and we also hope that our brand and retail business will continue the growth momentum of EBITDA to by about 75 bps to 1% in the coming year.

With that, I think I will close my review of the quarter four and as I said, Kulin will take over from now on and he will discuss about our medium-term strategic plan. Thank you. Yeah, so Kulin you can start.

Kulin Lalbhai:

So ladies and gentlemen, I am happy to take you through the medium-term outlook of Arvind. So let us start with just a recap of the last five years. Arvind has seen a strong top-line growth of 14% and within that growth we have seen the brands and retail share a revenue climb from 27% to 32%, the increase of brands and retail as a percentage of the total will continue as it shows in the years to come and just while we have grown at a healthy 14% we have maintained the overall margin of the group as well as the leverage. So it has been a good sales over the last five years.

If we look at the main pillars of Arvind strategy so far we are on two large underlying, we are taking advantage of two large underlying opportunities of course in the brand apparel market India is seeing a massive shift of consumption towards brand apparel Arvind its very well positioned to unlock that growth we have one of a kind portfolio of brand which we see growing very-very healthy in the years to come. And the second big opportunity is around restructuring of the textile value chain, as China become less competitive in this space, we will see India gain more and more share and we will also see verticalization of the business which I will explain a little later. So what one can expect on the basis of these two pillars is a good healthy growth of the portfolio in times to come. One can expect an improvement in margins as other the textile margin business and the brands will achieve operating leverage and see an increase in margin and one will also see the overall asset intensity of the portfolio change. The view is now very-very closely on return on capital employed which is why across businesses there is a focus on asset light business model which will kind of be the ones where we are investing and which will drive future growth of the business and that will help the overall Arvind portfolio move towards expenditure then return on capital employed.

So just to start with on the fabrics business we have had industry leading performance. We have had our EBITDA climbed to 18%, we have had our RoCE climbed to 27% and we have had pre operating cash flows up to Rs. 330 crores in the last fiscal. So it is a very healthy business underlying this business is basically a differentiated play in textile, Arvind is not a part of the commodity textile play, we focus on differentiated product design led solution. We have incredibly strong partnerships with global plan. We have a diversified portfolio of denim, shirting and knitwear and of course we have a strong focus on going vertical towards garmenting. So the numbers you see in terms of the output metrics are because cohesive strategy behind how we are playing as far as the textile value chain is concerned. So even though there has been volatility on cotton, there has been volatility on exchange, we have been able to deliver a consistent robust performance now for the last five years.

The big strategic priority in the medium-term is going vertical, just explaining that a little too more on the call. Rather than selling fabrics Arvind is going to focus on selling garment packages which is end to end solutions to its consumer. Right now, only 6% of our fabric is sold as garments and as we invest in the garment value chain will be going to add higher 20%. Now the reason why this is strategically very critical is that when you vertically integrate in a world which is moving towards fast fashion, fast response the supply chain, you become much more strategic with your customer. So you are in a sense creating a model which is much more

predictable and the model which is very strategic rather than a transactional business with consumer.

What is very important on the financial side is that garmenting is a much more asset light business compare to fabric manufacturing so when the proportion of the garment business increases so in end to end textile chain you will see asset intensity coming down. So the result will be a more predicable business, an asset lite business and a business which can grow in a rapid way because garmenting can also be expanded in a way that is faster than fabric manufacturing. So as we move towards that 20% number from today's 6% number we will see that the fundamentals of our textile business which is already a robust model will become even more strategic and will be able to deliver consistent growth along with robust return on capital.

So let us move over to the brands and retail business, so to start with just a snapshot I think Mr. Shah has also mentioned in his update. I think the last five years have been very exciting for us. We have seen a cumulative average growth rates of 25%, the EBITDA growth rate has been even higher at 27% and in the last three years it has been much higher growth numbers on EBITDA then even 27% and after as we emerged on our investment mode over the last two years we are seeing an inflection in return on capital employed and you will see much stronger inflection in the years to come.

Now, under each that overall robust growth story just to talk about a few of the components, we have our Power brand which are a very critical part of our business, they had almost a Rs. 1,600 crores contribution in FY'16, they have seen a very robust growth of 21% and almost an industry leading EBITDA profile of 13% with a very-very robust return on capital employing as well. We see this business continuing to grow in a healthy way as our Power brands expand their channel and expand their categories. We are continuing to see operating leverage seeking in and we see healthy growth in years to come.

The other component of our portfolio our growth brand, the brands which are close to the Rs. 100 crores mark which we have invested in and are in the process of scaling up. That business had also reached a size of Rs. 400 crores which has grown at 64% obviously, that has been organic growth so that is there. But the great news there is that this portfolio is also now EBITDA positive and you will see that there has been a very strong inflection over the last three years from a (-20%) EBITDA it is has moved into positive EBITDA territory. So the inflection which is the operating leverage kicking in is something to look forward to and we feel very confident in this part of the portfolio moving to a double-digit EBITDA as well.

The third part of the portfolio again very exciting is the specialty retail portfolio, we had a very strong start to this portfolio as Mr. Shah mentioned in his update. If you look at GAP, Aéropostale, the Sephora and The Children's Place together these brands contribute almost \$20 billion of global sales. So we are talking about industry leading brands, brands which are leaders in there segment. I think Arvind is one of the only company which has these kind of specialty retail formats which it is building out in the country.

With these specialty retail brands, we are looking to clearly take advantage of the youth, children's wear and women's wear opportunities in the country. We have what is very exciting about these brands they have begun with industry leading productivity and because of the store level productivity we have profitable store model from day one which is a great achievement in the industry, these are global brand we see them scaling incredibly quickly and what is more that they are not just retail contract we will be of course managing the online business as well and the reason that is strategically important is that that allows us to build out the brands again in an asset lite way. So we will have an omni-channel kind of growth strategy to these brands, I will talk about that a little later.

And then the last part of this is the repositioning of Megamart into Unlimited. Mr. Shah has already covered that, it has been a repositioning into a family format. We have seen some strong improvement in the last year in terms of restructuring the business. We have shutdown parts of the business that did not make sense and we have seen full price through the increased already by 15%, we have seen a 6% improvement in gross margin and we have seen the women's and the kid's part of the portfolio move up to as high as 50% so it is a true family store concept and we are cautiously optimistic that over the next couple of years as we scale this business up we will be creating value.

So that is main kind a snapshot of the last five years and now, I like to just talk about how we see the next five years as far as the brands and retail business is concerned. So let me just start with a little of a context, I think this is incredibly exciting time for the apparel industry. Just to give some context about other economies, I think whenever an economy moves fast 2,000 per capita GDP point there is an inflection that happens in the consumption of apparel and branded apparel. When China cross that barrier almost 15 years ago there was a very strong inflection which happened towards branded apparel. India has reached a nominal per capita GDP close to 2,000 now and we will be very strongly crossing that numbers in the next three years to five years and as we do that we see a continuous growth coming in this industry where in the 50 billion market moves up at as high as \$90 billion.

Now what is very interest is within this growth you will see a shift from unorganized to organize. So while the industry would grow at a certain CAGR the branded apparel or the organized part of the industry will grow much faster. So over the last five years for example the top 15 brands have grown at 25% CAGR so, as we see the overall industry going from 50 to 90 we will see branded apparel growing even faster. And within this context I think Arvind is sitting on a very unique opportunity I think the portfolio we have is one of its kind, we are present across price points in the across category whether it is premium reach to luxury or specialty retail. I think it has become one of the favorite platforms for global brands to access the Indian market and as the portfolio grow in a way the platform become stronger because Arvind reach in strategic relationship with the front end and our efficiencies on the backend improves so it is a virtue that is fulfilling strategies so the portfolio is further amplified by what we call the platforms, the platform of being able to build brand and creating value in India. And behind this portfolio at fairly unique capability whether it is go to market capabilities,

whether it is a capability of managing international brand relationships whether it is supply chain management we have not just reseller the product, we actually control the value chain, **we design and sells that is 21:35** support the much more valuable business and then of course we are bringing in e-commerce which I will talk about omni-commerce let me correct myself I will be talking about that in a bit. So I think we have very unique portfolio, we have very unique capabilities and with these two we look to build \$1 billion hands in retail business by 2020.

There are three kind of major theme that we will be looking at as we follow our vision 2020. The first is to really consolidate and create great returns from the existing business and that will mean obviously building our Power brand quickly scaling specialty retail, growth brand moving towards double-digit and getting operational efficiency to kick-in with the scale which we have achieved, so I will talk about that later. The second big plan is to strategically manage the portfolio. Our portfolio is a live portfolio it is dynamic, it is built looking at the realities of India and how trend and customer preferences are moving. So we will be taking calculated bets for new opportunity, I will talk about that again a little further and the third part which we would like to talk about and introduce today which we are very excited about is our new Powerful omni-channel play that also we will talk about.

So on the first point which is consolidating the existing business, I think our Rs. 2,800 crores top-line business will grow at a very healthy cliff we see a we see a 25% to 26% growth over the next three years to five years on this portfolio and that is because of the unique growth driver we have; we have almost 12 unique growth drivers of brand which can be scale to Rs. 500 crores or Rs. 1,000 crores plus opportunity so, that is what drive our growth and as I mentioned fairly the huge operating leverage which kicks-in in this business so EBITDA will be probably growing at a 35% in years to come because this operating leverage will kick-in and because of that our RoCE we look double RoCE towards 16%-18% change in years to come. What we have also done is with the large scale business we are now focused on a very strong efficiency improvement program which we have been involved in over the last year and half. And we are already in initial times of that efficiency program kicking in our gross margin has improved by almost 3% to 5%, our sales has gone up by 5%, elementary turns are up by 30% so as we scale not only the operating leverage kick-in but our efficiency program will unlock further value of our existing portfolio.

Coming to the second plank of our next five-year plan which is strategically managed portfolio. I think the first thing I would like to say that it is very critical to keep the portfolio dynamic, this is because India is still early in its journey of moving towards two lifestyle products. There are new trends which are emerging large wide spaces and opportunities which are emerging, to give you an example with U.S. Polo we spotted the trend of casualization, we were able to get a right brand at the right price obviously design the product to perfection and it has led to continuous value creation. So this has bridge-to-luxury has an opportunity and now brand such as Nautica have shown us what is capable are built in the bridge-to-luxury. We have obvious now looked at specialty retail as a big opportunity I have seen a very strong start

to it. No we have been looking at these opportunities which is very important to focus on what we would do and what we will not do. So we are very clear that we will only look at three kinds of opportunity obviously in our core apparel business we would look at large opportunities, we will not look at incremental one and we define them as brand which could become Rs. 500 crores plus in five years and an EBITDA breakeven within two years so, this is just some kind of guiding principles as we look as investments in the core.

The other kind of focus would be looking at **some 25.01adjacency**. So the adjacency obviously we have bet on currently **26.05** and we would be looking at an opportunity such **26:11** shoes which is again in our core lifestyle category and the third area which we would kind of look at is online focused opportunity so these would be kind of niche opportunities which would kind of go very well with our digital omni-channel strategy which is part of our now.com which we launched today. So I will talk about that a little later, but what you will see that whilst we manage this portfolio? We will ensure that the overall EBITDA impact is going to remain very limited obviously, that is because of two reasons – one that we are looking at opportunities which breakeven quickly and a mature India allows us to do that. But secondly, the overall size of the business and the scale achieved in such that any incremental opportunity which we look at will not have a material impact on the overall business. So we will be looking at this with a lot of discipline, it is a part of kind of the investment in our future obviously balancing the future with the present is critical so the present is about really improving our operating leverage and getting returns out of the portfolio we have and we will make our strategic bet looking at where India will be five years from today.

Now, coming to the third plan. We launched now.com today, we are very excited about this launch, I think what we are trying to do with now.com is to bring in a completely new way of people to experience passion. So now.com is not a (dot).com. now.com is an omni-channel platform. Now what does that mean? Omni-channel is about linking the online and offline and connecting inventory across touch point so that we can deliver completely seamless journey. So what would it be? It would mean that someone sitting somewhere in an office could on his smartphone purchase a product and a store in his neighborhood would immediately get that order and would be able to deliver it to that consumer in as less as four hour. Now, this is what happens when you connect the online and offline world. Similarly, if you enter a store and do not find what you want the omni-channel platform will allow you to get that product delivered to you at home or at another store whichever is convenient to you. So omni-channel will open up a whole set of new kind of experiences for the consumers. Some of which are seeing like express delivery, convenient return, endless aisles, similarly on the online experience, it will again be very unique because for the first time people will not be buying products from just 10% of the offering available on the (dot).com you will see every single piece of inventory line in any part of the country which will mean that if there are 1,200 new product launch by Arrow, each 1,200 products will be available on arrow.now.com. So finally you have a brand store online rather than just a reseller selling shop. You will have beautiful content which will come directly from the brand, you will have new exclusive collections and global brands which you will be able to access. So whether it is an online experience wherein you will get an

authentic brand experience or an offline experience wherein we will bring in the new digital store. These will be all new experiences for the consumers. So what makes omni unique? Is that it is a part of our core brands and retail offerings. In the future brands will not just be built offline, they will be build online and offline.

So now, is now the platform for our brands and retail business to directly reach out to the consumer and do so without worrying about brand destruction through an excessively discount driven promotion driven environment. Secondly, omni-channel can completely transform the offline business. If we look at a country like India we lose anywhere between 8% to 15% of our sale because of products. In an omni-channel world there should be no stock out because whatever is not in the store we will buy online or in the kiosk in the store and it will be delivered from another store so, as we get as stock out go away and endless aisles happen which is each store being able to sell globe inventory, we see the future of our stores being digital experiences along with physical experiences and it can completely transform the returns that we see even at a store level. So omni-channel is different because a) it is offering new experiences to the consumer such as four hour delivery, easy returns, endless styles. Secondly, it in a way uses existing asset very different and of course. Thirdly, margin model is in itself different it does not behave like an e-commerce company. Your customer acquisition is different because you are not only acquiring customers online we are also acquiring a lot of offline customers. Customer acquisition is a large part of the business model of any digital business model. Secondly, your entire logistics and return cost are very different. Thirdly, you are not reseller, you are a brand originator for so your end to end margin looks very different. So this is not a (.dot).com this is an omni-channel platform we feel it will create a lot of differentiation in our existing brands business incorporate as creating a further strong economic mode around the business model which we already have and when executed well at scale globally it has shown that omni-channel platform can quickly gain 8% to 10% of overall revenues of a branded business caste studies in the west. Whether it is department stores like a Macy's or a John Lewis or even specialty retail like next or gap, this model has proven itself world over. Arvind is quite unique. We have 35 brands, 1,200 stores, each store is a warehouse, 200 cities, so there is not a network or a platform like us in India. What makes us unique also is we have built this entire product in house which means it can be fully customized, we intend to not only limit it to our own brands, we intend to offer it to like-minded brands which would also want to access an omni-channel play but cannot invest in it. So we are excited about the roadmap ahead. Obviously in the short-term we will have to establish the model, we will have to stabilize it but we are aiming for the long-term this is not how the investing in e-commerce mania to get a GMV this is about creating a sustainable business model which is integrated with our brands and retail business and we hope can create great value in times to come. So this is the third plank of our three planks. And with these three planks, we see our future, growth of 22% to 25% in top-line a 30% to 35% and bottom-line and RoCE is moving towards the 20% number which I mentioned. And we hope to March towards the \$1 billion March in 2020.

Let me take step back and we look at the overall Arvind story, we are talking about a strong overall top-line growth of 15% obviously that is Powered by a strong growth in brand and retail of 25% to 30% as well as the vertical play stepping up and growing as well. We see a strong EBIT on the profitability front mainly coming from the change in profitability of the B2C business as they mature. Obviously, we see a change in the business mix as brands and retail will move much more towards the 40% to 50% of the portfolio rather than the 30% mark that it is today as both offline and online grow over the next five year and we see focus on investing in assets lite models which will help us move towards 18%-20% return on capital employed.

So with that, I end the presentation. Thank you.

Jayesh Shah:

So we will take the questions now.

Moderator:

Thank you very much, sir. Ladies and gentleman, we will now begin with the question and answer session. The first question is from Niket Shah from Motilal Oswal Securities. Please proceed.

Niket Shah:

I had few questions, first, for Jayesh Bhai. Jayesh Bhai if I have to look at the consolidated balance sheet for the year end the debtors has actually gone up from Rs. 1,165 crores to Rs. 1,420 crores but the standalone balance sheet shows a decline in receivable so is the significant amount of increase receivables large attributes to brand and retail part of the business?

Jayesh Shah:

Yes, that is true. So you go ahead with the questions and I will give you the answer.

Niket Shah:

Yeah, if I have to also look at the other point which has been mentioned in your PPT which says that your like to like growth is only 2.7% but for the brands part of the business there is a top-line growth is 44% I am just speaking of the quarter-to-quarter. So just also wanted to understand where is this additional growth of close to 40% coming from which is excluding the like to like growth of 2.7%?

Jayesh Shah:

Yeah, okay so, let me I will take the first and Suresh can answer the second question. As you rightly said...

J. Suresh:

Suresh here, the voice is breaking we are not able to hear the questions properly.

Jayesh Shah:

Suresh, there were two questions one is about the debtors the account receivable our brand and retail and second is varies the growth...

J. Suresh:

Even your voice is breaking Jayesh Bhai, even your voice is breaking, we are not able to hear the question.

Jayesh Shah:

So is it okay that I go ahead and answer the question?

Niket Shah: Yeah.

Jayesh Shah: I will go ahead and answer the questions anyways. Niket the retail I mean the growth has come from both the segments which is our branded segment as well as the specialty retail as you now a lot of stores got opened for specialty retail in the almost like the second-half and most of them in December January we opened several stores of gap in February and March. So a lot of growth has come from retail and as well as branded or let us say wholesale branded business. Now as far as debtors are concerned, I mean the large amount of increase in debtors is on account of the growth that we have thought in quarter four. So if you look at quarter four, since the growth rate has been so high obviously the sales have happened and the collections are yet to follow, it is that 30% top-line growth would lead to similar percentage increasing the account receivables for that period.

Niket Shah: Sure. And which channel would have seen significant amount of growth?

Jayesh Shah: It is across so franchise stores which are EBO like the key account the growth has been 19% in quarter four, EBOs have grown at very healthy 30%-35% so across MBOs have grown so across the board the growth has been there.

Niket Shah: Sure. And the other question was on the brand again on the brand and retail part of the business where we have seen margin expansion of 130 basis points, how much of that would you attribute to lower cotton price this year?

Jayesh Shah: Zero, because this is brand and retail margin and not the fabrics, yeah. So you know I think it is if you divide this into two parts and see what happened in first nine months where there has been the margins have not been so good for two reasons, one reason being that the growth rates for brand and retail was relatively lower number one. Number two, we were launching new formats which were specialty retail formats so as we came out of that and when we clock the turnover in quarter four where 390 bps I mean the impact came of the margin which kind of gave an overall margin of 130 basis points so, it is all about getting out of the investment more as well as getting into, getting a very high operating leverage of the top-line that we recorded in quarter four.

Niket Shah: Okay. I asked about the first question on the debt part of it so is it the debt has reduced substantially? Is it primarily to do with lower CAPEX this year as well as on the lower inventory side that we have seen on the balance sheet because inventory is virtually flat on a Y-o-Y basis?

Jayesh Shah: No, actually the debt has come down from quarter three to quarter four which is what I had mentioned when I spoke to you at the end of Quarter 3 Earnings Call that we actually completed most part of our CAPEXes in the first nine months of the year and that so obviously, the cash flows in quarter four was robust number one. Number two, there has been obviously the quarter four the P&L itself has been much better so from that point of view and we have not been stocking a lot of cotton which will generally end of March there is a lot of

cotton inventory which comes in which we have not bought. So the combination of these factors has allowed us to reduce debt in quarter four compare to quarter three.

- Niket Shah:** And what would be our guidance for debt and CAPEX next year?
- Jayesh Shah:** We are looking at a similar kind of Rs. 500 odd crores of CAPEX we in fact completed the whole CAPEX plan of the last year and we would be investing a lot of money would get invested in brand and retail business as well as in setting up garment factories this year.
- Niket Shah:** Sure. And one final question to Kulin Bhai, if you can just highlight what will be the cost structure for now.com as you rightly said, this is a great opportunity and you would love to invest in the initial years so, will there be some kind of one-time marketing spend which will happen may be in FY'17 of FY'18 if you can just give some light on that? Thanks.
- Kulin Lalbhai:** Sure. So with now.com obviously, we are not going to investing in some of the areas that one would invest if you are typical (dot).com so there is no investments being made in heavy asset creation on say delivery of whole infrastructure, now is there a very high investment, obviously we are not going to be a discount driven model so, promotions is not what we are going to be investing in. But we will be investing in obviously talent and brand building. I think this particular first year is where we are going to invest in building the brand out. We are looking at around a \$10 million investment behind the initiatives in this fiscal year.
- Moderator:** Thank you very much. The next question is from the line of Nihal Jha from Edelweiss. Please proceed.
- Nihal Jha:** Mainly on the brand and retail segment what is the kind of store expansion that we are looking at in FY'17 and any new brands that we have planned? If I read right we have already tied up with the Banana Republic in the last quarter, right?
- Jayesh Shah:** Suresh the question is about the store expansion plan in FY'17 and the second question is whether you are planning to launch any new brands in coming year?
- J. Suresh:** Yeah, we are looking at around 200 stores across all the brands put together which is a similar number as what we have opened in the last year and we are looking at consolidating already the formats which we already have because we had four launches last year and we will be opening stores more of those formats and our existing brands and at this stage we are not looking at adding any brands during the year.
- Nihal Jha:** Sure. Am I am audible? We are a Banana Republic in this quarter, right?
- Jayesh Shah:** No, we have not added Banana Republic actually...

- J. Suresh:** We have a relationship with GAP so they thought of you know I mean we have an option to introduce any of the other brands at this stage I mean we are not I mean while we will both Banana Republic can only be at this stage we are not looking at launching them.
- Nihal Jha:** Sure. And just one last question for Kulin Bhai, I wanted to understand how does the online sales for a new specialty retail because if I understand Aéropostale tide up with Amazon, right. And I see that Aéropostale is also a part of now.com so, how does that arrangement work for us?
- Jayesh Shah:** Yes. The question Kulin is that Aéropostale is now available on Amazon.com?
- Kulin Lalbhai:** Got it. Yeah, so think of it as an analogy in the offline world, standalone Arrow gives you the best Arrow experience but it is also available in other department stores. So as now kind of mature it will become the home of every single brand we have. So arrow.now.com takes you to a micro site of Arrow where you can check on the website, it gives you a very-very rich experience of Arrow - the brand. Similarly, you will see that for an aéropostale.now.com but we will remain to trade on third-party portal you know for of course gaining visibility and volume but the strategy will be different whereon now.com you will get 100% of the range which is unique. You will get a lot of exclusives which are unique. And you will get the best availability because in online what tends to happen what good sells out very fast but in omni-channel the entire global inventory is listed. So the availability of your favorite product again will be very unique. And fourthly, obviously, content, we will have access to a lot of great content of each of our brand on only now.com. So overtime there will be two experiences obviously someone looking for a shirt on a very large horizontal our shirt should be available. But if you really want the best Arrow or Aéropostale experience it will only be one site and that is now.com.
- Nihal Jha:** Absolutely so, it will be like an EBO in the world now.com.
- Jayesh Shah:** Yes.
- Nihal Jha:** Yeah.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please proceed.
- Kashyap Pujara:** Just a couple of questions there. One would be what in the last year if I were to get a number what would be the funding that would have gone from the textile space to the brand and retail space? And you know what is your sense that internally as to by when do you expect that funding from to brand and retail to basically you know not be there going ahead?
- Kulin Lalbhai:** Jayesh Bhai, can you restate the question? We could not hear it at all?

Jayesh Shah: Okay. So Kashyap, last year the amount that got invested in brand and retail is Rs. 225 crores and over next couple of years this amount is going significantly reduce as the brands business or Arvind Lifestyle Brands continues to consolidate and the margins improve there. So we believe that over next couple of years the requirement of funds from the textile into brand and retail will keep reducing it could be two, it could be three, by which it could become on its own.

Kashyap Pujara: So basically in the next two years to three years we will not require any funding and essentially the brand and retail business can have their future growth driven by their own accruals rather than funding from the textile space.

Jayesh Shah: That is what the current plans the way we have drawn looks like, yes.

Kashyap Pujara: Sure, incrementally you know could you also give us some over view of what is happening to the technical textile business how much has been the invested amount, what are the future investment plans? And what could be the scale up there over the next few years both in terms of revenue profitability and which are the products that you seem to be most optimistic on?

Jayesh Shah: Across the product group that we have selected we are quite I would say bullish about or buoyant about. As far as the total investment in advance materials division or a technical textile business is concerned, it has been about Rs. 200 crores including working capital that we have invested in that business. The business just now in a profitable mode and we will continue to grow at a rate of 40% to 50% over next two years to three years.

Kashyap Pujara: Okay. And this would also basically meet your return on capital criteria of 20% over time.

Jayesh Shah: That is correct.

Kashyap Pujara: Okay. Just to understand what according to you would be the key risks, while we have very good position on the textile front, with differentiated product offering and with virtualization setting in so profits are going to be stable and you know moving upwards and we are going to see a quantum jump in the brand and retail piece with obviously brand and retail eventually funding its own existence and growth and meeting the return on capital criteria. So which is great news but in the overall scheme of things I mean when as management where do you see key risks that you would be watchful of?

Jayesh Shah: So, this is a very good actually. The couple of things that we need to watch out so, for example, one of the things that you know the risk to the textile business could be the way several countries are signing up free trade agreement amongst each other. So now that could be kind of risk that we run that India may be lost out and despite the fact that it is a very competitive place to manufacture, you may not necessarily have the similar competitiveness as far as price is concerned because someone else is not paying the duty. So that is one risk area that is there of course we have kind of taken a call and decided to invest in Ethiopia which is free trade country. In that sense, it has free trade agreements with entire world so that is the but

that is the one risk that one has to be watch off. The second of course is that our brand and retail story and we have no doubts about it succeeding, but last couple of years have not been so great as far as consumption is concurred and if the discretionary conjunction is to remain under pressure it would take longer for us and that would mean that would get reflected in like-to-like growth that would mean you will grow with distribution expansion but necessarily not get the full operating leverage advantage. So these are the two things that one should careful about or concerned about.

Kashyap Pujara: Sure, I think this has been very helpful. Just the total branded top-line is around Rs. 2,700 crores the brand and retail top-line so, the Power brands are around Rs. 1,600 and the new brands are around Rs. 400. So specialty retail what would that number be?

Jayesh Shah: So last year, so I think the total let me just clarify, out of Rs. 1,600 crores some part of revenue which belongs to the joint venture partner should be excluded when you want to total it up in Rs. 2,700 crores because our brands, chart shows the full revenue. So when you look at let us take Rs. 1,400 odd crores of top-line and the growth brand number you have seen so in specialty retail total will be between about Rs. 600 crores to Rs. 650 crores which includes unlimited and the four new formats that we have launched.

Kashyap Pujara: Okay. But on a boarder basis mainly it would be unlimited there. So if I were to just, I was just looking at the numbers if I exclude the specialty retail we are already close to 10% EBITDA margin in this business including the Power brands.

Jayesh Shah: That is correct.

Kashyap Pujara: Correct. And specialty retail in terms of the overall expectations of profitability and scale up I mean what is it that you know you are lying out, while I understand that you have given a guidance of \$1 billion with a continuous growth and margin expansion but what could be the scale up in margins in the specialty retail side. And do you see that you know the risks that we have actually faced in the unlimited are they behind us and will we be able to grow on that format from here on?

J. Suresh: No, in terms of the EBITDA margin we are looking at the specialty retail each around 10% in the fourth year of operation.

Jayesh Shah: Suresh, there were two questions - three questions, one was specialty retail, yeah, okay.

Kashyap Pujara: And second was value format which has been reposition with the restructuring behind us. What could be the expectations of profitability from that operation going forward?

Jayesh Shah: Suresh, let me answer the question. So Kashyap, when Suresh is talking about specialty retail we are looking at its being a combination of all retail format of ours including unlimited. So it is when he talks about 10% he is talking about an average of 10% across all the formats of retail.

- Kashyap Pujara:** Okay. Across both the formats of retail, okay. One last question is in the textile segment certain break-ups if you could share. So one is if you could share us the total volume for garments in terms of million pieces? And second would be, if you could just give may be the denim and woven's EBITDA percentage or EBITDA break-up if you can just give that you know what has been the denim EBITDA versus woven EBITDA?
- Jayesh Shah:** We generally do not give fabric wise division but it is around similar percentage so, about 19%-20% is what they clock. As far as garment volumes are concerned it is 21 million pieces last year.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please proceed.
- Maulik Patel:** Jayesh Bhai, a couple of question, one is on the textile side. We are looking at around 8% to 9% revenue growth next year so can you contribute how much will come from the garment expansion because we have that expansion going in Ethiopia how much it can contribute? And is it going to be backward growth and the growth will more in H2 than the H1?
- Jayesh Shah:** That is correct because the plants are coming up but on the whole about 24% to 25% you could expect a top-line growth in garments and about 4% to 5% in fabrics.
- Maulik Patel:** 4% to 5% in fabric. Jayesh Bhai, I am looking at your segment analysis and particularly the other segment, the revenue growth is significantly higher in Q4, the other segment which you report on a consolidated basis has reported the revenue of close to around Rs. 220 crores compared to Rs. 130 crores last year.
- Jayesh Shah:** That is correct. So that component that other segment includes other than textile and brand and retail so we have technical textile which is a large part of other where the revenue growth was very high and our engineering business which is a part of that is also the growth has been very-very high.
- Maulik Patel:** Okay. So the technical textile is not for textile segment revenue, it come in other category?
- Jayesh Shah:** No, it is not.
- Maulik Patel:** And what could be that number for full year basis?
- Jayesh Shah:** We are not segregating all of those but the overall it has grown at a cliff of about 40% last year, it is expected to become Rs. 500 crores in next two years.
- Maulik Patel:** Okay. Jayesh Bhai, can I get growth rate what kind of growth rate we have achieved in two of our JV CK and Tommy? Is it similar to our Power brand growth or is it below than that number or higher than that number?

- Jayesh Shah:** Unfortunately Maulik, we will have to talk about as a portfolio and not individual brands.
- Maulik Patel:** Okay, I understand. But the growth has been healthy in both the JV, right?
- Jayesh Shah:** Of course.
- Maulik Patel:** Jayesh Bhai, one of the question is that on the brand side of the business as we discussed in the past that the specialty retail which we have launched this year there will be significantly higher inventory turns compare to our existing brand portfolio?
- Jayesh Shah:** Yeah, that is true, yeah.
- Maulik Patel:** And that and basically how we are planning to take us that because in couple of other specialty retails like Zara they have inventory changing every one month or two months how fast like aiming to change our inventory in this new format and what could be the upturns we are looking at?
- J. Suresh:** See in terms of the way it is separate, we typically have almost seven **drawers 1.4.4** in a year which is similar to Zara, probably Zara will have one more additional drawers, they may have eight **drawers** to nine **drawers** most of the specialty retail we have seven **drawers** of course Sephora is more on a replenishment basis so as you rightly said the inventory turns on specialty retail is much higher than the brands business depending on the brand, for example, Aéropostale you are having a turn of almost six, so it is anything between 4.5 turns to 6 turns.
- Maulik Patel:** Also I think on the important criteria for improving any brands margin is the local sourcing and in this financial year as you inform me in the past that government has increased the CVD on imported garments for more than Rs. 1,000 of MRP. How are we accelerating this plant to local sourcing for most of our brands and by what is there any time line attached to that?
- J. Suresh:** Currently, many of our brands are locally produced, if you take any of our Power brands they are locally produced, U.S. Polo and the Arrow and all that so 70% today is locally produced. We have 30% specialty brands like GAP, Calvin Klein, Aéropostale and Children's Place which is what we import. As far when we are going to accelerate, we have actually initiated discussion with all four to localize production. Aéropostale is moving very fast probably in a year's time it will be 70% local production. Calvin Klein also is moving very fast by spring 2017 I think at least 50% to 60% will become local production. As far as GAP and The Children's Place are concerned I think step number one is they already produce as part of their global supply chain at least 15% to 20% in India. So we are now trying to get that delivered in India because today, it actually goes to their warehouse in Hong Kong and comes back. So that is step number one to get what is being produced in India directly into India. And step number two is to produce some high volume lines for example in the case of PCP we are looking at producing graphic t-shirts. So there has been a very-very active work which has happened in this area over the last two months post introduction of CVD.

- Maulik Patel:** Is there a correct assumption that once we completely move on with local sourcing over the next two years let us say by FY'18 and our margin in the respective brands could be seen in a (+5%) plus kind of jump?
- J. Suresh:** See I would say that you know we will not be able to completely get into local production there is something we still may have to import. We are looking at anything between 3% to 4% improvement in margin over the period of next two years in specialty retail or wherever we are going to indigenize production.
- Moderator:** Thank you very much. The next question is from the line of Chirag Shah from CLSA. Please proceed.
- Chirag Shah:** Jayesh Bhai, quick one on Megamart, now as you said the Megamart restructuring is now complete, just to understand a little bit more so how many stores are we left with now and from what we are left with are these stores expected to be profitable going forward?
- J. Suresh:** Chirag, see we are now left with 90 stores, so out that 90 stores we have converted 37 of them into Unlimited. We will not be able to convert the rest of them into Unlimited because it does not fit in with the kind of format we are planning for Unlimited but every single store which is now currently running as Megamart are profitable. So all the unviable non-profitable stores have already been closed, so whatever is going to be left behind is only we are only running them for profits and also we are building Unlimited as we go forward.
- Chirag Shah:** Sure. And the Megamart stores that would continue to operate, they will operate on the same format that they use to operate earlier?
- J. Suresh:** See we have increased the private brand mix. It is not so much selling the discount rate merchandize of the stock so that is the reason they have now become very profitable. They are almost I would say the smaller Megamart's are almost 85% private brands and only 15% outside brands. So they are very profitable but we still have five large format Megamart which continue to operate on the old principle of discount of larger brands.
- Chirag Shah:** Sure, understand. And with this change that you are doing in favor of private brands at Megamart what is the customer response that we are seeing right now?
- J. Suresh:** The initial response has been pretty good because some of the indicators are turning positive particularly we wanted to increase the mix of women and kid's I think that is showing a very good sign which is good indicator that we are getting some new set of consumers but I would still say that you know may be another six months we should be able to say with greater certainty that yeah, the model is working well and we can now expand rapidly with the new model.
- Chirag Shah:** Okay. And just another question on Denim volumes to Jayesh Bhai. Jayesh Bhai, we have also seen the drop in denim volumes largely because of supply-led issues that are own units now

with this debottlenecking at the plant over, do we see a bounce back in the denim volumes going ahead or is the demand still soft?

Jayesh Shah: Yes, this year and starting with quarter one.

Chirag Shah: Sure. So what kind of utilization levels can we look at on the denim side sir?

Jayesh Shah: So you know the utilization in denim has been close to 100% for now several years including last year where we readjusted or recalibrated the capacity so from that point of view we think the volume denim will continue to operate at as close to 100% as possible.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please proceed.

Nikhil Garg: One just small question on now.com so, you mentioned that it will help us in fulfilling inventory where we see the stock out which is 8% to 10% of sales. So who will bear the delivery cost basically for example, if there is a store in Bombay which has the stock out and the inventory say in Jaipur somewhere. So how much would it cost and who will bear this delivery cost?

Kulin Lalbhai: This is a normal delivery and we will be bearing the cost. But one has to keep in mind that this is completely incremental sale so that logistics cost as a percentage of that incremental margin that the company gets is small if it is the same day delivery obviously there will be a premium charged to the consumer which we would be recovering.

Nikhil Garg: But if it is like something from say Jaipur or some store in India to say Bombay or some other small town in India how much would be that cost?

Kulin Lalbhai: Typical cost in the e-comm industry for a regular three days to five days' delivery are around Rs. 100.

Nikhil Garg: Rs. 100 okay, which is small 3% to 4% of the average garment?

Kulin Lalbhai: Yeah, it is quite small.

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

Tejas Shah: My first question is for Mr. Kulin Lalbhai. Sir, as you rightly mentioned in your presentation that we have set of hands which are we huge potential and they have proven track record in western world of as I recall number correctly it is \$20 million. So when we are chasing that kind of opportunity with the brands in India and as you rightly said that from the backdrop India's appetite also increasing so we have everything falling in place for our set of brands. Do

you think that adding brands like TrueBlue or there was rumor a couple of days back like Free Culture these are unnecessary distraction from the kind of opportunity we are chasing?

Kulin Lalbhai:

That is a good question, I think some of brands are what falls in the third bucket of what we are exploring which is what makes sense from say new digital world. I think the emergence of the next five years to ten years of the digital native which is a person who is born with a smartphone as they grow up is going to happen and they are going to consuming brand so there is this world in the future where there could be fast passion, online-oriented or celebrity-oriented trends which are very strong. So when we look at now.com, Now got a whole new way to be able to build brands in a very asset like low investment mode and the example that you gave of the TrueBlue is that you have a very strong celebrity-backed brand with its very bold idea and that idea will be a apparent when it launches on the 28. It is not just a me-too product. But when you launch that in a digital omni-channel world where you have strategic control and the amount of investment you are putting in terms of assets is small. These are things that are in our opinion going to really help us get the next generation of digital native so there is a whole thought process behind whatever we do it is not kind of ad-hoc opportunity which is just taken up and as far as this opportunity is kind of not competing in a way of bandwidth and talent with say a specialty retail business you can think of it as two different models which are not competing and as far as resources are concerned I do not think they are distraction because as we said this would fall in their niche bucket where asset intensity is low.

Tejas Shah:

So I completely agree on the value proposition of such brands but the point is that now if we see the brands portfolio there is a long tail of brands which we are servicing and at the other hand we have huge opportunity in the portfolio which is GAP, CK and all the other that you mentioned. So at some point do you think that servicing this long tail of brands will actually in distant future if not the near perhaps keep all this brand starving from the bandwidth or capital which requires to reach to those respective stages?

Kulin Lalbhai:

See on capital there is more opportunity going to be **tapped 1.16.16** in the business, we are in a lucky position where we have the ability to best in the big bets we are not going to starve them of any opportunity either I said talent wise also we are not going to distract the talent from a very important opportunity, we are not as many of you know structured almost like an FMCG business would be wherein there are clear brand team which are in charge of the large opportunities and they are not going to be distracted doing anything else so we are almost many-many brand groups with a metric structure so, I think we are very proud of the kind of management bench strength we have in our core business there is going to be no distraction on that front. And as far as the long tail which is unproductive I think there is no question of it remaining long tail I mean there could be some initiative if they do not shape up they would be removed right we have an example wherein **(Inaudible) 1.17.17** which was removed. So there would be always in a dynamic portfolio you would try and invest in a calculated way for the future but if things do not pan out you would move out that like any portfolio or approach but no question of being distracted from the core. The people who are going to be building specialty initiatives are only going to be doing that and nothing else.

- Tejas Shah:** It is interesting you said, we are passionate about most of the endeavor that we are taking so, in that context would you think that if Unlimited and Megamart if it is not proven because it is now of 25 years and unfortunately FY'11 and FY'12 and we are just turning it around then the excise duty shock came. So do you think that even Unlimited and Megamart would also put on that strict test that if they do not deliver in certain timeline and it would be great if you can help us what is the timeline, you will take that call on that business as well?
- Kulin Lalbhai:** Yeah, that is again a very relevant question, I think we are very dispassionate about looking at where our capital is employed, I think to the extent fiscal saying that for every model specially the question that you have we have got a complete third party approach with the best minds we have applied themselves to look at value retailing as a space. We are convinced that it is one of the most exciting space in China there are billion dollar retailers that have popped up in the value retaining space with CVD having coming I think global brands are never going to hit the value space for a long-term to come. I think the new model which we have as even Suresh mentioned has shown initial positive signs and as he also mentioned I think it is the next two years where we will be observing the movement and only when we are convinced will be investing it and we will take a dispassionate view on it.
- Tejas Shah:** Thanks and last question for Jayesh Bhai, what will be the guidance for debt for this year at the end of the year what we are targeting and CAPEX I just missed out on that number as well.
- Jayesh Shah:** Are you saying what is the guidance for the future? I did not give it so, are you asking me about next year or the past year?
- Tejas Shah:** Sir, FY'17 what are we targeting debt level to because you gave us guidance last year on debt.
- Jayesh Shah:** Yes, so we are looking at about 5% to 7% increase in the debt.
- Tejas Shah:** This has taken you to consideration 5 billion NCD debt that we are showing?
- Jayesh Shah:** Yes, we in some sense may be raising significantly larger amount and replacing existing debt but overall we are talking about 5% to 7%.
- Tejas Shah:** Okay. And Jayesh Bhai CAPEX guidance?
- Jayesh Shah:** About Rs. 500 crores.
- Tejas Shah:** All businesses put together?
- Jayesh Shah:** Yes.
- Moderator:** The next question is from the line of Sanjay Parekh from Reliance Mutual Fund. Please proceed.

Sanjay Parekh: Just one how would you see the working capital intensity in both your businesses the textile and brand detail as you grow so because you have given a fair idea of CAPEX, we just want to understand that the debt levels from here where do we see that in the next 12 months and 24 months?

Jayesh Shah: So as I said that debt level we see it about while we are talking about overall growth of 15%-17% of the top-line we are talking about 5% - 7% increase in the debt so obviously we are looking at for every revenue dollar we earn or rupee we earn on sales we are looking at not more than say one-third of it as an incremental debt. So I think that trend should continue and if you look at last three years you would have found that for every revenue that we have earned I think the incremental debt that we have added is lower and lower and I think that trend should continue. As far as working capital is concerned, I think in textile the working capital cycle can marginally improve but it cannot significantly change from where it is today because you know we have quite an efficient working capital system working and the growth rates are quite modest so, it does not require too much of working capital to grow. As far as brand is concerned as we discussed in some other conversations the brand comes to a level of around 15%-20% growth for the kind of working capital cycle it attains are significantly different than what they would attend at the inception or the starting of the brand so, specialty retail today for example would have an inventory turn because you have a new store filling in taking place, you have number of stores being less and the new stores are coming every now and then so you are even stocking for upcoming stores as well. So all of that would kind of give a very weird kind of working capital cycle. So if you see for example, March end working capital cycle where we have grown significantly in brand and retail you will find that our receivables are high and so is inventory but that is more related to the immediate past growth and the immediate future growth. Overall we believe that every year we should see 5% to 10% improvement in the cycle or the turns of working capital for brand and retail business.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Shah, for closing comments. Over to you.

Jayesh Shah: So thank you very much for coming over and attending this. I look forward to talking to you again at end of quarter one. Bye-bye.

J. Suresh: Thank you. Bye-bye.

Kulin Lalbhai: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Arvind Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.