



August 13, 2024

BSE Limited
Scrip code: 535755

National Stock Exchange of India Limited
Symbol: ABFRL

Sub.: Transcript of Q1 FY 25 Earnings Call of the Company

Ref.: 1. Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;
2. Our intimation dated July 30, 2024

Dear Sir/ Madam,

Pursuant to the above referred, the transcript of the Q1 FY 25 Earnings Call held on August 7, 2024 is annexed herewith.

The above details along with the audio recordings of the Earnings Call are also available on the website of the Company i.e., www.abfrl.com.

Thanking you,

Sincerely,
For **Aditya Birla Fashion and Retail Limited**

Anil Malik
President & Company Secretary

Encl: a/a

ADITYA BIRLA FASHION AND RETAIL LIMITED

Registered Office:

Piramal Agastya Corporate Park, Building 'A',
4th and 5th Floor, Unit No. 401, 403, 501, 502,
L.B.S. Road, Kurla, Mumbai - 400 070

CIN: L18101MH2007PLC233901
Tel.: +91 86529 05000
Fax: +91 86529 05400

Website: www.abfrl.com
E-mail: secretarial@abfrl.adityabirla.com



“Aditya Birla Fashion and Retail Limited
First Quarter Earnings Conference Call”
August 07, 2024



**MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR –
ADITYA BIRLA FASHION AND RETAIL LIMITED
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER –
ADITYA BIRLA FASHION AND RETAIL LIMITED
MR. VISHAK KUMAR – DIRECTOR AND CHIEF
EXECUTIVE OFFICER – LIFESTYLE BUSINESS – ADITYA
BIRLA FASHION AND RETAIL LIMITED
MS. SANGEETA TANWANI – DIRECTOR AND CHIEF
EXECUTIVE OFFICER – PANTALOONS**

Moderator:

Ladies and gentlemen, good day, and welcome to the First Quarter Earnings Conference Call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the company's management on the Q1 FY '25 performance followed by a question-and-answer session. We have with us today Mr. Ashish Dikshit, Managing Director; Mr. Jagdish Bajaj, CFO; Mr. Vishak Kumar, Director and CEO, Lifestyle Business; and Mrs. Sangeeta Tanwani, Director and CEO, Pantaloons.

I want to thank the management team on behalf of all participants for taking valuable time to be with us. I must remind you that today's discussion may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risks that the company faces. Please restrict your questions to the quarter and full yearly performance and to strategic questions only. Housekeeping questions can be dealt separately with the IR team.

With this, I hand the conference over to Mr. Jagdish Bajaj. Thank you, and over to you, sir.

Jagdish Bajaj:

Thank you. Good evening, and welcome to the quarter 1 FY '25 earnings call of our company. As we look back at the first quarter of this fiscal, the overall consumption environment has remained weak. The apparel market, in particular, was further impacted by a subdued wedding season, prolonged heat wave, all of which have contributed to reduced consumer activities.

Despite these challenges, our focus has remained on consistently improving profitability. We have prioritized aligning our channel strategies, refining our overall cost model and improving the health of our distribution network.

These efforts have enabled us to navigate through the tough demand landscape effectively and profitably. This quarter saw growth primarily driven by our newer businesses, which are built around emerging fashion segments. These new businesses are proving to be vital in sustaining our momentum while setting up multiple growth platforms for the future. Before I talk about financial performance, I would like to share the status of both merger and demerger corporate actions which we announced.

The amalgamation of TCNS with ABFRL is on track as the honourable NCLT has approved the merger. We are awaiting the court order and then we will work towards making this scheme effective. For demerger, we have filed the application with the stock exchanges and hopefully we'll be able to complete it within the timeline indicated earlier, that is by end of fiscal year '25.

Now I'll talk about financial performance of our company for Q1 FY '25. Our company delivered revenue of INR3,428 crores in this quarter, reflecting a growth of 7% over last year. The demerged ABFRL grew 26% Y-o-Y this quarter. Both our ethnic and digital-first portfolio together more than doubled their revenues led by organic as well as inorganic growth.

Company achieved consolidated EBITDA of INR406 crores with 11.8% margin. EBITDA increased 15% year-on-year in absolute terms. Both our established businesses, that is Lifestyle and Pantaloons witnessed margin expansion led by gross margin improvement and effective cost control measures. Our new businesses have continued to see robust revenue growth with improved profitability. Company's consolidated PAT was negative INR215 crores, majorly on account of continued investment in TMRW and ethnic businesses.

I will now take you through the performance of individual businesses, starting with the first proposed ABLBL segment. The segment posted revenue of INR1,799 crores, with EBITDA of INR283 crores in Q1. The EBITDA margin expanded 200 basis points to reach 15.7%.

First, with Lifestyle Brands, this quarter's growth was primarily impacted by weak wedding season. Despite the prolonged weak demand environment, the business has continued to deliver strong profitability. Quarter revenue for the brand stood at INR1,482 crores. EBITDA margin expanded by 50 basis points to reach 18.8%, led by sustained cost optimization and better discount control.

Second, the emerging business portfolio within ABLBL comprising of Youth Western wear, Innerwear and Athleisure and Sportswear segment posted 5% growth at an overall level with significant margin expansion. American Eagle posted 35% Y-o-Y growth led by strong distribution expansion. Reebok following a successful first year with ABFRL maintained its trajectory of profitable growth year-on-year. The brand is consistently launching new products while expanding its distribution across channels.

Now Innerwear business, the varied performance of the Innerwear and Athleisure continued with Innerwear posting growth while Athleisure is still degrowing, albeit with some sign of recovery. The brand continued to drive distribution while investing behind consumer salience and engagement collaborations on social media, other digital channels, etcetera. Currently, the brand is available at over 35,000 trade outlets and runs over more than 100 EBOs.

Now the remaining ABFRL. This segment posted revenue of INR1,709 crores with EBITDA of INR118 crores in Q1 FY '25. The like-to-like margin expanded by 200 basis points. However, with inclusion of TCNS into this year at reported level led by TCNS losses and investment into newer segments, the EBITDA for the segment stood at 6.9%.

Now let me explain Pantaloon business. Pantaloon's revenue grew by 5% Y-o-Y to INR1,100 crores. Retail's like-to-like growth for the quarter was 2%. EBITDA margin expanded by 470 basis points to reach 17.6% led by markdown management and cost control measures. Through a combination of strategic initiatives, Pantaloon has been focusing on enhancing its consumer proposition through improved product offerings and better retail experience. Initiatives around merchandise planning, product value announcement, tight inventory management and improved consumer outreach is helping the format grow with healthy KPIs all across, improved gross margins, better operating margins and efficient inventory turns. Going forward, the business intend to continue building on this successful approach.

Coming to our Ethnic portfolio. Overall portfolio posted sales of INR350 crores with the inclusion of TCNS. At this scale on a run rate basis, it is not just the largest branded ethnic portfolio in the country, but also the most diverse one with designer-led brands on one side and premium ethnic wear on the other side. Designer-led brands include Sabyasachi, Shantanu and Nikhil, and House of Masaba. Despite a lean wedding calendar, the portfolio grew 4% Y-o-Y. Sabyasachi delivered another quarter of strong performance with 5% L2L. House of Masaba revenue was up 75% Y-o-Y with Beauty segment growing to 6x of last year.

Premium ethnic wear brands include Tasva, Jaypore, and TCNS brands. TCNS revenue stood at INR206 crores, 84% of last year, mainly on account of network rationalization, led by a focused ongoing transformation program within the business, the business has begun to show promising results.

Brands have seen an increased market share in top departmental stores and also posted a retail L2L of 5% this quarter. Tasva sales were impacted this quarter due to a reduced number of wedding days versus last year. However, with the superior product offerings and high-quality store experience, Tasva is well positioned for a strong performance in the upcoming wedding and festive season.

Coming to the Luxury Retail segment. Delivered another quarter of strong performance with Y-o-Y revenue growth of 18%. E-com channel continued its organic growth growing 31% versus last year.

Finally, TMRW. TMRW portfolio grew to 2x of last year as the brands continued to benefit from operational and business model announcements provided by the center of excellence. TMRW expanded its portfolio with minority investment in Wrogn. The portfolio now consists of both large prominent category-leading brands, along with mid-size emerging brands in high-growth space.

To conclude, despite challenging conditions this quarter, our strong portfolio of brands has demonstrated remarkable resilience as in previous quarters, reading the situation, we have kept a sharp focus on our profitability through this period while leveraging growth opportunities that came through. We took this time to make improvement in our model in the current context, corrected cost, improved the health of our distribution and amped up focus on parts that face tailwinds.

As we look ahead, we anticipate an improved demand environment during the upcoming wedding and festive seasons that will hold us in a much stronger position to capture the opportunity in the market.

We are open to questions now, please.

Moderator:

The first question is from the line of Nihal Mahesh Jham from Ambit. Please go ahead.

Nihal Mahesh Jham:

The first question is on Lifestyle brand. If you could just give the ballpark SSG for this quarter? And also what would be the approximate salience for all the wedding categories? Asking the same because I do believe we've been targeting to casualize the brands and if that would have had an impact in terms of moderating the impact of the lower revenue.

Vishak Kumar:

First question, low-single-digit negative, okay, for the quarter. Primarily impacted by wedding days. While definitely our suits and blazers business and categories which are more impacted by weddings, had that impact more. But overall itself consumption occasions had reduced. So we see that this time, the calendar we've been dealt with is very strongly loaded towards the second half of the year. So I think we'll have to just play it out with the calendar that way.

- Nihal Mahesh Jham:** The related question there also was that Pantaloons have delivered a positive SSG. So the difference obviously is because of the wedding dates you're saying. And also with Pantaloons as you're highlighting about certain initiatives just if you could mention what are those because despite us reducing the discounting, we've managed to see a positive NPL. So what have been the drivers to achieving that?
- Ashish Dikshit:** So Nihal, this question is regarding Pantaloons or this question is in reference of Lifestyle Brands. Not clear.
- Nihal Mahesh Jham:** It's regarding Pantaloons but just the divergence also, if you could just highlight that the performance of Lifestyle is maybe because of the wedding days or there is something more that you may want to highlight?
- Ashish Dikshit:** So I think as Vishak explained, Nihal, the larger phenomenon in the market is that the premium brands are particularly bought for special locations, wedding being a very large part of it, but all other special occasions. This quarter being particularly slow either on festivals or in weddings, the premium brand demand has suffered more on a like-to-like basis as well in absolute terms.
- The share is highest for categories and brands, which cater to those segments, so highest for pure wedding wear brands, in our portfolio/designer brands, then relatively high for menswear brands, where suits, high-end shirts, etcetera, have a large share. And to that extent, slightly lower at the more regular occasions, which large part of Pantaloons caters to.
- Nihal Mahesh Jham:** Got it. And just on Pantaloons, the comment about despite reducing discounting we managed the positive like-for-like?
- Ashish Dikshit:** Sorry, Nihal, can you ask that question again? I'll ask Sangeeta to respond to you.
- Moderator:** Nihal, sorry to interrupt, but we request you to please repeat the question. Your line sounds muffled.
- Nihal Mahesh Jham:** Sorry, I was just saying, despite reducing the discounting in Pantaloons, we managed the positive like-for-like. So what are the initiatives which helped achieve that?
- Sangeeta Tanwani:** Yes, Nihal, this is Sangeeta. So I think it's a question of us staying the course in terms of our strategy that we have talked about in a consistent manner in the last call as well. I think the fact that we have chosen to go the premiumization way and increase the fashion quotient and design aesthetics of our merchandise. The better planning processes that we have put in place. I think execution of that strategy as we have seen it come to life.
- And a very, very strong focus on ensuring in-store execution of the great merchandise that we are making. Staying the course on strategy, both on premiumization, making the stores look good, improving the product and improved planning processes, which has also, by the way, resulted in reduced markdown, helping us in optimizing the markdown and improving our sell-throughs as well on the merchandise. I think it's a combination of all of that that's helped us drive our growth.

- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** Sir, congratulations on a great set of operational performance. Sir, my first question again is with regards to the Pantaloons margins here. The Pantaloon margins have seen a sharp improvement despite not seeing a sharp improvement in the SSSG or even the revenue per square feet. So how should we look at it? Is it largely rationalization of costs that we have seen? Or is it also because of the closure of the loss-making stores that has helped in this? If you can articulate what has driven these margins? And how sustainable these margins are going ahead?
- Ashish Dikshit:** So as Sangeeta mentioned, the primary drivers are superior execution on merchandising side. See cost rationalization gives you a little bit of base correction which has happened over the years and particularly some stores closed in Q4. But if I were to point out, that's a marginal improvement. The bigger improvement in Pantaloons has happened through gross margin enhancement, through better quality product, better intake margin, superior inventory management leading to lower markdown and discounting and all this happening and increasing the share of private label.
- Gaurav Jogani:** Sure. So sir, the private label share has now increased to around 66%. What has led to this? And is it a conscious strategy going ahead that we would want to keep the share of the private label higher and in fact, increase this from these current levels as well?
- Sangeeta Tanwani:** So, Gaurav, we've consistently been working at improving our product. We used to be a couple of years back at about 61%, 62%, and we have continuously invested in improving our product. And obviously, we'd like to give our customers relevant assortment where appropriate, depending on the town class that we are in. If you look at the share, as we've given you, of private label plus the ABFRL brands, that totally comes to about 76%, 77%.
- And I think we'll continue to strive to improve that further by a couple of percentage points. We offer our customers a wide range of products in private label across all categories. Equally, we have a representation of external brands to ensure that we cover all the occasions. So I think we are on this journey. We probably have a little bit more opportunity to further improve our private label share, but that's dependent on the assortment that we have for every single store.
- Gaurav Jogani:** Sure. And sir, my second question is with regards to the overall -- the consolidated losses. So if you look at it, the consolidated losses actually have increased on a Q-o-Q basis as well. However, as stand-alone losses have reduced down considerably. So that says that the losses actually in some part of the business has increased. So if you can articulate whether the losses have increased more in the TCNS part of the business? Or is it more the ethnic or the TMRW piece, which is contributing to these incremental losses?
- Ashish Dikshit:** So the losses have increased primarily due to addition of TCNS, which was not part of the company in quarter 1 last year. So on a like-to-like basis, that is what has driven. That has increased -- and that's a phenomenon that has happened in the last 2 quarters. As far as TCNS is concerned, I think most of the big deep correction that we are doing in that business, is mostly behind us, maybe a quarter more or something. It's a business which in the second half of the year, we'll definitely see a much better and positive bottom line apart from an improved traction

in top line, some of the early signals of the business performance has sort of corrected, started to show that sign.

There is obviously small -- there's another slightly increased set of losses in TMRW compared to same year same time last year. So if you were to attribute the increased losses, it's come more from TCNS, most of it and a small part from increasing losses on TMRW.

Gaurav Jogani: Sir, actually, I was more referring to the quarter-on-quarter because in Q4 also, we had TCNS in the base. So from Q4 to Q1 also, the losses have actually increased by INR50 crores-odd, on a sequential basis, that is. So my question was more with regards to the sequential loss increase?

Ashish Dikshit: There also, I think TCNS remains a major part of it. The losses -- all businesses -- TMRW losses were also this quarter higher compared to last quarter and TCNS losses are also higher.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Sir, congrats on a good margin execution in Q1. Sir, I just wanted to catch your thoughts on demand trends in ongoing quarter. As PPT mentions, there is a pickup in value retailing. And if I remember correctly, base is also supportive due to shift of Pujo plus there was extended Shraavan period last time around. There are some incremental wedding days in Q2 also. So what's your thought on the ongoing quarter? So the commentary mentions H2 should be great. But any color here?

Ashish Dikshit: We have been very careful in stating that H2 will be better than significant improvement. You have rightly pointed out some of the occasions for which Q2 has some factors of improvement over Q1, but most of them is happening towards the tail end of that quarter. So I still believe that the greater shift in momentum will happen towards the second half of the year.

Devanshu Bansal: Got it. And sir, we do have some B2B part of the business, right? So for direct retailing, I understand the later part should help, but any initial signs you would like to highlight from that perspective?

Vishak Kumar: Yes. Devanshu, as far as B2B is concerned, you're right. So a lot of Pujo uptick and Onam uptick, etcetera, would happen in Q2. Of course, that is vis-a-vis Q1, but you'll also have to compare it with the base of Q2 last year. But yes, there will be that impact in Q2. The general optimism is there with department stores with various B2B partners. Optimism is there that H2 would be a good H2. That's the broad tenet with which we are operating.

Devanshu Bansal: And sir, there is a comment for TCNS that over the next 9 months, we should largely be EBITDA breakeven in FY '25. I guess most of the losses in this ethnic segment were due to this particular entity. So overall, for next 9 months, at least, can we expect a positive EBITDA from Ethnic?

Ashish Dikshit: So I think there are multiple moving parts there. TCNS is one element, which obviously, we are fixing as we go along. We will have continued investment -- and I think this year losses in Tasva. So while TCNS will fully turn around, but because Tasva we have a more ambitious game plan, I think our investment will continue there.

To some extent, these will be offset by profits that we expect to make in the designer labels, which are the partnerships that we have. But the exact balance we can't commit to a number right now. I think TCNS trajectory is visible. Tasva it's clear that we'll have to invest at least for another year in this form and a part of it will be offset by designers.

Devanshu Bansal: Got it. Sir, one last small bookkeeping question for Jagdish. So Pantaloons last time around when we reported in the PPT was about INR1,030-odd crores. This time around, it is closer to - that same number has gone up to INR1,051 crores. There is some small reclassification. So if you could call out on that INR1,030 crores, what is the comparable number this time around in Q1 FY '25?

Jagdish Bajaj: That is the INR1,100 crores. INR20 crores because of this year-end adjustment, etcetera, something to do with E-com sales we have to adjust it. So we have done it.

Devanshu Bansal: It was not because of Style Up getting included in this, Jagdish?

Jagdish Bajaj: Style Up is part of that, but we have said that we have -- Style Up is now part of this number.

Devanshu Bansal: Pantaloons?

Jagdish Bajaj: I don't -- yes, this is -- we track it together. So I don't have a separate number for Style Up for last quarter.

Devanshu Bansal: Okay. And for this particular year, any sense as in what is the number out of this INR1,100 crores, how much has Style Up contributed?

Ashish Dikshit: It's too small right now. We don't want to start separating -- calculating separately, which as the business grows, perhaps next year, we'll start separating those numbers.

Moderator: The next question comes from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Firstly, on Pantaloons, the company hasn't added any store this quarter on a net basis. So would you want to revise your guidance if any for store additions? What do you expect in FY '25, given that at least on the margin front, there has been a turnaround in this brand and format?

Sangeeta Tanwani: So Sameer, I think we stay with what we had said earlier that we will open around -- anywhere around 25 stores, give or take 2 or 3 on either side. And the fact we opened 1 store and we shut 1 store, which is a part of the normal closures. A lot of our stores are a little back-ended coming in quarter 3 and quarter 4. So you will see an acceleration in terms of store opening as we move forward.

Sameer Gupta: Got it. And there are no more store closures, which are loss-making or not working kind of remaining right now? I mean part of course -- normal course of the business might continue.

Sangeeta Tanwani: Normal course of the business. Yes, that's right.

Sameer Gupta: Great. Sir, secondly, on the Innerwear business. Now American Eagle has grown 35%. Reebok you're saying has grown, and I'm assuming that is also a healthily growing business. So -- and

Innerwear Inside has also grown. So it means overall 5% growth for that segment, that would mean Athleisure must have declined very drastically. So just trying to understand what exactly is happening in this part of the business?

Ashish Dikshit:

So there is Forever 21, which we are sort of consistently downsizing. So that factor is built into it, which is not visible to you, apart from everything else that you mentioned. And Athleisure yes continues to -- I think that's a more longer-term phenomenon. It's a base correction happening across the industry. Post COVID, there was a resurgence in the market, multiple brands, retail formats, from sportswear to casual brands to department store private labels. Almost everybody has created large range around it. Consumer also created and the demand equations were also higher.

As recovery has happened, I think that base is settling down. To my mind, I think the worst is behind us even in Athleisure. As we go forward, we'll start to see marginal increase happening on that. But that's been a phenomenon for the last couple of quarters.

Sameer Gupta:

And do you see this correcting from 2Q onwards, you are saying?

Ashish Dikshit:

I don't think it's, something we can predict with that degree of definitiveness. But the base correction has been happening almost for 1 year, 1.5 years because there was a very sharp increase in this category, which led to increased inventory at company levels, at distribution levels, at retail level and I would even argue at consumer level. And that's what it's correcting actually. And therefore, it's taking longer time to stabilize.

Sameer Gupta:

Got it, sir. Final last question, just an update on the net debt number for the company ending 1Q?

Jagdish Bajaj:

In 3 months, you want me to update. Okay, INR3,500 crores approximately.

Sameer Gupta:

And you expect this number for FY '25 to be at?

Jagdish Bajaj:

Let us work on it because see as we announced that post demerger, we have an equity raise plan.

Moderator:

The next question is from the line of Rahul Jain from PhillipCapital. Please go ahead.

Rahul Jain:

My first question is regarding the Bangladesh unrest. Is there any disruption in our supply chain or sourcing on that front?

Ashish Dikshit:

No, it's not material. It's between 2% to 3% of our sourcing comes from there on an overall basis. So there might be individual business, some segment, a little bit of it. But at overall level, it's not significant for us.

Rahul Jain:

Understood. Sir, my second question is regarding Pantaloons, EOSS period, is this a -- is there a change in how we -- the duration of the period, are we shortening the span of the EOSS period in Pantaloons? Or is there a tactical call taken by management this quarter?

Sangeeta Tanwani:

So I think -- this is Sangeeta. So Rahul, there is no change as far as we are concerned. Last year, of course, we as a company went much later than most other large format retailers this year. And

last year and this year, there is no change in our EOSS. We have stayed consistent. And there is a little bit of EOSS impact towards the end of June and large part of the EOSS was in July, which was the same last year.

Moderator: Next question comes from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: I just wanted to ask on this negative brand publicity around Tasva for the Olympic dress that we have designed. So -- and there's a lot of chatter around that in terms of comfort, et cetera. So how do you sort of plan to deal with that?

Ashish Dikshit: I think you've seen our responses, which have been given out. This is a design which was created by Tasva Design Team, along with the Indian Olympic Association with the specific brief given by them. And the clothes were designed keeping in mind the occasion, the sensitivity of the weather that they had to -- athletes had to wear it for almost 5 to 6 hours during the opening ceremony, their comfort, and the brief was quite clear from IOA on that. And that's what we have issued to press in general, and we'll stay with that.

Moderator: We have the next question from the line of Anshuman Mohta, an individual investor. Please go ahead.

Anshuman Mohta: Yes. This is Anshuman Mohta here. Sir, do we expect Pantaloon division to break even post demerger, entire Pantaloon, Sabyasachi, ethnic, TMRW? As of now, Madura is funding for the losses of this division? What will happen to the division after the demerger?

Ashish Dikshit: So there are multiple businesses. I won't have definite number, which would be an indicative of future. Pantaloons is a very profitable business, multiple parts of the businesses are profitable, Sabyasachi, Tarun Tahiliani, all the designer businesses are profitable. I think the losses in Tasva will continue this year, TMRW will continue this year. TCNS, we are winding down the losses. I think first half of this year was perhaps still be making losses.

But from second half, we'll turn profitable even in TCNS. And therefore, as we go forward, the situation and the overall profitability of that division will also improve. In fact, the improvement will be much sharper there. As many businesses which are in incubation phase like Tasva or TMRW are coming into its being as we go forward. And to fund that growth, that's the reason we are raising capital -- that capital.

Anshuman Mohta: So the second question is, sir, what will be the ROE of Madura division, ABLBL, including Reebok, American Eagle, et cetera, other companies which are there in ABLBL.

Ashish Dikshit: So I think a very specific question. I'll ask Amit to reach out to you and maybe we can share that separately outside the conference. I don't have it right away right now.

Anshuman Mohta: Okay. And sir, I want to ask you a couple of things a little distinct. Sir, what is the stores which we are open or already opened? Sir, how far like for Pantaloon -- sir, specifically, I've seen sir, in some parts, in 100 -- very closer by, there are 2 stores of Pantaloon. Sir, how do we like manage the 2 stores closer by in Senapati Bapat Road for example, there's a Pantaloons store at

the mall and at the road also. This is just 1 example, not against that, but how do we operate these 2 stores so close by?

Ashish Dikshit: So I think your question is very specific to perhaps 1 location or something. That's not how it operates.

Anshuman Mohta: No, sir, not -- I'm just giving an example. This is -- I've seen in multiple places that we have 2 similar stores very close by. What is the plan behind -- what's the plan behind such execution of these stores?

Ashish Dikshit: No, let me explain to you. So Indian consumption markets have evolved over a period of time - with over a period of time where different markets become more prominent. We look at the potential of that market at that point of time and take a call, and that's been a consistent strategy. If it means there are times that stores -- old stores have to replace by more vibrant market in the same locality.

Sometimes it's the transfer of the business happens, which don't shut the new -- old stores simply because new store is coming because the both stores as long as they're making commercial sense, we continue to keep them. So there will be a few cases, but essentially, stores are open with an eye on potential of incremental sales and revenue. And that's really how we look at store expansion.

Anshuman Mohta: Sir, just have a look...

Moderator: Sir, sorry to interrupt. We request you to please rejoin the queue. We have participants waiting for their turn. Thank you. The next question is from the line of Gopal Navadhar from SBI Life Insurance.

Gopal Navadhar: My question is on TCNS basically, post our acquisition, we have seen EBITDA losses and the company pre-COVID used to do 17%, 18% margin, before we acquired it used to be at 12%, 13%. What exactly went wrong? And are we through with the inventory write-downs or we'll see more write-downs?

Ashish Dikshit: So Gopal, as I explained, there are 3 things that we have done in the company to -- after we have come into the operations. One is clearly to look at the entire sales channel mix and prune the unprofitable parts of the business, whether they are categories, the stores, or channels, which didn't make commercial economic sense and were not very profitable. The second thing we looked at the overall cost of the operations and looked at wherever the cost opportunity is and worked on that. That's a project which is undergoing. But significant opportunities we are seeing there.

But the most important thing, which was leading to the losses in the business was the high inventory business fund itself, particularly with 2021, 2022 era in the COVID when I think there was excessive buildup of inventory of poor quality. We have, over the last 3 quarters, taken deep corrections in all these fronts, which means made network channel product choices, which are more profitable, and therefore, let go of some part of revenue. We have looked at substantial

parts of costs and look at where the costs either through synergy operations between the other parts of the business or simply by looking at costs more closely.

And third and the most significantly, we have looked at old inventory, found ways of liquidating them, created more accelerated depreciation where we felt that inventory was not truly valued at the realizable prices that we think was possible, which is the step that we have taken over the last 3 quarters.

And Gopal, I can assure you that journey is more or less over as far as the inventory correction is clear. Our organic performance has already started to show improvement for the first time after multiple quarters, TCNS as a network, which is W plus Aurelia across 500 stores delivered 5% plus like-to-like in a very tough market environment. Its position in department store has started to improve, and most of old inventory problems are behind us. So -- which is the reason we have gone out and talked about improved performance in the second half of this year.

Gopal Navadhar: And sir, in terms of EBO count, what is the count now? It used to be 670, 680 types.

Ashish Dikshit: Yes. I think the number is in the range of 550 or something. Just around that. Closer to 600.

Gopal Navadhar: Okay. And this rationalization is also over. And inventory -- the old inventory is also over. So is it right to assume like obviously, you've guided H2 will be far better than H1. But if I may ask, like FY '26, should one assume the normalized performance of TCNS having a 65%, 67% gross margin and far better EBITDA margins?

Ashish Dikshit: So I think the gross margin, you're right, Gopal. We would get to that because old inventory is behind us, new inventory is working well. The pricing power stays with the brand. So we expect the gross margins to the range that we had mentioned. I think EBITDA margin will be a function of retail productivity. And that's a project that is currently on way because a lot of selling expense need to be leveraged with higher throughput and productivity. And that's the work that we are currently happening.

Hopefully by '26, that would be the next lever of growth because from the base that we have, we need significant improvement in retail productivity in this business to get back to the level of profitability that the business was before COVID.

Gopal Navadhar: Sure, sir. And sir, TMRW, how should one assess the performance? Is there any way to compare -- get a sense on like-to-like performance because you've been on the inorganic mode? So it's difficult to assess the like-to-like performance, how the older brands are doing.

Ashish Dikshit: So, fair, I think it's a fair observation, Gopal. We now have a portfolio of about 7 brands through acquisitions and investment. While some of them are 1.5 years old, some are as new as 1 month old, which is USPL, the Wrogn business. We acquired 1 large business, which is The Indian Garage Company towards the end of last year. Bewakoof is completing a year.

I think as we go forward, 2 parts I would -- 2 points I would make. At this point in time, our acquisition engine is going to stop and take a pause for a while. Because the trajectory and the portfolio that we have built up is significant enough for us to build INR1,000 crores business

with this portfolio. Just 3 of the big brands, which is The Indian Garage, Bewakoof, and the USPL, which is currently a minority investment, those 3 will be close to INR800 crores to INR900 crores and rest of the business would be close to INR200 crores. So that's the potential of just this portfolio. So our focus right now will be to improve both the revenue growth as well as the profitability trajectory of this business.

We will continue to report quarter-on-quarter and we'll start to see that. I think individually, each brand is such a different level of trajectory and the time spent by our management has been very differential, but it will be hard to give one number to look at. I would say we should look at the overall picture and see how we are performing. Currently, it's about 100% growth rate with the revenue run rate, as I said, which is closer to INR800 crores in NSV terms. In GMV terms, it's north of INR1,000 crores, but once it gets to a substantial period of time with us, which perhaps by the end of this year, we may be able to find out common matrices, which work across brands and reflect the health of the business.

Gopal Navadhar: Sure, sir. And now that the TCNS approval are through, by when we should expect this demerger process to get complete?

Ashish Dikshit: Merger process or demerger?

Gopal Navadhar: Demerger for brand business and ABFRL.

Jagdish Bajaj: So Gopal, I'm awaiting the court order. As I spoke when I was speaking. After this, we'll go back again with the regulators and stock exchanges. Hopefully, once they approve, then it is a court procedure, which takes generally 90 to 100 days.

Ashish Dikshit: We have filed for demerger also with the stock exchanges. We are waiting for the merger process, which is a precondition for process. So now that it's 5, 7 days away for the court order to come. And after that, maybe 4 months.

Gopal Navadhar: And last bit, sir, on TMRW, we had a plan to raise capital in that business. How should one look at the timelines? Anything you have to share?

Ashish Dikshit: Gopal, again, I think, as we said, we would like to raise capital in TMRW sooner than later. We had kept this year as the timeline for it. Having said that, we also wanted to make sure that TMRW gets to a reasonable size and a portfolio which is meaningful enough for investors to come in and for it to get the right kind of value. And which is what we will wait for whatever it takes 12 months to 18 months for that to happen. Ideally would be end of this year, but first half of next year is also fine for us. Till then, therefore, our acquisitions as far as TMRW is concerned, will have to wait until the fundraise actually comes through.

Moderator: The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: And apology if I'm repeating the question because I have a patchy network, so I did not hear it - all the questions properly. So the first question is on there has been some kind of pause in store

addition Lifestyle segment over the last 12 months. So is there a focus more on SSG-driven growth? Or there is some revisit on the expansion strategic growth?

Vishak Kumar:

Hi Tejash. Not having to the first question coming from you. Tejash, yes this quarter has been a combination of both expansion and some consolidation, particularly in some small town markets. So there were some expiring leases where the new stores which opened were in different -- not exactly same locations. So we treat that as closure and opening. And we've also been able to open slightly larger stores as we have done that. But yes, this was a quarter of consolidation, especially in smaller town markets. Bigger cities, urban mall expansion, et cetera, continues aggressively. In some small-town markets, we've had to take some consolidation.

Tejas Shah:

Sure. And Vishak, just wanted to understand. See, 5 years or 7 years back, we used to be the pioneer in mastering this franchise model, leveraging entrepreneur capital that this country has. Now across sector in retail, we are seeing be it jewellery or be it large big-box retailing and many other subcategories that people are going franchise route. So just wanted to understand, are we finding it difficult to kind of attract more entrepreneur capital? Or is it just a choice that we have to kind of consolidate right now and then perhaps expand later?

Vishak Kumar:

Yes, yes. So look, we have a fairly strong franchisee base, and they have been quite bullish about further expansion as well. So for us, it's a joint effort, along with our franchise partners of whom we have about 800, to be able to find the right locations, right opportunities to put up stores. So that is something we've been working over many, many years working with franchise partners. We make joint business plans with them, identify markets where we have to put up stores and so on. So it's an effort that we do together along with our franchise partners.

So I don't think that has changed at all. In fact, if anything, we continue to be very strongly franchise driven. For us, franchisees bring a lot of local enterprise as well. market knowledge, understanding, nuances of merchandise, et cetera. So franchisees bring a lot of additional things to the table as far as our brand stores are concerned.

Tejas Shah:

Vishak, my question was, let me rephrase it. I was just trying to understand, is it now more competition to attract new franchisees into our fold or is it the same?.

Ashish Dikshit:

No, no. This is Ashish, if I have to come in. I think I would separate the 2 parts of it. One is right situation in the market for us to grow and expand versus attract -- ability to attract franchisees. I think ability to attract franchisee remains completely strong because this is a proven model over 20, 25 years. There are multi-generation relationships, which we have with many of the franchisees, et cetera. So that has not changed at all.

What has changed is, as you rightly mentioned, the pace of expansion because after FY '23 burst, and a little bit of first part of '24, we haven't expanded our stores because one of the necessary long-term parts of franchisee strategy, is to ensure that we expand in a manner that it's viable and profitable to franchisees. So we don't push it at times when we don't think markets are not ready for it. We don't add stores simply because franchisees exist. We add stores where we think franchisees will make money. The returns will be good, the market conditions.

So I think it's more a reflection of a state of business in the last 12 months versus change in any manner about our ability to attract franchisees. That remains true and strong because that is proven and established over multiple years, and that -- those relationships are very strong.

Tejas Shah:

Perfect. And the last one, in terms of channel saliency, we are seeing that in Lifestyle segment, wholesale channel is getting replaced by E-com in terms of saliency at least. So is this by design? Or is it by some market demand forces we are seeing that?

Vishak Kumar:

Tejash, first of all, wholesale goes through this impact of primary versus secondary sales. So there is always a lag effect of primary to secondary. So that's fine. The -- it's not really replaced by e-commerce, something like that. What you see as others includes very strong exports performance also okay?

There is an outlet business that we have, there's an export business and there is an E-com business. So it's not only by E-com that it has been -- you see that growth number. And wholesale has the -- primarily the like-for-likes are similar to our EBO like-for-like. So it's a primary to secondary impact that you would see in the numbers.

Moderator:

The next question comes from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.

Vaishnavi Mandhaniya:

So I have 2 questions. One is on how should we see TCNS in terms of its margin trajectory because there's been a very big difference in terms of what the company used to do historically and what it has done in the last couple of years?

Ashish Dikshit:

So Vaishnavi, as I explained to an earlier question that historically in a post India team, the company used to operate in teens, high teens, which is 16%, 17%, 18%, 19% kind of margin at its peak, but I would say 15%, 16% very, very comfortably and most of the time, higher than that.

Post 2019, the margin has started to sort of drop a little bit. And for much of the COVID period, it fell quite steeply. What we have done in the last 3 quarters is taken a hard look at what's the long-term sustainable parts of the business is, which business, which needs to be sustained. What are the corrections that are required? And how do we address that? And which is the process that's going on.

So some of what you're seeing is, I would call it, onetime, although it's happening over multiple quarters. deep correction in the business model of the company, improving their planning processes, getting rid of the old inventory, ensuring that the inventory and planning process doesn't recreate that. The team also is working on some of the -- sort of opportunities that they had identified in terms of product correction. And we expect this business to come closer to where Lifestyle brand margins are on an overall level in 12 to 18 months.

Now if it takes a couple of quarters more or less, that's something that we have to see. But that's really where it would come back to, which is high teens in terms of EBITDA margins.

Vaishnavi Mandhaniya: That was very helpful. My second question is for Vishak. In terms of the Lifestyle brands, right, for the next few years going forward, what kind of growth trajectory should we build for this? And what would be the sources of growth in terms of like the brand extensions and new store openings, et cetera? How should we see that happening?

Vishak Kumar: Okay, first things first, if you look at even our last 5-year trajectory, we've been at a double-digit CAGR, okay? And there is enough juice in this country for at least another 5 years for double-digit CAGR to continue. So we should continue aggressively on growth, on expansion. There are enough markets, enough products, categories, opportunities.

Each of our brands has its own opportunities. So in the Louis Philippe, Van Heusen, Allen Solly, Peter England segments, there are growth opportunities. In Reebok, where it still our base is still lower, there is exponential growth opportunity. American Eagle, we've already -- this quarter itself when most of our -- rest of our businesses were going through a lot of impact of weddings, et cetera. American Eagle grew at 35%. In each of our -- even Forever 21, we're trying to find greater online strong -- we are trying to reinvent that brand and see how that can grow. So there is across various formats, various brands, a lot of growth opportunities.

So specifically in each brand, there would be, of course, different levers for growth, different usage occasions that we will build stronger and stronger.

Moderator: The next question is from the line of Ashish Kanodia from Citi. Please go ahead.

Ashish Kanodia: So the first question is when you look at the industry and this is applicable both for whether you look at the Lifestyle business or the Pantaloons business. First, did you saw other participants being more aggressive on end of season sale vis-a-vis how ABFRL across the portfolio did?

And the second related question is if you have to really look at the freshness of the inventory, given that demand has been kind of subdued for almost 12 to 18 quarters now, I think you alluded that Pantaloons definitely have much better inventory management. So -- but if you compare it with the overall industry, do you see that industry has much older inventory kind of a situation?

Ashish Dikshit: So Ashish, I would -- we wouldn't know the details of all the players. But broadly speaking through our various businesses, now we have presence across multiple business categories, whether it's e-commerce, B2C brands, retail formats like Pantaloons, Lifestyle brands, some of the ethnic wear businesses. We have realized that one of the big problems and which takes a long time to correct and many of the businesses have gone through that is being left with large inventory at times when markets are tough.

So our approach in the last 12 months, and I think at different points of time, you've heard it from different leaders, including from me. Our approach in the last 12 months has been around improving the quality of business, enhancing the gross margin, which fundamentally means that you have to keep the inventory as low as lean as possible to have lesser risk of upscales and lower markdown. And fortunately, it's working well for us.

Across all businesses, our inventory is lower. In fact, wherever we are fixing the business also, a large part of that fix involves not just correcting for the inventory that is excess, but also

ensuring and putting in systems that you don't fall into that again. And that's resulted in a situation where we are able to operate even in times like this where the organic health of the market is not very good. We are able to operate with cleaner inventory, lower inventory, and therefore, the need for markdown is lower.

It's visibly sort of -- visibly seen in Pantaloon's performance that we mentioned earlier in the quarter, Madura brands also, despite absence of growth in the last couple of quarters have managed to withhold the margins, primarily because the quality of inventory is superior and the level of markdown is lesser, we could and we consciously did exercise operating with lesser. At the same time, we are also making sure that the freshness remains. And therefore, our number of drops have increased, the frequency which we bring product is -- so all that is a cycle that different parts of businesses have sort of improved over the last couple of years.

Ashish Kanodia: Sure. That's helpful. The second one was on the comment on the value retail kind of beginning to witness green shoots. So I mean, is that comment more targeted toward Style Up or Peter England. I mean I just wanted to get some sense that you know...

Ashish Dikshit: It's not a comment internally. If you see in -- this thing, this is a market update. This is when we look at performance of competitors who report the results, categories which report the results, this is more a market overview, less to do with our own business.

Ashish Kanodia: But if I just kind of dig deeper into this because you have presence across the pricing pyramid. So whether under retailing, you have Style Up and Pantaloon and then maybe on the brand side, between -- from Peter England to Allen Solly, Louis Philippe, et cetera. So when you look at within -- under your categories, do you see that the lower price points are doing much better?

Ashish Dikshit: Yes, yes, absolutely. And it's reflected in the numbers that you've seen and reported also. Style Up is still too small, but we are very excited by the traction that it's got. Pantaloon you have seen on a large scale is organic performance is looking much stronger. So to that extent, yes, it is equally represented, although the comment there was more about the market.

Ashish Kanodia: Sure, Ashish. And just the last one. I think across most of the retail categories, whether it's apparel, footwear, et cetera, slowdown has been persisting for quite some time. So from a real estate, talent perspective, is it becoming much better where either the real estate deals are at a better rate or maybe at least site availabilities are better. Do you see these things being an advantage given how the demand has trend out. So are you seeing any advantage on the real estate or talent side?

Vishak Kumar: Ashish, hard to answer directly, but simple answer is, yes, real estate does become slightly easier. I wouldn't say it's become dramatically easier. But yes, there are opportunities in real estate. But then you have to assess it against market realities. So talent, I think, is a different ball game altogether. But I would say, especially in some of the markets relatively from a peak 2 years back, some softening is there in real estate.

Moderator: The next question comes from the line of Tanmay Gupta from Motilal Oswal. Please go ahead.

Tanmay Gupta:

Sir, I have 2 questions. One on Pantaloons that despite we are seeing improvement in SSSG, our store addition target is a little lower than what we used to do before. So are we -- will increase the store addition in Pantaloons?

And secondly, on the store productivity, what are the measures we are taking to improve the store productivity as we can see that -- if you compare it with Westside or somewhere else, productivity is lower. So how should we address that?

And another is on the rebook. Currently, I think it's around INR400 crores of revenue business. Sir, what kind of scale we should see the business in the next 2 to 3 years?

Sangeeta Tanwani:

So Tanmay, this is Sangeeta. I'll first answer your question on store expansion. I think there is no shift as such in terms of the Pantaloons store expansion strategy. We had called out 20, 25 stores. We maintain that. I think the 1 small change that we had called out last time in the call was the fact that, yes, Pantaloons will focus more in terms of Metro Tier 1, Tier 2 towns. We have a second format in Style Up as well. And with both these formats, we'll address 2 very discrete consumer segments. So there is no change in our store expansion strategy.

As I answered another question before. Yes, in the first quarter, we've not opened too many stores. Our expansion plan is a little bit backended this year, and we will continue to pursue that.

As far as store productivity is concerned, I think all the actions that we talked about and we are seeing that reflect in the results, whether it is the bit in terms of improving our product design aesthetics, whether it's improving the look of our stores in terms of our retail identity, overall premiumizing, very strong focus on execution by way of improved planning, which has resulted both in terms of improved markdown management and increase in our private label share.

I think all of these actions are directed to us improving our productivity. And I think we are on a journey. We feel very confident of this direction, and we are seeing directional improvement, and we'll continue to pursue this path.

Vishak Kumar:

Tanmay, on your question on Reebok. See, as you know, on Reebok, we have catching up to do. So there is a lot of headroom for growth. There are at least 3 brands in the business, which are INR1,500 crores plus in the segment. So we have catching up to do and we are doing that. We've built a strong team. We've got a lot of product creation capabilities, which we have established, sourcing capabilities, retail network, there's still only about 170 stores, big opportunity for -- even if you are to bring them to the level of our other power brands to be able to get to that kind of network.

So I think heavy growth times, hopefully on Reebok in the years ahead, Tanmay.

Tanmay Gupta:

In Reebok, most of the expansion growth will be coming from the retail expansion or through the distribution or MBOs?

Vishak Kumar:

Yes, there is a lot of retail expansion, but we also have a lot of partnered multi-brand expansion as well. So I think there is room for growth across the board, including on e-commerce, Tanmay.

- Tanmay Gupta:** Okay. And sir, if you can clarify one thing in Reebok out of 170 stores, what is the average productivity per store, if you can answer that?
- Vishak Kumar:** Hard to say that Tanmay. Because we have different size, store formats, et cetera, partner, et cetera. So maybe we can deal with that separately with you. But all I want to tell you here is that there is a lot of space for growth here in this, and we have catching up to do.
- Tanmay Gupta:** Understood. And Sangeeta in the store expansion, that you say, 20, 25 stores. My question was that if the productivity is improving, we are seeing an uptick in the value segment. Earlier, we used to add 40, 45 stores, I think, in Pantaloons. Should we target the same going forward?
- Sangeeta Tanwani:** Yes. So as I mentioned earlier, I think for this year, our target is 20 to 25 stores. And that's in line with where we see the potential for expansion. And every year, we continue to reassess that and open in line with the potential that we see for the brand.
- Moderator:** Thank you very much. We will take that as a last question for today, ladies and gentlemen. On behalf of the management, we thank all participants for joining us. In case of any further queries, you may please get in touch with Mr. Amit Dwivedi. You may now disconnect your lines. Thank you.