“Arvind Limited Post Results Discussion for Quarter 3 Financial Year 2016-17”

January 25, 2017

MANAGEMENT: **MR. JAYESH SHAH – DIRECTOR & GROUP CFO, ARVIND LIMITED**
MR. J. SURESH – MANAGING DIRECTOR, ARVIND LIFESTYLE BRANDS LTD

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Arvind Limited Post Results Discussion for Q3 Financial Year 2016 & '17. Joining us on this call today are Mr. Jayesh Shah – Director and CFO – Arvind Limited; Mr. J Suresh – Managing Director, Arvind Lifestyle Brands 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. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Jayesh Shah. Thank you and over to you, sir.

Jayesh Shah: Good Afternoon and Welcome to this Q3 Earnings Call. My colleague, J Suresh, will join in a couple of minutes. As you know, he is the Managing Director of our brands Apparel segment.

This quarter as we all know very well was an exceptional quarter due to the impact created by the demonetization. While we go through the results for this quarter and the impact on account of demonetization, we would like to also focus on how we see things unfolding in near-term.

Just to give you Highlights of the Results:

Our revenue grew by 15%. Branded Apparel revenue grew by 24%. 'Unlimited' which is our retail offering was the key driver at 32% growth.

In addition, our Export-oriented Garments business grew in volume by 31%, as you know, we have added capacity every year in Garments and we have almost reached I would say 100% or thereabout utilization now. Some more capacities are being set up in Ethiopia and they should be operational sometime by early Q2 next year.

We also had a moderate growth in women's volume primarily in exports whilst Denim volumes fell by 3 million meters in this quarter, all of which was in November and December. As you know the Denim business in India there is a very large trade channel through which all the small brands buy and that was the channel which was very badly hit due to the demonetization and the cash crunch. Good news is that December was a much better month than November for Denim business.

EBITDA margin overall was at 10%. One reason of course is that the mix is changing more in favor of Branded Apparel which is in a single low digit margin as compared to Textiles which is around 17-18%. As you know, we have been in this year investing heavily in our Internet business. So these are the two reasons why as a percentage of sales you will see the EBITDA margins have fallen. Of course, the Branded Apparel margins fell to 4.4%. Now, a lot of people would wonder as to if we achieve 24% top line growth, why would the margins be 4.4% as compared to 7% in the corresponding quarter.

Three main reasons apart from some smaller other issues – One reason is that our sales in MBO it is one of the most profitable channels, while overall we grew in other channels, the sales in this channel actually saw a degrowth compared to last quarter by almost 25%. Now, that kind of resulted into a loss of profit or loss of contribution of a significant amount. Second reason which is an equally an important reason why our margins fell was that, as you know, we started Specialty Retail sometime in last quarter of last year. In Q3, we had 10 stores of all the formats in different brands in Specialty Retail. This number has grown to 30 stores now. So obviously this being Retail and large stores in very good malls with high overheads, the expectation was that we would in this quarter do a large business for this Specialty Retail brands; however, compared to the plan we actually underperformed significantly; by more than 33%. So we had a very high OPEX built in Specialty Retail which was doing pretty well in the month of October but saw a deep cut in the two months following the announcement of demonetization. So, that kind of made us lose a lot of money in the retail segment which was unplanned. Finally, as we saw inventories building up, we started promotions and discounts a little bit early which saw some margin drop. Actually, the margins fell though, our top line was not up to the mark because we had internally planned to grow beyond 30%, we ended up growing at 24% but still it is a healthy growth of top line with a severe hit on the EBITDA margin.

One silver lining in this whole of thing is all round good performance of our 'Unlimited' format. As you know, it is a value format and across the board all the value formats including that of our 'Unlimited' has done exceptionally well despite a drop of L2Ls in this format also in the month of November. So overall L2L growth was 27% and the gross margin level improvement was 200 basis points. So this is a very encouraging sign that we see and even if I see what is happening in the month of January, we feel that the issues that 'Unlimited' faced and the logic of restructuring seems to have worked in our favor and this is something which can now over a period of time attain much larger revenue growth and resultant profitability.

In Textiles segment, operating leverage of Garments as well as Fabrics helped us to improve our margin by about 0.6%. Though there has been an increase in cotton prices, I think the Fabric price increases has helped us to offset it practically 100%. So that is about P&L results.

About debt as you know we had discussed it in the last meet also that we are looking at reducing our debt by about Rs.1,000 crores which has happened, debt has indeed gone down by Rs.1,000 crores, it now stands at Rs.2720 crores at the end of December. We do not expect too much of debt increase, it will be around Rs.2800-2850 crores by the year-end. So you will see Rs.1,000 crores reduction by March of this year.

Coming to where we see now going forward, that is what I thought I would like to spend some time: We are seeing significant recovery in our Domestic Denim segment. As I just mentioned that from what we see now we believe that by March end, the normalcy should return to Domestic Denim sales. Again, going by what like-to-like sales we have reported in three weeks of January, also last week of December, we believe that Q4 we will see significant improvement in Branded Apparel segment as well and which would result in restoring back the EBITDA margins in line with what they should have been for such a rapid growth.

Finally, I believe that demonetization followed by introduction of GST sometime in middle of next year, will benefit organized players like Arvind significantly and as a result we continue to feel very confident that as per 5-year strategic financial plan for our brands and retail business, we should be able to achieve those milestones.

So with that, I will now hand it over back and we will be very happy to take your questions. Thank you.

Moderator: Thank you very much, Mr. Shah. Ladies and gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Nikesh Shah from Motilal Oswal. Please go ahead.

Nikesh Shah: Jayesh bhai, a few questions: First on the Internet part of the business, if you can just throw some light how much was the losses in that business in this quarter and how much do you envisage in FY17 & '18 respectively?

Jayesh Shah: So as we had said in the beginning, we are looking at almost about Rs.70-72 crores of loss in the current year and we are tracking that number. I think in the next year the loss may come down a little bit, maybe Rs.10-15 crores based on the revenue that may come in.

Nikesh Shah: When would this become more profitable because I think if '18 would also see incremental losses coming in, do you expect '19 to be at least break even or significant amount of lower losses?

Jayesh Shah: Significantly. It should happen and I think the traction is very good and very encouraging, though financial numbers may not suggest that. I think on all parameters, be it the number of orders that are hitting, the save the sale that it is doing, all of that are very encouraging and I think all the parameters that we had or milestones that we had fixed internally are coming good. Again, this channel got impacted and we will have to see how it unfolds. But otherwise '19 should see a dramatic change in this number.

Nikesh Shah: The other question was on the store opening part, if you look at the slide #18 of the presentation, it suggests that the square feet addition excluding Unlimited, I am just looking at the other category, was 9,06,000 in the first quarter and this quarter you ended with 9,05,000, so after the addition in the second quarter you backed down again. So how should one really look at – is it the calibrated move to consolidate and then move forward or what was exactly the reason for reducing the number of stores as well as square feet?

J Suresh: We continuously evaluate the stores and typically what we do is we find that some store is not viable, in third quarter post Diwali we closed those stores. So you will always find in Q3, the net additions will be lesser. Otherwise, in terms of the store expansion whatever we had planned in the beginning of the year, we are actually adding the stores.

Nikesh Shah: But if I have to look at with end of FY16, still the number would not be a significant addition to an absolute number of stores as well as to the square feet addition?

J Suresh: No, we have actually added almost 110 stores. I really do not know which number you are looking at. The number of stores closed also was higher because we have been progressively closing the Mega Mart stores. So that is the reason why the closures have been slightly on the higher side in the recent times.

Nikesh Shah: You would continue to add around 120 stores every year at least for the next year?

J Suresh: Maybe 150 stores a year for sure.

Nikesh Shah: Jayesh bhai, if you can just elaborate a little bit on margins within the Brands business and Unlimited business how should one really look at it in spite of 24% growth and you rightly elaborated that in your opening remarks but is Unlimited a lower margin as compared to brands part of the business hence the mix within the brands also change in favor of?

Jayesh Shah: Absolutely correct. Unlimited is now just coming out of negative margin to positive margin and this quarter was indeed a positive margin; however, it is significantly lower compared to say Power brands and it is going to be still a question of as we had said in the beginning of this year, that the restructuring was over, this is the year in which we want to test all our hypothesis and once we feel that everything is going the way we have planned we would like to accelerate the growth in the coming year which is the next year. I think we hold that even now. As you know we had actually degrown the top line in last two years. This is the first year in which there would be a marginal increase in the top line but we believe that next two years the top line should grow at a clip as high as 25% in this business, and that is where we would go back to a level where stores already being profitable with top line being achieved taken it to Rs.800 plus crores, that we will see a significant uptick in the margin in coming years.

Nikesh Shah: Does it also mean that incrementally with Unlimited now expected to grow at 25% over the next two years, standalone brands obviously grow at 25-30% which was your earlier guidance, so within brands and retail put together, the margin actually will not expand significantly, right, because your lowest margin within the brand and retail price also growing now which was not growing earlier?

Jayesh Shah: Even if it was not growing, it was actually making loss. That should work in our favor I guess.

Nikesh Shah: On your presentation, you guided for 15% growth for FY17 and if you look at the first nine months the balancing figure then comes to more like 10-12% growth for the fourth quarter which is the lowest at least in this year. Is that a right way to look at or that 15% is just that the bottom end of the guidance?

Jayesh Shah: Honestly, it is very difficult in a very uncertain environment to predict the quarter. The way to look at it would be that while we are looking at three quarters 15-16-17% growth and the next quarter, the change on account of IndAS once you incorporate in the fourth quarter last year, you will see a similar growth rate of 15-16% for the fourth quarter.

Nikesh Shah: What would be the CAPEX number for the first nine months so far?

Jayesh Shah: We are below our budget. We will be spending less than Rs.500 crores in a year.

Nikesh Shah: How much would have been spent till now out of that say assuming?

Jayesh Shah: It is not very relevant because there are commitments already made, cash flows are happening at a later point, so it will be better to look at the whole year which is going to be slightly shade below Rs.500 crores.

Nikesh Shah: You said you have Rs.1000 crores debt reduction will stay at the end of this year which means that at the end of FY17 you should get Rs.2300 crores of debt?

Jayesh Shah: No, the current debt number, it has come down from Rs.3800 crores to Rs.2700 crores already and it will stay around this number.

Nikesh Shah: This is December-to-December comparison?

Jayesh Shah: I am saying March-to-March.

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

Nihal Jhamb: Just checking on Mega Mart, you mentioned that the margins have turned positively this quarter. I guess the last quarter is more somewhere negative 8%. So in this quarter, have you done like around 1-2% or how should I look at that number?

Jayesh Shah: Around that number, but last quarter was not 8% negative, but it was around just about a few percentage negative, this quarter it is a few percentage point positive.

Nihal Jhamb: So if I am just comparing quarter-on-quarter, you mentioned about the point that we have started with the Specialty Retail over the last two-three quarters, you have expanded the stores and we did a margin of around 5% overall in the Brand and Retail segment in last quarter and we have only seen 60 bps loss in margins QoQ whereas our Power brand margins have fallen a little. So am I right to read that the losses in our other brands have actually come down if I look at it on a sequential basis?

Jayesh Shah: Percentage terms, yes, but they are all very marginal numbers, I would recommend to you and other friends, not to read too much into this unprecedented quarter because lot of things have undergone the change and it is very difficult to pinpoint, try to derive or use these as any kind of an extrapolation, I would recommend you to look at Q2 and straight come to Q4 rather than past Q3.

Nihal Jhamb: Actually looking at it in a positive sense that despite us being impacted by demonetization…?

Jayesh Shah: I understand, but because there have been so many things that one would have done, small-small things which I cannot elaborate or I cannot keep mentioning about where in a very unprecedented quarter you take all kinds of steps which will not give the correct picture. That is why in my opening statement also I said I will be very happy to discuss all the questions you may have on Q3 but I would still recommend that we talk more on what is going to happen in the coming quarter than what happened last year.

Nihal Jhamb: So that is more or less on the brand part. Just on the Textiles segment, we are looking at the strong growth in Garments that we see in this year and it is actually phenomenal at 30. So are we expecting something like this to continue and you mentioned that we are close to 100% utilization at this point, so do we already have the capacity in place in the coming quarters to take care of increase?

Jayesh Shah: Again, Q4 you will see like-to-like comparison good growth because currently we are 100% but Q4 we were not. So you will see a good growth in Q4. In the Q1 you may not see but Q2 onwards you will start seeing some changes because our Ethiopian facility will start becoming fully functional in the second quarter.

Nihal Jhamb: You mentioned on CAPEX being Rs.500 crores for this full year. So can we expect a similar run rate in the coming next two to three years also?

Jayesh Shah: As of today, yes, I think I want to only calibrate this with one uncertainty which is still going to unfold which is GST. So we will have to see how it goes, but in a model you can take that.

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

Farzan Madon: My question is regarding the Brand and Retail segment. Do we still go by the assumption that margins could improve by around 75-100 bps by 2018-19 the vision that we had laid down that…?

Jayesh Shah: 100%, we are very confident, plus/minus one quarter we do not know how everything will pan out, …Suresh, you may want to elaborate, and we are not changing our financial targets.

J Suresh: Actually, we were very much on course for that 75-100 bps improvement, unfortunately, we had this hiccup in Q3, but we are expecting that Q4 again will bounce back but because of this Q3 hiccup full year will be flat but we stand by with our commitment in terms of margins for 2018 and 2019.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Valuequest Investment Advisors. Please go ahead.

Chirag Lodaya: Sir, can I get the Mega Mart sales and EBITDA number for nine months?

Jayesh Shah: As a policy, we do not give any specific brands numbers out, but we can broadly tell you what rate it has grown. Suresh?

J Suresh: We have grown year-to-date at around 16%. So that is the growth rate. Till last year, we were more or less 4-5% kind of decline. I think we hope to sustain the growth maybe anything between 17-20% by year-end.

Jayesh Shah: EBITDA margins would be 1-2% negative for first nine months.

Chirag Lodaya: Secondly, if I see your segmental assets, so overall Branded Apparel segment asset has gone up by like Rs.1,000 crores?

Jayesh Shah: Yes, we got this question from some other friends as well. So please ignore the 2015 numbers. There is some mistake on our side in classifying assets and liabilities. We will correct it in March. But the numbers that we have given in '16 are correct.

Chirag Lodaya: What all B2C business we do not have as a part of deal?

Jayesh Shah: Currently, all B2C businesses are here, the only one joint venture which we have under True Blue is completely managed differently… it is a very small Rs.8-10 crores turnover company, managed separately as a joint venture with Sachin Tendulkar which is not part of this and Footwear as a vertical is being started which is not a part of this and we intend to integrate this over next 12-months.

Chirag Lodaya: What is the average cost of debt?

Jayesh Shah: End of December it was 7.4.

Moderator: Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

Rishabh Parekh: Jayesh bhai, can you throw some light on the Technical Textiles business and traction there?

Jayesh Shah: Technical Textiles has done well this quarter as well. I think the year-on-year revenue growth of this year also we should be at about 20%. Margins are improving on lot of the Technical Textiles businesses which were at an initial stage and as a result somewhere also in negative margin territory. We are likely to exit them with a two-digit margin. I think coming two years 25-30% growth with continuously improving 200 bps margin percentage point is a fair assumption.

Rishabh Parekh: Just wanted to get some more color on the MBO piece in the Brand and Retail business. So these are the department stores that we supply to?

J Suresh: No, these are not department stores, these are multi-brand stores, you can say equivalent of Kirana Stores in FMCG, they are small multi-brand stores which keep multiple brands and they are the one who got really strapped on cash post demonetization. Our store business and the department store business more or less come back post demonetization.

Moderator: Thank you. The next question is from the line of Nishit Rathi from CWC Advisors. Please go ahead.

Nishit Rathi: Just wanted to understand the working capital for the Branded Apparel business. The overall assets minus liabilities seems to have gone up substantially in this quarter over last quarter. So would like to understand, is there something because of demonetization or what, because you were expecting a significant improvement in working capital this year, right?

J Suresh: No, we have actually dropped our inventory by 30-days. So we have made a good progress in terms of inventory days and the receivables have revived more or less the same. So there is actually a drop in net working capital.

Nishit Rathi: So what would be the average working capital days if you would take for the nine months period if we were to look at it?

Jayesh Shah: The overall working capital at a net level as Suresh said over last 12 months it has improved by 30-days. As of now we are doing asset terms of about because we have all kinds of businesses within, there are matured growth businesses where they are almost more than 4 turns, while there are new businesses where they are growing at more than 150%. So when you look at the inventory for the forward sale, they look alright, but when you look at the historical level, they look at two multiples. So on an average but if you want to ignore everything and see what is the average turn, it will be close to 3 asset turns. But the large ones, mature ones are at above 4.

Nishit Rathi: The second thing is what should we expect as steady state margins for Mega Mart say let us say next year if you were to look at broadly? Secondly, we were also expecting the losses from the newer brands kind of actually go away in FY18, does that get pushed out now?

Jayesh Shah: No, FY18 we hold all the numbers and projections that we had done as of now. We do not have any second thoughts or second opinion about what we have forecast for now. They are at a very different level, they are the ones there are some at (+15%) at Power brand level and Retail which is a new start where we were hoping in fact to exit Q4 with the breakeven but I think it has been pushed by six months because of two reasons – one, of course, the effect of the demonetization and more importantly, the effect that all of these brands are small and everything is currently based on imports where you got that 7.5% duty on MRP for imported goods. So that has kind of pushed it by about 6-8-months, but otherwise they are all on course and over a period of time I think anything between 100 to 200 basis points year-on-year growth in margin is something which we are striving for.

Nishit Rathi: So Jayesh bhai, if I understood it right, Power brand will see steady improvement in margins, what the other brands which are other than Mega Mart which are right now bleeding, those brands will at least be breakeven next year, is that understanding correct?

Jayesh Shah: They will be breaking even this year. Only the Retail formats will take 6-8-months more.

Nishit Rathi: So the other brands will be breakeven, the Retail format is that breakeven could happen next year?

Jayesh Shah: That is what I am saying. Correction if you do not mind, we have changed the name from Mega Mart to Unlimited.

Moderator: Thank you. The next question is from the line of Sara Jaffer from Nirmal Bang. Please go ahead.

Sara Jaffer: I wanted to know what kind of response you have been getting for your GAP and Children's Place brands?

J Suresh: The response has been pretty good, in fact, we have accelerated our opening both in GAP and Children space, only we had some change in the whole business model because there was CVT which was introduced in the last budget which has impacted the merchandize margins. So we are working now on some sort of local sourcing which we have now got the approval from GAP which will enhance the margin and then once that happens then we will continue our expansion. Childrens Place, same thing.

Moderator: Thank you. The next question is from the line of Manish Poddar from Religare Capital. Please go ahead.

Manish Poddar: First on the Textiles bit. Did I get it right that you are saying that the garmenting sales growth can sustain at mid-teens to 20% for FY18?

Jayesh Shah: Yes, 15-20%.

Manish Poddar: Primarily the driver is the additional capacity in Ethiopia?

Jayesh Shah: That is right.

Manish Poddar: Any thoughts on the border tax primarily relating to exports from other countries, they are thinking of putting a tax on in the US?

Jayesh Shah: I do not know what they are going to do, it is a uncertain thing and really speaking it has not been very well articulated and at least not very well understood by us, so we are all groping in dark as to what it would mean.

Manish Poddar: When you are looking at let us say Q4, the growth in the Brands business which has got 25%-odd which you are alluded to in the outlook, are you factoring in primarily because of the lower base in the Unlimited format, is that primarily the driver, you are assuming the stress in the MBO channel to continue in the next quarter also?

Jayesh Shah: We believe that there has been a change from where we were in November to December and we are seeing change in January across our distribution channels in varied degree and we have basis certain trend line that we have for each of the distribution channel, we believe that we should be able to do around 25-26% top line growth.

Manish Poddar: Is there any change in the expansion plans for Mega Mart for FY'18 & '19?

Jayesh Shah: We are working on the next year plan and we believe that if at all we should accelerate it but still it is work in progress.

Manish Poddar: Just a clarity, would the sales only for the Brands business in the other channels excluding the MBO channel, the growth in this quarter be north of 30%?

Jayesh Shah: Around close to that.

Manish Poddar: Do you believe is there any one-off in this because of the November demonetization impact or this is sustainable going ahead?

Jayesh Shah: No, I do not think we look at it in that way, I think the way we should look at it is that there are different channels and over a period of time the ratio of channels sales are changing, like online it is becoming larger, MBO has been declining over a period of time as well irrespective of the demonetization. Lot of those changes are taking place and we believe that our job is to try and figure out different through any channel that we can do, try and hit our aspirational target of growing by 25%. Sometimes if your like-to-like sales are good, then you may not necessarily have to sell through any other channel and your own store can take care. If that is not as good you might have to push your sales through other channels as well as open or exclusive outlets. So those are all the tactical changes you have to do to your distribution channels as things unfold. There is no fixed formula on the distribution actually.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhaniya from Elara Capital. Please go ahead.

V Mandhaniya: What is the amount of investment in Arvind Internet year-to-date?

Jayesh Shah: Year-to-date it is about Rs.50-52 crores.

V Mandhaniya: So taking IndAS impact into consideration, what was the FY16 Branded Apparel revenue?

Jayesh Shah: 2250.

V Mandhaniya: For Aeropostale as a brand, lately it is being discounted heavily on third party eCommerce website. So is there a particular reason for that?

J Suresh: Actually, we are present only in Amazon. So we are not present in multiple third-party websites which discount. If you find some discount happening now, it is maybe part of our end of season sale. So it is not heavily discounted at all.

V Mandhaniya: But it has been on discount for the last two or three months at least?

J Suresh: Actually, in online what happens, they have a discount on the old season stocks, suppose 50 items, you may find discount in some 10 items, so it is not that everything is discounted. The nature of online channel is there is always certain stocks which are discounted which are the old season stocks.

V Mandhaniya: What is the difference in the margin for Branded Apparel which is earned in the MBO channel versus the other channels?

Jayesh Shah: Around 5%.

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

Dinesh Shah: Sir, what proportion of our Branded business comes from trade channel?

J Suresh: 20% in terms of the Branded business, if you take the company as a whole it is 15%.

Dinesh Shah: So when you say company as a whole, you are including Specialty?

J Suresh: Retail and all, correct.

Dinesh Shah: Sir, the CVD issue must have hit you in first half as well, but that time this margin issue was not this louder. So just wanted to…?

Jayesh Shah: I tell you why. Because the proportion of Retail was much smaller. The number of stores that got added and the size it became over a period of time to take care of the festive season, so it hits you the highest in a quarter where the bets are highest on that sector, and that is the reason why all the OPEX cost which hit us. Apart from the CVD which is the issue across the season, like first quarter and the second quarter lot of goods have actually been bought before the announcement of CVD. In Q3, 100% of goods which have come in are with CVD. So that is one change. Second is that the entire Retail OPEX have become large in this quarter, much-

much larger than what they were in Q1 or Q2, and as a result when you do not achieve the sale, the impact is much higher.

Dinesh Shah: What proportion of our sourcing will be exposed to CVD rather imported?

Jayesh Shah: For Specialty Retail it is 100% now.

Dinesh Shah: Jayesh bhai, one clarification; if I go back to the first part of presentation on this SOR, the language says that the revenue is reversed to the extent of unsold inventory at the end of the period. This quarter the commentary says that unsold inventory to the extent of anticipated return. So is this just a language or there is some subjectivity?

Jayesh Shah: Initially, as we were looking at the SOR in Q1, the language what you said was the language. But as we were doing more work on the IndAS, in the second quarter itself, we got a technical opinion from one of the big four that even the OR channel which is an outright channel, if there is an expected return, you should as well try and provide that as well. So we started providing that from Q2. As a result, we had to change the language from only secondary to even an anticipated returns on outright sale. So it becomes even more conservative than what it was in Q1.

Dinesh Shah: So SOR inventory which is in non-OR channels, anyways we have to reverse and plus on the OR channels…?

Jayesh Shah: We are returning to the extent of anticipated return.

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

A Ranganathan: I have a couple of questions on Unlimited. Sir, this Unlimited, the current growth which has been very-very commendable and the targeted 25% growth. So if you could just break it down as to what has led to this 32% growth for this year and going ahead what will drive the 25% growth, what will be the mix for like-for-like or new store additions? If you could also give a sense of the format as to what is the acceptability of the format in the smaller areas and what is the prospect to add the stores in the regions because as a value retail format, the potential seems very huge here?

Jayesh Shah: I will take the first question and maybe Suresh can take the last one. So what you ask me is about the composition is pure and simple, as you saw 27% like-to-like growth, right. So, that is the composition. When you say 32% and if 27% of it has come from same-store sales growth, it essentially is the reason why the sales have grown.

A Ranganathan: To understand, what has changed over the last four-five quarters from a format perspective which is gaining this kind of customer acceptance?

J Suresh: We have said in the earlier analyst calls also that we have been doing some pilots on rechanging the model completely and how we are moving the whole thing from men oriented discount model to a family store which is value fashion. So that is the pilot which we have been doing for almost 3-4-quarters. Now, I think over a period of now 5-quarters, that concept of a family store is getting established. So as a result, our sales of both women and kids have now sharply gone up which was not much to the sales earlier. So it is a much more diversified product category which we sell now in Unlimited. Second, the entire combination, our proposition is the right price and superior quality for that price. I think that proposition again is working quite well and whatever work we have done in terms of marketing the brand Unlimited has also started giving results. So these are the combinations which has really worked in driving the like-to-like sales of Unlimited. So that is how the concept has sort of moved from what it used to be a Mega Mart discount oriented Men's focused model.

Jayesh Shah: The other changes that have happened is that as we moved from a discount model to value format model, the share of private brands is now almost as high as 75-80% in our overall sale and which is giving us much higher contribution. Our gross margin is almost 500 basis points up compared to what it was a year ago and that is leading to much better store profitability and as a result I would say every store that we currently operate is positive at the margin level. Now, once we scale it up, we believe the cost which we are incurring in making Unlimited marketing or say advertising and the central overheads will start getting spread and as a result our margins at an EBITDA level will start improving year-after-year. The second question you said that what makes us believe that 25% growth can be done. It is a question of two things – one is that how much of more like-to-like sales we can kind of achieve and the second and equally importantly whether we are looking at distribution expansion because we have been quite stagnant as you see on correcting the model within the stores that we had rather than adding to the store. We believe that for one more year more than 10-12% of like-to-like should happen. If it happens, we will open that many less stores, but if it does not, we will have to open little bit more number of stores. But that is how we aim to continue growing this because it has been stagnated by design to restructure it for two years and now it has come to a level where margin model, the merchandize, the concept, everything has been well tested and accepted. It is the time for us to accelerate the growth.

J Suresh: You were asking other question in terms of the small towns. I think we have opened fairly good number of stores in small towns this year and they are actually showing phenomenal results. These kind of good results in small towns I think it opens up huge opportunity because there are so many more small towns we can now reach out.

Jayesh Shah: The other thing which we are planning to do for the next year is that we are putting our Mega Mart or Unlimited store on online starting this quarter.

A Ranganathan: So it will be now, it will be separately listed?

Jayesh Shah: Begin now.

J Suresh: Of course, all the Unlimited brands we already do in Amazon and Myntra and all that.

A Ranganathan: The fact that this year we all had to have additional proportions and sales. So what would be the percentage of full price sales for us this year versus last year?

J Suresh: We have higher than almost 5% compared to last year because I think we have mentioned this in one of the calls that we have done some work on the entire value chain, what we call as concept to shelf using Boston Consulting Group where we are putting really the best world-class practice in the way we completely do the entire merchandize planning process and the way we produce source and sell in the marketplace. So that has really helped us to improve our full price.

A Ranganathan: I just wanted to get a sense on the capital employed which has increased for the Brand business. This would be largely on account of store additions in terms of just pure CAPEX, what would explain the 31% YoY jump on the increase in capital employed if I were to just state it what percentage would be because of CAPEX and what percentage would be the working capital?

Jayesh Shah: Do not have the exact numbers right now, but we have added about Rs.140 crores of CAPEX in this financial year and a couple of hundred crores of working capital.

Moderator: Thank you. The next question is from the line of Nikesh Shah from Motilal Oswal. Please go ahead.

Nikesh Shah: Jayesh bhai, what would have been the capacity on Garments right now and post Ethiopia, what would that number go to?

Jayesh Shah: Right now, it is close to around 28-30 million units and in the first phase which is the next year we will be adding about 6 million and then another 6-months down the line another 6 million.

Nikesh Shah: That would be higher margin because obviously the taxation and everything will benefit you, right or would that be …?

Jayesh Shah: On a long-term, yes, these are the initial years, they actually eat into margin for some time, otherwise yes.

Nikesh Shah: In this quarter, if we were to look at the presentation, what is the total sales of other brands on YoY basis which includes the Power brands as well excluding Unlimited?

Jayesh Shah: In the current year, when you look at 25% growth over last year which will take a number close to Rs.2800 plus crores. The power brands and the emerging brands will constitute almost 65%.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My first question is can you just tell us how much departmental stores contribute to your Branded Apparel revenue?

Jayesh Shah: 30%.

Rajesh Kothari: With reference to the promotion and discount effect, since the promotions and discounts also continued in the month of January, is it possible for you to break down the impact of margins into the one, two and three reasons which you have cited?

Jayesh Shah: We are not giving specifically but around 100 basis points margin got impacted in this quarter on account of promotions. Others are all different-different ways you can look at it. Broadly, these are the three reasons.

Rajesh Kothari: This Internet business investment which we are looking at around Rs.70 crores of investment in the current year, what is the write-off policy… do you write off in the operating expenditure?

Jayesh Shah: Yes, 100%.

Rajesh Kothari: What was this amount for the last year?

Jayesh Shah: Last year was very small, maybe Rs.10-12 crores.

Rajesh Kothari: In segment wise, you put it under Branded business, is it?

Jayesh Shah: No, there is a separate segment if you look at our results, there is Arvind Internet as a separate segment.

Rajesh Kothari: In your presentation, when you are showing the Branded Apparel business, it is nothing to do with the Internet business, am I right?

Jayesh Shah: Nothing to do with it. You will have to see the results which are attached to our e-mail.

Rajesh Kothari: So you have not given Arvind Internet EBITDA separately? So that is Rs.70 crores loss or whatever I mean.

Jayesh Shah: We have given, but it is not part of our presentation.

Rajesh Kothari: Can you give us nine months what is the Branded Apparel revenue and margins?

J Suresh: We have done Rs.1980 crores with 4.9% margin.

Rajesh Kothari: Do you think these promotions is also there in the month of January?

Jayesh Shah: No, promotions in January are normal promotions, every year they are not specifically because of demonetization and they are factored in every January, so they will not be different.

Rajesh Kothari: Just a little bit on consumer behavior question, how do you see the consumer behavior versus your MBO channel compared to the department stores because you have a different kind of growth in different channels?

J Suresh: The cash sales is more in MBO channel. So that is the reason why it got more impacted during demonetization. Department store is more professionals kind of people who go and shop there. So as such the cash sales is higher in the department store channel vis-à-vis MBO channel. Also, you find MBOs in small towns, so the cash transaction is always larger in small towns compared to the larger towns.

Rajesh Kothari: You are seeing recovery in that as well in month of December and January like?

J Suresh: We are looking at recovering but not to the fullest extent but definitely not 60-70% achievement like Q3, but we are looking coming closer to (+90%) kind of an achievement.

Rajesh Kothari: Compared to pre-demonetization you mean?

J Suresh: Right.

Rajesh Kothari: Then what justify Specialty Retail revenue significant down…MBO is basically you are saying since it is a small town, the effect of demonetization was felt because there is a cash kind of transition, so in Specialty Retail also you mentioned that there is 33…?

J Suresh: It also got affected in the month of November. What we are saying is sales have come back largely in the month of December. But definitely in November all the channel sales got affected including department stores.

Rajesh Kothari: No, I am saying for this quarter, you mentioned MBO channel reported 25% degrowth…?

Jayesh Shah: No-no, the Specialty Retail channel were hit so was MBO hit to some extent, not so much extent. The challenge comes on margin on Retail because the overheads were much larger and they were already incurred in anticipation of achieving certain sales and that is the reason why you see a negative margin coming in Specialty Retail in this quarter. Once you achieve back to those sales that margin erosion which happens because of fixed overheads being fixed will go away. It is not a question of behavioral change.

Moderator: Thank you. Ladies and gentlemen, we will now close the question queue and that was the last question. Thank you for participating in the conference call. You may now disconnect your lines.