Arvind Fashions Limited

Q4 FY20 Performance Highlights

Jul 2020

Agenda

Strategic Investment

Q4 & FY20 Results Update

Covid Actions & Opportunities

Arvind Fashion Inducts Flipkart as an Investor in its Flying Machine Business, Strengthens the Partnership

- **AFL to sell shares in its subsidiary company, Arvind Youth Brands Private Limited (AYBPL), which houses Flying Machine business, to Flipkart for a cash consideration of Rs 260 Crs. With this Flipkart will acquire significant minority in AYBPL**

- **Flying Machine is a youth oriented brand with strong online presence**

- **This transaction gives impetus to Flying Machine**
  - Accelerate digital first strategy & rapidly scale up in online channel
  - Leverage consumer insights to build appropriate product propositions and establish itself as an iconic youth brand

- **This transaction allows AFL to discover and unlock value in one of its home grown brands and set it up for rapid growth**

Partnership to Accelerate Flying Machine's Journey to Rs. 1000 Crs. Brand

AFL - Fashion Powerhouse

- India's leading Casualwear player with a strong portfolio of casual & denim wear brands with market leadership positions
- Integrated player with rich legacy with strong design, product and sourcing credentials
- Strong multi-channel distribution expertise supported with deep omni-channel strength and powerful go to market capabilities

FLYING MACHINE

Straddle premium and value segment through a distinctive product/retail strategy

1. **Premium retail**
   - Evolve and enrich premium product line
   - Expand premium SIS and stores in metros and mini-metros
2. **Value retail**
   - Consolidate brands positioning in value channel
   - Supported with consumer centric merchandising and pricing strategy
3. **Online**
   - Strengthen digital first positioning with strategic alliance
   - Expand adjacent categories - footwear , belts , wallets and backpacks
4. **Small town Opportunity**
   - 50 new value stores every year in towns with less than 1 L population

Flipkart - Leading Fashion Marketplace

- The Flipkart Group is one of India's leading digital commerce entities and includes group companies Flipkart, Myntra, and PhonePe
- Has over 200 Million registered customers
- Sells over 150 million products across 80+ product categories
- Enjoys prominent position in fashion with Myntra and Flipkart fashion

Building Flying Machine as #1 youth brand leveraging Flipkart reach

Agenda

- Strategic Investment
- Q4 & FY20 Results Update
- Covid Actions & Opportunities

FY20 : Strategic Priorities

1. Power Brands set up for accelerated growth with alignment between primary & secondary sales, energizing retail, category expansion with improved working capital efficiency
2. Gap, Sephora and retained emerging brands positioned to deliver next wave of growth in sales and profitability
3. Unviable brands and stores exited
4. Unlimited restructured to contain losses
5. Scale up digital capabilities to build a strong omni-channel business

Hits & Misses FY20

Hits

Reenergize Retail

- Upgraded key stores of power brands
- Got back to LTL growth of 7%+ in Q3 and Jan-Feb Q4

High Growth in Focus Categories

- Innerwear: 24%+
- Premium Kidswear: 20%+
- Prestige Beauty: 25%+

Growth Momentum of GAP & Calvin Klein

- High double digit growth with improved profitability in Calvin Klein
- High double digit growth in GAP

Upgraded Digital Capabilities

- Scaled up digital capabilities to build a strong omni-channel business including integrating stores with e-commerce platforms

Misses

Higher Losses

- Higher than planned losses in Unlimited and Emerging Brands as we took business model reset actions

Power Brands Growth

- Correction of stock levels in trade channel impacting power brands growth and profitability higher than planned specially in Arrow

Inventory Reduction

- Planned inventory reduction could not be achieved due to higher returns and sales loss due to Covid

Q4 Highlights

Power Brands

- On recovery path to growth before COVID (Jan/Feb) - LTL growth of 7% with double digit EBITDA
- Small town expansion of Flying Machine on track - Opened 30 stores between Q3 and Jan-Feb

Specialty Retail

- GAP & Sephora continuing its growth path with improved profitability
- Completed network optimization & cost restructuring in Unlimited

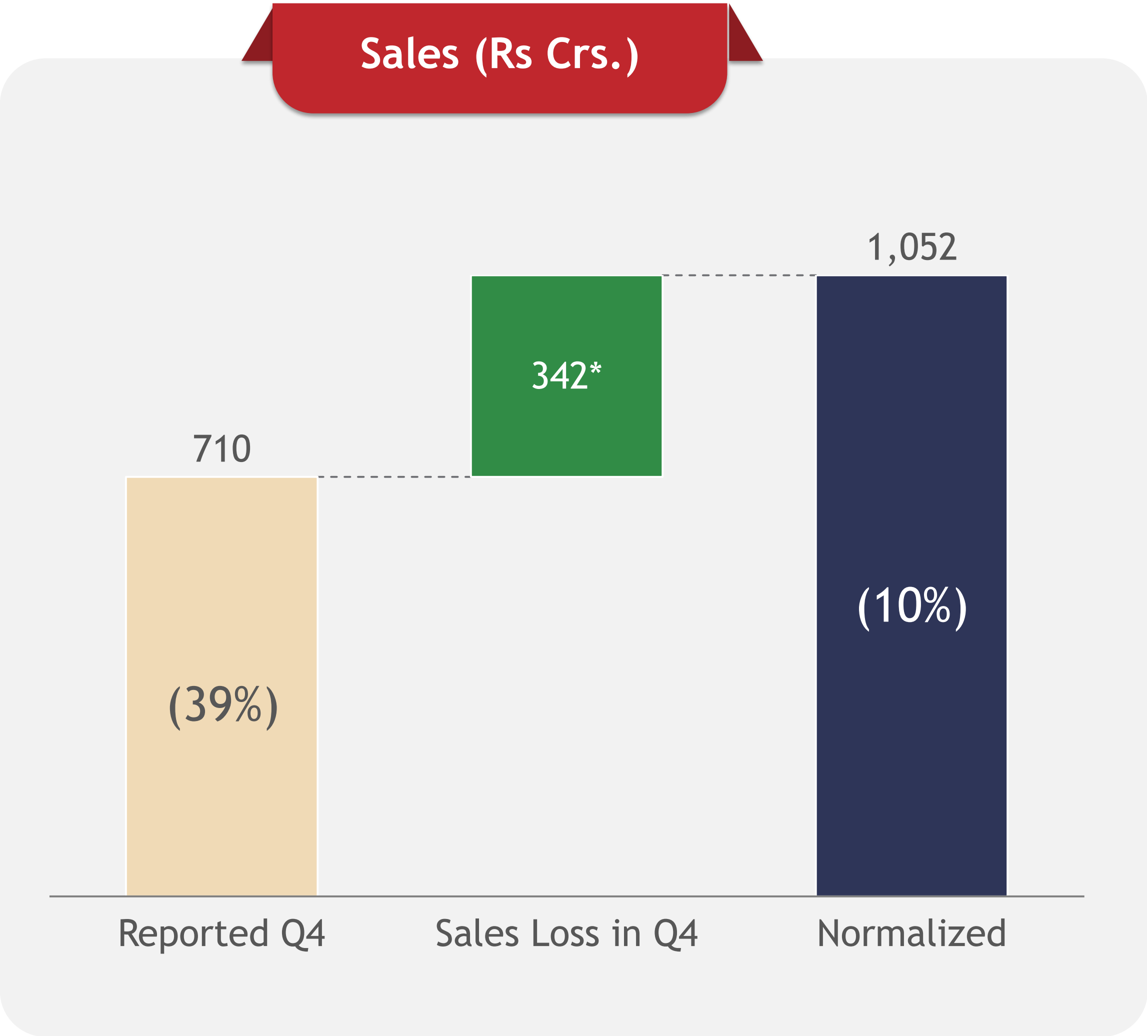
Emerging Brands

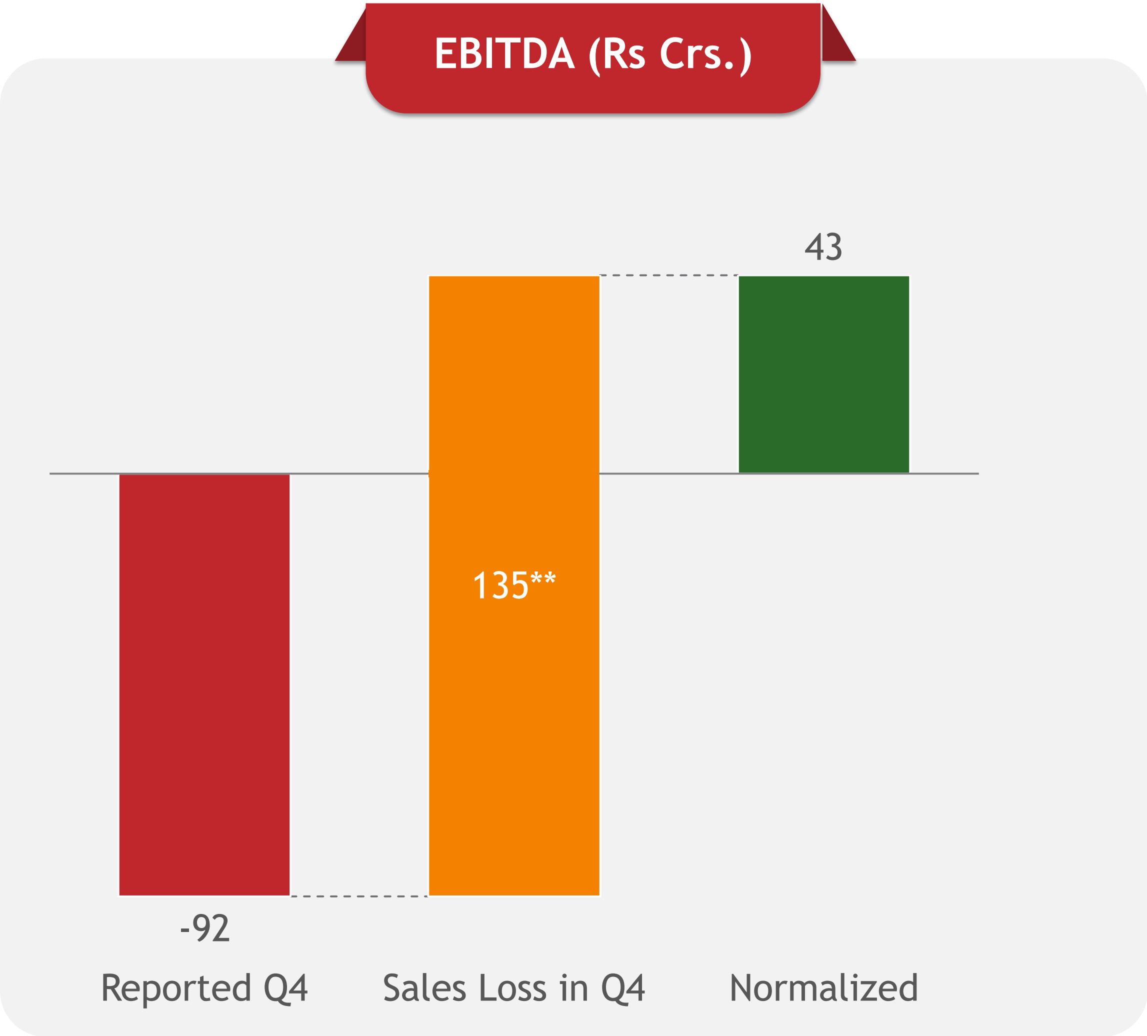
- Growth momentum continues in Calvin Klein - LTL growth of 8%
- Restructuring rest of emerging brands portfolio completed

Q4 FY20 - Performance Snapshot

	Without IndAS116 Impact			IndAS116
	Q4 FY19	Q4 FY20	Growth	Q4 FY20
Sales (Rs Crs.)	1169	710	(39%)	710
EBITDA (Rs Crs.)	85	(92)	-	(10)
EBITDA %	7.3%	(13.0%)	-	(1.4%)
PBT (Rs Crs.)	6	(177)	-	(143)
PBT (Rs Crs.) (Incl Exceptional Items)	6	(237)	-	(204)
PAT (Rs Crs.)	20	(238)	-	(204)

Q4 FY20 – Result Update Normalised for Covid Impact





* Including additional returns provision on account of Covid 19

**Impact of Margin on account of additional return provision for Covid-19 is included in Exceptional Items

FY20 - Performance Snapshot

	Without IndAS116 Impact			IndAS116
	FY19	FY20	Growth	FY20
Sales (Rs Crs.)	4644	3866	(17%)	3866
EBITDA (Rs Crs.)	288	(117)	-	231
EBITDA %	6.2%	(3.0%)	-	6.0%
PBT (Rs Crs.)	13	(453)	-	(436)
PBT (Rs Crs.) (Incl Exceptional Items)	13	(513)	-	(496)
PAT (Rs Crs.)	17	(418)	-	(401)

Groupwise Performance – Continuing business

Qtr. 4

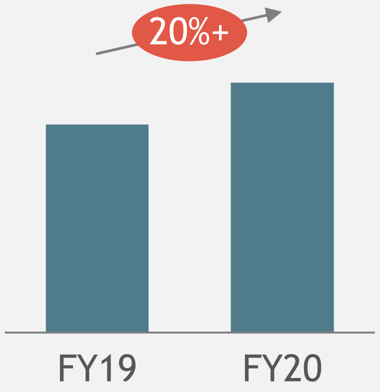
	Sales (Rs Crs.) FY19	Sales (Rs Crs.) FY20 Normalized	Growth	EBITDA (Rs Crs. & % of Sales) FY19		EBITDA (Rs Crs. & % of Sales) FY20 Normalized	
Power Brands	746	681	(8.7%)	105	14.1%	70	10.2%
Specialty Retail	230	240	4.4%	-19	(8.3%)	-15	(6.1%)
Emerging Brands	154	129	(16.5%)	-1	(0.8%)	-7	(5.4%)
Total	1,130	1,050	(7.1%)	85	7.5%	48	4.6%

Full Year

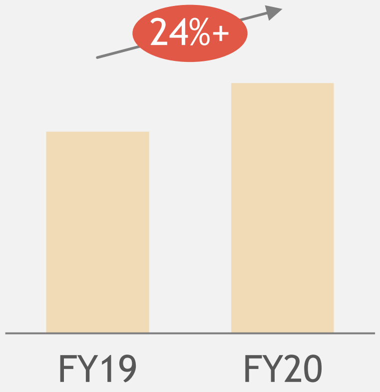
	Sales (Rs Crs.) FY19	Sales (Rs Crs.) FY20 Normalized	Growth	EBITDA (Rs Crs. & % of Sales) FY19		EBITDA (Rs Crs. & % of Sales) FY20 Normalized	
Power Brands	2,797	2,588	(7.4%)	342	12.2%	178	6.9%
Specialty Retail	1,110	1,112	0.2%	-43	(3.8%)	-46	(4.1%)
Emerging Brands	548	499	(8.8%)	0	(0.0%)	-40	(8.1%)
Total	4,454	4,200	(5.7%)	299	6.7%	91	2.2%

Focus Categories Growing at 20%+*

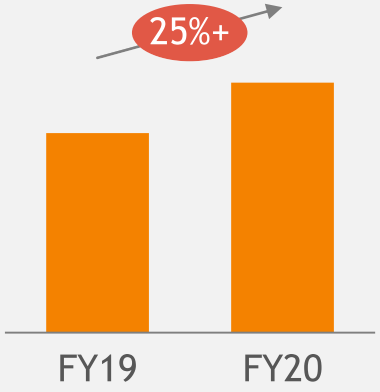
Premium Kidswear



Innerwear

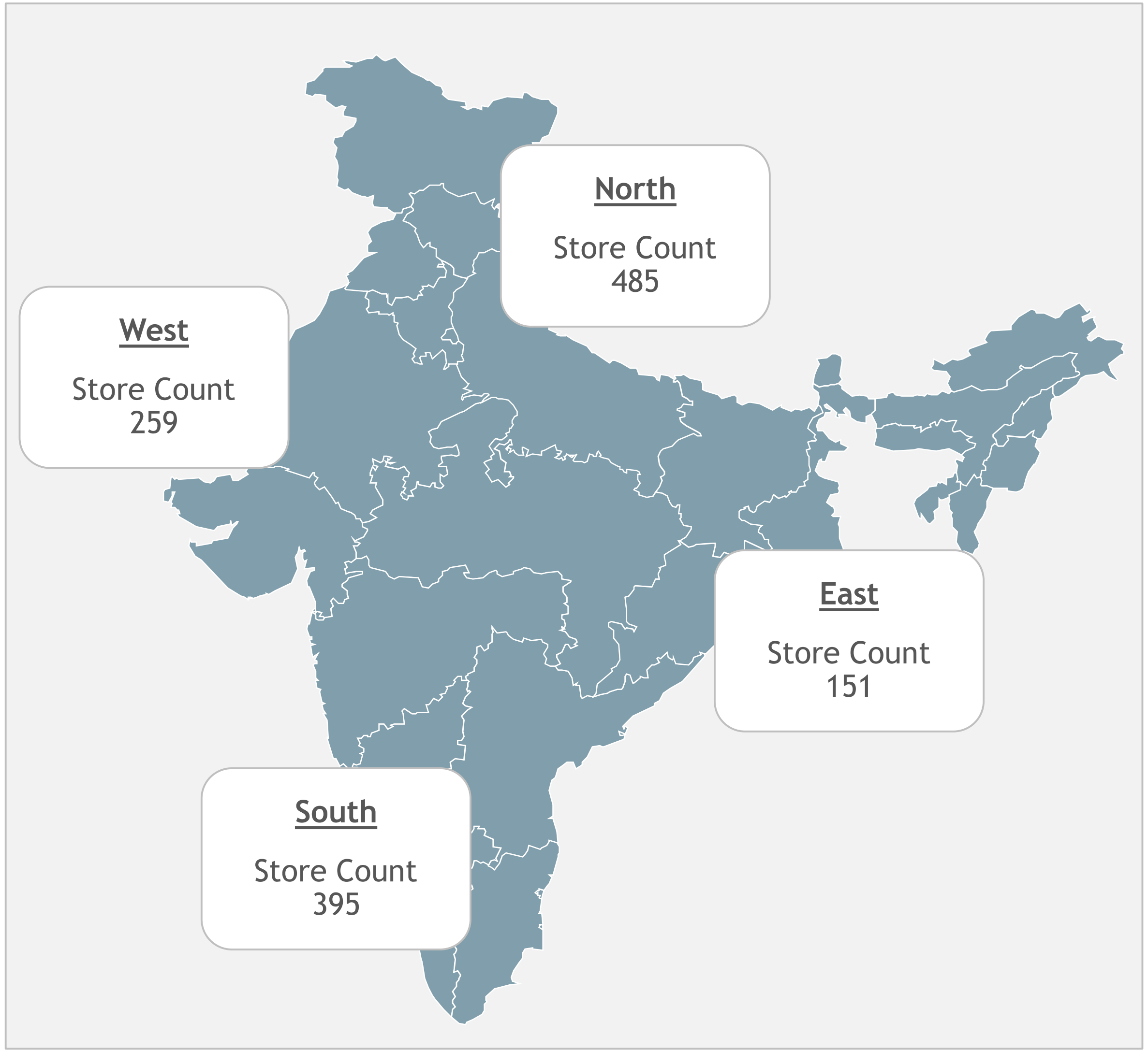


Prestige Beauty

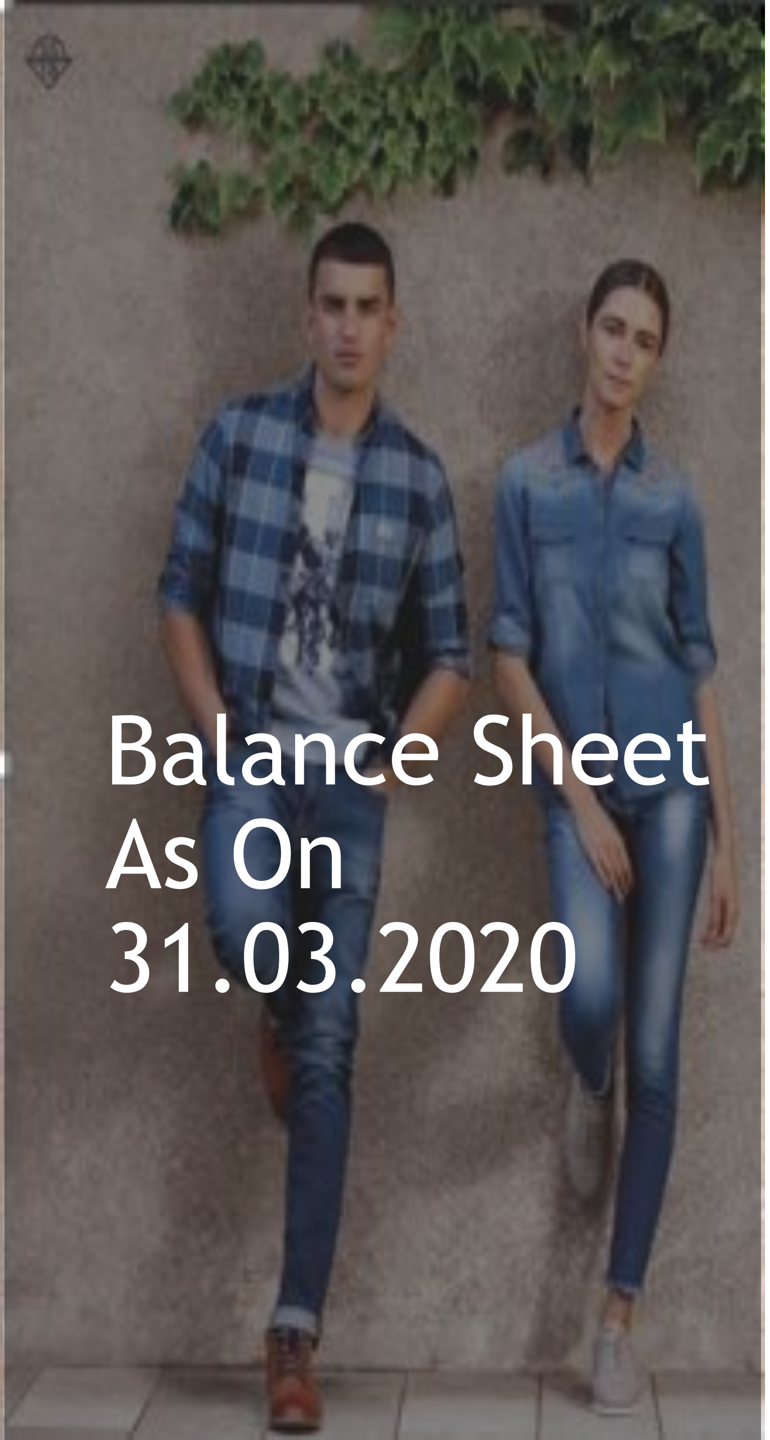


* Growth rates till YTD Feb

Distribution Footprint Well Entrenched Across Multi-Channels



	Q4 FY20 Exit	
	Store Count	Sq Ft (Lacs)
Stores	1290	20.7
Dept. Stores	3729	-
MBO	10000+	-
Innwer wear MBO	14000+	-



Balance Sheet As On 31.03.2020

Particulars (in Rs Cr.)	31.03.20	31.03.19	31.12.19
Net Worth	687	1221	892
Borrowings	1210	791	1105
Capital Employed	**1898**	**2011**	**1997**
Inventory	1367	1216	1270
Receivables	781	879	968
Creditors	1325	1239	1344
Net Working Capital	823	856	893
Net Fixed Asset	502	549	505
Other Assets	573	607	599
Capital Employed	**1898**	**2011**	**1997**

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Strategic Investment

Q4 & FY20 Results Update

Covid Actions & Opportunities

Making AFL Stronger & Fit For Growth

FY20 Reset	➢ Portfolio rationalization ➢ Debtors control - Trade
FY21 Covid	➢ Cost and Cash • Minimise cash burn through deep cost cuts across all elements • Repurpose SS20 inventory to AW20. Cancellation of 60% of AW20 order to release cash • Rs. 660 Cr of non debt cash infusion
FY21 Structural	➢ Permanent reduction in fixed cost structure (Rs 120-150 Crs.) ➢ New ways of sourcing • Cash release through inventory reduction ➢ Step change in digital capabilities
FY22 Onwards	Getting back to growth with improved profitability & ROCE

Post Portfolio Rationalization, Focus Resources Behind Growing Seven Strong Brands with Market Leadership Positions

U.S. POLO ASSN. SINCE 1890	#1 in Casuals
FLYING MACHINE	Among Top 3 Denim Brands
ARROW USA·1851	Among Top 5 Formalwear Brands
TOMMY HILFIGER	#1 & #2 in Premium Casuals
CALVIN KLEIN	
SEPHORA	#1 in Prestige Beauty
GAP	Brand with Strong Recall

Rest of the Brands - Business De-Risked & Resource Allocation Minimized

Strong actions to reduce burn

- Cost rationalization & team restructuring – Reduced cost base by 30%
- Changed sourcing strategy from seasonal to once in two months buy, improving sell through and optimizing inventory
- Network optimization – Exited all unviable stores and markets
- Scaling up online/omni business

AÉROPOSTALE

Ed Hardy

THE CHILDREN'S PLACE

- Leverage these brands to tap into the category opportunities in online
    - Aeropostale/EdHardy – Youth opportunity
    - TCP – Kids opportunity

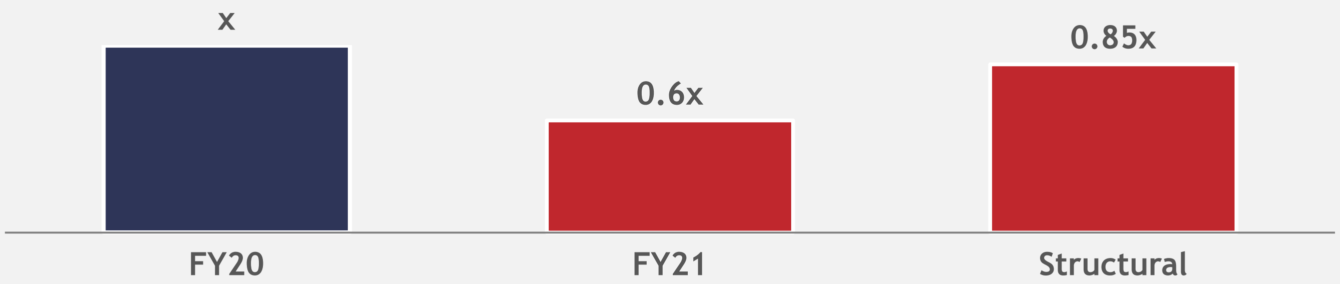
Capital Employed release of

Rs 180 Crs

through brand exits and store closures of retained emerging brands

Multiple Initiatives Implemented to Sharply Reduce the Fixed Cost Structure of the Company

Expense Runrate



Covid - Deep Cuts	Structural – Rs 120 to Rs 150 Crs. Per annum
➢ Rental renegotiations / Lockdown waiver ➢ Manpower rationalization ➢ Salary reduction ➢ Overheads reduced to near zero levels ➢ Deep cuts in marketing ➢ One time royalty concessions	➢ Optimization of store operating cost and closure of tail stores - 10% reduction between occupancy cost & store operating cost ➢ Warehouse consolidation - 35% reduction ➢ Organizational restructuring leading to a leaner structure – 20% reduction in headcount ➢ Overhead control – 15% reduction

Cash Release through Inventory Reduction

Key actions to deliver reduction in Inventory in Mar-21 compared to Mar-20

1. Covid related actions to minimize inventory	➢ Repurpose SS20 inventory to AW20. Cancellation of 60% of AW20 order to release cash ➢ Spring Summer 21 buy based on sales trends
2. Flexible and agile sourcing	➢ Power brands • Built in flexibility of in-season buy triggers • Option to vary 20% orders based on in-season sales trends ➢ 'Once in two months' buy vs 'Seasonal' buy in Unlimited
3. Brand exits to result reduction in inventory	

Scaling Up Digital

- **Create ‘One view of inventory’ - Connecting offline inventory to online demand**
    - Connecting demand from NNNow.com and third party marketplaces to the stores. Has accounted for more than 20% of stores sales for June
    - Enables reduction in discounts, higher inventory turns and better store productivity
- **Strengthened fulfillment capabilities for e-commerce**
    - Increased e-commerce service capacity of warehouse to 4x of original capacity. Put in processes for much higher efficiency and better turn around time
- **Strengthened capabilities to drive Omni-sales at the stores**
    - Shop a store feature to allow stores to service loyal customers at home
    - Same-day and next-day delivery being rolled out across the network through NNNow.com
- **Leveraging analytics to personalize communication to the customers**

Getting Back to Growth With Improved Profitability and ROCE

Power Brands

- Grow Through
  - Product Innovation
  - Channel Expansion
  - Category Expansion
  - Omni
- Healthy improvement in profitability going forward

Specialty Retail

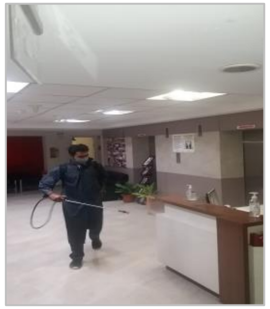
- Drive high growth and improved profitability through
  - Store expansion and Omni in GAP
  - Store expansion and expansion in online in Sephora
- Reduced burn in Unlimited post restructuring

Emerging Brands

- Grow Calvin Klein in double digits profitably
- Minimized burn in retained emerging brands through de-risked business model by focusing in online and shop in shop channels

Unlock 1.0 - Opening up with Safety #1 Priority

Safety Measures & Guidelines at Office



- Periodic office sanitization
- 50% employees coming to office on rotational basis
- Set of 3 re-usable masks & sanitizers provided to each employee
- Social distancing measures & norms at office

Arvind Cares CARE

Back to Office
Transitioning Guidelines

Safety Measures & Guidelines at Stores

- Well defined SOP in place at stores for our staff and customers well being

Store Operation Procedure post COVID-19 lockdown

Supporting Our Partners

- Stands with sanitizer disposal mechanism

Unlock 1.0 – Moved Swiftly to Restart Operations

Store opening

- Quick to be off the block in opening the stores/ marketplaces post approval
- 75% of network of stores open

Smooth warehouse operations post lockdown opening up

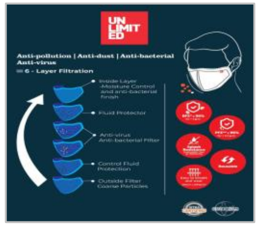
- Consolidated into single warehouse operations, initiating vacation of six warehouses
- Increased E-Commerce fulfilment capabilities by 4x

Innovative delivery models

Retail store → Hyperlocal fulfilment centres

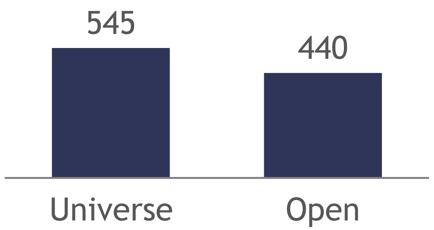
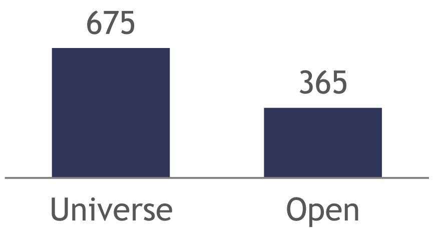
- Click and collect
- Kerbside delivery & drive thru options
- Home delivery by store staff

Launch of new categories such as masks



- Set up large capacity for masks production
- Have launched masks across different price points and functionalities

June’20 Sales has reached 30% of Normal Month Sales

		High Street	Malls
Exclusive Brand Stores			
	Avg. Sales	**60-65%**	**15-20%**
Online	➢ Sales - Own + 3rd Party: 1.2 times in June’20 ➢ Own online sales up 3X		
Departmental Stores	➢ Slow pick up ➢ Averaging 15% of last year sales		
MBOs	➢ Mixed performance • Stores in a few states like Punjab, Andhra Pradesh, North East better than, in states with high incidence of Covid like Delhi/TN		

Portfolio Well Suited for Changed Consumer Behaviour Post Covid

➢ Product focus (1/2)

- Given the leadership position in casual clothing, well positioned to take advantage of boom in casualwear
- Portfolio of kidswear also well positioned to take advantage of improved demand for premium kidswear

Portfolio Well Suited for Changed Consumer Behaviour Post Covid

➢ Product focus (2/2)

- Range of products in the portfolio suited for work from home culture - Comfort wear, Innerwear, Essentials, DIY Beauty products and Footwear

Channel Focus

Online

Focus channel for the year - Target double digit growth

Exclusive Brand Stores

- Focus on high street stores
- Small town expansion

- Malls currently underperforming
- Improve sales through Omni & Hyperlocal fulfilment
- Parallely work on additional cost efficiency

Department Stores & MBOs

- Leverage strong category play
- Reduce operation cost

In spite of Covid Uncertainty in the short term, Company Well Positioned to be a Dominant Player in the medium term

Growth Drivers	➢ 7 strong brands with leading market positions to drive growth with improved profitability and ROCE ➢ As a leading Casual wear player, product portfolio well suited to 'new normal' consumer requirements ➢ Strongly placed to grow fast in Kidswear, Innerwear and Beauty ➢ Strategic tie-up with Flipkart to unlock significant growth opportunities for Flying Machine ➢ Early investment in technology enabling the company to scale up omni and e-commerce sales
Cost & Cash	➢ Structural reduction in cost to improve profitability when sales get back to normal ➢ New ways of buying to release cash through reduction in inventory ➢ Company adequately capitalized by ~Rs. 660 Crores through a combination of rights issue and strategic investment

Annexure

Financials – P&L

	Comparable P&L		IndAS116
All Figures in Rs Cr.	**Q4 FY20**	**Q4 FY19**	**Q4 FY20**
Revenue from Operations	**710.5**	**1,169.0**	**710.5**
Cost of Goods Sold	382.5	546.5	382.5
Employees' Emoluments	76.6	95.7	76.6
Others	343.6	441.6	261.2
EBIDTA	**(92.3)**	**85.2**	**(9.9)**
Margin	(13.0%)	7.3%	(1.4%)
Other Income	4.1		41.8
Interest & Finance Cost	47.5	35.0	72.0
Cash Accruals	**(135.7)**	**50.2**	**(40.1)**
Depreciation	41.0	44.1	103.2
Profit Before Taxes	**(176.6)**	**6.1**	**(143.3)**
Exceptional Items	60.7		60.7
Profit Before Taxes (after exceptional Item)	**(237.4)**	**6.1**	**(204.0)**
Tax / DTA	(7.6)	(15.2)	4.1
Minority Interest	(3.8)	1.7	(3.8)
Profit After Tax	**(226.0)**	**19.6**	**(204.3)**

IND AS 116 Impact Summary

Impact on Income Statement *(INR Crs)*

Particulars	FY20	Q4
Lease Rent (Other Exp grouping)	348	82
EBIDTA	**348**	**82**
Depreciation - ROU Assets	(263)	(59)
Accelerated Depreciation on Lease Assets	(11)	(3)
EBIT	**74**	**20**
Interest on Lease Liability	(110)	(25)
Gain on Assessment (Termination of lease)	53	38
PBT	**17**	**33**

Impact on Balance Sheet - Transition

ROU Assets	1,118
ROU Liability	(1,311)
Net Difference	(213)
Deferred Tax	(71)
Balance to be adjusted to Opening Retained Earnings	(142)
Net Worth on 31st Mar 2019	1,221
Net Worth post IND AS 116 adjustment	1,079

- IND AS 116 applicable from 1st Apr 2019 and replaced existing Ind AS17
- No distinction between Financial and Operating Lease.
- All leases to be recognised in the Balance Sheet as an Asset and Liability
  - The Lease Liability is measured at present value of minimum lease payments to be made over the primary lease term.
  - The Right To Use Asset is initially measured at lease liability, adjusted for prepayment, if any.
  - Interest is added to the Lease Liability and actual lease rentals are reduced from lease liability
  - Right to Use Asset is depreciated over the lease term on straight line method.
  - Exemption is available for short term leases (lease period < 12 months) and assets having low values.
  - In effect, lease expenses will be replaced with Depreciation and Interest cost.
- There are 3 approaches 1) Retrospective 2) Modified Retrospective 3) Prospective.
- Applied Modified Retrospective Method. This means:
  - Lease Liability has been recognised at present value of lease **for the remaining lease period** as on April 1, 2019
  - Right to Use Asset has been recognised at present value of lease **on the start date of lease less accumulate depreciation** until March 31, 2019.
- Previous Year financials have not been impacted
- Life of Leasehold assets have been realigned to Lease period and an additional impact of depreciation considered for the same.
- All long Term leases where company has given minimum commitments have been considered.
- The company has assumed Rate of Interest @ 9.5%

Thank You