"Arvind Limited Q2 FY-19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Conference Call for Analysts and Investors for Post-Results Discussion for July to September 2018 Quarter Financial Year 2018-19 Arvind Limited. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samir Agrawal – Chief Strategy Officer, Arvind Limited. Thank you and over to you, sir.

Samir Agrawal: Thank you and good afternoon to all of you. Joining me today on this call is Mr. Jayesh Shah – Executive Director & Group CFO; Mr. J Suresh – who is the Managing Director of our Arvind Fashion Business and also Kaushal Shah – who is our Investor Relations Officer.

Before I get in to the performance of our key business sectors I would like to share the update on the demerger process which all of us would be aware of. We have received the NCLT approval for the demerger and the certified order is expected in next few days. The demerger will become effective by end of this month. We expect Arvind Fashions and Anup Engineering, the two new companies to be listed by early February 2019.

The reported financials this quarter as a result of the demerger order will show revenue expenses and profits of continuing Arvind Limited business and the profit after tax include of the demerging business as well. However, for the purpose of the analysis we will use consolidated figures which will ignore the impact of the demerger. In terms of the results I am pleased to report that all our businesses delivered strong sales growth this quarter and consolidated revenues increased by 11% and overall EBITDA improved by 1% to 9.1%.

Branded apparel grew by 13% after adjusting for IndAS, this performance is particularly good when taken in the overall retail market context which was marked by weak consumer sentiment and the base effect which resulted from Diwali being late so lot of the Diwali sales will be booked in the next quarter and the Summer USS which started earlier so it got shifted to the Q1. Power brands continued their stellar performance and grew by 13%. Innerwear business saw 33% growth.

Overall EBITDA in branded apparel expanded by 50 basis points in addition to the plan 40% increase in the marketing spent. Textile revenues grew by 6%. This was driven by double digit growth in revenues from two of our segments wovens and garments. Textile margins were slightly subdued as a result of lower drawback rates and higher than plant pre-operative costs in some of our newer garmenting facilities.

As a recap I would like to just remind that the company had started multiple Greenfield sites in Gujarat, Jharkhand, AP and Karnataka which will expand our garmenting capacity almost 3x to

90 million pieces over next three years. Advanced Materials which will also be part of Arvind Limited grew by 21% and saw its EBITDA increased sharply to Rs. 14 crores for the quarter and operating leverage kicked in more matured part of its portfolio.

The business had clocked revenues of Rs. 487 crores last year and had a negative EBITDA of Rs. 7 crores for the whole of last year. So, this business has started to breakeven and turn in small positive EBITDA. We are on track on this business to reach Rs. 900 crores to Rs. 1,000 crores revenue run rate next year. Our engineering business also delivered healthy financial results at revenues of Rs. 48.2 crores and EBITDA of Rs. 18.4 crores partly driven by the saleable exchange rate movements.

Our overall consolidated net debt at the end of the quarter was Rs. 3,562 crores. We do not anticipate any significant change in this number in the current financial year. Now looking forward we continue to remain positive about the growth and improvement in profitability for each of these businesses. We expect the demerged Arvind Limited to grow at 10% for the full year very much in line with the earlier estimate we have put out.

Post demerger what will happen is Arvind Limited will consists of Textiles, Advanced Materials and few other smaller businesses. Of these textiles will grow at 5% to 6% which is slightly lower than what we had guided earlier and I will elaborate on this a bit more shortly. So, textiles will grow slightly lower, Advanced Materials will actually grow slightly higher and set off the textile impact and we are confident that we will be able to maintain the 10% growth target along with improving profitability by 1%.

So, what is going to happen is that the higher profitability from AMD, Advanced Materials and reduced investments in Arvind Internet will enable the demerged Arvind Limited to see an EBITDA improvement of 1% for the entire year. Now like I said I will elaborate a bit more on what is going on with the textile market and the guidance around that. So, specifically denim is a very oversupplied situation in India for few quarters and it continues to do so. We are also seeing that there are significant working capital challenges especially in the trade channel in denim.

In addition what we have observed is that the Q2 has not been the strongest of the quarters for many of the brands and retailers and we are expecting and seeing reduced orders for Q3. However we believe that volumes will come to normal levels in Q4. In addition we are currently implementing several garmenting projects which I mentioned earlier on the call. Some of them have got delayed by a few months.

And hence we are looking at the growth in the garment numbers as 20% as opposed to what we had thought 35% earlier. So, this will have slight impact on the margin as well. On the currency side we have one more quarter of hedges below Rs. 70. From Q4 we will start getting almost the

full benefit of the rupee depreciation. We expect our branded apparel business to grow by around 20% and see margin improvement of up to 100 bps for the full year.

The engineering business will grow by 10% to 12% and maintain its healthy margins as earlier. So, that is briefly in a nutshell my opening remarks. Now I invite you to ask any questions which myself or my colleagues will answer.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

Rishabh Parekh: I just had a few questions. One is your Power brand's EBITDA margin Year-on-Year even though it grew 15% in revenue there was a 30 basis points decline in EBITDA margin. So, should we understand that 13.5% is peak margins for Power brands?

J Suresh: I will just take this question. This is Suresh here. As far as Power brands is concerned as we had stated at the beginning of the year, we want to increase the advertisement spent because I think these brands are now doing exceedingly well and establishing leadership position in the specific categories like casual and denim wear.

We want to increase that lead in terms of being a dominant number one player in the casual and denim wear space. So, we have actually increased our advertisement spent to the tune of 0.9%, 900 basis points in the current quarter. So, you will see this playing out in the current year and probably little bit of next year and definitely 13% is not the peak margin for Power brands. We had earlier guided it is going to be around 15% as we move towards 2020 and 2021.

I think we still stand by that. I think it is a question of the other thing is we are seeing a huge traction in terms of US Polo innerwear. Hopefully I think we should cross even a Rs. 100 crores mark this year. We are also investing in separate advertisement behind innerwear as well.

Rishabh Parekh: But just to recap till FY20 we can see margins stabilizing at about 13% and then following that it can go up again?

J Suresh: No, I am talking about moving towards 15% by FY20.

Rishabh Parekh: And my second question is unlimited has not seen much growth in revenue Quarter-on-Quarter so is this because of the Diwali effect that you mentioned?

J Suresh: The main effect of course is the Diwali effect and second also is we have done some rationalization in terms of we have still had some Megamart Stores. We did some closures of the store and also in terms of expansion we have entered a new market which is Punjab which also so we had a certain start up cost in terms of setting up the operations in the new market as well as increase the spent behind advertising.

So, these all impacted and also there has been certain delay in opening up the store. As we had said that this year is going to be a near of aggressive store expansion. We have planned a certain number of stores in the first half which we could not do due to some delays in some mall opening and real estate not getting ready. So, that impacted the growth of unlimited in quarter 2.

And we are well on course I mean if you look at the festival that is the current month I think we are well on course for back to a much larger growth as we had indicated 20% plus growth as we had indicated earlier.

Rishabh Parekh: And in terms of your non-Power brands your EBITDA loss in non-Power brands was Rs. 23 crores in Q1 which has become Rs. 19 crores in Q2. So, just wanted to check if we still hold our guidance of breaking even across all our brand portfolio by the end of FY19?

J Suresh: In fact we are positive on emerging brands. We had delivered Rs. 3 crores EBITDA in the emerging brands in the current quarter. We still have a marginal loss we do GAP and say for our business we stay as a specialty retail business where we have a certain marginal loss in GAP business which is also we have substantially reduced.

So, we definitely hold the guidance on emerging brands it will be positive. So, there is no difference in that guidance. Actually we are positive on emerging brands as far as quarter 2 is concerned.

Rishabh Parekh: So, this Rs. 3 crores is non-GAP and non say for our emerging brands, right?

J Suresh: That is right, Yes.

Rishabh Parekh: And lastly, in the other segment of Arvind Limited just wanted to understand why there is so much volatility in revenue and EBITDA? If you look at Q2 FY18 the other segment had a revenue of Rs. 64 crores which became Rs. 160 crores this year. And the loss in others became a profit this year. So, just wanted to understand what is the sustainable number for others in terms of revenue and EBITDA?

J Suresh: So, the others include various newer businesses which are in some sense is not predictable because we are doing a lot of things which are some of them are in experimental stage as well. So, to give a guidance on others would be difficult however one business which is doing extremely well off late within others is our effluent treatment business which last year had a revenue of about Rs. 100 crores. But this year it is expected to do over Rs. 300 crores because we have got series of orders which they are implementing.

It is also a healthy margin business and as a result you will see when the profitability and as a result the other numbers looking good. We believe that this trend which you see in quarter 2 will continue for quarter 3. We are also aggressively now growing this business across the world. However to put a number because it is a very new business and to put a guidance on that would

be difficult right now. But we are very, very I think happy with what is happening with that business and it is something which we would like to pursue it very seriously.

Rishabh Parekh: Just one clarification. The others EBITDA does not include any FX profit or loss this quarter?

J Suresh: No, it is not a segment. All the FX related stuff would come in textiles.

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

Maulik Patel: Few questions. So, what is your confidence level for achieving this 20% topline growth in the brand because in this quarter the numbers were close to around 12%, 13% means the previous quarter the numbers were around 15%, 16%. So, I think for the second half reported around 20% growth for the full year we have to do at least more than 20%?

J Suresh: See in terms of the growth actually the first half growth for us is cumulative growth is around 17%. So, we are 3% shy of or committed 20% growth and that primarily happened also because we had targeted a slightly higher growth in unlimited because of opening of the store which then happened in quarter 2. So, we are expecting a sharper growth happening in unlimited in quarter 3 because of two reasons.

One is opening of stores which got delayed as they have opened and second also is the festival coming in the current quarter. So, then with the same trend continuing in Q4 we are targeting a higher growth in Q2, Q3 and Q4 so that we come back to 20% growth by end of the year.

Maulik Patel: And because of this INR depreciation is there any way the margin of some of the products which we import particularly in GAP and some other newer brands is impacted?

J Suresh: It is much smaller today because our imports are substantially come down even in the case of GAP in spring summer we will have almost 65% locally sourced. There is an impact definitely but that is a very, very small impact.

Maulik Patel: And if you are going to explain this Rs. 9 crores of the GST credit loss I think that would be helpful?

Jayesh Shah: Yes, so there are two changes which are one has come and one is likely to come. In textile as you know that there is a inverted duty structure because of lot of our inputs are at rate higher than 5% whilst output rate is 5%. So, we end up having extra credits which is an inverted duty as it is called. Till I think August or some month I forget whether it was August or July starting from the GST implementation till August the rule was that this inverted duty for textile will not be refunded.

In August the government after lot of representation upgrade that they will refund the inverted duties which are paid by the textile industry however they made another provision at that point in time saying that for the earlier period this will not be refunded or will not be allowed to be carry forward. So, effectively they said that we need to write it off. Now there are lots of complications in calculating that rate and the circular is very new. So, based on the advice from the auditor we made an ad-hoc provision.

We might have to make some smaller provision again on this account once the final audit gets down of the GST numbers. The other law which has not come but may come because that is what it has been put in the government I think it is the bill has already been introduced. It is to deny to textile industry the excise duty which was paid in the pre-GST era to be carry forward in to GST's account.

Now this is not yet passed but we expect that this may get passed though there is a lot of representation currently being made as a result if you see in our guidance note that we have given in the review note we have written that there may be an effect of this which may come if and when this gets passed. So, these are the two reasons why we believe there could be some this exceptional one time write off that may come.

Maulik Patel: And on the textile again. I think in the opening comments Samir mentioned that the benefits of the rupee depreciation will come from the Q4 and there is one more quarter where the hitches are still there and the realization could be below 70%. But among the total turnover of close to around Rs. 6,000 crores how much is it in pure export, pure export in terms of in USD export excluding the export which we do from the Ethiopia where we do not have any benefit of the rupee depreciation on that side?

Jayesh Shah: The very limited exports from India our entire textile from India the export is net export minus import which is the net flow is about $400 million.

Maulik Patel: So, which could be close to around Rs. 2,800 crores so 50% of the revenue?

Jayesh Shah: So, our revenue at the company is Rs. 7,000 plus crores this year going by the current run rates. So, this would be slightly below 50%, it will be like 45%.

Maulik Patel: And that once you get to higher rupee depreciation of let us say Rs. 72, Rs. 73 kind of an exchange rate what kind of impact that will have on our margin in view of the bottom price movement?

Jayesh Shah: It can be a big two-way table. What can be the price and what could be the quarter impact. But today if you look at the MSPs and the current cotton prices and if we were to take a view as to where is the cotton pricings are headed, as it looks that cotton is not so bullish, it is not in a

bullish phase right now. Though as of today arrivals have been delayed in India but we do not see it to be in a very, very bullish phase for the current season or coming season.

So, taking current prices obviously you would get 2% to 3% improvement or slightly more improvement in margin for the exports business. If in fact everything else were to remain static.

Maulik Patel: So, if I assume that let us say on the higher side of 3% of margin on the export business so overall margin can go up by almost 1.2% to 1.3% because 50% of the revenues in approximately export?

Jayesh Shah: So, to look at on a medium term and why I wanting to elaborate this is that lot of questions or issues or concerns may be there as to why the textile margins are lose right now we are in a very, very multi phase of investment in the garment side. Now as we do and we believe that this is one of the most strategic move on the textile side that we are doing over the next two years you will see a good amount of inefficiency in profitability coming in because you would be investing but not getting any returns for that. So, not only margins but also the return on capital employed will remain subdued.

I would say that we are seeing about couple of percentages right now for the future from the margin. And that trend will continue as we are going to be continuously investing for next couple of years. Apart from that there is these two things have happened. One of course when we are looking at like-to-like compared to last year quarter 2 if I were to compare to this year quarter 2 the dollar rates have changed. They are going to not be different from quarter 3 but they were different from up to quarter 2.

And we have really not seen the benefit of we benefitted quite a bit on currency last year because of hedges but it has been other way around till now and may be till December. So, combined effect of improved as we complete our expansion program in garments and as we go nearer to the market prices for all the inputs and outputs including currency there is a good amount of margin uptick possibility.

This assumes or does not assume all other things which we are doing in terms of innovations and new products. So, there is we are very, very I would say very, very happy about the plan that we have and we are very, very clear that textile business not only wills see growth but also significant improvements in margin in medium term as well as it is up for much, much sharper improvement in return on capital employed.

Maulik Patel: I think good to hear that. Just the last question. That is on the balance sheet side which we do not have on the balance sheet of brand business for the half yearly. But when we met the last time and even in the previous con call there was an emphasize on that that we want to constraint the working capital and improve the balance sheet of the brand business. So, is this one thing or

probably what kind of it we want to improve the inventory in dollars and reduce the received days and others. Is there in a meaningful traction is happening on that side?

Jayesh Shah: Yes, Suresh can elaborate on that. So, we will have to see the trend lines there and they are September and September of the last years are not comparable but and if I look at it where we are and where we are likely to be by March end, we are clearly seeing the target that we have being achieved and it is going to be one of the reasons why our return on capital employed we are hoping to almost double by end of the year compared to last year.

Maulik Patel: I think last year we did about 5%, 6% kind of an ROC?

J Suresh: Yes, so we are saying it should be double digit this year is what our internal target is. There are no brand business. Not the company and the whole.

Maulik Patel: And if Suresh can explain that what all exactly is happening on the working capital side that would be really helpful?

J Suresh: I think Maulik, we have taken a target that we will try and do the growth with probably no increase in inventory which means almost 10 days direction in inventory days compared to last year. If you remember last year we dropped the inventory days or reduced the inventory days by 15 days. So, we had taken a further target of 10 days reduction in the current year and close to 20 days reduction in the debtors days because debtors days had gone up last year.

I think we are well on course to achieve this and in terms of the trend line I think we have dropped 4 days in debtors compared to what we were in March which I think is significant because end of September typically you end up with higher debtor days because you would have invoiced a lot to the channel for the festive season.

But in spite of that we have been able to drop 4 days and inventory again we are under control we are again four days we have dropped compared to last year. And we have a very, very tight program whereby we want to end the year with whatever we had committed at the beginning of the year, 85 days in terms of inventory and 65 days in terms of debtors.

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

Nihal Jham: Sir, the first question was on the textile business. We see that the average cotton price is around Rs. 115 for Q2 whereas the current price of cotton more in the range of higher than Rs. 125. So, is it that we were holding on inventory and starting Q3 you will see the cotton prices that we procure going higher?

Jayesh Shah: There is no significant price movement in the cotton that we are seeing and I think I must also tell you that whilst we are looking at cotton as an indicator of cost in our review as well. More than as we have been saying that we are not investing in the entire chain of textiles a significantly

more quantity of yarn is being bought than the cotton has been consumed by us. So, if I were to look at our entire sales more than 55%, 60% of our sales is on bought out yarn rather than on bought out cotton.

So, the effect of cotton increase, the cotton prices or yarn prices have been gone up is already factored in our quarterly or half yearly numbers. So, on the balance 40% we are not seeing a big significant change as things stand today. It can change but as things stand today, we are not seeing a significant change in the cost of cotton.

Nihal Jham: So, sir, in the coming quarters you do not see cotton prices or even yarn prices impacting our margins in the textile business?

J Suresh: As things stand today, no.

Nihal Jham: Sir, following questions on the brand and retail business. Mr. Suresh you mentioned about a 20% growth number and I think a year-and-a-half back when there was a change in regulation on ecommerce generally there was an expectation that you will see a fall in discounting. However the recent season has proved that that is still continue strong. So, in that background how do you see the challenges going forward and is this 20% number still achievable?

J Suresh: Actually we are probably at the forefront in terms of doing well in ecommerce. First of all I think we have drawn out an agreement with the ecommerce players like Flipkart and Amazon where we have said that pricing will be in our control. So, generally you will find that as far as our brands are concerned that price you will see in any of these websites and you go to the store the price will be the same.

And if you see a discount in any of our brands it is because it is a whole season merchandize so anyway which we want to discounts and liquidate. So, with that control and then working very closely with them because what ecommerce does is throw up lot of information about the consumer. So, working very closely with the ecommerce player we have been able to develop propositions which are ecommerce excels with which I think has enabled our brands to be among the top 5 brands consistently with the ecommerce players. So, you may not find some of the categories which we do in ecommerce in our stores.

For example our footwear is doing exceedingly well in the ecommerce which you may not see so much in our stores. So, that is way we are actually utilizing the ecommerce and another thing which we had done which again is probably the first in the market. We have even connected our store inventory to the ecommerce players. So, which means a consumer who goes into say Myntra also get access to our store inventory and the pricing will be similar to what we sell in our store.

So, I think that is also started yielding some good results because Myntra do not buy all the range from us whereas consumer will get the benefit of getting the complete range when they dip in to our store inventory.

So, I think it is not just not selling in ecommerce is what we are pursuing. We are working closely with them and then trying to create propositions which are ecommerce specific and also working on technology how do we integrate the inventory and give a one way of inventory to the consumer across all channels.

So, I think we have a very, very healthy growth not only in terms of the absolute percentage growth but also in terms of the margin from ecommerce space.

Nihal Jham: So, you do not see say you mentioned that the fall in September LTL could be related to the higher discounting that happened in that month ideally and is it that if this discounting say stays aggressive that the LTLs in the future could be impacted?

J Suresh: See we have to be I think watchful about how the consumers are buying. See we should not be blindly telling that we will open 100 stores and 150 stores like the way we used to do. So, we are really careful in opening the stores and we also get the data from ecommerce players for example if you find demand coming from a certain place and then there are no stores there we can actually start a store there and we are also identifying markets like in smaller towns like tier 3 towns.

For example if I take our US Polo business there are 320 tier 3 towns in the country and we have only presence in 55 towns. And they are doing very well, those 55 towns. So, we are looking at opportunities to expand distribution like that. But coming to LTL I think it is more to do with the base effect because we are seeing a good uptick in LTL in the current festival month.

So, it is more to do with of course we had to be watchful and make sure that because ultimately we cannot control the consumers. If they are going to buy in ecommerce we cannot control them. We have to be sure that we are available to the consumer in whichever channel they are buying and make sure that our brand is protected in whichever channels they are buying.

Nihal Jham: Sir, the question on the other brands that includes GAP and Sephora you take separately there the growth has been 20% but I think the past used to be 40%. I understand the base impact may have come in but still you would expect brands which are say reasonably young to grow higher.

And secondly the margin improvement in these brands is it below expectation because most of the EBITDA improvement in the brand and retail are still being driven by our Power brand business. So, there is an expectation that maybe you will see a faster improvement in your brand and retail margins coming in also from the other brands also. So, just your comment on this segment?

J Suresh: I think see our focus is actually to drive the profitability. So, which means that our expansion will not be see when we open stores we cannot expect the store to deliver profit from year one. So, when you have a bunch of brands and then you open many stores then you will have an impact on the bottomline.

So, what we are trying to do is to consolidate and then make them profitable which is what I think we have achieved in quarter 2 and while the percentage margin may not be very high from the EBITDA swing we have a Rs. 11 crores swing compared to the last year numbers. Not Rs. 11 crores positive EBITDA but from a negative to positive there is a Rs. 11 crores swing.

Nihal Jham: This is for which segment?

J Suresh: I am talking about emerging brands. So, as far as GAP and Sephora is concerned, Sephora is already profitable even last year. So, there is no concern as far as Sephora is concerned. In fact we are scaling up and one of the reasons why our growth also is going to be very high in the second half is because we could not open any Sephora store in first half because of availability of real estate.

We are having actually five to six stores coming up in current month and next month which will actually substantially again increase the sales of Sephora. So, Sephora is not a concern and I think GAP concern is also now coming lesser and lesser because of more domestic production and we have been able to do both in terms of improving our margin as well as reducing the prices and increasing the appeal of the brand to the consumers.

Nihal Jham: Just one last question on the demerger. If I have to understand say the financials of the new textile entry that we found would the standalone financials for the last four, five as the reflective or they would be some other subsidiary to include in that?

J Suresh: I have not understood your question but basically Arvind Limited’s consolidated minus brand and retail segment and minus engineering is what will be Arvind Limited afterwards.

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

Kashyap Pujara: Most of my questions have been answered. I just wanted to basically take your sense on the industry. October saw actually quite a bit of festivities across India and despite so many events at least the feedback that we were getting on the ground is that the demand continues to be sluggish. What is your thoughts on the current festive season and how do you see the demand shaping up?

Jayesh Shah: Suresh can answer in a more detailed way. But in general for the whole of this year the markets have been tougher than what we would have expected in the beginning of the year. Having said that of course we are seeing a good like-to-like growth in the festive period and overall growth

as well aggressive that one would expect to grow at higher than 20% in quarter 3. But the markets are not in and in stock market terms bullish to it.

J Suresh: I think you have answered the same thing Jayesh Bhai. I think overall if you take on a macro level, I think consumer sentiment has not been good at all over the last I think almost for a couple of years now. So, that is I think given. But typically, what happens when festival we always see the festival starts coming from Onam in Kerala which actually completely got washed out. So, that one bit of sale we just did not get this year. Then Dussehra, then Diwali. Dussehra actually has done exceedingly well. Two states are significant from Dussehra point of view. The entire Eastern region and Andhra Pradesh.

These geographies have done exceedingly well during Dussehra. In fact we had a high double digit kind of a like-to-like during Dussehra market. Post Dussehra typically the demand should really pickup for Diwali. So, we saw a dip one-week post Dussehra which I think then the demand for Diwali did not pick up immediately after Dussehra as normally it happens.

But it started picking up from the last weekend which I think is a good sign. So, we are again seeing lot of momentum even during week days sales have been pretty good. So, we are hoping that that momentum of Dussehra festival which started should continue in to Diwali in spite of that one dip during interim week.

Kashyap Pujara: The point is that the sales had lost out because of Onam and we get a sense that okay Durga Pooja or some other things which happened Navaratri really were that chunky, Dussehra was weak while for us it was patchy across states at least for us that you are seeing that there is some growth. But do you think that this sales momentum that you are seeing right now can make up for a lost month or so in October? I mean not just for you but for the industry as a whole do you see that coming few days we will be able to make up for the entire month?

J Suresh: See I am not definitely we are not going to make up in coming few days because we do not have any deficit as far as the festival is concerned and I am not talking because of others. I am talking from our point of view is that we are 3% short on our committed growth number which we are hopeful to cover in the second half. And as far as the festival goes I think we are on track in terms of our own targets and where we are today.

What I told was there was a dip in sales in the interim period between Dussehra and Diwali. It is typically Dussehra and there are two weeks of Diwali. So, immediately after Dussehra there was a dip of sales for three, four days which has now picked up. So, I do not see any problem in we achieving the target which we set ourselves for the festival period.

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

Tejas Shah: Jayesh Bhai, just on AS115 if you can help us understand the impact of this regulation on P&L and cash flow versus earlier method? And should we change our way of looking at margins because denominator gets inflated under this method?

Jayesh Shah: So, honestly it is not affecting the entire 100% of the sales because the wholesale was always outright. It affects only some part of the business. So, out of like quarter 2 the sales changes are last year SOR sales was Rs. 96 crores. So, we are crossing it up by 9% so our sales are going up by Rs. 96 crores in the quarter 2 of the last year. This year that sales is Rs. 62 crores so our sales this time are getting grossed up by Rs. 62 crores so in effect you will see that our sales on a reported basis will look 9% growth instead of 13% growth because the SOR sales have changed.

However it is not so significant on the entire Rs. 4,000 crores, Rs. 5,000 crores turnover. So, in a year it will change by say to Rs. 400 crores. So, about 8%, 10% change. May be it will affect the margin by a few percentage basis points but not significant to change the complete basis on which we were looking at margins.

Tejas Shah: And how does this is different from previous method from concept perspective?

Jayesh Shah: So, what typically the difference is that in the earlier times we used to sell to a departmental store say we used to dispatch goods without recording sales. And as and when they used to sell at say Rs. 2,000 a shot we used to report 35% less so Rs. 1,300 sale in our account and they used to report Rs. 2,000 sale in their account and purchase at Rs. 1,300 and that is how it used to get done.

The new standards is that effectively when you were sold it on an SOR it effectively your sale is when this sale and as a result you should book the sale at a price at which they sell which is Rs. 2,000. So, now as and when they make a sale or a store makes a sale we record the sale at Rs. 2,000 instead of Rs. 1,300.

As a result, and we record Rs. 700 as a cost of commission or whatever you call it. As a result, the sales just grossed up by Rs. 700 and the cost gets crossed up Rs. 700. So, profitability does not, profits do not change, profit margin slightly dips but the sales get inflated to that extent.

Tejas Shah: And sales is recorded only when retail off take happens?

Jayesh Shah: Yes. So, that way it does not change except the number change the cost and the sales both go up by in my example Rs. 700.

Tejas Shah: Following question for Suresh. Sir, you mentioned that 20% growth guidance remains intact for the brand business. And we are parallely also working on improving our trade terms. So, this looks slightly challenging because what we have seen in past with other players also whenever they go into that trade terms consolidation mode growth aspirations take a back seat or they

compromise a bit on growth trajectory. So, just wanted to understand how are you expecting to balance both?

J Suresh: I think you are right we are taking some strong actions in terms of the trading terms. So, what I would say is that as far as this year is concerned the priority is to reduce the working capital. So, it means that probably we compromise on couple of percentage on growth. We will do that. But definitely going towards move to a double-digit ROCE with the right debtor's profile is our priority.

So, what we were mentioning about 20% growth is we are assuming that we should be able to overcome the challenge and achieve both. But definitely priority of the company as far as this year is concerned is to control the working capital, reduce the debtor days and even if it means we give up couple of points in terms of growth.

Moderator: Thank you. The next question is from the line of Shalin Kumar from UBS. Please go ahead.

Shalin Kumar: Sir, basically listening to your commentary Denim segment is not doing so great and I see that volumes have been more or less flat. But then your realizations have gone up. So, should we read that some currency benefit is coming in here and same with other segments as well?

Jayesh Shah: No Shalin, the price will depend upon the product that we have not necessarily the contribution for the business. So, many times have very expensive products which go through a lot of prophecies and lot of chemical applications which not necessarily could give you same percentage margin.

So, to answer your question whether we have any currency benefits, the answer is absolutely no. Whether this Rs. 190 is a sustainable price, not necessarily it may come down to Rs. 180 does not necessarily mean that our profits will come down. It is all a function of the product mix or the kind of cotton or kind of chemicals or dyes we use rather than a value addition if I were to put it that way.

Shalin Kumar: On IndAS change does it have any bearing on your balance sheet reporting as well?

Jayesh Shah: Ind-AS not have impact on the balance sheet reporting but there is the off shoot of Ind-AS which has a balance sheet impact which let me explain to you. Since this Ind-AS change when it came in the month of April lot of retailers chose to switch their buying from us it being SOR to outright because theoretically what it would have meant that if you continue to remain on SOR.

And if the wholesale company like Arvind or any other wholesale company selling to them where to report sales had in my earlier example Rs. 2,000 the departmental store will have to report that they will not at Rs. 200 but only commission of Rs. 700 which meant that their sales would drop optically as a result some department stores decided to switch the arrangement from SOR to outright purchase.

So, if you recollect in our quarter 1 results we said that though on paper our turnover growth was 31% but we said that actually that is not a true growth because there was a onetime sale that we received because what we had not shown as sales and shown as inventory became a sale and as a result we also on Rs. 10 crores one time profit which we both excluded during our analysis if you remember in quarter 1.

The outcome of this is that when we used to report sales from or when we were having a transaction based on SOR we used to keep inventory in our books and not debtors. And we used to not repot sales. Now we are reporting sales and not reporting inventory but reporting account receivables. So, you will see onetime impact of increasing account receivables and onetime impact of reduction in inventory on account of this change. So, a profit of Rs. 10 crores, Rs. 15 crores that we got booked in Q1 to that extent the debtors would be higher or the working capital will go up.

Shalin Kumar: Just last one more bit. On this advanced material and engineering the margins have been over here is it sustainable?

Jayesh Shah: So, to answer your question for advanced materials this margin is just a first year of consolidation. So, this is not a margin on which I mean we have invested large amount of money. The Return on Capital is in single digit because we have still not achieved its full potential. So, we believe that margin should rise from here to a significantly higher level over the next couple of years as our revenue goes towards Rs. 1,000 crores mark.

So, would the Return on Capital employed so it is just the beginning of the turning positive after three years of investments in to this business. Our margin should improve. As far as engineering business is concerned it will fluctuate on a quarterly basis based on what kind of orders or equipments delivered very, very specialized equipments versus a very commodity equipment.

But on a medium term of a year, four quarters if I were to take I would think that margin as we have guided of what we achieved last year 25%, 27% is what we should be able to maintain.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Samir Agrawal for closing comments.

Samir Agrawal: Thank you all for joining the conference today. We will meet you on next quarter on the call again. Thank you so much.

Moderator: Thank you. On behalf of Arvind Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.