



“Arvind Limited Conference Call for Analysts and Investors for Post-Results Discussion for Quarter 1 Financial Year 2016 -17”

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Moderator: Ladies and gentlemen, good day and welcome to the Arvind Limited Conference Call for Analyst and Investors for post results discussion for Q1 FY 2016-2017. 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, please signal an operator by pressing '*' and 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: Thanks, good afternoon all of you and welcome to the Q1 Earnings Call. I have with me J. Suresh – Managing Director of our Arvind Lifestyle Brands.

Let me begin the discussions by, first discussing about the changes that are there because of IndAS, the new accounting standards. First is that there are a few changes in the business segments. We have now 4 segments, instead of 3. We have textile segment, we have branded apparel segment; we have added a new segment called Arvind Internet and the rest, the smaller parts of our overall business are all combined in others as a segment. The key changes is, first is the 4 segments. Within that the changes are that, as I said Arvind internet is a different segment and fabric retailing which used to be part of our branded apparel segment is now put in textile segment. This is all as per the requirement, of the new IndAS accounting standards. The other is that the changes which are there in revenue recognition, in earning reporting and asset and liability classification. So first the joint ventures where we do not have majority control. The asset, the revenue, the EBITDA and the PBT of this joint ventures which was either to being consolidated line-by-line will now no longer be added only we will take the share of the profit of that joint venture in our line item and add to the profit after tax figure.

So in branded apparel segment there were 2 companies Tommy Hilfiger, Arvind Tommy Hilfiger and Premium Garments. Doing business of Tommy Hilfiger and Calvin Klein where we do not have 51 % ownership. These 2 businesses now will not report the revenues of those in our consolidated statement. In order to avoid any confusion, we have decided to exclude Tommy Hilfiger from the list of Power brands, as you know we give separate combined figures for 4 Power brands, we would now be giving figures for the 3 brands, the brands being Arrow, US Polo and Flying Machine. The second change is derecognizing the unsold inventory which was sold on a sale or return basis to some of our dealers. Now the new accounting norms requires to record sales when in substances the sale happens which is when this dealer sale to the customer. So as a result the sale we get derecognized. Just to give you now numbers.

In Q1, the number for the joint ventures the 4 joint ventures that we have where we will not be consolidating numbers. Last year in 2015-2016 the revenue of this in 4 Q1 was 55 crores and in this quarter the revenue which we will not be reporting or adding to our turn over is 75 crores. As far as SOR sales are concern in Q1 of the last year the sales which we have reversed is 25 crores and this quarter would have been a similar number. So in fact we are reducing the revenue by about 100 crores of Q1 which because of the changes that are happening under Ind-AS.

Let me now briefly describe to you the Q1 performances as possibly you might have seen because the numbers are already out and they have been uploaded on our website as well. The Q1 performance was really very strong, it in fact surpassed our internal budget we got a 14 % revenue growth in textiles and 26 % revenue growth in our branded apparel segment which led to overall 18 % top-line growth. The revenue growth that came in textile was on account of 28 % increase in the revenue of garment division and 15% increase in revenue of our woven division. Now as you would possibly see that woven division is almost touched 100% utilization in this quarter. As I had mentioned in my earlier call that we had a little bit of room to sell more and that has happened in this quarter. The revenue of garment division is showing a sharp increase because of the base effect. In Q1 last year, we did not have, we are not commenced commercial production of two of our factories which we had set up which got started commissioned sometime during the middle of the last year, so obviously the revenue was not there in Q1. So you see a sharp improvement in the revenue and volume increase was 20 % and the value increase was 28 %. Important thing is that unlimited which we had closed lot of stores in the second half of last year. As a result, it showed a (-7%) reduction in the sales. On the other hand, the Power brand showed a strong 27% top-line growth. You would have possibly noticed that in a very difficult market our brand and retail had a very good like-to-like growth. Overall 7.6 % like-to-like growth, the 4.3% in branded segment and whooping 16 % in our unlimited format. Now the unlimited format of course had a base effect because in the last year we were in the process of shutting down and closing some of the unviable stores. This quarter the EBITDA margin as the revenue increased showed an improvement in both the segments, in textile it grew by 1.6 % to close to 18% and in brand and retail it grew by 0.5% close to 2%. As you know the Q1 generally is the weakest quarter of our branded apparel segment. So the margin improvement which we have focused for the year, you would not see that in Q1. In line with the improvement in EBITDA in absolute sense the PAT grew by 27% to 73 crores. Our debt to EBITDA ratio fell to 3.5 and our ROCE and ROA improved to 11.9% and 10.5 % respectively. In long term rating also of the company recently was improved from A+ to AA-.

So let me now turn to the yearly forecast or the guidance for the year. As we have said in the past we believe that we should be able to clock around 15 % top line growth and improve our brand and retail segment margin by 0.75% to 1% during the year and we believe that this should happen. Though there is one kind of an uncertainty which is there, which is in relation to cotton prices as you possibly know the cotton prices are shot up in recent past. Thanks to a lot of speculation which has begun in about last 3 months. This is not supported by fundamentals of demand and supply. However, the prices have indeed gone up and the company has enough inventories to carry on for the quarter, this quarter, Q2. But in Q3, depending upon the price volatility you may see margin expansion or you may see margin contraction for a short period of time in Denim, particularly in Denim.

Let me also give you a little bit of guidance for Q2; we expect 13% to 14 % top-line growth. The sharp increase in the top-line in textile of 14 % in Q1 will moderate because as I said there was a base effect of lower volumes in Q1 last year it will moderate to 6%–7%. Brand and Retail you will see a similar growth percentage as like Q1. On margin we should be able to maintain our textile margin; however, on branded retail we will not see any significant change on margin because this is

a quarter in which the excise and custom paid inventory which we have bought before the announcement of the budget would come in without any change in the MRP because it would be same MRP with higher input cost. This would start getting corrected as the year progress and Q3 you will see an improvement and we continue to believe that we will be able to improve our margin by 0.75% to 1% for branded apparel segment in the current year. Also you will see heightened activity in market development of Arvind Internet in Q2, the benefit of which will come over a period of time. Finally, the debt numbers for the quarter one when we ended it was lower by 30 crores and we have very recently, in last week, sold some shares that we had, which were nonstrategic in nature and we have reduced our debt by 250 crores. So this year you may see not an increase but reasonable reduction in the debt of the company, absolute size of the debt of the company and we are also continuing to aggressively pursue reduction in debt further by selling some of the noncore assets. So with this I will finish my initial comments and will be very happy to take any questions that you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. Our first question is from the line of Chirag Shah of CLSA. Please go ahead.

Chirag Shah: Thank you. Particularly the unlimited LTL numbers look very encouraging. If it is possible Suresh bhai can you just elaborate on how do you see the unlimited performance going forward, please?

J Suresh: We made all the changes last September and we had given it a year to see how things are now shaping up. We see some very positive signs not only on LTL numbers but every single parameter which we wanted to, which we looked at in terms of improving performance, in terms of gross margin, in terms of inventory help, in terms of full price sell through and in terms of changing the store from being a men's oriented store into a family store. So we have seen a good improvement in every single parameter which we have been watching. So we will see how things shape up probably during Diwali, I think that will be the big test. Once we see a good Diwali, I think then there is a huge opportunity for us to expand unlimited and get very good growth with good bottom-line.

Chirag Shah: Right and secondly last quarter you mentioned that you are trying to pursue some of the foreign brands to start local sourcing. Is there any progress on that front?

J Suresh: We have made progress with Aeropostale already we have started sourcing locally. We have actually worked with both TCP, GAP and Calvin Klein to indigenize. I think coming spring Calvin Klein will start getting produced in India and as far as GAP and TCP is concerned we definitely look by at least by the first half of next year the production may, not all the production, part of production will start in India.

Chirag Shah: Right, just one last question Jayesh bhai, can you just speak little bit more on the technical textiles front because of course in the annual report also we mention that we are looking at several technological JVs. How do we see the business progressing in the technical textiles for the next couple of years?

Jayesh Shah: In terms of prospects for the business as we have said in the past we believe that this could be one of the key growth drivers for Arvind, for country as a whole as well. The products groups are very closely linked with GDP growth of the country. So be it industrial fabric or be it protective fabric, be it composite whichever field we are in, we are quite happy with what we have done so far. The positive and negative of this business is that it takes reasonably long time to qualify yourself as an approved supplier, the product that you are making very technical in nature and customers do not really want to shift before our 10 cents price difference. They really will want to have a long term supply; credible supply source. So today you have to necessarily approve someone to get in at the same time once you get in you will not hopefully get approve it for a long period of time.

Chirag Shah: Right, our entry barriers are very high.

Jayesh Shah: And so from that point of view it is the time it takes to really take off is a few years, so we are very happy with what you have done. The revenues have grown to close to 400 crores now and the investments and the assets not necessarily capital assets but the people assets as well as the infrastructure that we have create is going to take couple of years to get fully exploited. So to that extend but once it happens once you cross that hump I think the growth will be very fast.

Moderator: Thank you and next question is from the line of Kashyap Pujara for Axis Capital. Please go ahead.

Kashyap Pujara: Could you explain, what is the reason why our capital employed in the branded and retail segment has gone up last quarter?

Jayesh Shah: You will have to give us a quarter to explain or recast this numbers because you know what is happened is that we are changing the asset, we have changed the profit and loss for the quarter on the Ind-AS basis but it is taking time for us to change the balance sheet numbers on Ind-AS basis. So once we reported the number but they may need a minor modification as we go forward but apart from financial numbers that we have reported if I were to talk about qualitatively there are no significant changes from Q4 to Q1 in asset buildup in brand and retail business.

Kashyap Pujara: That is encouraging and second would be you did mention about reduction of debt of 250 crores, an incremental focus on paying down more debt. Could you articulate what is the kind of debt reduction which we are aiming at for the year, this year; next year? How would you like to put that?

Jayesh Shah: I think I should only talk directionally rather than putting numbers because the assets that we want to sell some of them are not as liquid as one would have like them to be, like the listed company shares.

Kashyap Pujara: Sure.

Jayesh Shah: So in case at event base asset reduction and debt reduction program, all I could say, you will see periodically statement from us saying that we have been successful. The pace and the quantum will obviously depend upon the transaction going through. So it will be difficult to put a number but we

are very clear will not let the debt go up. We are very clear that the debt has to come down and we are not only come down in a pure and simple ratio point of view which we have been doing over last several years that we have been bringing down the debt EBITDA ratio, but now we are talking about reducing the absolute size of the debt.

Kashyap Pujara: Okay that is good. Sir, the one question was regarding unlimited I think by the looks of it, the kind of growth we are seeing the 16 % like-to-like it would be very clear that now Megamart would be in the black decisively?

Jayesh Shah: We would like all of us to call it unlimited, Kashyap.

J. Suresh: I think even in the current quarter we have a marginal positive EBITDA which I think is a good sign. Q1 is typically a very difficult quarter for any retail. So going forward we are seeing the same performance metrics continue we see some good times for unlimited.

Jayesh Shah: But I think I want to just, these are early days and I think what we have told you all in my earlier conversations that we have completed the restructuring and now we are into the mode of consolidation, testing our hypothesis, changing the physical stores and also changing the brand image to the extent also making unlimited known to people. Now it is an exercise and we have to just give it some time before either really pushing the paddle to grow it fast also we have to give time before we can start saying that all hypothesis are tested and they are fine. So I think we want to still play cautious for, as Suresh said for next two quarters at least.

Kashyap Pujara: Sure, so just an extension to this, it would imply the businesses which you are basically consuming cash if I were to look at the Power brands they were any which way doing fine and maybe it's throwing up free cash. You had your unlimited which was actually consuming cash which is actually now looking at post restructuring, at least looking like to be on a good ground. Once your local sourcing starts your specialty, retail, looks to be probably changing the metric in terms of profitability and with your growth brand hopefully they pick up then it looks like may be structurally may be in a year or two it looks like we are not going to be requiring any consumption of cash in the brand and retail business?

Jayesh Shah: I want Suresh to say yes, for Kashyap.

J. Suresh: We are looking at being completely self-sufficient by 2018, so may not be this year but hopefully I think next year we should be self-sufficient.

Kashyap Pujara: That is very encouraging and just a last question and I am sorry to take more time. Would you give a metric on what is the garment division EBITDA, because we did grow very robustly there, so what is the absolute EBITDA we would have made there?

Jayesh Shah: Garment has components, still a lot of investments going into it because as have discussed that we are looking at investing in Ethiopia. So there are a lot of pre operatives. So we should kind of keep

that out and look at where we are on garments because the revenue is coming from India operations, profits are coming from India operation partly taken away by the investment pre-operative investment which are happening in India. So if I were to look at pure India operation we are inching towards the 10% mark by end of this year which it was a year and half back before we started investing our money, so now the plans are up and running, they are I would say in the second phase of efficiency gains and we think that by Q3 of this year they will go back to the normal earning model of over 10%.

Moderator: Thank you and next question is from the line of Nihal Jha of Edelweiss. Please go ahead.

Nihal Jha: My question is related to Tommy JV actually, there was a recent news which mentioned that Tommy Hilfiger got single brand FDI retail and they are planning to enter independently. So just want to understand how does that impact our JV sir?

Jayesh Shah: So this approval which has come has comes in our JV.

Nihal Jha: Okay, Sir does it change anything on how we will be operating going further?

Jayesh Shah: Not really, I think as you know Tommy Hilfiger is one of the most successful bridge to luxury brand in the country and with all the store, like-to-like all the stores per square foot sale are among the highest in that category. What it also means that it has very high store profitability. Today those stores so have been franchised because we were not allowed to open store because of the FDI issues. Now that we got the FDI issues we would like to capture that margin into our company so that could be the plan going forward.

Nihal Jha: Sure sir and just looking for a data point. Can you share the LTL growth in Power brands specifically for this quarter?

Jayesh Shah: We did 4%.

Nihal Jha: 4 % on Power brands?

Jayesh Shah: Yes.

Moderator: Thank you and next question is from the line of Maulik Patel of Equirus Securities. Please go ahead.

Maulik Patel: Jayesh bhai couple of question. First is on the cotton price, you did mention in your couple of last remarks, how far we have covered for this season in terms of our holding of the cotton at the end of March, April, how long we have covered it?

Jayesh Shah: We as a policy are currently, as I explained in the past, we try and map our sales and cotton hedging simultaneously. So for the current quarter we would have orders and for the current quarter we would have the raw materials tied in.

Maulik Patel: For let us assume that if the cotton price does not come down and for the whatever the new order you are taking, is that the price, so my point is that our margin will impact negatively in Q3 onwards if the cotton price remain at this level?

Jayesh Shah: It is a very fluid situation and it is not supported by fundamentals, so it is fluctuating. So if you look at for example, last two days' current prices have come down by 2% to 3 %. Now nothing has changed in 3 days but the speculation is very high. So it is very difficult to say how cotton prices will move, they are likely to go southwards a very high probability then it compared to probably that it will go up further. But we have to wait and see what happens when the season opens in October. All fundamentals suggest that there is enough cotton that is going to be grown in India thanks to good monsoon. Gujarat which is the largest cotton producing state in the country where there was a bit of doubt on the monsoon now, it has got good rains in last couple of weeks, sowing has begun. There is also a report as we speak now which can change over a period of time that there is a 9% less area under cultivation compared to last year in cotton in India. Because if you look at last 2 years of cotton yields because of the drought situation they had fallen off by about 20% from some 500 plus kilograms to 400 something in last 2 years. With this good monsoon there is a high likelihood that you will go back to the normal yield per acre which would mean that it is possible that you may grow more cotton than what would you did last year despite a reduction of 9% acreage under cultivation. So looking at all of that there is a high probability that cotton will fall. I would not be able to make a judgment or today make a comment on what pricing strategy or purchase strategy we would adopt when the season begins. So that we will have to leave it for now but very clearly in the past we have seen that if not on a day-1 over couple of quarters Arvind has adjusted the sales price to the cost changes that took place but we have to wait and see.

Maulik Patel: Okay I got it. The second question is on the financial, Jayesh Bhai your employee expense has gone up significantly higher, any particular reason? If you look at on the consolidated basis it is 25% growth, even if you look at the standalone basis the growth is approximately 20%.

Jayesh Shah: So there are few things that have come like for example Arvind Internet is a new added cost, Ethiopia is a new added cost without corresponding revenue. So it is all question of getting revenues coming in from those sources.

Maulik Patel: I understand. I have a question for Suresh sir. I was looking at the balance sheet of ALBL, so the balance sheet the receivable days has gone up by almost 25 days in the ALBL and within the balance sheet if I look at the receivable days beyond 6 months has also gone up significantly higher. Any particular reason for that sir?

Jayesh Shah: Suresh, the question is about account receivables as of March end, as to there are 2 questions at the receivable terms have gone negative by 25 days?

Maulik Patel: Positive by 25 days.

- Jayesh Shah:** The terms have deteriorated by 25 days and there are more than 6 months' receivables have also gone up. You want to comment, or you want me to take the question?
- J Suresh:** No, I will just comment on this Jayesh Bhai and then you can add on to that. Maulik, specifically on last quarter what happened was we had actually opened few new counters in the department store, for example US Polo we used to have just one counter, then we started a Denim counter in most of the department store. So we have added quite a lot of new counters in Q4 which added to the stock fill-in in terms of the first fill of stocks you give and that being a sale or return it added on to the receivables but with the new Ind-AS reporting coming in, this anomaly will get corrected and then you will see that happening from Q1 onwards.
- Maulik Patel:** So is there no liquidity stress in the system, right and it is from a distributor perspective?
- J Suresh:** It is not a liquidity stress, it has more to do with new counters and we need to fill in the stock for the first fill.
- Jayesh Shah:** I think one of the best thing that have happened in my opinion is, you will see a temporary drop in revenue temporary drop in absolute earnings, not MAT percentage earnings but secondary sales reporting the P&L and cash flows will tally and I think going forward the quality of the entire industry, earnings reported by the entire industry would be far more I would say qualitatively better than what it used to be because you would be reporting on customer buying it rather than a dealer buying from you.
- Maulik Patel:** And the last question is again to Suresh sir, last time when we spoke about we said that and you earlier mentioned that we are accelerating the local purchase for most of our brands, mentioned about GAAP and this one, let us assume that once that is completed, how big margin improvement come at a portfolio level because of that or the gross margin improvement. Once you completely move away from whatever the current position at the end of the FY16 and largely go to the local purchase what could be the improvement on that side?
- J Suresh:** Maulik it is difficult to give gross margin at the brand wise. See, we have committed a certain expansion in terms of the margin that is 100 basis point every year. I think it is important for us to indigenize some of these productions for us to reach that objective of 100 basis point improvement in the margin every year.
- Maulik Patel:** And sir last question on this GST and we did speak about in the past that our tax incidence in the brand and retail is around 11%-12%?
- Jayesh Shah:** It is little higher than that but yes we will try.
- Maulik Patel:** So around 12% and let us say the GST rate is 18% that is what the market has expected probably, do you think that for a year there will be probably a break on the margin expansion because of that?

Jayesh Shah: I think we have to look at GST as one of the finest pieces of reforms for organize player like Arvind because when you look at GST and when you look at the taxes that organized players are paying in form of all kinds of cost, the real competition that we face is with people who do not pay those costs and once the cost push comes to the other players as well, you will see a tremendous shift from an unorganized play to the organized play and we believe that shift may be not gradual, it may be very fast. So we do not see any reason for us to be concerned about GST coming and as a result large and unorganized players facing a problem of either revenue growth or margin contraction or in fact they should continue to improve at a faster pace.

Maulik Patel: Then basically let us say the 18% is the GST, today the price by around 6%?

Jayesh Shah: Not necessarily, that is what I was trying to say that the 12% and 13% is not a finite number. As we speak we are, currently the process internally is on to study the implication of all the costs that we are paying today and as we are doing more and more work we are realizing that in fact it could be as high as 14%-15%. But we do not want to give a number right now, unless we are absolutely ready with them.

Moderator: Thank you. Our next question is from the line of Akhil Kalluri of Credit Suisse. Please go ahead.

Akhil Kalluri: I have a couple of questions. The first one is on the demand environment. So you indicated that the like-to-like growth for unlimited has been about 16%, even on the branded side there has been some uptick in the overall like-to-like growth. So do you see any sustained pick up in the demand environment or if any color on that will be helpful?

J. Suresh: Frankly it is bit of an up and down kind of a scenario. The demand environment definitely is not perked up as much as we thought. See April was better, May again was quite bad, June was slightly better, so overall I must say that the consumer sentiment is not very good. I must say that we have done relatively better in this situation. But as you could have seen from the results of any consumer company this quarter most of them have got very tapered growth.

Akhil Kalluri: Exactly, fair enough. So sir for the 24% growth that we are targeting what is the implied like-to-like growth that we expected to achieve?

J. Suresh: We have budgeted a 7% like-to-like growth for the year.

Akhil Kalluri: 7% for the full year which is an acceleration from current levels?

J. Suresh: That is right.

Akhil Kalluri: Understood. The second thing was on the GST front taking it forward from the earlier participant, at least in the price point that we operate in say Arrow shirt etc. if we take a 3%-4% price increase did you see enough price elasticity in the segment that we operate in, based on your experience?

- J. Suresh:** Taking a price increase close to 45% on a year basis. So we have not seen too much of the impact on the demand but I do not think given the way we are looking at as Jayesh was explaining, we need to take a price increase on account of GST. We may have to look at it more from our internal requirement point of view and the consumer demand point of view.
- Akhil Kalluri:** Okay, but in case the entire industry so the whole thought process is this because at least the price point that we operate in is about Rs. 1500 per shirt etc., would the customers be really sensitive to 3%-4% or a 5% price increase and actually switch to a different brand?
- J. Suresh:** No, I do not think so. We have not seen that kind of a sensitivity for a 3%-4% people shift out of a brand like Arrow.
- Akhil Kalluri:** Jayesh Bhai one question on IndAS front. First of all, thank you for the detail split, sir if you could also share for the full year FY16 what was the contribution from JVs and SOR, only on P&L I understand you are still looking on the balance sheet, but anything...?
- Jayesh Shah:** I will give you a number but let me put a lot of caveats before that. The caveats are that the way SOR is now being accounted for, it means that your account for the sales done by 30th June of the invoices that you have raised before 30th June for every dealer of yours where you have an SOR. Now the issue that we are contented with is, this kind of a data is not ready with our dealers for the last year, whilst we have the data for Q1 of this year because we started with that through someone to dig out data what you have not sold in June '15, with not all of them have very good IT systems and databases to be able to get that data. So we are not able to exactly quantify, so it is otherwise I would have kind of prepared the whole year '15-16 and given you now which I have not given and are only given one quarter because with a lot of efforts we have been able to get say 95% accuracy of the data for the 1st quarter of the last year. So with that, I will tell you the numbers, the number for SOR sale for whole of '15-16 could be between 170-190 crores which would in some sense get cancelled as the year progresses quarter-on-quarter. As far as JVs are concerned roughly 190 crores.
- Moderator:** Thank you. Our next question is from the line of Nishit Rathi of CWC Advisors. Please go ahead.
- Nishit Rathi:** Sir just a follow up on the same question on the SOR, so you are basically saying that what will be outstanding for 190 crores to be cancelled is in the March month this is the sale that you have made which is still not been sold, the stock not been sold by the dealers, right?
- Jayesh Shah:** No. It is the sales that got done this year but the sale which did not happen by March.
- Nishit Rathi:** So basically this will be the inventory with your dealers which have not been sold which seems to be very high right, 190 crores?
- Jayesh Shah:** No. I will tell you what. We do 800-900 crores SOR sales. You divide that by 4 it will be 200 odd crores in a quarter. So if you divide it by 3 it will be another 60-70 crores a month. So what you sell

in the month of January, February, March will be something like (+200) crores. A lot of it obviously will not get sold by 31st March, all of it or most of it could have been sold or returned by June.

Nishit Rathi: So there will be a net impact, the sales coming in and sales going out. So 25 crores that we have shown in this quarter has a net impact, right?

Jayesh Shah: That is true but throughout the year we are taking only the net secondary sales billing, as if there was no SOR on April 1.

Nishit Rathi: Correct, so going forward we are clear that there is no SOR being done. What I am trying to understand is how much of an EBITDA impact does SOR have for the full year last year?

Jayesh Shah: So that will depend up on only after I get the data because every product has different margins, it is a very complicated thing for me to generalize and tell you.

Nishit Rathi: So that will be EBITDA lost completely because to that extent EBITDA is higher in last year?

Jayesh Shah: So it will be completely gone from the year before and the year after that and from the current year.

Nishit Rathi: Okay, that is one. Sir second thing is it fair to understand that the specialty retail losses have gone up dramatically in this quarter because your Unlimited has broken even and you have improved your margins in this thing. So your losses in the numbers seem to be pretty high?

Jayesh Shah: Let me explain to you. First of all, there was no specialty retail in Q1 last year. So losses have not gone up or down, losses are there that is the point.

Nishit Rathi: But what we understood was specialty retail, the initial response that you got was very good and you were expecting as the sales go up, you will start seeing better numbers, so will this improve dramatically in the coming quarter is what I am trying to understand?

Jayesh Shah: We will not comment on coming quarter but possibly you should know the Q1 of brand and retail for every company is the weakest quarter.

Nishit Rathi: Fair enough. Just on the balance sheet point again, so the debtors you said primarily was the SOR but just wanted to understand how did the inventory for ALBL come down so dramatically because in spite of your sales going up, your inventory has come down and that also has an impact of specialty retail to some extent in it which will really the inventory will go up. So I just wanted to understand that part.

Jayesh Shah: So you are talking about the March end inventory?

Nishit Rathi: Yes.

- Jayesh Shah:** So Suresh you want to answer?
- J. Suresh:** Yes, I will address. See, actually we have done big exercise along with Boston Consulting Group on completely restructuring our supply chain. So we have implemented something called concept-to-shelf process which is what BCG has implemented across many of the companies we had consulted internationally. So we brought in the best practice in terms of how do you plan your entire production cycle. So we have actually tightened the entire cycle from what it used to be a much 20% lower in terms of the cycle time, then producing closer to the market, the way we review and select guidance to produce, how much to produce and how much to keep in hand and then produce depending on the demands, so there is a whole lot of things we have done, in terms of improving supply chains. So there has been a dramatic drop in the inventory of the Power brands which is actually reflecting in the overall improvement.
- Nishit Rathi:** Could you just give us some kind of numbers that what that improvement has been?
- J. Suresh:** See in terms of the inventory turns it has gone up by almost half, 2.2–2.8 turns in the case of Power brands which actually is reflecting in the overall improvement.
- Nishit Rathi:** And in the normalized basis without SOR how should we think about debtors and inventory for FY17?
- J. Suresh:** See as Jayesh Bhai was mentioning we are doing the entire balance thing on the new IndAS thing but you will find a drop in receivables, substantial drop in receivables and corresponding increase in inventory but the net impact will be very positive in terms of net working capital.
- Nishit Rathi:** So net impact, basically you will improve your overall working capital this year again as compared to last year in terms of number of days.
- J. Suresh:** That is right.
- Moderator:** Thank you. Our next question is from the line of Niket Shah of Motilal Oswal Securities. Please go ahead.
- Niket Shah:** Jayesh bhai just wanted to understand this SOR, you said 900 crores of annual sales and 170 crores to 190 crores was for the quarter?
- Jayesh Shah:** So 900 crores is an annual sale of which whatever we sell a lot will actually get sold during the year. So outstanding of March end that was not sold by our dealers to the customer or could be between 170 and 190.
- Niket Shah:** Okay, got it. The second question I had was on the share of Tommy and CK while we deduct that from last year numbers and this year number also, can you tell us a broad sense of how much could have been the EBITDA taken off from the last year as well as this year?

- Jayesh Shah:** See, the revenue that we took out as I mentioned to you was about 45 crores in the last year, and we generally operate at about on Q1 is at 7%-8% margin. Throughout the year the margins are about 11%-12%.
- Niket Shah:** So last year you took out 45 crores, this year you took out 75 crores?
- Jayesh Shah:** No.
- Niket Shah:** First quarter you would have took out how much?
- Jayesh Shah:** Only for this brand is about 60.
- Niket Shah:** And there would have been some excise which you would have also got added back to your sales as well, right?
- Jayesh Shah:** We have the data, we have given in the presentation to you, but it is 3-4 crores in the quarter.
- Niket Shah:** Jayesh bhai, just wanted to understand Create and now.com has obviously met with great success in the initial part and any marketing spend that you would like to highlight for this year as well as next year to take this to the next level?
- Jayesh Shah:** So yes, I think period of this year, this first 3 months have gone in, stabilizing and now and we will accelerate the variable marketing to boost up the footfalls and sales and that is one of the costs that we have already budgeted and when we said that we spend \$10- \$12 million during the year and as I mentioned that during my initial remarks that Q2 you will see the peak level of investments in Arvind Internet because we would have not over 250-300 stores digitized. Our key brands like GAP and Sephora will come on the platform apart from as usual other Power brands and we would like to accelerate now the investments for the coming quarter, so that we could benefit during the Diwali period. So you will see some kind of higher PBT hit taken during Q2 for us to be able to gain or get the online market share in Q3.
- Niket Shah:** So when we will say that margins in brands will expand, textile will expand, so on a consolidated basis the hit from Arvind Internet specifically due to advertisement spend might be a one-off of this year and not a recurring one for the future?
- Jayesh Shah:** Not at all and we believe that it is early days but maybe Suresh can explain how he feels, the Arvind Internet could help him increase the, I would say share even beyond what otherwise we could have done and we could capture that margin in our company.
- J. Suresh:** See, as far as this Arvind Internet, the model is not similar to the other e-com players because primarily we are looking at our own stores and how do we convert our own stores providing an opportunity for example, if you go to an Arrow store and you are not finding your size, then the system actually now provides an opportunity for that, to find out where the stock is available. It

could be in the neighboring store, it could be in another store in the same city or in the neighboring city. So we are actually now making deliveries from the store. We are not going to lose any sales which otherwise we would have lost because of the non-availability of size and also we are looking at for example suppose we have a 600 Sq.ft. store or a 700 Sq.ft. store where we are not able to display the entire range, the choice again will be available to the consumer, suppose some likes a particular style and they want to see in some other color and we are not able to keep it in that store because of the size of the store, consumer actually can you can see all the options available and will be able place the order and get it delivered from the store. So we are looking at a model which is cheaper from the fulfillment cost point of view, from the return cost point of view because it is going to be serviced out of the store and the third also is much more efficient model because we are going to deliver from store. So in terms of the time taken for a delivery is going to be much shorter. So we are looking at a 3%-4% improvement in our store sales because of saving the sales. So it is not a typical ecommerce model or investing very heavily to acquire consumers. We will do a balanced investment which you will see, we will be able to pick up whatever is the investment we are making in marketing in Arvind Internet will be able to pick up through no additional margin we will get with additional sales in our stores.

Niket Shah:

The other question that I had is on the key accounts opened in this quarter has grown by 23%, so obviously that channel would have seen very good growth in line with the overall revenue growth. Can you tell me any specific channel which would have seen much lower growth and you would obviously anticipate that channel to do much well, for example the EBO format, what would have been the growth in that category and ecommerce specifically?

J. Suresh:

Actually this quarter in terms of the channel wise growth we have grown quite well across all the channels. In terms of like-to-like growth we have done better in department stores vis-à-vis the EBO because in department store while they have not done that well in terms of like-to-like growth and we have done quite well in department stores in terms of like-to-like growth.

Niket Shah:

And Jayesh bhai just final one question to you on the GST part of it while obviously the brand and retail part you clearly explained but in the textile part of it where we do not pay significant amount of taxation on excise or VAT and if 18% is the rate does it mean that we will have to take a significant price increase in our textile part of the business?

Jayesh Shah:

So when you look at textile business, so first of all practically half of our textile business is exports and there is no GST on exports. So to that extent there is no problem. On the balance, almost 75% of the balance fabric that we sell in India are meant for Indian brands which are going to be in the GST net, so if I add Rs. 18 to Rs. 100 invoice that will get credited, taken credit by the brands. So there is no cost increase or implications on that 75%. So that leaves us with about 650-700 crores of revenue in our textile segment. It is where we sell fabric to dealers and ultimate customers on which at about 12% we would have been fine with revenue neutral rate. So 5%-6% that would be a negative implication if the rate was 18%. If that fabrics, particularly the cotton fabrics, because they are coming into the tax net for the first time, we may get a merit rate which is likely to be 12%.

- Niket Shah:** That is correct, got the point and if the cotton price continues to remain at this level do you think you will require to take more price increase than the 4% that you generally take within the brands and retail category because in the brands and retail category there would be GST hit, I mean GST cost inflation, also cotton price inflation...?
- Jayesh Shah:** First of all, both are not necessarily going to be at the same time. It is going to 12 months or further down. So hopefully cotton speculators will have gone for a vacation by that time. I do not think we should worry about.
- Niket Shah:** And one final question if I may squeeze one more is any impact of IndAS on a net worth you would have taken thing or...?
- Jayesh Shah:** Ind-AS?
- Niket Shah:** I mean anything that would have directly written off from our net worth in this quarter or something?
- Jayesh Shah:** No.
- Moderator:** Thank you. I now hand the call back to Mr. Jayesh Shah for closing comments. Over to you sir.
- Jayesh Shah:** Thank you ladies and gentlemen for spending time to understand our win in great detail. Looking forward to talk to you next time. Bye.
- J. Suresh:** Thank you.
- Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Arvind Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.