Q1 FY2024 Earnings Call Transcript – Aug 11, 2023

CORPORATE PARTICIPANTS

- Kulin Lalbhai – Vice Chairman & Non-Executive Director
- Shailesh Chaturvedi – Managing Director & CEO
- Girdhar Chitlangia – Chief Financial Officer
- Ankit Arora – Head, Investor Relations and Treasury

Moderator: Ladies and gentlemen, good day, and welcome to Arvind Fashions Limited Q1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Arora – Head, Investor Relations & Treasury at Arvind Fashions Limited. Thank you, and over to you, sir.

Ankit Arora: Thanks Dorwin. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the first quarter ended June 30, 2023. I am joined here today by Mr. Kulin Lalbhai, Vice Chairman and Non-Executive Director, Mr. Shailesh Chaturvedi, MD and CEO and Mr. Girdhar Chitlangia, Chief Financial Officer.

Please note that result press release and earnings presentation had been mailed across to you yesterday and these are also available on our website www.arvindfashions.com. I hope you had the opportunity to browse through the highlights of the performance. We will commence the call today with Kulin providing his key thoughts on our financial performance for the first quarter. He will be followed by Shailesh who will share insights into key business highlights and financial performance. At the end of management discussion we will have a Q&A session.

Before we start, I would like to remind you that some of the statements made or discussed on this call today may be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A detailed statement of these risks is available in this quarter's earnings presentation. The company does not undertake to update these forward-looking statements publicly. With that said, I would now turn the call over to Kulin to share his views. Thank you and over to you Kulin!

Kulin Lalbhai: Thanks Ankit. A very good afternoon to you all, thank you for joining us for the Q1 results. We are pleased to continue our trajectory of delivering improved financial performance even though the overall demand environment has remained challenging during the quarter. While overall sales grew by 4%, largely driven by the retail and department store channel, we have been able to improve our EBITDA margin by over 190 basis points over the same quarter last year. Our sharp focus on continuing profitability improvement has been aided by operating leverage and higher gross margin through healthy sell through's. We have seen premiumization across categories and brands like Tommy Hilfiger and Calvin Klein which have benefited from this trend and have delivered excellent performance. We have invested a lot of efforts over the last two years in putting sharper controls over inventory and debtors, which is yielding strong results in managing overall working capital. In response to the slowdown, we managed our inventory in an agile manner which helped lower our inventory days by 4 days and the stronger retail mix helped us lower our receivable by 11 days leading to an overall lower gross working capital cycle of 15 days. While we expect the demand environment to gradually improve by the festive season, we have multiple growth drivers such as a strong store opening pipeline, the scale up of our direct to consumer online business and high growth in adjacent categories. We continue to remain focused on improving profitability this year, through efficiency improvement and healthy sell through and also in controlling our working capital, thereby leading to a higher return on capital employed in the near to medium term. I would like to now hand it over to Shailesh Chaturvedi to take us through the specifics and more details on our financial performance.

Shailesh Chaturvedi: Thank you Kulin. Good afternoon everyone. Under the background of high base of last year and amidst soft market condition, AFL has delivered sales of 957 Crores in this quarter one with the growth of 4%. The like to like retail growth in this quarter is 4%, which has come on a high base of last year where the retail like to like last year in the same quarter had grown at huge 25% over pre COVID level. EBITDA has reached 116 Crores, an increase of 24% for last year quarter one. As we launched the new fall holiday season this week, let's discuss AFL performance for the full season of spring summer 2023 with calendar dates going from January to June 2023 incorporating two financial quarters, quarter four of the last year and quarter one now of this financial year. Performance in season is key because business is run on seasons and we have to execute rigorously to win the season. In that sense, we had a very good spring summer 2023 season where AFL PBT grew 115% in six months of Jan to June 2023. We had launched spring summer season in February 2023, on time with good quality rigour and had completed bulk of wholesale trade billing by March. This timely execution led to good NSV growth, healthy like to like retail growth and doubling of PBT over last year same period. The bulk of wholesale billing was in Jan to March quarter where PBT grew by 255% and then this quarter Q1 of April to June 2023, PBT has grown at 9%. With doubling of PBT in just concluded spring summer 2023 season has been very encouraging and we will launch fall winter season with a lot of energy. Coming to this quarter, quarter one FY2024, we started the business with good stock levels in the market since we had executed season launch well and this led to good retail growth of more than 15% in this quarter in both retail as well as in department store channels over last year quarter one. Under the current muted condition, this mid teen growth came with a 2% higher discounting although we did not go early on sale while industry saw pre-ponment of sales but we stuck to our calendar and our seasonal rhythm. The overall sell through for the season has been industry-leading and that has helped us keep our inventory levels under check and deliver stock turns close to four as guided. Good retail throughput also helped us with receivables which are down by a good 100 Crores over last year despite difficult market conditions. Overall, balance sheet KPI were met with tight control. While retail and department stores grew very well, there was a muted number in this quarter in MBO wholesale channels because we had completed most of the billing of our season orders in the previous quarter. This business had grown more than 50% in Jan-March quarter and this key channel has grown at a healthy pace of more than 20% in the full season spring-summer, Jan to June. With efficient season launch, we had hoped to get repeat orders in April to June quarter from this channel. However, this repeat orders did not classify this year because of soft market conditions and our tight trade policies did not allow any further billing. We continue to expand our distribution and we opened 45 mono brand stores in this quarter. Adjacent category expansion also continued well specially in U.S. Polo association which remains a key, strong and vibrant brand. In this category expansion, I want to call out the fantastic performance of USPA footwear which has grown more than 30% and delivered healthy double digit operating EBITDA in this quarter. The thrust of online business which contributed nearly 25% revenue is on rapidly building scale in B2C marketplace model where we curate the whole experience for online consumer including product assortment and pricing. Build-up of marketplace and only network is the priority of B2C part of online which has grown by more than 70% and has contributed to nearly 35% of overall online business. The wholesale online business has remained muted in the current market condition. With good sell through and tight control of sourcing costs, the GP has moved up to 52.8%, an increase of 340 basis points. With greater than 15% growth in retail, the share of retail in revenue mix has gone up by nearly 5% and that has also helped increase GP percentage because retail channel has higher GP whereas some variable expenses like commission, royalty and supply chain expenses come below GP. Of this gain in GP, a healthy 190 basis point has flown into EBITDA which has grown in value by 24% reaching margin level of 12.1% in this quarter. This 1.9% gain in EBITDA has come after we had 330 basis point increase in EBITDA in the last full year as we continue our journey of improving profitability. In this quarter besides gain in GP percentage, the EBITDA is also being helped by 50 basis points by scale leverage coming from lower manpower cost. Our investment in advertisement has been slightly above budget and in this soft market condition, we continue to invest behind marketing whole heartedly. While PBT has more than doubled in the spring summer season, in this quarter we had a growth of 9% in PBT partly affected by increase in interest cost which are in line with increase in repo rate while debt levels have remained stable. To summarize, while we have seen soft market condition, fewer wedding dates, higher base of last year and early phasing of wholesale billing, we are enthused by spring summer performance where AFL has delivered industry-leading sell through's has doubled PBT and has kept balance sheet under tight control. With that, we can open up for question and answer.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: Thanks for the opportunity. Sir, first of all congratulations on good set of performance, especially your performance in emerging business has been very much heartening looking at both the revenue growth as well as margins etc. So, my first question is on emerging brand itself that this strong performance 14-15% growth and a strong EBITDA margin. So, if you can help us uncover the reasoning that where has it come from and also with regards to same store sales growth, if you can highlight.

Shailesh Chaturvedi: As far as emerging brand portfolio is concerned, most of the impact is because of very good performance of Calvin Klein, CK but I want to just add one point here is that we have been doing a lot of cleaning up of our brand portfolio and the tail brand portfolio has been sort of cut down and we stop losing money. So in this quarter, we have benefited from reduction in tail brand losses that we have seen in the previous quarter so that has also helped and on top of that, the main reason is the Calvin Klein performance which has grown really well in this quarter despite market conditions, the like to like growth is in double digit and the overall growth is higher than that and also the profitability of CK is very good. So to summarize, the good performance of Calvin Klein is the main reason for improvement in the emerging brand portfolio.

Varun Singh: Understood, got it sir and Calvin Klein would be roughly now what it would be contributing what percentage of our total emerging brand revenue, a ballpark number should help, Sir?

Shailesh Chaturvedi: It is slightly higher than 50% of the emerging brand portfolio.

Varun Singh: Okay, got it. Understood sir and sir second question is on the profitability in the emerging brand segment. So how sustainable is the current level of margin, if you can guide something out here.

Shailesh Chaturvedi: I would say that CK is on a strong footing, there is a good momentum in Calvin Klein brand growth, sell through's are industry-leading there, the sales density is one of the best in industry. There is a good scope to expand that brand further in many more towns etc. So there is a good momentum in that brand and that would really positively impact the emerging brand profit and also the losses on the tail brand will continue to reduce, right. I mean that portfolio that part is getting cleaned up so the emerging brands profitability will remain healthy and because of both the reasons of tail brand losses coming down and good performance of Calvin Klein.

Varun Singh: Understood sir. So this performance would be sustainable going forward.

Shailesh Chaturvedi: Absolutely.

Varun Singh: Yes, and sir my second question is on the power brand front, I mean which is a significant chunk of our total revenue. So that portfolio there was little bit of underperformance, of course, I understand due to high base and slowdown in the discretionary consumption but still I mean how are you looking in this segment, the overall business outlook for next quarter which is again likely to be relatively subdued and given our prioritizing of profitability over revenue growth which is not participating much into EOSS, discounting etc. So how should we look at the revenue growth in the power brand segment, I mean if you can highlight both, I mean in terms of SSG and retail expansion from both angle given the profitability focus on that context.

Shailesh Chaturvedi: So let's look at power brand portfolio. I will put my comments in 3 parts. I will start with profitability, then about the sales part of this and the distribution expansion coming to that. So if you really look at power brand they have been really well if you look at compared to the last year, if you look at same quarter last year the swing in EBITDA was almost 100 Crores and we have grown the profitability of the power brand last year, we increased by almost 300 basis points. So now today we are at an EBITDA base of close to 12.5% in the power brand portfolio. This quarter is also close to that base in that and we have grown the profitability of power brand in this quarter also by 130 basis points. So the focus on profitability, the rigour on launching season properly, advertising, retailing so that the full price sell through happen, discount control will continue and we hope to sort of continue to expand from this current base of around 12% going forward. Some of the brands are already at double digit pre-IndAS EBITDA and others will improve. As far as your question on the revenue is concerned this quarter, we will have to understand that the base effect has sort of hit the power brand a lot more because, in the last year the base was very, very strong and the business had done really well last quarter and we had grown in the last quarter almost like more than 40% of the pre-COVID level in quarter one last year and on that base now we are reviewing the data that it has grown further, under market conditions we have faced. Now if you look at our growth driver, I can talk about top 3-4 drivers and we believe that all those drivers are still intact. The market maybe soft for a quarter or 2, may come back as industry says towards the festival time, but in the medium term we are very confident that we will continue to grow our portfolio. We have been guiding between 10 to 15% range and we continue to grow at that pace. Now as far as the store expansion, you ask that specific point, we opened 45 stores, a lot of them in the power brand in this quarter. The last quarter also we had opened around 35 stores. So we have a guidance of around 200 stores, the bulk of those stores come in the power brand and we see a lot of opportunities to expand in many more markets and the satellite towns of big metros and we see a huge energy for expansion in our power brand and that that part should continue. Second part is the adjacent category. We continue to add more categories into power brands and grow with them. For example in US Polo, footwear has been very, very good example in the industry, footwear in this quarter has grown more than 30% with a double digit EBITDA. We are adding more categories like innerwear, we are growing small leather goods, we have kids wear as a big focus which has also grown double digit in this quarter and we keep looking for opportunities to expand adjacent categories in power brand. Tommy Hilfiger has a very wide portfolio of adjacent category and revenue share in store is more than 20% from the adjacent categories. CK has very strong underwear line and a belt line and a footwear line. Likewise we are adding other categories in Arrow and Flying Machine also. So we believe that the adjacent category will also continue to grow this business of power brand and lastly digitalization. I just mentioned that we really grew our B2C part of online by 70%. We are linking a store with Omni and that will also give the growth of building scale in the B2C, Omni play in marketplace also. So, we see that whether it is digitalization, whether it is adjacent category or whether it is store expansion and the like to like growth, we grew at 4% in retail. So all those factors are very, very full of energy. Few quarters here and there sometimes the market may be very tough or the base may be very large or phasing may impact, so for example in this quarter MBO billing got impacted because there like I mentioned, in the previous quarter we did huge billing and we grew at 50% so overall in the season we grew spring summer in six months by 20% in that channel, so I believe that power brand have lot of energy ahead for growth.

Varun Singh: Got it sir. The category expansion which you spoke about of our relative success, which category as per the overall revenue, would you say that has been very successful in terms of revenue side. Will it be inner wear, footwear or whatever category extension that you would have done so far?

Shailesh Chaturvedi: I think footwear clearly is as a business has crossed as a scale which is more than 300 Crores annualized or somewhere in that zone and also, kids wear is another category which has already got scale and it is a very healthy business running into 100 Crores, so those two categories are already got the traction and we are building many more categories, innerwear another category which also has 100 plus Crores of revenue in that and these are multi 100 Crores sort of category and we will keep looking at other opportunity to grow adjacent categories.

Varun Singh: I am sorry sir you said innerwear at 100 Crores?

Shailesh Chaturvedi: Innerwear also at this rate of upward of 150 Crores that scale and the adjacent category will continue to grow.

Varun Singh: Understood and will we also be profitable in all category?

Shailesh Chaturvedi: Very clearly we do not have a burn model and even in innerwear category where we have seen lot of players investing ahead and burning money, we never followed that model because our job is to increase the percentage profitability and we have been very, very cautious on profitable front and choosing between scale and profitability, we will always be on the side of the profitability.

Varun Singh: Got it sir. That is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Shreyans Jain from Svan Investments. Please go ahead.

Shreyans J: Congratulations on great set of numbers. My first question is to be able to better understand the quality of growth is done in your power brands, could you help us understand how did we do in USPA, Arrow and Tommy specifically.

Shailesh Chaturvedi: See business has been growing well and like we said in this quarter, retail and department store channel have grown close to 15% and above. We have seen a little bit of muted response from the MBO channel which I mentioned is a quarter to quarter phasing issue but overall season that channel has grown really well at more than 20%, so these brands are on a good growth path. The issue right now has been scale and a lot of these brands have really grown very large scale last year and the market conditions have been little muted and the wholesale billing sort of impacted, but all these brands are growing well and in last two years we have grown our revenue by more than Rs. 2500 Crores rupees in last two years.

Shreyans J: Sir, retail has done well. So would that understanding these Arrow would have sales some compression in terms of demand?

Shailesh Chaturvedi: See when it comes to specific to Arrow and specific to one quarter, this season the wedding dates were less, we saw less number of weddings in the market and we have seen in the discussion with the industry players also so yes if you look at three month quarterly basis, yes there has been pressure on brand which has wedding as a key part of the occasion, but other than that Arrow has been growing well, last year also grew very well.

Shreyans J: Sir my question is we have seen improvement in the gross margin now what I want to understand is how much of this is led by raw material and second you mentioned in the presentation that there was higher like to like and full price sale, so just trying to understand the gross margin expansion and secondly, we have also not done new EOSS this quarter, so how should we look at gross margin going ahead for the year?

Shailesh Chaturvedi: We have increased our GP by 340 basis point in this quarter and I would say very simply put, I mean if I take 50 odd percent, around 2% increase has come from COGS what you just said the raw material prices, we have worked very hard to manage the cost and benefit from the softening of cotton prices, but then there are also further rigor on the cost management and new methods of costing. So, out of the 3.4%, 2% has come from COGS improvement and 1% has come through our richer channel mix, our revenue share from retail this quarter went up by nearly 5% because the retail grew at 15% plus and retail is a higher GP channel, of course, there are some parts which then come below GP as variable in terms of royalty and commission but as a GP level, we got one odd percent benefit from richer channel mix, higher revenue of retail and the balance 2 odd percent came from COGS management.

Shreyans J: Alright. Sir my last question is just I look at your PVH profitability, so we have done about 12 odd Crores so if I just do a back calculation, we come with about 28, 30 odd Crores of loss in the other businesses. So our understanding is obviously USPA is profitable, so Flying Machine and Arrow would be the laggard. So, just wanted to understand how should we look at this number and if it is 30 Crores that the number that we are looking at.

Shailesh Chaturvedi: See I am assuming your question is on this particular quarter, right, I mean not little more fundamental. So if you look at our portfolio, it is a fact that Arrow and Flying Machine a rather low close to breakeven profitability whereas US Polo and Tommy and CK and footwear are at double digit EBITDA that is where we are. Now if you talk about this particular quarter, we saw three issues in our couple of brand businesses. One is the base of last year, so base is very very large last year, but I will leave that for the time being. I come to this season because of the soft conditions, our discounting went up by 2% and that had impact on the EBITDA because discounting went, so the EBITDA came down by that amount. And then I also mentioned that the MBO bulk of the billing happened in the previous quarter where the MBO channel grew by 50%, whereas overall for spring-summer it grew at 20%, so we had a hit from that channel which is a temporary thing. I know the order flow of fall holiday and the channel is really vibrant and it is a key channel. So that will come back but if you talk very specifically to just this quarter three months and we had a hit from this channel in the brand that we are talking about. So, our journey is that we have these couple of brands where double digit pre-IndAS EBITDA includes like all the brands that you mentioned and in Arrow and Flying Machine, we have a low profitability. Arrow used to lose a lot of money, last year we had a large swing in Arrow of almost 80 Crores EBITDA swing vs the previous year and we brought it down to break even level and in this soft market condition, despite increase in discounting, despite MBO phasing and bulk of the MBO coming in the previous quarter, Arrow has remained break even brand, is not lost money so that is encouraging and we believe that as the market improves and as the wholesale billing again picks up, the business will go further for Arrow.

Shreyans J: And sir just to squeeze. One last question. We have seen 300 bps of gross margin expansion but if I look at the EBITDA except other income we see 100 bps extension. So we have done about 50 BPS of compression in the staff cost as well but since you mentioned that retail has grown by 15%. So, what kind of operating leverage do we actually see in our other expenses because of 300 bps does not flow down, it actually just end up with 100 bps of better improvement. So how should we look at this because I think in the past few calls you have clearly guided that whenever your retail mix will improve your other expenses because of commission brokerage will also keep increasing but as senses it should be lesser than the growth that we see in retail.

Shailesh Chaturvedi: Sorry, go ahead please. I interrupted, apologies.

Shreyans J: No that was my question. Fundamentally it is only to understand if retail is growing by 15%, so your other expenses should not technically go by 15%, right?

Shailesh Chaturvedi: Yes, let's talk about profitability and the leverage and then I will also come to second part of GP to EBITDA flow right. Now if you look at our last year performance, we grew our EBITDA by almost like 300 basis point, of course we had a COVID bump also but our efficiency also went up and this year also this quarter also if you see that we have talking about increase in EBITDA this year also by 1.9%. We are very clear that this increase in profitability has to continue and we internally say in the worst case also we must sort of increase our EBITDA by at least 100 basis point. Good times like last year we grew 300 basis maybe 150 going forward so somewhere in that zone in normal times at least 100 basis point in good times maybe closer to 150 basis points our EBITDA will go that is a fundamental increase in EBITDA that we are chasing and it will really come from the leverage, will come from brand improvement and the brand profitability, will come from the COGS value, it comes from the business rigor that we will keep pushing the full price sell through and keep reducing the discount, not go on early discounting, even if industry go. So, that is the fundamental point that we are very clearly going after increase in profitability of that 100 basis point, we are committed and we have done better than that and even in the worst case even this quarter which is a very, very tough quarter, we have grown at 190 basis points so that our base profitability, last year we were at average full year AFL EBITDA was 11.4%, this quarter is at 12.1%, my sense is now our base is around 12% for couple of quarters and we keep improving our EBITDA and like I said between 100 basis point normally and 150 odd basis points in good points that will happen, that is the fundamental it come from all that leverage and all the hard work that we have to do. Coming to this specific quarter, our GP went up by 340 bps where the EBITDA has gone up by 190 basis point. Now what happened when I explain this in the past. This is a retail heavy quarter. The retail contribution is more than 50%. The revenue mix has gone up of retail by more than 5%. Now what happened is that out of 3.4%, almost 2.8% is a variable which is the commission, royalty etc., because if the sale goes up, the royalty goes up, the supply chain, warehousing activity, transportation expense that goes up. So a good part of that has gone into the variable which comes below the GP, but then we have other leverage also that we have manpower cost which is giving us leverage. We are always looking for cutting down discounting, unfortunately this quarter the discounting has gone up otherwise GP would have gone up even higher than what it has gone up. So there is a fundamental base of increase in EBITDA and we are going to increase our EBITDA by 100 basis point normally to 150 basis points in good times, that has to happen and on our fixed costs, we are clearly seeing there is a leverage coming in where in this quarter almost 70 basis point we have benefited from fixed cost reduction. So employee costs, this quarter has given us the benefit of 50 basis point. There is a fixed cost which is coming down which is giving us 70 basis point benefit. So that is why our EBITDA has EBITDA has gone up by 190 basis points.

Shreyans J: Alright, sir that helps. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Yes, good afternoon to the team. My question had only one question which is on the FY22 annual numbers. In the other expenses, there is a line entry for commission and brokerages which is about 200 odd Crores. If you can please let me know the nature of those expenses that will be great?

Ankit Arora: Lokesh, Ankit here, so it is basically pertaining to the businesses what we do it on sales or return (SOR). So it is the entire franchisee commission and the department store business is what we do, it is related to that.

Lokesh Manik: That is it from my side. Thank you so much.

Moderator: Thank you. We have the next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: Yes, thanks for the opportunity and actually congratulations, a very good discipline in this quarter. So Shailesh, my question is on this quarter discipline that we have kept in terms of focusing on margin instead of growth. Now what we gather is in the market right now given the softening of RM prices, a lot of retailers are increasing the discount as you also mentioned and also for the new season there has been some price reduction that has taken place. So how do we think we will want to work going forward, do you think we will prioritize the margin over growth as even in this quarter, our growth has been slightly lower because we focused on our gross margin or you think that given the softening of RM prices further, we may probably reduce our prices so that we could driver higher growth and therefore we should kind of build slightly lower gross margin.

Shailesh Chaturvedi: Yes, thank you for your comment on discipline. Really appreciate. As far as the pricing strategy, we are very clear. I said this previously in this call that we will always prioritize profitability over scale or growth. For AFL, EBITDA percentage is the mantra, right and that is what will guide us and help us to take decisions. That is the stated policy and we have 100 odd basis point increase in EBITDA margin as a key task for us and we will execute that hopefully. Now market conditions, in the current market condition we have two pricing philosophy. One is that of stability. So we have sort of looked at pricing for the year and as things stand today with the current market conditions, we believe that we will continue with this stable pricing. So we are not looking for a major change in dropping the price or upping the price, some minor tweaking in our business that we have to do that will happen at entry price point but that is very marginal, but strategy is for stable pricing and second strategy, we are seeing opportunity for differentiated products and whenever we have done something which is differentiated, like in Arrow we have just recently done a line called 'AutoPress' which are these imported wrinkle free shirt. We run a super premium line in Arrow call '1851'. They have got fantastic response, their sell through are very, very good. So, our focus is to premiumize brands through differentiated products because we see better sell-through for those product and we deliver good sales density per square foot. So that is another guiding principle that of course, those premium product will be priced right for that product quality and MRP for that consumer for the competition in that market but overall if I have to say, to summarize we will definitely pride by profitability over anything else. Second, our pricing will be stable, minor changes here and there and third is premiumization is a key force for our brands.

Aliasgar Shakir: Got it. So are you saying that basically we will not pass on the softening of RM prices even if the industry does and then I mean till what extent do you think that is hurting our growth?

Shailesh Chaturvedi: Also we have to remain competitive right, so somewhere we have to also see how industry responds to these kind of things. So, minor tweaking here and there, entry price point, strengthening some consumers segment we are not capturing, all that will happen and we will have to eventually follow what competition does, but our strategy is of stability and premiumization of our brands.

Aliasgar Shakir: Got it. Okay. Second question is on this, EBITDA margin that we have seen pretty decent in this quarter but pass through of that in the PAT is not very strong. Of course our taxes gone up which I understand could probably be because of the CK brand doing well I understand. So how do you see the PAT margin, PAT growth going forward and I think is my understanding correct that that will more depend on Arrow and Flying Machine's growth because as the growth is mostly in the JV brands there is increasing contribution from minority interest and therefore our PAT growth is not very strong?

Shailesh Chaturvedi: I will take this into three parts. One is the fundamental EBITDA that we have to grow and I mentioned certain margin increase that we have to deliver, some brands have to improve, so that is to me a larger task ahead to make the overall portfolio more profitable grow at a certain basis point every year, make some brands more profitable that is a fundamental part. Then below the EBITDA if you have to go to that journey of PAT, I would say in this quarter our interest costs have gone up in proportion to the increase in the repo rate, so debt levels have remained stable, but the interest rates have gone up and that by that proportion our interest costs have gone up. Now you know that our debt levels are remaining very very stable. So our interest cost will fluctuate based on the repo rates in the market. So that is something I think we will continue to manage that fairly well. I am confident that will be no reduction on towards the PAT from that will be linked to the repo rates in the market and then below PBT this time the tax has gone up because there is a higher taxes in this current quarter because the PVH Arvind Fashion Private Limited that has declared 100 Crores dividends in the quarter one and out of which 50 Crores was received by AFL and of this 50 Crores dividend that we received, AFL has made a tax provision of around 7.5 Crores, the balance tax is also coming from the PVH part of the business that you mentioned. So there is a one off part in this quarter and yes, some businesses are more profitable and we pay tax that so that will continue but if I have to say the interest rates will be no surprise from our side because we do not see major changes in that gross debt level. The tax will follow whatever the policy is there, but I think our fundamental philosophy to improve PAT will be to improve our EBITDA and EBITDA percentage and that is what I have been saying in this call time and again.

Aliasgar Shakir: Got it. Thanks for the detailed explanation. So in quick summary you're saying, basically that tax item should be lower in coming quarters, accordingly that PAT flow through will be relatively higher hopefully in the coming quarters.

Ankit Arora: Surely. There is a one off tax component this quarter.

Aliasgar Shakir: Got it and just if you could help with the pre-IndAS EBITDA in this quarter?

Shailesh Chaturvedi: See, we do not discuss specific and in the previous calls also we have indicated that there is around close to 4% difference between the post-IndAS and pre-IndAS and that is where we are and that is the industry practice and we also follow that.

Aliasgar Shakir: Got it. And this is what we have guidance of reaching doubled right, by the end of this year, right?

Shailesh Chaturvedi: Yes. So if you really look at our EBITDA like I said earlier, we are at power brands EBITDA base of 12.5%, we are not very far from that, in the quarter 4, it was even 13%. So, we are not very far. In that journey, we have made significant progress last year and even this quarter and some of our brands are already in that journey and they have achieve and they will continue to achieve. We have a specific task with Arrow and FM who are at a very low single digit breakeven level kind of profitability and our job is to now continue to work. Arrow had a very large swing last year, the current market conditions do come in the way but we see both FM and Arrow profitability going up and there is a lot of hard work that we are putting behind that and that should help.

Aliasgar Shakir: Got, this is very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Ritesh Choudhary from Molecule Ventures. Please go ahead.

Ritesh Choudhary: Yes. So first of all congratulations on the margin side, right. It is really nice to see margin in emerging brand shaping upward. So just on that, so how much would be margin expansion would be from closing our Aeropostale and Ed Hardy and what would be the contribution of scaling of CK in that segment?

Shailesh Chaturvedi: I would say as we go along the tail brand losses will keep coming down, so it will be largely, the future gains will come from gain in Calvin Klein profitability and Calvin Klein has very good momentum today. So, we are very confident about that brands performance in both in terms of sales and margin.

Ritesh Choudhary: Okay. So my next question is regarding US Polo, right, last year US Polo was phenomenal for us right. It added around 600 odd Crores in our topline which was very good and add to profitability. So can we see or envisaged that this momentum will continue in this year as well?

Shailesh Chaturvedi: See U.S. Polo is a very special brand, its leading brand in India is in top two casual brand and we believe it is number one brand but it is in that top 2 position and has done really well. The throughput is good, the desire for brand with consumer is very good across the channel be it online, offline, department store, every channel U.S. Polo is a leading brand in department store and online portal rank one brand, so it is a very, very special brand it has created scale which is very nice and whole plan now is to take it to beyond 2000 Crores topline and it is already a really good double digit pre-IndAS EBITDA brand and we also seeing opportunity to extend this brand as I mentioned footwear being a very large business, innerwear is a healthy business, kids wear – in boys, we are a leading player in the country so there are lot of opportunities to extend this brand, expand store and you will see in the next 60 days, you will see very large investment in advertising in this brand to prepare the consumers and influence the consumers for the coming Diwali festival season, so it remains a very, very key brand for us and we see very good the sort of momentum. Few quarter here and there we did billing in the previous quarter and this quarter less but overall brand is on a very, very strong wicket.

Ritesh Choudhary: So we can expect the momentum to continue in US Polo. Right?

Shailesh Chaturvedi: Absolutely.

Ritesh Choudhary: So can you give a rough ballpark figure like what would be the adjacent categories in the USPA segment like in percentage terms?

Shailesh Chaturvedi: So if you look at adjacent category three big ones are footwear, kid wear and innerwear and we are also developing like recently like we launched small leather goods, which is belt and wallets. We keep trying our new categories in this brand and adjacent categories have already reached 15% of the brand and we believe that could even hit Tommy kind of level of 20% share. So there is traction in growing the adjacent category even more in U.S. Polo.

Ritesh Choudhary: Right. So one more thing, so when can we see other brands like our Arrow or Tommy can get that momentum like which U.S. Polo witnessed last year or certain scale after that able to better on different brands as well?

Shailesh Chaturvedi: I think Tommy is very special doing extremely well and this quarter has done remarkable well both in terms of topline growth and margin structure. So Tommy is leading, you know the Tommy plus CK market share is unreal in that segment, dominate that segment. Tommy is doing really well, CK I have already mentioned, so it has come back to our ability to take Arrow and Flying Machine to better profitability and we will need even bigger scale. So Arrow, the first stage happened last year where we really took it from a very large losses to break even, low single digit and that journey will continue from low single digit to mid-single digit to high single digit to double digit EBITDA, so that is a journey that we are on and what we're doing with Arrow is also true for Flying machine, we need to increase the scale, get scale leverage, launch new categories, open more stores so I think eventually it will come back to improving the margin profile of Arrow and FM and also scaling them up little more.

Ritesh Choudhary: Yes that is right, so one last question regarding Sephora, did we got any clarity from parent regarding this as I can see we have opened a single additional store in Sephora as of now?

Shailesh Chaturvedi: We have no further comment to make on Sephora than what we made in the last investor call and I repeat that, it is a brand in our portfolio that is in the Prestige beauty segment, only offline stores and we are in touch with the principal to work on the next steps on this brand and there is frankly nothing further to add.

Ritesh Choudhary: Okay. Thanks for the answer and I really appreciate your team's effort towards the margin improvement and hoping this to continue. Thank you.

Moderator: Thank you. The next question is from the line of Yash Bajaj from Lucky Investment Managers Pvt. Ltd.. Please go ahead.

Yash Bajaj: Hi, thanks for the opportunity. I had two questions. So first question is on the expense amount on the license brands which we incurred. How much would that be on a quantum absolute basis and as a percentage of sales?

Ankit Arora: Yash, just to clarify, are you asking about the royalty, which is what we pay for the license brands?

Yash Bajaj: Yes.

Ankit Arora: It is in the range of about 4 to 5%. It will vary brand by brand, would not be able to share specifically on the brand wise but it will be in the ballpark range of about 4%.

Yash Bajaj: Okay and sir my second question was like you alluded that Flying Machine and Arrow close to breakeven so is that post-IndAS or pre-IndAS?

Shailesh Chaturvedi: No it is pre-IndAS.

Yash Bajaj: It is pre-IndAS. So, we would be around either like around minus 1 to 0 percent EBITDA margin?

Shailesh Chaturvedi: No it is a break even, or low single digit, that kind of thing.

Yash Bajaj: Low single digit. Okay. That is all from my side. Thank you.

Ankit Arora: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I now hand the conference over to Mr. Ankit Arora for closing comments. Over to you Sir.

Ankit Arora: Thank you everybody for joining us on the call today. If any of your questions have been unanswered, please feel free to reach out to me separately and I will be happy to answer them offline. Thanks so much and look forward to seeing your participation again next quarter.

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