



“Arvind Limited Q1 FY 2018 Earnings Conference
Call”

August 04, 2017



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LIFESTYLE BRAND LIMITED
MR. ANKUR ARORA -- ARVIND LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q1 FY 2018 Earnings Conference Call of Arvind Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone.

I now hand the conference over to Mr. Ankur Arora. Thank you and over to you, sir!

Ankur Arora: Good evening, everyone and welcome to the First Quarter Earning Call for Arvind Limited. Joining me on this call is Mr. Jayesh Shah -- CFO and Executive Director of Arvind Limited; and Mr. J. Suresh -- MD of Arvind Lifestyle Brand Limited.

To begin, let me give you a brief outlook on the textile and apparel industry in the first quarter.

Let me start with textile space. The textile industry had a mixed quarter, while the first 2 months of the quarter was strong. In June, we saw a slowdown as industry tried to adjust and migrate to GST. While GST is usually beneficial to organized industry, the transition has been a little challenging. We believe the industry will take time to adjust to the GST regime and during this transition period, domestic demand may remain a little weak. Also, Indian rupee continues to remain strong which has an impact on exporter such as ourselves.

On the branded apparel side also, we saw mix trends. In the month of June, industry saw large destocking done by the wholesale channel for GST. However, at the retail level we saw a strong sales trend. Advancing of EOSS to the June month also helped and added to the retail sales number.

In this backdrop, Arvind Limited delivered good set of numbers. In our textile business, we grew our revenue by around 9% on the back of 17% growth in our garmenting business. The EBITDA margins for the quarter was lower on Y-on-Y basis primarily driven by the sharp increase in cotton prices vis-à-vis last year. Continuous appreciation of Indian rupee also had an impact in this. On quarter-on-quarter basis however, our EBITDA margin improved by around 150 basis points as we improved our realizations.

Our brand business delivered strong quarter with 40% growth in revenue. Please note that first quarter results of this year include revenue for Tommy Hilfiger and Calvin Klein also which was not consolidated in the last year's result. Excluding the contribution from these two brands, revenue growth for the brand business stood at 21%. We witnessed strong LTL growth trends during the quarter with our overall portfolio delivering like-to-like growth of 20%.

As discussed earlier, the wholesale business saw a decline in revenue in this quarter due to GST transition. In the month of June wholesale channel for Arvind brand de-grew almost 80%. However, retail business saw strong growth in the month of June growing by almost 50% which to an extent compensated for fall in wholesale channel.

Wholesale is relatively a more profitable channel in our brand business. But in spite of decline in this wholesale business our EBITDA margin for the brand business improved by 60 basis points to 2.9%. We believe as the wholesale channel comes back after initial GST led hick-up the overall margin for the brand business will improve further. Our value retail business Unlimited continues to perform strongly and delivered a revenue growth of 36% on the back of strong LTL growth of 31%.

On consolidated basis, we delivered a growth of 18% driven by strong growth in our brand business. Overall EBITDA margin fell from 11.6% to 8.4% on account of drop in textile margin and lower earnings in few smaller businesses as compared to last year.

We are continuing with our strategy of vertical integration in our textile business. We will complete first stage of investment in Ethiopia in September quarter. In the first phase, capacity of around 5 million garments will become operational which will be increased to around 12 million garments by the end of the year. We expect the current capacity augmentation to help us grow our garmenting business further and we aim to maintain a growth of 20%+ in garmenting post the new capacities comes on stream.

On an overall basis we expect to grow high single-digit growth in textile and almost 40% growth in brands and retail business. This growth number includes increase in revenue due to consolidation of CK and Tommy.

On the margin side, we expect margin for brand and retail business to improve by around 150 basis points on full year basis. However, the margin for textile business is likely to remain under pressure due to higher cotton prices and stronger Indian rupee. While sequentially cotton, prices have come down a little they remain at elevated level vis-à-vis last year.

Finally, on GST, as expected we are seeing some disruption in the market place due to GST. We believe market will settle in the course of next few months. In medium-term to long-term we believe GST will be beneficial to organized players such as ourselves.

With this, I open the floor for Q&A. We have both Mr. Jayesh Shah and Mr. Suresh with me to answer any questions that you may have.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak:

Sir, I missed on what is the margins on the brand, your EBITDA margins currently?

- Ankur Arora:** It is about 2.9% for this quarter. This is available in our review note which we have sent to all and it is available on our website also.
- Dimple Kotak:** Okay. So, this 2.9% versus?
- Ankur Arora:** They are around 2.3% same period last year.
- Dimple Kotak:** Okay, sir. And we expect this to be improved by 150 basis points?
- Ankur Arora:** We expect the full year margins to be improved by around 150 basis points. As you are aware last year our full year margins for the brand business was around 5%. We expect this overall full year margins to be around 150 basis points better. Do note that first quarter is not the strongest quarter within the brand business, the brand business has some bit of seasonality so the first quarter is weakest in that sense. So, the current quarter numbers are not reflective over the overall year margin.
- Dimple Kotak:** Okay, sir. And sir, for overall, what will be the overall on the consolidated level, the EBITDA margins would pan out?
- Ankur Arora:** We had talked about textile business reducing margins to some extent because of the cotton prices going up the way they have and as well as the currency being at Rs. 63.5 right now. So, we will have increased margin in the brand business. But the overall margins will be declining because of the fall in margins for textile.
- Dimple Kotak:** Okay, sir. And sir, if I am not wrong in the previous quarter we gave a guidance of around 13% for this year on an overall basis, growth guidance, do we stick to that guidance?
- Ankur Arora:** Yes, we are still sticking to the same guidance.
- Dimple Kotak:** Okay, sir. And sir, if you can just tell me what is the cotton prices per candy which is currently we are seeing and what was it last year and the previous quarter?
- Ankur Arora:** On per kg basis the cotton prices have moved up by around 22% on a Y-on-Y basis. Prices were around Rs. 124 per kg for us in this quarter. Now, as far as the cotton prices in the market is concerned, in the physical market it is anywhere between Rs. 43,000 to Rs. 44,000 currently.
- Moderator:** Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Sir, first question on the margin, the brand and retail segment, so if I understand right the despite higher discounted sales in the EOSS we have seen a margin improvement mainly driven by operating leverage, is that the right way to look at it?
- Ankur Arora:** Yes. Suresh, would you like to take that one?

- J. Suresh:** Yes. See, I think you know in spite of the discount, we have been able to control the drop in our gross margin and then of course, it has been a sharp increment in sales there is good operating leverage for us.
- Nihal Jham:** Okay, absolutely. And secondly on the point that was mentioned at the starting of the call on the wholesale channel, the wholesale channel would mainly be in the MBOs if I understand, right.
- J. Suresh:** MBO and online is buy and sell wholesale channel. So, online is now beginning a significant part of the overall business mix. So, these two channels actually didn't pick-up any stocks in the month of June.
- Nihal Jham:** Fair enough. And just one last question, if you look at the margins, they have expanded for both, they have been reasonable for both the brand and retail segment. But there has been sharp increase and losses in Arvind Internet and other businesses. So, you could you elaborate more on why this has happened this quarter?
- Ankur Arora:** So, on the other segment essentially, we have got couple of orders in our smaller businesses which we completed in the last fourth quarter and first quarter of the last year where the revenue was booked and being a project business, profit was booked in those quarter. This quarter we did not have the similar revenue coming through and that is the reason why the margins has not really been the same as the last year. But as we go along as we book more revenue in these businesses which will happen through the course of this year the margins of those businesses will also come back.
- Nihal Jham:** Sure. And last question then what is the expected investment maybe you spend on EBITDA that Arvind Internet is expected to have for the coming part of this year?
- Jayesh Shah:** We expect that this year we should be within about \$6 million to \$7 million as compared to about \$10 million last year.
- Moderator:** Thank you. We take the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** I would like to understand the EBITDA margin in the brand and retail business excluding Tommy Hilfiger and Calvin Klein sales.
- Ankur Arora:** Yes, so if you want to compare EBITDA margin. So, 2.86% if you take out brand CK and Tommy and it is 2.9%. So, virtually there is no big difference between the two.
- Prerna Jhunjhunwala:** Okay. Sir, there is a sharp decline in the interest rate on a Y-o-Y basis. So, I want to understand the debt position today and the outlook for the year on the debt.

- Jayesh Shah:** So, we are subbing Rs. 3,000 crores more or less where we were at end of March plus Rs. 100 crores because we added CK and Tommy business this year. So, we expect our outlook for the year the debt to be Rs. 3,000 or slightly below that.
- Prerna Jhunjunwala:** Okay. And sir, your outlook on the cotton prices, given the expected increase in the production this year globally.
- Jayesh Shah:** So, we believe H2 and if you look at that get supported by the futures which are prevailing in international cotton exchanges. We believe that the cotton prices should soften from where they are today as it is they have softened from they were about 3 months ago. Also we believe that because the rupee is reasonably strong. The export of Yarn which is a low value-added item will become less profitable than what it used to be and as a result the demand itself may fall. So, there are I mean it is too early to say about how the cotton crop will run out because there have been some effective rains in Gujarat which may delay or damage the crop as well. But we believe that a combination of a good monsoon with a possible slightly lower demand should augur well for the cotton prices and they should be low.
- Prerna Jhunjunwala:** Okay. And sir, are we comfortable with the cotton inventory that we have today or we will have to procure like more cotton before the season starts and how is the availability of cotton?
- Jayesh Shah:** No, we have enough cotton for the season.
- Prerna Jhunjunwala:** Okay. And sir, second thing, I wanted to ask was on the engineering bid of the business, we have started reporting this as a separate segment in our segmental what is the reason behind showing this?
- Jayesh Shah:** So, we received a lot of questions on the engineering business from the various stakeholders and our board thought that it may be a good idea to report it separately. So, we have started reporting from this quarter. It is relatively a small business, does not warrant to be separately classified. But looking at the interest to know about that entity we decided to separate it out.
- Moderator:** Thank you. We take the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Jayesh bhai, a couple of question just trying to reconcile the past number and these numbers. We have a Rs. 100 crores of sales corresponding to our 50% stake in the Tommy and the CK business, correct?
- Jayesh Shah:** No, it is 100%. It is fully consolidated.
- Maulik Patel:** So, this is fully consolidated business.
- Jayesh Shah:** Yes.

- Maulik Patel:** So, we investor have taken that minority interest in our numbers, right?
- Jayesh Shah:** Under IndAS there is only one way to consolidate either you fully consolidate it provided you have control over the company or you just take the share of profit and no revenue. No proportionate consolidation is allowed under IndAS. We used to do proportionate consolidated before we moved to IndAS accounting policies. We made certain changes in the management agreement with our partners which gave us higher control over the company including the board and the rights to take decision which made it possible for us to consolidate and that would mean a full consolidation and what you would take out is a minority interest, like the way you do in any subsidiary.
- Maulik Patel:** Okay. So, where will be this minority interest will be written off from the it will be subtracted from the number?
- Jayesh Shah:** Yes, so it will be between PBT. I mean, if you look at longer version which is submitted to Stock Exchange you will see a minority interest in separate line item.
- Ankur Arora:** Non-controlling interest as we call it.
- Maulik Patel:** Okay, fine. Okay, I got it. And the guidance what you have given from 150 bps that includes the margins of the CK and Tommy, correct?
- Jayesh Shah:** So, as I said that the margin and CK and Tommy are not significantly different than our average margins.
- Maulik Patel:** But last year, if I recollect correctly, the CK and Tommy use to have a margin of around 10% on a full year number basis, correct?
- Jayesh Shah:** Which was true for Tommy Hilfiger not true of CK. In fact, CK had a negative EBITDA last year for the second year of our operation. And we do not see a very significant change in the first 6 months of this business because both brands are highly relying upon on imports where the CVD impact was very high. Only in the fourth quarter do we see a CVD impact going away and as a result the margins improving. So, I was to reiterate our 150 bps, we have given 2 guidance's: one that our business should grow at between 22% and 25%; and our margin should grow at 150 basis points both are not including the CK, Tommy business. The CK and Tommy would make the current numbers grow at a pace faster than 23% - 25%. But every quarter we would give a comparative, so that you have a proper analysis numbers available to you. So, the number of 150 bps is not including CK and Tommy.
- Maulik Patel:** Okay, I got it. And this margin expansion which we are talking about (one) because the CVD is now is a part of the GST which is not there actually that is one; (second) is that the reason because we are having this loss-making brand particularly the gap and the support will be having a lower losses in this year?

Jayesh Shah: So, first of all, the guidance when we gave there was no GST or CVD known to us. So, that was not the reason this 150 bps was given. I think the overall as we have been saying and that was true for most part of the year last year but for the demonetization impact which came out, as you have seen that as we come out of the investment phase in several of the brands which we have invested in and as we are in the period of consolidation last year, this year, and the next year, two things are happening (a) revenues of all brands including the high performing is going up, giving us an operating leverage; and (b) our investments are as a proportion to sales thing several of the new initiatives is going down. Both combine together is helping us to improve the margin. There would be some anomalies which will get reported over different quarter and it is not possible to quantify them which are that what would be the impact of some of the transition opening inventory on the margin for that particular quarter. At the same time, what would be the impact of the reduced CVD in a particular quarter is difficult to quantify. There could be some margin impact coming because of these reasons we try and separate them out as we go along in the quarters but as you know each piece will have a different margin based on whether it was pre-GST, post-GST, whether price increase was effect or not effected and when what will get sold is difficult to today be very specific about. However, in general the trend line is that we expect a margin improvement of about 150 basis points.

Maulik Patel: Okay, I got it. One last is that our EBITDA margin reported in the brand is around 4.9%, the segment on the result, the EBIT is negative almost around Rs. 7 million or something or Rs. 7 crores of something.

Jayesh Shah: Which is the current year, is there in the current quarter.

Maulik Patel: Current quarter, so the depreciation is almost 3% of the top-line?

Jayesh Shah: So, I think what you should understand is that this is one of the lowest quarter for brand and retail business, as you have historically experienced, where the depreciation charge is constant number, right and the revenues are not constant they are much lower. So, if you were to look at for the year you will not find depreciation charge to be as high as a percentage of sales but in one quarter you will find it.

Maulik Patel: Okay, I got. And sir, on textile front, as we say you discussed earlier that the cotton prices are now expected to be soften and this has already softened almost around 10% - 15%, 10% or so since last couple of months. But what will be the impact on rupee appreciation because almost our 35% of the textile revenue come from the export business.

Jayesh Shah: Correct.

Maulik Patel: So, do you see that the headwind of the rupee appreciation will last much longer because already when the rupee started appreciating from the March onwards you already have some hedge positions which is probably now you own at.

Jayesh Shah: Quarter one had an impact of a very good hedge level for us. So, practically rupee appreciation did not affect us. However, full blown cotton impact came in quarter one resulting into margin though it looks to have reduced by 3% from quarter one of last year. But slight margin improvement in compared to sequential quarter which was about slightly below 13 it is slightly above 14 now. As we go forward, the rupee will we will not have the hedges that way, we have in quarter one and as a result our realization will take a hit, partially or fully depending upon what happens to cotton, offset by cotton cost reduction. So, this year margins will remain as I have said even in the last call and in the outlook, note that we have sent out. We believe that the margins in textile will remain under pressure. Because what is happening is that dollar-rupee being an international situation there is no way to pass it on. You could have passed it on if it had sustained at a given level. But cotton has been slightly down. So, it is not possible to pass on cotton cost increase fully. So, that is what the situation is. So, given this situation we would I would think that the current year textile margins would hover around number the you that you see in this quarter or slightly below that.

Moderator: Thank you. We take the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Sir, my question again hinders towards margins, you mentioned now that the margins for the textile business would be lower but in the branded and the retail business you are expect about 150 bps improvement in the margins. For the year, at a consolidated level, should we expect margins to be flat on Y-o-Y basis or there would be some kind of reduction of about 100 to 150 bps?

Jayesh Shah: I would not be able to quantify exact margins because it is not possible because there are a lot of moving paths as you would understand. And in general, to say that margins for the current year on a weighted average basis would be lower is true because the share of brand and retail business is also sharply going up. So, there would an arithmetical impact as well on the margin percentage. Other than that, 8% - 10% growth with a slightly subdued margin in textile is what you could take.

Kaustubh Pawaskar: Okay. My second question is on the CAPEX for the entire, so could you just give us the guidance what...

Jayesh Shah: Rs. 450 crores for the current year.

Kaustubh Pawaskar: Rs. 450 crores for the current year and that would largely be done through internal accruals or you are expecting any debt funding for the same?

Jayesh Shah: I am not looking at adding debt in this year.

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

- Abhishek Ranganathan:** Just one thing on the brand business EBITDA, if I want to just compare the number which you have given out last year we had Rs. 10 crores EBITDA on total that is excluding pre-consolidation Power Brand as it was. What would you your like-to-like EBITDA?
- Jayesh Shah:** I did not get your question.
- Abhishek Ranganathan:** Sir last year we had Rs. 10 crores EBITDA for the Brands business.
- Jayesh Shah:** Rs. 10 crores. For the first quarter?
- Abhishek Ranganathan:** Yes, for the first quarter, I am referring to first quarter.Right. So, what will be your like-to-like number for the first quarter this year?
- Jayesh Shah:** It is Rs. 21 crores.
- Abhishek Ranganathan:** No, what I meant is excluding the JVs.
- Jayesh Shah:** Okay. Rs. 3 crores less.
- Abhishek Ranganathan:** Rs. 3 crores less? So that is about Rs. 19 crores?
- Jayesh Shah:** Yes.
- Abhishek Ranganathan:** Okay. And secondly, just to clarify, there is no change in the shareholding pattern in the joint ventures, we just...
- Jayesh Shah:** There is an increase that also in principal agreement is done it is being implemented we are increasing marginally the stake as well.
- Abhishek Ranganathan:** Okay. So, basically, we will become more than 50% shareholders in all the JVs?
- Jayesh Shah:** That is something which is being discussed. But we will be increasing our stake.
- Abhishek Ranganathan:** Okay. And will we continue to still rely on imports, thereafter?
- Jayesh Shah:** No, it is not thereafter or before. The import depends on the size of the SKU or what minimum quantities we can whether we can manufacturer economically in India or not. So, depending upon the size of the business, we kind of take decision whether we should continue to rely on global collection or whether it offer minimum economic size that we can manufacturer in India. So, as these brands are growing, the share of domestic purchase is increasing, across every brand that we have. So, be it Tommy, be it CK, be it Giant, be it Nautica, be it Aéropostale, Children's Place, GAP, every brand was sure of domestic production continues to rise depending upon the size of the business.

- Abhishek Ranganathan:** Right. And sir, secondly Unlimited continues to do really-really well. Any color on the size and profitability of the same?
- Jayesh Shah:** So, as we said, we do not talk specifically brand wise profitability. However, this year it is expected be around Rs. 750 crores, Suresh?
- J. Suresh:** We are expecting the Unlimited to deliver around Rs. 800 and it should be EBITDA profitable.
- Abhishek Ranganathan:** And Rs. 800 crores what base last year?
- J. Suresh:** Rs. 600 crores.
- Abhishek Ranganathan:** Rs. 600 crores. And would we become profitable right at the format level itself apart from store level at put together?
- Jayesh Shah:** Yes.
- Jayesh Shah:** Yes. We are looking at format level profitability.
- Abhishek Ranganathan:** Okay, great. And what would be our ballpark inspirational margin range for this format and by when we expect to reach there?
- Jayesh Shah:** We are looking at a ballpark around 8%. By 2020 we should be able to reach there.
- Abhishek Ranganathan:** Right. Sir, thing for Jayesh bhai, one thing I want to just understand again is that earlier we use to report joint venture revenue and profits our share in the Presentation, so if we were to just look and compare the business that way over period of years, would it be fair to just ascribe a 50-50 share and look at the business again at this point in time?
- Jayesh Shah:** You can do I mean there is no problem.
- Abhishek Ranganathan:** No. But I am just getting a sense about whether our economic interest would be around that ballpark number to do that?
- Jayesh Shah:** That is correct. But economic interest, so either way you can look at it, whichever way you want to look at it that is up to. Accounting reporting will happen the way IndAS works. Suppose we lose management right in one of the brands that we have, we will have to stop recognizing it and if we gain, we will have to add it. We will continue to give separate details for various stakeholders to understand the profitability and at the year end all the balance sheets are also available including they are all loaded on the website. So, from that point of view those data is available to analyze but the accounting reporting will happen the way, it has to be done.
- Moderator:** Thank you. We take the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

- Kashyap Pujara:** Just a question I have on brand and retail. If you can give us a trajectory, obviously the numbers have been very encouraging both on-brands and on Unlimited as far as top-line growth is concerned. But from a trajectory of dependency on the textile business, when can we assume that the cash flows that are being invested from the textile business into the brand and retail business will see to get invested in brand and retail will start generating its own cash flows to support its own growth. Are we now progressively inching more closure to the targets?
- Jayesh Shah:** Internally we have set our target that next financial year should not need capital infusion of any type from textile business into our brand and retail business.
- Kashyap Pujara:** Okay, that is very encouraging. And from a perspective of growth. Now, when we look at the kind of growth that we are seeing over a 3 to 4 year window that we have actually articulated to sustain that high growth the cash flows from the brand and retail business would be sufficient to sustain that kind of heady growth that we are seeing?
- Jayesh Shah:** Absolutely.
- Kashyap Pujara:** Okay, that is great. Secondly, if I notice from a perspective of return on capital employed in your Presentation there was dip there. So, could also articulate your thoughts on how you see return on capital. Now, this quarter when I actually disaggregate the capital employed, we did see the brand and retail growing at the capital employed on a Q-o-Q basis moved up by Rs. 300 crores that was I think the main chunk of the increase balance being textiles and others were hardly any change. So, could you give some thought on return on capital and the kind of increase we have seen in this quarter?
- Jayesh Shah:** Almost all the capital increase that you see in brand and retail space has come because we are consolidating the accounts for the first time of this joint venture. But otherwise on an absolute term either in this joint venture or in our Arvind Fashion and Arvind Lifestyle brand in this company the capital employed increase has been about Rs. 75 crores. So, this is a quarter where we have made substantial investments in fixed assets to take advantage of the coming seasonal festival times. So, capital employed has been bloated up with really getting any revenue or profit but we are not looking at any kind of reduction in the returns on either equity or capital employed for the year.
- Kashyap Pujara:** Okay. So, if I were to say the Q-o-Q that is from 31st March till date, the capital employed moved up by say Rs. 427 crores of which Rs. 300 crores was from brand and retail and you had Rs. 150 - Rs. 160 crores from textile and we did see unallocable and other, etc., even the engineering all go down. So, you are saying that the brand and retail actual incremental capital employed increase was only Rs. 75 crores?
- Jayesh Shah:** That is correct.

Kashyap Pujara: Okay, that is fine. And lastly, if I look at the overall company and the strategy outside in, obviously textile while it has not grown, we are operating at optimal capacity and we are definitely making higher returns from that business may be excess of 20%. And that has been a cash cow which has actually fuel a lot of our investments be it technical textile, be it brand and retail, so you are basically moving up the value chain when it comes investing into better quality or may be superior businesses where you can eventually get a better pay off. Now, because of which your ROCE when one looks at it on a consolidated basis looks substantially lower than what the core segment is actually delivering. Now, from a perspective of return on capital over a 3-year window based on the investments that you made in technical textiles and brand and retail where do we see the normalization playing out and also because today when we see the numbers I think Arvind Internet also we have been expensing it because there is hardly any capital employed here. So, we have been I think taking that hit directly from the P&L if I were to just understand. So, if you can just give a view on this?

Jayesh Shah: So, I think your question is ROCE, right?

Kashyap Pujara: Yes.

Jayesh Shah: So, we have in our earlier Presentation including the various commentaries stated that we are looking at a consol level and ROCE of 18% in 2018 - 2019 which is the next year; we are sticking to that estimations right now. One will have to see how, if there are significant impacts coming because of GST we do not see them but if they are then some adjustments may be called for. As we have been talking about that we are in consolidation phase in our various business initiative that we have taken in last 3 to 4 years and we believe that we are going in a right direction in terms of improved financial indicators such as margin as well as cash flows. So, that is what we are working on and we do not see it very different than what we had talked about.

Kashyap Pujara: And lastly, since on the GST front, what is the experience? I mean while obviously everyone has been facing pressure in the current context but internally what are your thoughts regarding the normalization and restocking?

Jayesh Shah: See, if you look at July one of the worst retail month I would say in long time. We believe that with wholesale channel now coming back on track and seasonal season coming in this should start looking better from 15th of August. As far as textile is concern we already have started seeing signs in the last few weeks of business getting back to normalcy. So, I think we will have to give one or two more months to see whether things are really settling. The only good thing about this is that the Diwali this time a little earlier, as a result, towards the second-half of Q2 and of course the whole of October it should give fillip to the consumption. So, finger crossed but we are hopeful.

Moderator: Thank you. We take the next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: I had two questions, first is on the ROSL scheme which got extended just recently. So, across the board export business within textile as well as for our garment business 100% exports, you would have got those addition 400 basis points in this quarter?

Jayesh Shah: So, it is not additional. ROSL scheme first of all, does not apply to fabric; it is only for garments, number one. Number two, it is a scheme where the state level taxes were being defrayed and not excise or custom duty for excise particularly and when we talk about state level they significantly included the electricity related taxes like electricity duty and VAT electricity duty which continues to be currently even taxed not part of the GST. So, the current discussion both on draw back as well as ROSL is to work out detail for what are the taxes which are not still part of the GST. So, if you look at 40% of the entire goods which is in form of petroleum related product is outside the GST net. And a lot of those goods get consumed in dyes, in chemical, in generation plus electricity duty and a lot of them are continuing to be paid by us, so government has collected data from all the industry players, they appointed audit firms to look at it and they are now as we speak doing calculation of draw back as well as ROSL by end of September they would come up with a new range.

Niket Shah: Sure. But do you think your duties drawback rates what it was prevailing currently approximately say 8%. Do you think that number is expected to move down that is what most of the industry guys are saying but what is your thought on that?

Jayesh Shah: So, I do not know may be a couple of percentages it may get adjusted.

Niket Shah: Okay, got the point. And the second question was on the garmenting plant which is expected to start commissioning in the third quarter. How much loss are you expecting in the third quarter and fourth quarter of this year and do you expect that to become profitable next year or breakeven next year?

Jayesh Shah: So, it would be difficult to quantify. But in the whole scheme of things of our textile business they are not a very large number. They are relatively very small operations and so, they do not become material number in the overall scheme of things. So, it will not really make a difference. But I think it is critical first step towards establishing our supply chain through Ethiopia and if it settles down we could accelerate the growth of verticalization through that country that would give us both top-lines as well as make more strategic to our customer.

Niket Shah: Got it. And that is pretty much on track in terms of the CAPEX part of it, start of the third quarter.

Jayesh Shah: Yes.

Niket Shah: And final question on e-Commerce, what kind of loss are we budgeting this year and do you think next year we will have a substantially lower number or we will continue to have like this?

- Jayesh Shah:** We are looking at almost 60% of what we spend last year. And we believe that next year it should be a very miniscule amount not warranting a separate disclosure.
- Moderator:** Thank you. We take the next question from the line of Himanshu Nayyar from Systematix Shares. Please go ahead.
- Himanshu Nayyar:** Sir, just to understand this consolidation of Tommy and CK, can you give the revenue margin and PAT number for FY 2017 for these two?
- Ankur Arora:** It is there in the Annual Report.
- Himanshu Nayyar:** Yes. And second thing, just wanted to understand on the technical textile space. If you can give some color on the performance and outlook over there?
- Jayesh Shah:** No, technical textile this year is expected to be over Rs. 600 crores revenue, part of it gets reported in textile fees because it is using the same textile system, balance gets reported in other segment and the business which started about 3 years ago when we started the business they are all in two digit margins and the businesses that we have started in last two years, they are closer to breakeven as of today and one of them of course, is still at a negative EBITDA margin.
- Himanshu Nayyar:** Okay. So, just wanted to understand what are the predominately large businesses now in the other segment for us now?
- Jayesh Shah:** So, one of course is Anup Engineering; another business is significant part of technical textiles; third is a smaller business which we do radio trunking business; and fourth is our shoe business.
- Himanshu Nayyar:** Okay. Because the losses this time I mean are quite high.
- Jayesh Shah:** The loss was even there last year it is that we had one project on our water business which we implemented in Q4 and Q1 of last year that did not exist this year and as a result you see the delta that delta as you see the year you should not multiply this by 4 but as you see the year it will go away because we are expecting a lot of projects to get booked in quarter three and quarter four.
- Himanshu Nayyar:** Okay. So, an annual basis it should only be a marginal loss there?
- Jayesh Shah:** That is correct.
- Himanshu Nayyar:** All right, sir. That is all from my side, if you can just share the Tommy and CK numbers that will be great.
- Ankur Arora:** Tommy has revenue of Rs. 157 crores last year and Rs. 64.5 crores for Calvin Klein and that is our share of the revenue in both cases.

Moderator: Thank you. We take the next question from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Sir, I just want to understand a bit about your strategy for brand and retail in terms of the expansion, what are you thinking about your Power Brand, Specialty and Unlimited? Specifically, for Unlimited we are seeing such a strong growth, why are we not growing our retail footprint over there and broadly about this.

J. Suresh: Yes, I will take the question. See, in terms of the expansion, you had asked about both Power Brands and Unlimited. As far as Power Brand is concerned we are growing anything between 15% to 20% and two growth drivers for us, one is the distribution expansion, and the other one is the category expansion. I think these two will continue to give us (+20%) growth in the case of Power Brand. One example being US Polo, we have introduced inner wear of US Polo which is going very well and which could be a very substantial growth driver for us in US Polo and overall Power Brand. US Polo Kids again is a good opportunity. So, we have a category expansion as well as the distribution expansion which will continue to provide the (+20%) growth in the case of Power Brands. As well as Unlimited is concerned as all of you know that over the last 4 - 5 quarters, we wanted to stabilize the model before investing in this format. Now, that we have stabilized the model and we are very confident about the success of the model, we are now accelerating expansions, that is why you will see a revenue growth of around 36% in the quarter one vis-à-vis more or less a negative or a stable kind of revenue over the last few quarters. So, this year we are targeting to open anything between 30 stores to 40 stores. So, you will see now a rapid expansion of Unlimited having established the model and proven the success of the model.

Shaleen Kumar: So, sir, basically you are talking about 30 stores to 40 stores of Unlimited in this year?

J. Suresh: Yes.

Shaleen Kumar: And given that we are having a LTL growth of more than 30%, so one can expect that your Unlimited can grow by more than 50% then?

J. Suresh: We are looking at 50%. Actually, to be precise last year we did Rs. 550 crores and we are looking at around Rs. 800 crores because we will not open all the 40 stores on day one. So, next year we will see a much more accelerated growth because we have the benefit of new 40s stores for the full year sale next year.

Shaleen Kumar: And what is your strategy for Power Brand store opening and for specialty format?

J. Suresh: See, we typically open 100 stores for Power Brands, 30 - 40 stores in each of the brands, which we will continue to open this year as well. So, that is typically our footprint increase in Power Brand. As far as the specialty retail is concerned, we are talking about for example, we look at

around 5 stores; GAP we will look at may be 3 stores to 4 stores; so that is the way we are looking at the growth.

Shaleen Kumar: Right. So, what kind of CAPEX are we looking at it, all put together or if you can give break-up wise and it will be really helpful.

J. Suresh: Total CAPEX we are looking at around 150 crores but we do not give the break-up.

Shaleen Kumar: Just one more question I was going through your Presentation. In the Power Brand, I could see the LTL growth was around 18% and the revenue growth was around 15%, I could not understand that.

Jayesh Shah: Your question is that why is the LTL higher than the overall growth in Power Brands?

Shaleen Kumar: Yes, sir.

J. Suresh: No. As we said, in the quarter one the retail sales have been pretty good but the wholesale channels have declined in the month of June they declined.

Moderator: Thank you. Ladies and gentlemen, we take the last question. We take the question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Two questions. One is if I try to reduce the number on the on the quantum of the additions in the Power Brand which is Tommy and CK, last year that number would have been some Rs. 62-odd crores for quarter?

Jayesh Shah: For same two brands?

Abhishek Ranganathan: Yes, because we had Rs. 300 crores in Power Brand last year it is now gone to Rs. 362, so I would imagine that would be primarily because of addition of these two?

Jayesh Shah: Not Tommy and CK.

Abhishek Ranganathan: But the reason I am asking is there seems to be almost a 60% growth in that number.

Jayesh Shah: So, when you see the like-to-like growth between what the business was and what business is and both Tommy figure and CK both. The overall business has grown by 21% for the erstwhile business right and that is what we have given in detail note in the slide that we have presented that when you want to compare that is how it is. So, that is exactly the growth if you exclude the growth of Tommy Hilfiger from the Power Brand, Suresh the growth would be 16%.

Abhishek Ranganathan: I get that. What I was referring to was Tommy's growth actually. Tommy's revenues are growing from Rs. 60 crores to Rs. 100 crores?

- Jayesh Shah:** No. Rs. 100 crores is including Tommy and CK both.
- Abhishek Ranganathan:** Okay. While last year we have not taken CK number?
- Jayesh Shah:** You are looking at Power Brand and total.
- Abhishek Ranganathan:** I got your point. Second question is on; you share the numbers of CK and Tommy in terms of revenue. Can you share the balance sheet size of these two the capital employed in these two businesses?
- Jayesh Shah:** Yes. So, the net capital employed as on March end was Rs. 320 odd crores (+/-5%).
- Abhishek Ranganathan:** Okay. So basically, almost we had almost a Rs. 500 crores of capital employed including brands of which you are saying that almost Rs. 300 crores is because of this and the balance of the CAPEX and working capital requirement.
- Jayesh Shah:** Net capital employee change in brand and retail business is about Rs. 450 odd crores and I do not know which exact number but around that number out of which close to Rs. 350 crores is on account of accounting addition of Tommy and CK. Rs. 100 crores in on account of addition in Arvind Fashion and Arvind Lifestyle brand.
- Moderator:** Thank you. Ladies and gentlemen, as that was the last question, I now hand the conference call over to Mr. Ankur Arora for closing comments.
- Ankur Arora:** Thanks a lot everyone, thanks for joining on the call. We look forward to continued interaction during the quarter. Thanks a lot.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Arvind Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.