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Sub.: Transcript of Conference Call of Aditya Birla Fashion and Retail Limited ("the Company")

Ref.: 1. **Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;**
2. **Our intimation dated May 10, 2023 and**
3. **ISIN: INE647O01011 & INE647O13016**

Dear Sir/ Madam,

Pursuant to the above referred, please read the "Transcript of Earnings Call" as "Transcript of Conference Call" of the Company held on May 8, 2023.

Thanking you,

Sincerely,
For **Aditya Birla Fashion and Retail Limited**
ANIL KUMAR MALIK
Digitally signed by ANIL KUMAR MALIK
Date: 2023.05.12 11:02:44 +05'30'
Anil Malik
President, Company Secretary

Encl: a/a

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"Aditya Birla Fashion and Retail Limited

Conference Call"

May 08, 2023

MANAGEMENT: MR. ASHISH DIKSHIT – MANAGING DIRECTOR – ADITYA BIRLA FASHION AND RETAIL LIMITED
MR. JAGDISH BAJAJ – CHIEF FINANCIAL OFFICER – ADITYA BIRLA FASHION AND RETAIL LIMITED

Moderator: Ladies and Gentlemen. Good day, and welcome to the conference call of Aditya Birla Fashion and Retail Limited. The call will begin with a brief discussion by the company's management on the recent corporate actions followed by a question-and-answer session. Please note that the company is still in its shut period, so I request you to please restrict your questions to the subject action-only.

We have with us today; Mr. Ashish Dikshit, Managing Director; and Mr. Jagdish Bajaj, CFO. I want to thank the management team on top of all the participants for taking the valuable time today with us. I must remind you that today's discussion may include certain forward-looking statements and maybe viewed, therefore in conjunction with the risks of the company faces.

Please restrict your questions to the transaction and to strategic questions-only. Housekeeping questions can be dealt with separately with the IR team. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phones. Please note that this conference is being recorded.

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

Jagdish Bajaj: Thank you. Good evening, and welcome to the conference call. It gives me immense pleasure to share an important update. As you are already aware, this Friday 5th of May 2023, the Board of Aditya Birla Fashion and Retail Limited approved the company to acquire 51% stake in TCNS Clothing Company Limited through combination of share purchase agreement with counter promoters and a conditional public open offer. This will be at a price of INR503 per share of TCNS.

Subsequently, it also proposed that TCNS will be merged with ABFRL through a scheme of amalgamation post receipt of necessary approvals. The company will pay INR1,650 crores for acquisition of 51% stake under the SPA and public open offer, pursuant to the above, TCNS will be amalgamated with ABFRL under the merger scheme bearing shareholders of TCNS. As on effective date, we'll receive 11 shares of Aditya Birla Fashion and Retail Limited for every 6 shares they held -they hold in TCNS. The above transactions will be one of the largest deals in the Indian fashion space.

Way back in 2018, we had explicitly stated our growth strategy for the coming years to be built around ethnic wear, the largest segment in the Indian fashion space. Over these years, the company has made several organic and inorganic moves with an objective to build comprehensive portfolio of brands in this key segment. This deal will allow us to expand our existing ethnic wear portfolio into the largest subsegment, which is premium women's ethnic wear segment, where the branded part of the segment is expected to grow at high double-digit for years to come. TCNS, reputable and popular brands have already cemented a solid foundation in this category, which we aim to leverage and enhance to strengthen our position.

Most of you must be aware but let me still give you a brief about TCNS. TCNS is India's leading women's branded apparel company that owns amongst the most popular women's ethnic wear brand such as W, Aurelia, Wishful, Folksong and Elleven. The company designs sources, markets, and retails a wide portfolio of women's branded apparels and accessories. As of December 2022, it sold its products through 650-plus exclusive brand outlets, 2,500 large format stores and 1,100-plus multi-brand outlets located in 29 states and 2 union territories in India. It also sells its products in Nepal, Mauritius, and Sri Lanka through exclusive branded outlets. Its products are available in India and select countries through the brand websites and other e-com platforms.

The company, as all of you are aware, reported a top line of INR933 crores and a profit after tax of INR10.6 crores for the 9-month period ended December 2022. The company has demonstrated consistent growth in revenues, high gross margin, and EBITDA over the years, running an asset-light and self-funding proposed model. Prior to COVID, the company maintained a strong double-digit EBITDA margin and generated positive cash flow, reflecting intensive strength of its brand and robust financial metrics. The business is also led by a very high-quality team, which dedicated itself towards building these brands for more than 15 years.

Why we are doing this? India is going through an unprecedented consumption boom, driven by a growing population, and increasing purchasing power. In particular, discretionary spending has been on the rise as consumers seek to elevate their lifestyles and express their individuality. Of all the discretionary consumption categories, apparel is one of the largest and fastest-growing segments. The organized apparel market is expected to reach USD 70 billion plus by 2028, growing at a CAGR of 15% plus.

The company is well poised to leverage this consumer trend and build large businesses around significant and meaningful categories with a brand-led strategy. We have been very clear in our thinking that we would want to operate in all large segments of fashion and lifestyle business.

Over the last 25 plus years, the company has successfully demonstrated its stability in building brands, as shown by the notable success stories of Louis Philippe, Van Heusen, Allen Solly, Peter England and The Collective. In last 10 years, we have successfully demonstrated our ability to take over large businesses and turn them around as seen in Pantaloons. The 5 brands that we will inherit as part of the acquisition are going to play pivotal role in building our ethnic women's wear portfolio, where the strength of these brands, combined with our brand building capabilities and operating strength will help in creating tremendous value.

As we look ahead with this acquisition, our ethnic wear portfolio will now be complete. Going forward, our focus will be on scaling up existing portfolio of brands into large profitable businesses. This acquisition will be funded by incremental date and internal accruals.

In conclusion, I strongly believe that this acquisition will be an important milestone in the evolution of the company into fashion and lifestyle powerhouse of brands. As we move forward in our growth journey, including successful completion of this transaction, we are confident of receiving support from all stakeholders, the teams, the partners, and the shareholders. Thanks a lot, and we are happy to take your questions.

Moderator: The first question is from the line of Aliasgar Shakir from Motilal Oswal.

Aliasgar Shakir: I have a few questions. Just first question, trying to understand the mindset behind this acquisition. So -- so far, in the last 3, 4 years, the acquisition that we have done have mainly been in areas where there has been some product expertise requirement, whether it was occasion wear in Sabyasachi or Tarun Tahiliani, even Reebok and probably even tomorrow where there is a particular requirement.

So just trying to understand from that point, what is it that you see here in terms of whether it is product capability reach brand or really ability to get quick a large size that is a key factor that has driven this acquisition? And just related question here is if you could just share your thoughts on the basically daily wear, women ethnic wear where TCNS is -- what is the characteristics of this market? Is it very price competitive? And is that the reason why TCNS has suffered in the recent past, they've had very high margins, but growth has been a challenge. So just if you could share some thoughts on the market.

Ashish Dikshit: So Ali, let me begin by first talking about the strategic ratio that you've asked. Around 5 years back, and we have been consistently emphasizing that every year and every call, that as a company after having built businesses and largely rescue their market for about 25 years, in 2018, we decided that the company's portfolio would be incomplete if we do not have a significant presence and a leading presence in one of the largest segments of the market.

Indian ethnic wear constitutes nearly 30% of overall apparel industry, and we have 0 presence in FY '18, but for the product which is sold inside Pantaloons. In our strategy stated around that time and almost 5 years back, we mentioned that this is a market that we have laid out and crafted a segmental approach to all segments of the market which is luxury end, super premium end, premium end, and the value end of the market.

We stated it and called it out in our presentation, which was made to public in FY '21 once again, where we called out each of these segments, our approach to how we will build in each one of them and over the last 4, 5 years have been systematically and carefully crafting that. In the luxury end, we solved the best approach would be to partner with some of the most successful luxury designers in super premium, and we took some of them and launched prêt lines line, like an S&N, or operating with House of Masaba.

At the premium end, we are following an approach which is both organic and inorganic. In the men's wear side, we decided to launch organic because that is the way the market was laid out.

It is early stage. Only 10% of overall market is men's ethnic wear and that's why we launched Tasva. And you're aware of last 12 months, 15 months, the success of that grand early days that we've launched about 50-odd stores.

The largest part of this market is the women's premium ethnic wear market. And if you look at the characteristics of this market, it's very crowded at the bottom end where a lot of unbranded, undifferentiated products fell at lower price points. At the higher end premium of the market, there are only very few players, which have been able build skill, and TCNS is unique in that sense in the premium segment of the market.

Our approach to brand building has been very long term with all other brands, which is why we have been able to nurture and grow businesses over 25, 30 years. We looked at the TCNS platform, we believed that there are -- they're exceptional in being able to build and grow the business over more than a decade, deliver the kind of financial performance, which is rare and exceptional, do it in a cost-efficient manner by raising very little capital in a capital-light asset model, exactly the way we have built businesses around Madura.

We see the synergies and our ability to take this business even further. And that's really why we looked at it. We would have loved to build it organically also; it could have taken us a decade or a part of that. It's the single largest segment of the market. And then the opportunity like comes -- like this comes, it's once in -- once in a very long while that you get an opportunity for a market leader which becomes available. And that's really how we looked at it Ali.

We have detailed it out in our strategy segment, and this is an opportunity when it presented ourselves. We feel that it has all the right elements, a very strong brand portfolio, a very well-built distribution network. Our portfolio, which consists of sub premium to super premium segment, management team, which has been stable and exceptional in execution.

Now all brands and businesses go through a little bit of challenge at different points of time so was the case -- in this case, where post-COVID, ethnic wear segment across industry has suffered and it's been taking a little while longer to come back and that doesn't deter us. We think good with strength of the brand, history of the business, the quality of management is perfect opportunity for us to take to next level, and that's been our thinking in this segment.

Aliasgar Shakir: Got it. This is really useful and very detailed. Any quick thoughts on how do you think TCNS recovery can be played out? I mean do you think that they are too premium in terms of pricing or anything else that you think would help them drive that improvement in profitability.

Ashish Dikshit: Ali, you've heard our view on this over a long period of time. I think as a country, Indian consumers are constantly looking for superior and better product. Differentiation and premiumization has been the most consistent theme for us for 25 years for all our brands that we've built. It doesn't mean the consumers will pay high price without the differentiation. So product quality, design differentiation, these are elements for which consumers pay a premium.

TCNS portfolio is one of the few, which has been able to command it over a long period of time. I think that's the same thing that will be the focus of management. Of course, for us, a lot of -- to that extent, therefore, I don't believe just price itself is either a problem or an answer to something. It needs to come as an overall package of brand experience, product differentiation, design element, the quality of it combined with the pricing. But premiumization has been a route and it's the one thing that this company has done over a long period of time.

Aliasgar Shakir: Got it. This is a very useful. Just last quick question on the valuation. Can you share the justification of the differential valuation for the cash as well as the swap ratio, which comes out to be somewhere nearly about 25% lower for the swap versus the cash component?

Ashish Dikshit: Probably, I don't think -- I think that's the wrong way to look at it. There are 2 ways. There is a cash component that has come through the negotiations and through the rules that are applicable for the open offer. There is a merger ratio, which has been decided by looking at the fair value of 2 companies by independent valuers. The merger ratio, as you know, the independent valuers would look at long-term potential of each of the businesses, relative value creation, the fund flows that each of the businesses are projected to create over a long period of time.

It also includes market price, but market price is just one of them. I think your question assumes that all of that is built into the market price, which you know is obviously, current market price reflects the current situation that the valuation is a more long-term projection. And that's how the value has done. It has been done dependently using multiple method and both the parties believe that it's a fair thing.

Aliasgar Shakir: Understood...

Ashish Dikshit: And multiple have given opinions on this, both in fairness as well as arriving at the value.

Moderator: The next question is from the line of Garima from Kotak.

Garima: My first question is to Ashish. Now if I read the press release, you have mentioned that your FY 2026 target for revenues from ethnic wear segment is somewhere around INR50 billion, right? Now if I do the math, maybe TCNS can be 15.

Ashish Dikshit: Garima, can I just come in and correct you? We -- on that is FY '27 number. So I think somehow in the press release, it's come out 3 years looking like '26, our intent was '27, but still go ahead with the question.

Garima: All right. So even if it is an FY 2027 number, could you help us understand if after TCNS, your current portfolio, which includes Tasva, the designer brands, etcetera, plus TCNS now, is this portfolio enough to really drive you to the INR50 billion target that you now set for yourself for FY '27?

Ashish Dikshit: Absolutely. I think if you look at the various elements of this portfolio, Garima, the 2 large pieces in fact -- I would call out the 3 large pieces are 2 of them from the TCNS portfolio itself, which has the W and Aurelia. Both have potential to become INR1,500 crores brand. You'll have to independently go and see where they reach over a period of time. Similarly, Tasva, our long-term ambition is to build a INR1,000 crores plus business. So these 3 themselves are large part of where the market is, and the opportunities exists.

On top of it, our portfolio that exists of the designer brands and the partnerships that we had Jaypore. So our statement there consists of the brands -- brand portfolio that we have. I think Jagdish also mentioned, as we laid out our ethnic wear strategy, with this, our portfolio is comprehensive, unmatched, and complete. And it is with this portfolio that we believe we'll be able to get to the scale that we're talking about.

Garima: Got it. And Ashish, are there any strategies in your mind in terms of driving TCNS towards the margin levels that they have witnessed in the past that is pre-COVID when they were doing high double-digit kind of margins?

Ashish Dikshit: Garima, I think you should track this market and most of the people who tracked this market know that it takes an exceptional business to deliver double-digit market -- over a -- double-digit margin over a decade. And our -- all our external study also reflect and showed the strength of the brand.

I think COVID has affected some businesses differentially, and we see it in our portfolio also, ethnic wear has been one part of it and that's obviously taken longer to come back. But we are confident that with the combined experience, the strength of the brand and ABFRL's own ability to scale up and add value to these businesses, we will be able to get it back to first the double-digit EBITDA, which we need to get in the next 2, 3 years and hopefully, very soon to the kind of margins that the business used to enjoy before that.

Garima: Understood. I have last question for Jagdish, if I may. Could you please help us with the net debt of ABFRL as of 31st of March?

Jagdish Bajaj: Garima, for that, you have to wait until I announce the number. But let me tell you, for this acquisition, we intend to borrow not more than INR700 crores to INR800 crores. Our stated net to debit EBITDA that leverage ratio will increase to approximately 3x in FY '24, but it happens when you do a large acquisition. This is the pre-IndAS EBITDA numbers which I'm talking about. But in next 2 to 3 years or rather 3 years, we will come down to below 2. So this is the position on my net debt.

Ashish Dikshit: Garima, we'll come back to the exact number when we announce the quarterly results very soon. We want to focus on this transaction there.

Moderator: Next question is from the line of Nihal Jham from Nuvama.

Nihal Jham: Yes, congratulations to the team for completing this acquisition. Just first question was, Ashish, you alluded to the aspect of maybe taking a decade to build a business similar to what TCNS is currently having. Was that the main consideration? Because if I just think about considering a partnership with Flipkart and the kind of distribution that Madura has, along with the aspect that we launched, Marigold Lane and there are certain private brands in Pantaloons, was there a thought of maybe building this category organically or any other aspects of the TCNS business that -- other than the longevity of creating a business of the scale?

Ashish Dikshit: So Nihal, let me restate some of the points and perhaps help our thinking on that. The first question was also around that. See, we have, as a company, been building brands organically and acquiring businesses inorganically both. We understand what it takes, both in terms of time, capital, investment, losses, sometimes risks of failures in building a stable, strong business over a period of time. So we are fully aware of.

Having decided in FY '19, '18, '19, that this is the market where we want to play a leading -- build a leading business, very clearly, these were all set to build an organic business, and this is what we were doing on one side with us, the other side with the Marigold Lane. If the inorganic opportunity didn't present itself, was not either attractive enough or we did not believe we can add value to it. We would go ahead as we were going ahead, Nihal, in terms of building an organic play.

You must appreciate that a portfolio of this nature is one way to come by and second, this long time, it doesn't mean it cannot be created but it does take long time, and we are doing that in many parts of our business. If you look at inner wear, it's a purely organic business that we are building. On the men's ethnic wear, the Tasva, purely organic business. So there is a large part of our portfolio and a meaningful part of our portfolio, which we're building organically.

As and when inorganic opportunity of this nature and this quality come up, we have to seriously consider it. And that's the consideration we did. Both options are available. We were going down the organic path, as you are aware, and since this opportunity came up and we evaluated it, and both felt that this is perhaps the more sure and certain way of creating value in this segment as well as building presence in this segment.

Nihal Jham: The second question was on the fact that you alluded that maybe the ethnic wear segment itself has faced certain issues post COVID. But just on TCNS' growth improvement for both the brands, W and Aurelia, any specific low-hanging fruits, or any changes in strategy that you immediately are considering which you don't want to share?

Ashish Dikshit: Too early for us to have a view. We have this investment captures around long-term belief both in the segment, in the brand and the management team. We think a lot of it will be visible in couple of quarters on its own. We definitely hope and want to build the work with the management team to accelerate and find areas of opportunity where we could add value to further -- at this point of time, I don't think it will be right for me to call out any specific area.

Nihal Jham: I have one final question to Jagdish. We'll be getting approximately $14 million from the GIC branch in the second half of FY '24, so ideally when we are looking at the debt to EBITDA that should be something that should be considered, right? Or the number you're giving is just, at this point in time, assuming the INR700 crores that you will have to raise to finance it?

Jagdish Bajaj: Yes. So Nihal, when I say 3x of EBITDA, it already factored into GIC money coming into. As you are aware that we have put growth plan across all businesses. And the way our operations are rising, we need for working capital and capex within our own setup. That will take care of -- that will be also included into my this plan.

Ashish Dikshit: So Nihal, you can keep that.

Moderator: Next question is from the line of Tejas Shah from Spark Capital.

Tejas Shah: A couple of questions from my side. First, TCNS story for an outside like me has been very positively of story driven by motivated team. So what are the plans of retaining the key talent in TCNS and how do you plan to institutionalize some of this essence, which must be personally driven in TCNS as a company?

Ashish Dikshit: So just -- we agree and in fact, a part of attractiveness of the whole proposition was solid strength of the brand, business elements as well and equally the team that we built... Please be assured, and we have a history of doing that. A large part of our company is built around the first acquisition, which is the Madura business, which came with the team. We have subsequently have had many other multiple businesses that we acquired, including our designer business last couple of years. We are very confident that the best professionals would enjoy working in the part of ABFRL and Aditya Birla Group.

We clearly have plans, and I'm sure the team is committed to making that happen. You can be sure that it's an important part of both our consideration for the transaction and subsequently also.

Tejas Shah: And second question, we were, like you spoke about the opportunity in women ethnic wear, and we have been kind of talking and working towards it for a while organically. So -- and then as you pointed out that as and when such opportunities come, you have to take plans at that. But just wanted to understand, does it mean that some of our organic initiatives, which we would have started and now with this opportunity coming into our fold, you will find or consolidate or terminate some of those organic initiatives that you would not take, let's say, 1 or 2 years or 3 years back?

Ashish Dikshit: See, the way we had built Marigold Lane, which is really what you’re referring to, which is the only brand we are building in the women's premium wear segment. If there was no inorganic path, which we didn't see until even 1 year, 1.5 years back, we were committed to building that, we have launched 4 or 5 stores. I think at this point in time, we probably have 6 to 10 stores in the business. It's available across a few hundred Pantaloons outlet. We are testing the product, constantly improving the product, and we would have gone ahead and built a large business around that.

But now that we have the portfolio strength, experience, and proven brand that TCNS platform offers, we wouldn't have to go through the journey of investing and building a new organic brand from scratch. The role of Marigold Lane as the premium brand offering attractive premium products within the Pantaloon store, we will continue to remain. And I don't think we need to change that. It has that proposition built into it.

And therefore, to that extent, we wouldn't have to invest the way we will, for example, invest in building Tasva on the men's wear side.

Tejas Shah: And then the last one, if I may, and I'm not sure if I -- it is part of the scope of the call today. But I just wanted to understand, are there any more white spaces in the portfolio as you see for the next 3, 4 years, which would you -- which you would like to target organically, inorganically going forward in terms of additions of categories or brands? Or do you believe that we are almost there in terms of what we want to achieve ABFRL as a company in the next 3, 4 years?

Ashish Dikshit: So I think, as Jagdish had mentioned at the beginning of this call, we had gone out to build an ethnic wear portfolio and which will build a theme for us for 5 years, consistently repeated and carefully built over a period of time. With this acquisition, we believe we now have the platform portfolio, which completely does justice to nearly 1/3 of the market where we had 0 presence 4, 5 years back.

I think our journey of building this portfolio is complete with that. The focus of management team over the next couple of years would be to scale these businesses, get them realize the potential, where they should be and get to the place where we want to as far as ethnic wear portfolio is concerned because this is going to be a very important part of value for Aditya Birla Fashion over a long period of time. And we want to make sure that each of our brands, many of them are in nascent state, that's why it's just a 1 year down the line, many of the designer businesses are finding traction that they need to get scale.

TCNS platform itself has tremendous possibility as we have seen on the Madura's side, building brands which INR2,000 crores. I think individual brands at that scale, that's the potential we see because the women's ethnic wear market is also very, very large market.

So our focus would be on building them. I don't think there are large portfolio gaps left in it. I think having identified ethnic wear, the largest part of ethnic wear was premium ethnic wear and not having the clear strategy there or a clear path there was the issue with us, which we have filled with this, I think that portion completes the story as far as portfolio is concerned.

Where we would continue to look at opportunities will perhaps be only in the tomorrow's part of the business whereas we have laid out ABFRL has made a finite commitment of INR500 crores equity. And with that, tomorrow we'll look at digital for small brands and tomorrow on its own strength, we will go out and raise capital over the next 12 to 18 months, and that capital will be used to make further exploration of either acquired businesses or small businesses that they would require -- for this capital, a large part has already been deployed.

Moderator: Next question is from the line of Varun Singh from ICICI Securities.

Varun Singh: So my question is related to the execution part of the business. So over the last 5 years, I think -- I mean, we have done quite a good -- I mean, we have -- our journey regarding women ethnic wear brands, etcetera. But still given the context, if we look at a 5-year revenue CAGR of Aditya Birla Fashion, which is at roughly around 8% to 9%. And of course, our retail expansion would have been relatively more aggressive than this number.

And also taking stock of TCNS over the last 4 to 5 years, I mean, the number looks relatively more subdued, but of course, I understand the potential of the brand and of market opportunity which exists out there. But still given this context and background, I just wanted to understand that how are we willing to scale up TCNS business from here going forward, largely related to our ability to leverage our existing distribution channel?

Ashish Dikshit: So I think best way to look at it, and I would reiterate about 1.5, 2 years back, we had laid out a plan, which is a 5-year FY '26 plan of scaling up the business to go to a revenue of INR21,000-plus crores. We are not just on track; we're moving ahead of that. There have been challenges in the last 2 years, which has been largely related to COVID and recovery from there to that extent, some of it. But I would restate here on that part.

And therefore, our confidence in building large businesses. We are the only company in the Indian fashion industry, which has 4 brands, which are between INR1,500 crores to INR2,500 crores. These have been built organically, and we have strong belief that with the addition of Reebok, parts of TCNS portfolio, we will have 4 or 5 other brands which will be between INR1,000 crores to INR2,000 crores in due course of time.

So the portfolio of large businesses because fundamentally, we believe in building large scalable brands, which create enormous value over a long period of time. Same thing, I think the model that has worked for us will work in a different context for many of the new businesses that we've acquired. TCNS own portfolio provides that opportunity to build that level of scale and profitability, and we are very confident we will get to that.

Short-term issues about last 3, 4 years, what happened? We are as much aware about challenging the industry. And that's something fortunately, we are coming out of that cycle. There may still be softness for a quarter here and there due to consumer and inflationary issues, but I think those are shorter-term issues. Our long-term strategy remains intact. We are very confident that with this portfolio, we'll be able to build a whole new setup of large businesses and brands.

Varun Singh: So sir, my question is related to distribution scale-up of TCNS will it be largely given by EBUs, or we will be using our own, the strength of Madura brands, etcetera? And also in that context, if we can also understand the percentage of relevant distribution outlet that we could kind of benefit from our existing channels.

Ashish Dikshit: Okay. Let me first say even for all our brands, our largest part of business comes from exclusive brand outlets, which means Louis Philippe has a network of more than 600, Peter England would have more than 1,000. These are exclusive brand outlets. TCNS, as a platform itself has close to 650-plus exclusive brand outlets, which is the largest part of any apparel brand in the brand and in the premium segment.

It will continue to grow and that's the way we have built all our brands. This will continue to grow. We have strong partnerships with large department stores. We have very deep partnerships with all the leading e-commerce player. They will provide other multiple platforms. These are not platforms owned by us. These are large consumer platforms where consumers are there, and all brands grow through that. Exclusive brand is a large part of our strategy and will continue to be the strategy for TCNS.

Varun Singh: Sure, sir. And to my last question is regarding the premium on the valuation that we have paid, which is roughly 30% to 35% compared to our own valuation. I'm taking this simply on market cap to revenue basis. I'm not looking at profitability, which might be relatively subdue for some or other reasons. But still given the 30%, 35% premium that we have paid, I'm sure we must be expecting relatively higher growth compared to the growth that we are already tracking in our own portfolio. So if you can give some guidance regarding what kind of revenue growth potential for next 3, 5 years are we expecting in TCNS? And also the margin, I mean, if you give some colour on return on capital etcetera.

Ashish Dikshit: So -- see, your question has a lot of intrinsic and somewhat contradictory assumptions. When you acquire a business, you acquire the business on the valuation of that business and that's how the initial part of the transaction is built, which is the open offer and the share purchase agreement with the promoter. That is not built on ABFRL, but that's built around TCNS and its expectations of promoters and open offer price.

The second part of the transaction is built by valuers who have valued the long-term potential and projections of our business and, therefore, value of the business. So this implications of premium and valuation multiples are -- there more sort of short term in nature. The transaction actually captures the long-term value of it, and this is how the whole business -- the construct of the scheme is.

Moderator: Next question is from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: So my question is more with regards to the ethnic wear industry, especially on the women's side. So if we see there are highly any brands which are in the range of this INR500 crores to INR1,000-odd crores. So a, I would like to one from you to know what you think is the major problem for the brands not to scale up beyond the INR1,000 crores odd mark? And b, related part of this is what differentiating things that ABFRL will do here that is helping you to scale up these brands to the next level?

Ashish Dikshit: So I think, Gaurav, at a very high level, we have been in the journey for all our brands across the portfolio. And it's not just true for us, it's to for many other brands in the industry. They go from INR100 crores to INR500 crores to INR1,000 crores to INR2,000 crores. Each of the brands that we have grown or any of the competitor has grown has been a journey where a different set of skills come at INR400 crores, INR500 crores, INR1,000 crores, etcetera.

I think TCNS portfolio brands, at least 2 of the leading brands, which is W and Aurelia, are fairly well positioned to become INR1,000 crores and INR2,000 crores over a period of time. We have gone through our own journey in multiple of our brands on that. So we are quite confident about how this journey goes.

In terms of what we will add to the TCNS current team and management? I think, first of all, a large part of this growth and ambition is built into their business plan. They have been executing it extremely well until FY '20, if you look at the performance. I'm very confident that in a short period of time that journey will recover on its own based on the learning and the knowledge that, that system has.

But as a company, we bring ability to scale brands on multiple dimensions, which is expanding product portfolio, preimmunizing this into products, improving the state performance, building an asset-light franchise model, expanding distribution, building deeper partnerships with department stores, growing our brands even faster with partnerships with e-commerce players. So there is multiple levers, which we have executed across the portfolio brands. Some of it exists already in the TCNS business, but I think at another level, we will be able to add that value to this portfolio to accelerate the growth.

We believe the size of the opportunity is very, very large. Very few brands have broken through the manner that TCNS portfolio brands, which is the top 2 brands are getting space. There is still value in some of the other smaller brands in the portfolio, be it Wishful at the top or Elleven. But over a period of time, we think what we have got is the right source, which has helped us build very scalable brands. And I think the same formula will work for that.

Gaurav Jogani: Sure, sir. Sir, the next question is with regards to why we are looking to buy the entire company? Don't you think just buying the 51% stake and having a controlling stake would have solved the purpose because in that case also, you will be having the controlling management and you can drive the changes that is requisite that you're looking for?

Ashish Dikshit: So I think here the thought is that a very strong -- this is a very large market. And in our size, this itself will be a very large meaningful opportunity for us. And for ABFRL stakeholders, as well as the TCNS shareholders, the best would be a complete integration where there's fungibility of capital management, and it allows us to fully execute the plan, and that's really why it is. In a partial set up, some of these synergies still don't come in. And if it was -- it's a part of our -- fully part of the realized machinery, which has been executing over a period of time, we believe that we'll be able to extract maximum values.

Gaurav Jogani: Sure. Sir, and my last question is with regard to the ethnics wear industry. I mean, we do understand that COVID has impacted performance for various apparel players amongst those, but however, we see -- the ethnic wear, the daily wear segment, if you look at it, it's kind of -- I would not say a basic necessity, but a kind of thing that everyone would use in the daily wear segment. So why do you think the growth specifically hasn't recovered to the earlier levels, even after we have seen 1 year of normalization in the overall scheme of things?

Ashish Dikshit: I think as an industry, it's been slow to take off and perhaps some of that has to do with some shifts in the way women wear dressing, and I think some of the functions for which -- so ethnic wear industry serves both purposes at least on the women's side, one is the special occasion and second is the daily wear, which is a regular office wear.

As women coming out both for occasion wear and the office wear and the regular wear starts to come back, it's been slower and lagging behind the men's wear segment. And that's something that we tracked across the industry and within our portfolio as we look at the performance of various brands inside the Pantaloons. We fundamentally don't believe there is any reason for it to stay that way for too long. And that is why we believe that it's a short-term phenomenon and a quarter or 2, it should come back to same level.

Moderator: Next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Congrats on this big acquisition. Sir, I wanted to check, I mean, I agree that the ethnic space is about 1/3 of the market, but it also includes sari segment, which is also similar to salwar kurta industry where TCNS has limited presence. So what is the thought process here? Do we plan to launch this product proposition within W or Aurelia? How should we see this?

Ashish Dikshit: So here, our philosophy in various categories has been to deal with categories through brand extensions. And that's what we have done on the men's wear side through our portfolio brand. Even in women's wear, if you recall, we had launched saris inside Pantaloons. Sari is a part of Jaypore business portfolio.

It's a very strong part of many of our designer portfolios, whether you look at Sabyasachi, Masaba, Tarun Tahiliani, some of those portfolio as well as Shantanu Nikhil where, you know, there is a designer sari element. So we are not close to sari as another segment. The approach to categories is through the lengths of brands, and we will see wherever we find an appropriate brand extension possibility, we'll do that.

Devanshu Bansal: Okay. Sir, second question is on working capital front and we definitely, as a group, operated a very light working capital cycle in the range of mid- to high single digits, while TCNS currently is operating at a relatively much higher working capital between 25% to 30%. So wanted to check what are the key drivers if any? And so firstly, whether we can bring it's working to our group's level of booking capital? And what are the key drivers that are going to be for this?

Ashish Dikshit: So I think we'll have to engage a little bit more and understand the business on this difference that on the surface and straight away, I could say that there is no reason for us to believe that working capital cycle cannot be brought to the level where other brands operate.

Devanshu Bansal: Okay. So that's a possibility, obviously, with time that should -- maybe you will learn is and how that can be done. Is it the right takeaway?

Ashish Dikshit: Yes, absolutely.

Moderator: Next question is from the line of Sameer Gupta: from India Infoline.

Sameer Gupta: First question from me is that what kind of margins do you expect TCNS to do in the first year? Now if you look at the longer history, it has been very volatile. There have been a peak of 15%. They've had loss-making years also. Recently in the first half of FY '23, they have done a 3% margin. So what is your expectation? And where do you see stabilizing? Also the road map to this margin that you are expecting if it is on the higher side?

Ashish Dikshit: So I don't think I would be able to -- or I would like to comment on very short-term questions on the company. I think company's management in due course will give you that response. We don't believe we should answer that question at this point of time. We are not in a position to answer that question. So I think very short-term questions, perhaps we are not in a position to answer. We are very confident that in a reasonable period of time in a year or 2, we'll come back to at least double-digit margin, and it will start to improve from there.

Sameer Gupta: Got it, sir. And regarding the brand's growth, maybe it's COVID but it could also be a brand scaling up to a level where growing from there on is going to be difficult. So let's say, a brand has lost its traction or has lost its relevance, how do you evaluate that particular case?

Ashish Dikshit: No, think you are conjecturing a few things, which are contrary to our belief. We have spent time understanding consumers and brands in this space before we made this move. We are quite confident that the portfolio brand has resilience and vitality. In our own journey over 20, 25 years, we've seen periods where some brands have struggled to go for a short period of time, and we've been able to find solutions to, specifically in that case. We are very confident that otherwise, brands don't suddenly flag off. There are periods of stagnation where specific issues, the merchandising or season come through. But strong brands have ability, and we have seen it over a long period of time, across large number of brands that these can be overcome, and we are very confident that this management team will have answers to that question. We don't believe the brands have lost either relevance or vitality in this case.

Sameer Gupta: Got it. Sir, last question from me. We intend to take a INR700 crores, INR800 crores incremental debt to fund this transaction. But we are also expecting INR1,400 crores from GIC. So just wanted to understand, could we have like prepone this GIC inclusion as it is anywhere slated to come and avoid taking debt at this point? Or that is something which is not in our hands?

Ashish Dikshit: So as you know, the GIC infusion was part of a strategic decision that was taken some time back. At that stage, we do have no visibility of the transaction of this nature. Like with all our partnerships, contracts, we'll very confident in the spirit of it that the short period of gap between this transaction and the money that will come is a very manageable period for us, and we don't need to change that.

Moderator: Next question is from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: So just one question from my side. While we have said 6 to 9 months is the timeline from the deal. Just wanted to know what are the approvals needed for it to go through? And what is the fallback as the minority shareholders of TCNS oppose the deal given that we can see that it's not in their interest given the valuation is at a 25% lower than the promoters and the PE guys are going to get the exit?

Ashish Dikshit: Again, I'll let Jagdish talk about the assets part. So let me answer the second part. See, I think all shareholders of TCNS would understand the value of this partnership and what the 2 businesses together could create and the value and play the large platform that ABFRL offers for any investor in this industry. So we are very confident that, that would not be an issue. On specific question of what the process and timeline, I'll request Jagdish to...

Jagdish Bajaj: So Ankit, they are the customary approvals like CCI, we have to seek approval, then it's directed to SEBI, once we do get it, then you know the open offer and first date, the NCLT approval for these schemes.

Ankit Kedia: So when will be the minority approvals needed for the merger?

Ashish Dikshit: That will be once the NCLT process is started, and we call for the shareholders meeting.

Moderator: Next question from the line of Komal Khetawat from Aditya Birla Sun Life.

Komal Khetawat: You mentioned that you'd be raising INR700 crores to INR800 crores of debt. Can you give me-- can -- give some indication on how much will come from bank borrowings and how much will be from capital markets?

Jagdish Bajaj: So this is an acquisition financing. So nothing from working capital, it will be through capital market.

Moderator: The next question is from the line of Gopal Nawandhar from SBI Life Insurance.

Gopal Nawandhar: Sir, can you just give some comments on how you see these transactions in terms of EPS for ABFRL over '24, '25? And which year you believe this can be an EPS accretive transaction?

Ashish Dikshit: We believe, based on our current judgment that it should start getting marginally accretive in '25 and definitely from '26 onwards.

Moderator: Next question is from the line of Yashank Sharma from Nuvama Wealth.

Yashank Sharma: This is more of a follow-up question on the approval timeline. So just to clarify that for open offer, we would only require CCI approval and SEBI approval? And NCLT approval would not be required in case of open offer, am I right?

Jagdish Bajaj: Yes.

Yashank Sharma: So possibly, the timeline for approval -- I mean open could be around 4 to 5 months, depending on the approval when we get it? And thereafter, we will process for the merger requirement?

Jagdish Bajaj: Exactly. Exactly.

Yashank Sharma: Sir, in any case, if we are not able to process the SPA, will that merger -- again merger -- I mean, merger process will continue, or it will fall through?

Jagdish Bajaj: No. First, we have to complete the conditional open offer. If you see, we have to acquire 51%, that is most likely to be done by August, September, mid of August or early September. After that, the NCLT process will start.

Yashank Sharma: Okay. And then for that timeline should be depending on the way merger processes get completed.

Jagdish Bajaj: Absolutely.

Moderator: Next question is from the line of Ankit Babel from Subhkam Ventures.

Ankit Babel: Yes, sir, 2 questions from my side. The first was 2 years back, you have shared your FY '26 vision. But a lot of things have changed post that. Would you like to update the same and let us know the revised numbers in the upcoming results?

Ashish Dikshit: So not -- Ankit, not maybe in this result, but we will soon come back with an update on our long-term projections because, yes, as you said, it was done after the first wave of COVID. We also had the positive benefit of having added some new businesses, not just TCNS, but for example, Reebok. And so we will come back with an updated strategy and projections. Sometimes post results, not these results, not at the time of these results.

Ankit Babel: Okay. And sir, out of this INR5,000 crores revenue target in the ethnic wear segment, which you are targeting by FY '27, how much would be contributed by TCNS?

Ashish Dikshit: We believe at this point of time on the surface, at least half should come from there.

Ankit Babel: Okay. Okay. And that's great, sir. And last question, sir, although you have given an indication but sir, in the last couple of years, we have done a few acquisitions and also launched new brands. Now we believe that we have already gained a decent scalability from the revenue side. Is it fair to assume now from here on management should focus on scaling the existing businesses and therefore, put up temporary break on any of these -- any further acquisitions for the company as a whole other than your D2C business?

Ashish Dikshit: Yes. I think that's what I think Mr. Jagdish in his opening remark had mentioned. Remember, it's not sporadically that we were acquiring business. It was part of a well-define strategy, which we had called out 5 years back and systematically executed over the period of time. The largest missing piece on this was -- this -- which also we were building organically. With this, I think our portfolio is compete, 2 of the largest segments, which is men's ethnic wear and women's ethnic wear, particularly of them, women's ethnic wear contributes 90% of total ethnic wear market and this is a very large segment.

It completes our full circle, and the management attention now is how to take these businesses, which we have either organically launched or done in partnership with the designers or this one with TCNS management, how to grow that business. And we focused on building that.

Moderator: Next question is from the line of Priyanka Trivedi from Antique Stock Broking.

Priyanka Trivedi: Sir, my first question is with regards to the D2C subsidiary. So I assume that we are looking to invest around INR500 crores to INR600 crores. Is the number right that in third quarter, we had invested around INR290 crores, or any additional amount is there in that?

Ashish Dikshit: So we would have taken this question normally in our quarterly and annual results. But just for clarification, the commitment for our D2C subsidiary is a INR500 crores of equity capital. I think we have out of that invested close to INR300 crores or INR350 crores. I don't have the exact number already, and that's clearly the part of the plan.

Priyanka Trivedi: Okay, sir. And my second question would be a bookkeeping question. So what would be goodwill arising out of this transaction?

Ashish Dikshit: We'll give the exact number at the time of closing of the transaction, and that's where some of these exact accounting entries will come into play. It would be best to answer that question at that stage.

Moderator: Ladies and gentlemen, on behalf of the management, we thank all the participants for joining us. In case of any further queries, you may please get in touch with Mr. Amit Dwivedi. You may now disconnect your lines. Thank you.