# "Arvind Limited Q4 Financial Year 2017-18 Post Results Conference Call for Analysts and Investors"

**May 9, 2018**

**MANAGEMENT: MR. JAYESH K. SHAH – DIRECTOR AND CFO, ARVIND LIMITED**
**MR. J. SURESH – MANAGING DIRECTOR, ARVIND LIFESTYLE BRANDS LIMITED**
**MR. ANKUR ARORA – HEAD OF INVESTOR RELATIONS, ARVIND LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Arvind Limited Q4 Financial Year 2017-18 post results Conference Call for analysts and investors. We have with us on the call today, Mr. Jayesh Shah – Director and CFO, Arvind Limited and Mr. J. Suresh – Managing Director, Arvind Lifestyle Brands Limited along with Mr. Ankur Arora, Head of Investor Relations.

As a reminder, all participant lines will be in the listen-only mode and 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Arora. Thank you and over to you, Sir.

**Ankur Arora:** Good Evening everyone and Welcome to the fourth quarter earnings call for Arvind Limited. Joining me on this call is Mr. Jayesh Shah and Mr. Suresh – MD of Arvind Lifestyle Brands Limited. To begin with, let me give you a brief outlook on the textile and apparel industry in the fourth quarter. Let me start with the textile space. As we have discussed earlier also, Government of India reduced the duty drawback rate and other export incentives for the textile industry with effect from October 1. The sharp reduction in incentive structure has impacted the garment exports quite sharply. Garment exports in the industry have fallen by double digits since October when the revised rates were implemented. Even on the fabric side, the domestic market has remained subdued with muted growth in the industry. The domestic trade channels has still not recovered completely from the impact of GST tax regime and continues to remain weak. On the positive side, Indian rupee has depreciated quite sharply over the last couple of months, which augurs very well for exporters such as ourselves.

On the branded apparel side, we saw mixed trends. The start of the quarter was very weak with January seeing sharply negative LTL growth across our product category. Advancement of EOSS to December played a part in the negative growth of January. The demand started picking up towards the end of the quarter with March registering strong LTL growth numbers. However, the overall numbers for the quarter remained weak. We expect this improvement in the March to continue in the coming months as well.

In this backdrop, Arvind Limited delivered very good set of numbers. In our textile business, we grew our revenue by around 8% on the back of 14% growth in our woven business. The EBITDA margin for the quarter was roughly similar to the same quarter of the last year despite stronger Rupee vis-a-vis last year, lower export incentives, and higher proportion of garmenting revenue. With depreciation of Rupee, we expect margins to improve in the textile business in second half of current financial year. Our brand business delivered a strong quarter with around 27% growth in revenue. Please note that the current quarterly result include revenue for Tommy Hilfiger and Calvin Klein, which were not consolidated in the last year's results. Adjusting the contribution from these additions, revenue growth from the brand business stood at around 11%. As we have discussed earlier, move towards the GST has had an impact on the way numbers are reported.

Adjusting for the impact of GST, the revenue of growth for the quarter would have been higher by around 4%.

Our brand business delivered strong positive growth despite weak LTL growth data. LTL growth for the quarter for the brand business was weak at around minus 4% led by weak growth in the month of January and February. While demand picked up in March, it still could not compensate for two months of weak growth. Our value-added business Unlimited also registered a negative LTL of minus 2% during the quarter. Please note that the negative LTL in case of Unlimited is on a very high base of last year when it delivered around 30% LTL growth. We continue to remain positive on our value-added business and continue to invest behind the business.

EBITDA margin for our brand business went up sharply during the year. Against our revised guidance of 175 basis point margin improvement for the full year, our base business delivered a total margin improvement of 190 basis points underlining the strength of our business. Adjusting for consolidation of Tommy and CK and addition of new business, branded apparel business delivered EBITDA margin of 6.1% vis-a-vis adjusted margin of 3.7% in previous year, an improvement of around 240 basis points. Even during the fourth quarter, our margins improved despite the difficult market. Our base business delivered 50 basis point margin improvement despite negative LTL. We aim to continue improving our margin as our business scales up further.

Our engineering business, Anup Engineering, also registered strong growth and delivered revenue of around Rs. 84 crores during the quarter with EBITDA for the quarter coming with at around Rs. 25 crores. For the full year, the revenue grew by around 25% to 224 crores with corresponding EBITDA would be 54 crores. EBITDA margin for the business for the financial year was marginally lower than last year due to higher commodity prices. Going forward, we expect our engineering business to deliver around 10% to 15% growth in the current year with margins maintained at similar level as this year. On consolidated basis, we delivered a growth of around 21% given the strong growth in our brand business and pickup in growth in our textile business. Overall EBITDA margin improved from 9.1% to 9.7% on the back of strong margin improvement in the brand business. We will continue with our strategy of vertical integration in our textile business. We believe garmenting would be an integral part of our textile story as this allows us to provide complete end-to-end solution to the customer. We are investing heavily in this business and expanding our capacities significantly. In addition to Ethiopian expansion, we are setting up new garment units in Jharkhand. We believe with increase capacities, we would be able to increase the proportion of fabric sold at garment from current 8-9% to 25-30% over the next two years. Our debt at the end of the year was 3323 crores, an increase of around Rs. 350 crores over the last year, of which around 150 crores was on account of consolidation of Tommy Hilfiger and CK business and the remaining around Rs. 200 crores was on account of blockage of funds in the GST tax regime.

Finally on the business restructuring, the process of demerger is proceeding as per expectation and we expect the three companies to list separately in the next four to five months. Now, moving onto our guidance for the coming year, we expect to witness strong growth momentum in all the three businesses. In our textile business, we expect revenue to grow by around 10% on the back of around 35% growth in garmenting revenues. We expect to maintain margins in our textile business despite business mix change towards lower margin garmenting business and full year impact of reduction in export incentives. However, continuous depreciation in Rupee can provide a positive impetus to the margin. In our branded apparel business, we expect to achieve a revenue growth of around 20% to 24% on the back of increased distribution. On the margin front, we now expect margins to improve by around 100 basis points for the full year despite increasing proportion of marketing spend. Our engineering business is expected to grow at 10% to 15% in the current financial year with margins being maintained. With this, I open the floor to Q&A. We have both Mr. Shah and Mr. Suresh with me to answer any question that you may have.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Sir, my first question is specifically for the Brand and Retail business, generally you give a better LTL leads to a higher improvement in margin, however, in this case despite a negative like to like, we have seen an improvement in margin, so can you just elaborate on what exactly has been the reason for this performance for this quarter?

**J. Suresh:** We have a very healthy margin in the case of our power brand and we used to get a dip in our profits mainly on account of some of the newer brands we have in our portfolio and newer retail we have in portfolio like Sephora and Gap. What we have done in the last year is trying to improve the profitability of these set of brands. So that when they reduce the losses and then improve and move towards the profit direction, overall profitability improves. There has been a marginal dip in the case of power brands due to LTL, but that has been more than compensated by improved margin of the other set of brands and retail specifically Sephora. In the case of Unlimited also moving towards profitability.

**Nihal Jham:** Absolutely, but if I look at power brands or so, we have seen a sharp margin improvement despite the 4% LTL degrowth that we have reported, so even if I exclude say the other brand which have been making losses, specifically the power brands have also seen a big improvement in margin despite LTL degrowth?

**J. Suresh:** The dependence on retail is only around one third of the total sales. More than two thirds of the sales comes from the other channel like Department stores, multi-brand stores, and online, so growth in these channels and they are actually better margin channels as well, so the higher growth in those channels actually helped us to improve the margin in power brands as well.

**Nihal Jham:** Just getting on Unlimited I think last quarter we mentioned that it was the highest EBITDA quarter that this segment had seen, has that trend continued for this quarter also for Unlimited where there has been another hike or high EBITDA quarter for you?

**J. Suresh:** For Unlimited, typically, the Diwali month will always be a very good quarter, it is difficult to maintain that kind of a profitability in the fourth quarter when the sales are not that good, but still we have managed to deliver a marginal profit in Unlimited, so it is more than a breakeven performance in Unlimited.

**Nihal Jham:** One last question on the brand portfolio, as of now how many brands have we exited EBITDA negative?

**J. Suresh:** We have three brands, which are EBITDA negative.

**Nihal Jham:** We expect them to turnaround by the end of this year?

**J. Suresh:** Yes, next year we do not expect any of the brands will be negative on the EBITDA side.

**Moderator:** Thank you. The next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

**Dimple Kotak:** Sir, this question was related to the balance sheet item, just if you could clarify why have the debtors jumped from around 795 crore to 1,766 crore and the payables also have jumped by 50%?

**Jayesh Shah:** If we break this down into different three businesses, this year we added two companies which were not there in the earlier year which is Tommy and CK. Both have wholesale businesses, so because of this two companies, the debtor addition has been 250 crores, which was not there on a comparable basis. Secondly, our water treatment business which is a relatively smaller business and forms part of our other segment had a large order which was executed in Quarter-4, that was about 135 crores of revenue came, which entirely is account receivable. So in a sense that these are the two things which are completely different than what they were in the earlier year. Third reason is very sharp growth in the wholesale business in Arvind brands. In Quarter-4 retail was weak as Suresh just mentioned but a large part of our business was on wholesale including our online stores where the credit is higher. So in the Quarter-4, the difference was that retail was much lower than the wholesale resulting into higher account receivables. Having said that, there is about 250 crores increase in debtors overall between textile as well as brand, which has been on account of 15 days increase in the account receivables cycle.

**Dimple Kotak:** Sir, sorry can you just come again for 250 crores, I did not get?

**Jayesh Shah:** The 15 days increase in the account receivables cycle between both the businesses, so that is the reason why debtors have gone up. As far as creditors are concerned, they have not changed basically cost of whatever purchases we have made, so number of days have not changed.

**Dimple Kotak:** Sir, going ahead then what do you think the debtors would they subside to close to the last year's level, how much do you think?

**J. Suresh:** As Mr. Shah was mentioning, we had an increase of 15 days on the debtor's cycle, but we want to bring it down in the current year and we have taken multiple steps in terms of that. I think number one of course is really control and then reduce dealing with those parties which are having a higher debt cycle, so that is number one, and second is, we are also getting into some channel financing tie ups with few banks, so that we are able to fund our customers and we get our payment ahead of time, so we have worked out a very aggressive action plan to drop that 15 days increase which happened in FY '18.

**Dimple Kotak:** Sir, debt, you plan to reduce by FY '19?

**Jayesh Shah:** The total debt this year as we said was 3300 crores. The one anomaly in this debt is that we have blocked 220 odd crores in GST, lot of it is because of some IT system problem at department's end, we believe that it should get sorted out in first half of this year. If you look at three companies' debt which we have given in our note that you see, Anup, the engineering business anyway is a debt free company. Our Brand and Retail has a very strong debt equity financials because we have taken the debt on the parent and listed out the net worth before demerging that company, so when it comes to debt either as an debt to EBITDA ratio or debt to equity ratio, it is the Arvind Limited where you will see the debt being higher than what we have anticipated or what we had forecast in the past. We are for this year looking at ramping up investments in textile to setup our more garment capacities, so we are not planning to add debt, but we are not planning to reduce debt either in this company. As far as Anup is concerned, they do not plan to borrow and as far as brand were concerned, they do not plan to borrow any money either, so in a sense that across the three companies will not be adding the debt. There may be surplus in Anup to some extent, but overall the debt in each of these companies will not go up.

**Dimple Kotak:** What would be the CAPEX which we would be doing for FY '19 particularly for textiles and investments in brands?

**Jayesh Shah:** We are looking at close to 500 crores in textiles alone this year as we had announced earlier that we are looking at 1500 crores of investments in textiles over the next three years, so 500 of that will go this financial year. We are looking at adding capacity in garments.

**Dimple Kotak:** Sir, garments has a lower margin?

**Jayesh Shah:** It has lower margin, it does not have a lower return on invested capital, so we are looking at setting up capacities which can add on install basis the capacity to over 45 to 50 million , out of which we may sell 37 this year because they come in over stages, but it is a very large investment program to add capacity which will kind of get utilized over next 2 to 2.5 years, which will get spent this year, so textile is this investment, our Brand and Retail will do I guess about 150 to 160 crores primarily in setting up retail stores for Unlimited and Sephora.

**Dimple Kotak:** Sir, finally just one question, how many brands we have in total?

**J. Suresh:** We have 15 international brands and then we do with all brands of our own, out of which Flying Machine is one which is available in multiple channels, otherwise, most of our other brands are done in Unlimited store.

**Dimple Kotak:** Out of both of them, only three brands will be unprofitable next year?

**J. Suresh:** On count, there was 12 brands as part of this group of brands because that comes under Unlimited. I am talking about the rest of the 16 brands.

**Dimple Kotak:** 16 brands, only three of them are unprofitable which will turn to be profitable this year?

**J. Suresh:** Yes.

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

**Chirag Lodaya:** My first question is towards Brand and Retail, so this new business comprises of which brands?

**Jayesh Shah:** The new businesses, let me try and explain to you, these businesses are part of as of today Arvind Limited, though they are a B2C Brand and Retail businesses, but they were housed in the parent company Arvind Limited and they are two in number. One is the footwear business which is in Arvind Limited, so we do three footwear our own brands and we do couple of international brands footwear business and second business is the customized premium clothing under the brand Creyate. Under the proposal to demerge this business into a separate company, these two businesses they get transferred to Arvind Fashions when the demerger happens, so in order to give clarity for comparison purposes, we are giving separate numbers because they were separately reported last year, but from April 1 all of this will become one segment for you to see.

**Chirag Lodaya:** Sir, what steps we have taken in this two businesses because we have seen very sharp improvement in profitability, so EBID loss has reduced to 13 crores versus 35 crores for the quarter for the full year and revenue has just grown by 10 crores, so what initiatives have led to such improved profitability?

**Jayesh Shah:** The key to that was that the footwear business a year before was the first year of operation. There was a heavy establishment cost of people, design, setting up the entire corporate infrastructure without too much of revenue coming in. At the same time, there were significant amount of money that was spent on promoting this brand so that was the first year. This year was a year in which we consolidated the situation, so same is true for our Creyate brand. So as of today these businesses have not become profitable, they are still not breaking even, but they are very close to breakeven and it may happen for a given quarter, but we would be exiting the coming year with in fact growth businesses being profitable.

**Chirag Lodaya:** When we say specialty retail 36 stores, again which are the brands housed here?

**Jayesh Shah:** There are three, one is Sephora, second is Gap and third is The Children's Place.

**Chirag Lodaya:** Just last question on this, if you can throw some light on Arvind Internet loss for guidance on next year?

**Jayesh Shah:** Arvind Internet as you saw this revenue from last year 5 crores has become 10 crores and its expenses have come down, as a result the losses have come down close to 37 or 40 crores, close to 40 crores at EBITDA level. We believe that our revenue should almost be like double without any too much of impact cost increasing, in fact cost may come down a little bit, so the losses may be half of what they are this year.

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

**Maulik Patel:** Jayesh, we have reduced the guidance on margin for the next year and what is next year margin little lower guidance for the brand business?

**Jayesh Shah:** No, I think we have not reduced the guidance for the next year, we said that we would be looking at adding 100 basis points on current year's number. First is that we have overachieved our margin expectation this year, we are taking this as a base and adding on top of it, so it is not reducing next year but it is if you look at sequentially we are adding 100 basis points, I think more importantly we are looking at a very, I would say aggressive growth not only in the coming year which is the Financial Year '19, but also looking at continued sharp growth of 20% plus for next few years across all the different brands and products, so we are looking at putting a lot of money back into promoting this brand, it is a brand investment that we want to do, so we are increasing our brand spend from close to 4% of the total to take it to more than 4.5% next year, so it would help us to whilst it may look that EBITDA is not increasing by 150 basis points, but this investment will help us to continue keep the very high growth levels going forward for several years to come.

**Maulik Patel:** Another question is on textile, you mentioned about we are setting up and I think long-term goal is that we spent around 1500 crores to expand the various lines of business in textile, you gave some color on the garment, but can you give the rest of the plan where we are putting the additional money in which kind of a product?

**Jayesh Shah:** In fact as we had discussed as part of our earlier strategic presentation, the textile business we are looking at growing it in three or four different ways and those are the pillars to our growth future growth in our textile business, so first is vertical that we discussed. The second thing which we are looking at is to invest in our advanced material division. This year the advanced material division had a 500 crores turnover and it is looking at growing at about 25% next year. The plan to achieve 1000 crores in 2020 as we had announced earlier, so we will almost double the revenue in two years, so we will invest good amount of close to 100 crores going into our advanced material division this year. Also we are investing in creating certain different kinds of fabrics which are based on different fibers and we are also looking at getting into active wear segment. We have already started our pilot sales and machines are on its way so we will be getting into a new category called sports / active wear. The customers would be the likes of Nike, Adidas, or ASICS, and we are already started feeding the market and that is another line within textile that we have started investing in.

**Maulik Patel:** Just with the last question, what I want to understand that 500 crores is the CAPEX for this year for textile around 160 to 170 is for Brand and Retail, combined with approximately 650 to 700 crores which we are going to spend?

**Jayesh Shah:** Yes, but we should look at them as separate companies now

**Maulik Patel:** Just one point, I think on a brand side did we make anything, what could be the amount of the cash flow from operations this year, if you can give me this?

**Jayesh Shah:** Which year?

**Maulik Patel:** For FY '18, the cash flow from operation from the brand business?

**Jayesh Shah:** The overall branded business had EBITDA as you saw was close to 235, it had 100 crores of thereabouts depreciation and 67 crores or thereabouts of interest, so net-net that has generated at a cash accrual basis and it had a very less amount of tax, so at a net level it generated about 150-160 crores. It invested that much money in CAPEX, so for working capital it needed about 150 or 160 crores net which came from capital that was subscribed, 300 crores of capital was added this year into the company.

**Moderator:** Thank you. The next question is from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.

**Shivam Vashi:** Sir, your denim revenue for the year and volume sold?

**Jayesh Shah:** It was 100 million meters. Let me mention guys because you asked me a specific question, let me talk about denim. Denim as you know it is in a very serious oversupply in the country. It is estimated that it is close to 1.5 billion meters installed capacity is there, Arvind is 100 million, we would be like 7% of the market in terms of installed capacity, very difficult to get data but what we hear that on an average the industry is operating at close to 60%, about 900 million capacity has been utilized. Arvind actually operated close to 95, they sold about 100 million meters last year, so we would be in that sense close to 12% or so of the market, however, in general the denim for India is in a very, very supply situation right now. What we hear from the market that a lot of competing companies are extending a very large credits in the market where they are extending credit right up to 180 days of sales and there is a huge amount of working capital challenges that the industry is going through. So in some sense in India the denim market and the denim companies will continue to face this glut situation sometime to come. To answer your question specifically, we did 100 million meters of sales, it was about 1-2 million more than in the previous year, it is at a good 95% to 98% level of our capacity and we believe that even in the coming years we should be able to maintain.

**Shivam Vashi:** Sorry Sir, how much revenue you said?

**Jayesh Shah:** In terms of absolute Rupee it was 1907 crores.

**Shivam Vashi:** Sir, then how much do we export because you think there is so much of capacity and the thing is in India we are just exporting about 30%, then how much is Arvind's share in that, how much we export as a company?

**Jayesh Shah:** We have done out of 100 million, 53% in volume.

**Shivam Vashi:** Sir, how much we sell in open market and what I mean is, how much we sell to as a nominated player to the garment of the branded textile, branded denim players?

**Jayesh Shah:** There are no fixed things, one day it can be 20% and other day it could be 90%, so it will be difficult to say how much it is going like this or that and there is no fixed formula, but in general if you look at our sales, most of our sales is to key brands either in India or in the global market.

**Shivam Vashi:** Sir, is Arvind looking to do its margin in terms of like Dobby going ahead or would Arvind have enough of Dobby to sell because that is what I believe is the trend in the denim, that is where the realization is fetching on a higher side?

**Jayesh Shah:** Arvind is currently not only this year but for many, many years in the past as well, has been at the forefront of differentiating its product, so what you hear in the market that this are the trend, we have been doing it for now more than five years and we would be in fact doing something else while the marketing is catching up and that is the reason why you would have seen that we generally are ahead of the market on the average selling price, so to answer your question specifically all the products that are currently being sold, we sell as much as we want to sell, it is a question of what products to sell to retain our profitability.

**Shivam Vashi:** Sir, on the margin front, how much margin is company making in denim then at operating level?

**Jayesh Shah:** As a matter of policy, we do not disclose our division margin.

**Shivam Vashi:** Sir, as you said there is a lot of credit being enhanced by the players in the industry, so how much credit we are giving?

**Jayesh Shah:** We do not disclose our specific.

**Shivam Vashi:** Also on the garmenting front, you said it is a lower margin business, so can you give a ballpark number, how much is the ROI that we generate in the garmenting?

**Jayesh Shah:** At the project level, we do not look at EBITDA margin, we look at any project which generates less than 20%, we kind of not, as a steady state that is the cut-off at which we invest.

**Moderator:** Thank you. The next question is from the line of Abhilash Satale from Dalal & Broacha. Please go ahead.

**Abhilash Satale:** Sir, I wanted to know what is loss at the retail division for the year if it is available and secondly I mean how are we looking to expand this division as we are investing around 150 crores of CAPEX, so how we can see revenue and margin shaping up over medium term point of view?

**Jayesh Shah:** As I said, we will not be able to give you brand by brand or business by business margins, it is a company policy not to disclose it. As Suresh said that, we are out of the investment more in most brands and will be exiting all brands without exceptions in this coming year or beyond the breakeven. As far as retail is concerned, again retail has a different working capital cycle. So if you look at wholesale business, the investment in working capital is much higher which is in form of account receivables. As far as retail is concerned, we will invest in store but no account receivables, so on ROCE front both businesses have similar potential, depending upon at what stage of evaluation your business is, you may find that today wholesale business or for that matter power brands are looking to be more profitable, but on a medium-term basis, our goal would be to earn more than 20% in every brand or every retail that we do.

**Abhilash Satale:** What kind of asset turnover we are looking for this retail division?

**Jayesh Shah:** I am not able to hear you or understand your question?

**Abhilash Satale:** What kind of asset turnover we are targeting for retail division?

**Jayesh Shah:** When you look at retail, the turnover of the asset, the working capital is like it turns like more than seven to eight times in a year net working capital and there is a fixed investment which you write off over a period of five years, so easily your asset turn on capital employed including the CAPEX and deposits you give to the store will be in excess of 3.5.

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

**Tejas Shah:** First question is for Mr. Suresh, Sir, what will be the proportion of wholesale business in our brand business?

**J. Suresh:** 30%, when I say 30% because there is a certain set of business which in a way happens like wholesale, but it is a sale of return business, so if we add that sale of return business also, it will become 65%.

**Tejas Shah:** Sir, this must be large format stores?

**J. Suresh:** That is right, the department stores.

**Tejas Shah:** Sir, what are the trade terms here, receivable days?

**J. Suresh:** As Jayesh was mentioning, we are not giving specific receivable days and I have mentioned very clearly that we are looking to bring down our receivable days by 15 days during this year.

**Tejas Shah:** Sir, after GST was implemented last year the common notion was that wholesale business as a proportion will come down especially in apparel business, what are your read so far on that count?

**J. Suresh:** It is not a question of coming down, we still have an opportunity to expand distribution and more so with newer set of brands because not that all our brands are well represented in the wholesale business, so we have a continuous opportunity to expand business, but what definitely has happened is much longer working capital cycle for all the small traders because their funding which used to come in cash and all has more or less stopped now, so their working capital has become difficult and as a result they have increased the time taken to pay us. So that is the reason why our debtor days have gone up which is what we want to control in the current year.

**Tejas Shah:** Second question, Jayesh Sir for you, for last three years we have broadly achieved our operational parameters numbers both in textile and branch and retail with some in between hits and misses, but one target which we are still struggling to control is our debt, I remember two years back you had this target of 5% reduction if possible from 2800 crores to 2500 or 2300 crores target and then again we had disruptions in between demonetisation and GST and net-net two years after also, we are at 3200 to 3300 crores and today also your commentary is that debt will not go down, it will not increase but it will not go down either, so just wanted your perspective on that.

**Jayesh Shah:** Let me clarify, never ever we said that we will reduce the debt in absolute sense, we always said we want to continue bringing down our ratio of debt and EBITDA. It is in this financial year that few things have gone wrong largely on account of I would say GST and second thing is that our earnings have been much lower than what we had anticipated when we began the year particularly because the drawback rates and the currency went completely wrong as compared to what we had estimated, so it is on these two accounts that the ratio has not been what we wanted it to be. Our long-term objective is to bring it down to 2.5 and if you look at textile business and if you do whatever forecast you do, you will be able to see that the textile ratio may fall below or come around 2.8 - 2.75 next year and I think if this trend continues, you should be able to see the ratio coming back to what we wanted to 2.5 for textile alone. If you look at our Brand and Retail business you will see the ratio coming to less than two in the coming year and our engineering business anyway does not have a debt, so in some sense if I were to combine them and see the next year ratio, it would be far better but since I am going to see them separately, the textile ratio will take two years instead of 1 to reach the target of 2.5.

**Tejas Shah:** Sir, what was the net proceeds from multiple private equity infusion, the stake sale that we did in Brands and Retail?

**Jayesh Shah:** It was 740 crores.

**Tejas Shah:** Net of taxes?

**Jayesh Shah:** No, net of taxes it will be like 550 or so.

**Tejas Shah:** It was utilized for working capital or CAPEX needs?

**Jayesh Shah:** Money does not have a color as you know, so it can go anywhere, but overall that money has gone into wherever it has gone today, wherever you can find it.

**Tejas Shah:** Last, one bookkeeping question that other liabilities of 2834 crores on books pertains to what?

**Jayesh Shah:** Which one?

**Tejas Shah:** Sir, other liabilities on balance sheet 2834 crores, it is also on your presentation also, Slide 7?

**Jayesh Shah:** I will have to give you the data I do not have it right now, but overall debt is 3323 to be precise, everything else is the business liabilities including there would be provisions for tax and all of those. There is no debt component within that, we will give you the data it is a very small number in our size, I do not have the data right now.

**Moderator:** Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

**Prerna Jhunjhunwala:** Sir, I would like to understand your strategy with respect to Gap, what is the status there with respect to indigenization and strategy to grow that particular brand?

**Jayesh Shah:** I think the strategy in all the brands that we have not only Gap is to start the way it should be started which is to focus on the frontend and do not worry about the margins, set the brand in the country and then start improving the margins. We have done that in all the brands and Gap is not an exception. Now that the Gap size is increasing, the indigenization percentages have started improving and I think as we go forward depending upon market conditions and what is economically possible, we would increase the share of Indian products to improve our margins as well as to improve the offering to the customers, so it is no different than say, for example, Tommy Hilfiger or any other brand.

**J. Suresh:** One more addition on Gap to what Jayesh was mentioning, we also now started shop-in-shops in department stores, which I think is going to give us a good uptick because we have a very strong position in department stores. So we expect that to be a big growth driver for Gap in addition to the retail and of course online again has started doing quite well for Gap, so it is not just the retail stores now, it is online, its SIS, Shop-in-Shop.

**Prerna Jhunjhunwala:** With respect to pricing strategy and all, we have all got it corrected against competition from Zara, HNM, all that is now done away with?

**J. Suresh:** Yes, it is done.

**Prerna Jhunjhunwala:** Sir, wanted to understand this other as segment that has grown quite strongly though it is small number, but even if profitability has improved in the quarter, so just wanted to have some color?

**Jayesh Shah:** Prerna, I just mentioned that we had a large water business that got executed in Quarter-4 that resulted into of course profitability, but the account has not increased which obviously money has started coming back, so that is one business. The other business that is part of our others which is currently still a smaller part and as a result we are not putting it out as a separate segment is our advance material business, it is our technical textile business and as we have been seeing that business is maturing to a level where it has become profitable, there are some segments which are very profitable, there are some still in investment mode and as a result you will see continued improvement in this two businesses going forward.

**Prerna Jhunjhunwala:** We have sustainable and these are not quarterly blips, we can take it that way?

**Jayesh Shah:** I would not say that reason why we are in others is that they are currently not significant, water business is project specific, so it may have quarterly ups and downs, so the best thing would be to see on a yearly basis whether those businesses are growing. We believe that both advance material as well as water will grow at an annual pace of 25% year-on-year, it has grown this year and it is likely to grow in the current financial as well.

**Prerna Jhunjhunwala:** With respect to profitability, it will continue improving without giving in?

**Jayesh Shah:** Yes.

**Prerna Jhunjhunwala:** Sir, next question is with respect to garments, we have facilities in India, Gujarat area, we are planning to go to Jharkhand and we have facilities in Ethiopia, would just like to understand, I mean how is the profitability between Indian and Ethiopian facilities, how is it panning out?

**Jayesh Shah:** In India the challenges for profitability and one of the reasons why we went to Ethiopia was two, one is that our cost of manufacturing across the board in India was much higher than many countries including Bangladesh and definitely Ethiopia, because the rate structures are different. The second disadvantage that India has is that it does not have any treaties with any major consuming nation that we can sell goods at a concessional or zero duty. If you been updated the way there is Central and State, Government of India have announced various incentive packages for promoting garment industry which is very labor intensive. Various states have come up with policy where they would subsidize almost 40% to 50% of the wage cost going up to between Rs. 4000 to Rs. 6000 a month per worker for a period of five years apart from giving other benefits which are in form of interest, subvention and other things, so what this has done and this all has happened in last six months and what this has done is that definitely it has brought India at par on cost with any other country in the world and as a result and this is very, very direct employment generation program run by the current Central Government and many places the same BJP Government in various parts of the country, so we believe that India is becoming a very interesting now a destination from cost perspective for garment manufacturer. Also there is on the demand side that is a very significant business that now the value retailers are offering in India, so if you look at Reliance clients or Future at Big Bazaar or Max or our store, Unlimited, all of them are growing at a very fast pace and all of them need a very official supply chain. One of the reasons why we were exporting garments and not selling in India because none of the companies were able to give economic quantity order for us to get productivity in our garment manufacturing facilities. With this, value retailers needing side and needing efficient supply chain, we are able to now supply to them at a very, very competitive rate for them as well as much larger business, so both from, A, past perspective India has become interesting, and B, the demand perspective India has again become very interesting.

**Prerna Jhunjhunwala:** Sir, one more question on this cost perspective only, so going forward Ethiopian expansion should not make sense because if in India we are able to produce at a lower cost than any other place, even your existing facilities in Gujarat and Bangalore, they would see less of expansion and you will see more of expansion in areas where these incentives are given, am I correct?

**Jayesh Shah:** That would be true, first of all Gujarat itself has a policy to give this incentive, so from what we hear is that Karnataka is post-election looking to announce the policy, so I personally do not think that any state which is looking at generating employment would not announce. Every state

I think will announce a growth package which can generate a very large employment particularly for women.

**Prerna Jhunjhunwala:** This would not violate WTO norms?

**Jayesh Shah:** Not at all, so WTO norms apply to give selective subsidy for the purpose of exports, if you give subsidy to promote anything like US has given subsidy for agriculture and it does not violate WTO or India is giving subsidy for agriculture, it does not violate WTO norms. If it gives the subsidy only for exports then it violates, so these policies are not for exports, these policies are for employment generation.

**Prerna Jhunjhunwala:** Textile margins you are expecting to remain flat just because of change in revenue mix or there would be some other thing as well?

**Jayesh Shah:** If you look at the regions why Textile margins fell, there were three reasons, one, there was a very significant change in the cotton for a short period of time that got corrected. The currency appreciated very sharply, so from a 69 average it came down to 65, 64.5 as is last year and in H2 of the last year, there was sudden reduction in drawback rates which post-GST effectively reduced or it did not give in enough to offset all the subsidy we are paying, there is this anomaly of the state taxes not getting compensated, so these three things came in one given year. As you know that lot of things have changed including currency, including cotton, so we do not believe that the textile margins are going to remain what they were; however, because the proportion of garment will increase, you will see those changes, but they are very, very we believe that our fabric business will do extremely well.

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

**Abhishek Ranganathan:** I have couple of questions here, one is Sir there is a significant increase in the investments in standalone, if you could help us understand where have this investments gone, in standalone balance sheet if I look at the investments, it is almost up of 300 crores?

**Jayesh Shah:** What investment?

**Abhishek Ranganathan:** The investment in financial assets, it was 522 crores last year, it is 883 crores now?

**Jayesh Shah:** I just said a few minutes back we invested 270 crores in Arvind Fashion.

**Abhishek Ranganathan:** Arvind Fashion is 270 crores?

**Jayesh Shah:** Yes, this year.

**Abhishek Ranganathan:** This is 270 crores plus we had some 740 crores from the private equity, so overall about 1000 crores of equity into this business?

**Jayesh Shah:** 700 crores is the equity of Arvind Fashion as you possibly know, we have put that out.

**Abhishek Ranganathan:** I was talking about the money coming in from multiples and the equity which is by Arvind, both?

**Jayesh Shah:** First of all 740 crores did not go to Arvind Fashion, 740 crores was a secondary sales, the money came to Arvind Limited last year.

**Abhishek Ranganathan:** The second question which I have is on this Tommy and CK about 480 crores of revenue, if I heard you correctly you said about 260 odd crores is of receivables in that number?

**Jayesh Shah:** No, there are three businesses which came in, Tommy Hilfiger, CK, and there was a telecom division called Arya Omnitalk, we bought 1% of that company as well last year, so for Tommy and CK the amount is 180 crores.

**Abhishek Ranganathan:** The debtors standing against Tommy and CK?

**Jayesh Shah:** That is correct.

**Abhishek Ranganathan:** Sir, if you could also help me with the channel you mentioned 30, I think Mr. Suresh mentioned the wholesale channel is about 30% of the business, was the mix different in the fourth quarter?

**Jayesh Shah:** Let me explain to you the channel there are two separate things, so as far as Quarter-4 is concerned as opposed to Quarter-3, the Quarter-3 is a retail quarter where most of the retail happens, where there is all season. Quarter-4 is a quarter where the new season inventories are sold, so it is always the case where Quarter-4 there is a wholesale business, which is significantly higher as compared to retail business because there are no seasons in Quarter-4, so whilst if you look at whole year, you will find that this ratios are 30%, 35% as wholesale 30%-35% as SOR which we do not report as sales unless sales happen and the balance in retail.

**Abhishek Ranganathan:** Sir, last question if you could give a breakup of fixed assets and working capital in the brands business?

**Jayesh Shah:** It is about 400 odd crores of fixed assets and balance would be working capital, total investment is about 1800 crores.

**Moderator:** Thank you. Ladies and Gentlemen, due to time paucity, that was the last question for today. I now hand the conference over to Mr. Arora for his closing comments. Over to you, Sir.

**Ankur Arora:** Thanks everybody. We look forward to continue engagement through the quarter. In case there is any further questions, you all can reach out to us over email or something and we can answer your queries. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, on behalf of Arvind Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.