Pantaloon Retail (India) Ltd. Results Conference Call

MODERATORS	**MR. KISHORE BIYANI – FOUNDER & MANAGING DIRECTOR, PANTALOON RETAIL (INDIA) LIMITED.** **MR. B ANAND – DIRECTOR FINANCE, FUTURE GROUP** **MR. C.P. TOSHNIWAL – CFO, PANTALOON RETAIL (INDIA) LIMITED.** **MR. ASHISH CHAKRAVARTI – CHIEF, INVESTOR RELATIONS, FUTURE GROUP.**

Moderator Ladies and gentlemen, good day and welcome to the Pantaloon Retail Limited Conference Call for Investors. As a reminder, for the duration of this presentation, all participants' lines are in a listen-only mode and there will be an opportunity for you to ask questions at the end of the opening remarks. Should any one need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Ashish Chakravarti, Chief- Investor Relations. Thank you and over to you sir.

Ashish Chakravarti Good morning and good evening everybody. Thanks for logging into Pantaloon Retail India Limited's Q2 & Half Yearly FY11 Results Call. I have with me the management of Pantaloon Retail, Mr. Kishore Biyani, the Founder and Managing Director, Mr. B Anand, Director Finance and Mr. C.P. Toshniwal, CFO of Pantaloon Retail.

The way we propose to do this call is to get Mr. Biyani to share his views on the business on the quarter and year that has gone by followed by his outlook for the business for the rest of the year and going forward. This would be immediately followed by the Q&A session. I now hand it over to Mr. Biyani to address us.

Kishore Biyani Good morning and good evening to those who have joined us for this conference call. I would love to share our thoughts behind the period that has passed us as well as how we are looking at the macroeconomic environment and the company's progression.

We continue to focus on growth and grow profitably which is what we have been working on since the past 18 months. In the past 6 months, we have added close to 1.2 million square feet of retail space and probably in the next 6 months, we will add up another around 1.5-1.6 million square feet, which means we will probably expand by 2.5-2.8 million square feet of retail space by June FY11. This year's consolidated business revenues should be anywhere between Rs.12,500 to Rs.13,000 crores. During Q2, we grew by around 31% and for the last 6 months probably we have grown in excess of 31%, so there has been growth. Growth has been coming out of same-store sales and new space addition. The same-store sale on the lifestyle side has done reasonably very well. On the value side, there has been a particular category, which has been a slow performer on the mobile business side which would have dampened some of the same-store sales growth, considering mobile sales were significantly higher last year. On a half yearly basis, the lifestyle business has grown by over 21%, the value business has grown nearly 12% and home business has grown at around close to 17%.

On the profitability side, there has been some stress coming out of our electronics category and eZone as a business has not performed as well. We are neither the leader in that space, nor is this category generating margins and throughputs to our liking. Hence, eZone has compressed our margins to an extent.

We have been able to maintain our gross margins, employee costs and reduce interest costs as a percentage of sales. The festive season has been reasonably good during October and November. We saw a little bit of dip in December on electronics as a category and inflationary fears around onion prices. Otherwise, the environment has been reasonably good. We have had a very good January, probably one of the highest sales done in any month of over Rs.1150 crores. February continues to be reasonably well despite little bit of inflationary pressures, but we believe modern retail would do well in inflationary pressure which we had seen earlier also when the inflation was little higher.

The company is working around how we look at inflation and convert this into a beneficial strategy in the long-term. Inflation now, is not only in the grocery or vegetables, fruits and food items. The biggest inflation pressure for us has come in the category of fashion, where in the cotton prices and input costs have increased significantly since the past three-four months. Going forward, we expect close to 18% price increase on our fashion products in the next season I believe inflation is for real and is built in most of the sourcing we do from China where there are cost pressures. Product pricing will undergo a change. As a retailer, our job is to see that how do we bring in supply chain efficiencies in sourcing but ultimately it is the customer who has to accept to pay higher prices. There would be some challenges in food but in some categories of food. So inflation is something which will increase our trading density and our realization per square foot in the long-term. The consumers will have to adjust and the whole country will recalibrate itself to pay higher prices, because the inflation is not only led by us. Modern retail has always proven that it has been able to absorb some inflation while maintaining the margins. In our case, more so because the capacities around which we work is significantly higher than what other retailers do.

The other thing which we are doing is continuously working on supply chain efficiencies. We were expecting GST to be rolled out by this March which probably seems being delayed. It will be a single influencing factor which will reduce the number of distribution centres which we operate to something like around 20. I believe that would be game changer in terms of our supply chain management and our whole network design, which to a great extent is already GST compliant. This can be the one significant change to reduce working capital and increase our supply chain efficiencies. For the next two quarters, we believe the expansion and same-store sales growth should be reasonably on track, looking at January and February numbers.

The group is also working on creating lot of new products and categories and very prudent plans for expanding in areas where we currently operate to bring down our cost of retailing and also to get into territories where we believe our first mover advantage would help.

We are looking at monetizing to some extent by dropping down eZone and converting that into more of a digital commerce business rather than a physical store business. We are looking at roping in a partner out here who will help us to build the e-commerce channel on the digital platform.

Going forward, while we believe the opportunity for retail to grow is large in India and modern retail has the potential, as some reports suggest, to reach US$250-$300 billion in the next 15-20 years. India may not have enough space to accommodate this growth. As a group, we believe the digital commerce is the next wave, which will help us to achieve and grow this business. We are looking at trying to capture about 10% of our physical business in the next 5-10 years through the digital space.

We are also working on upgrading our customers, especially in the fashion business. Big Bazaar for instance, has seen a lot of new customers, new products, and new price points. We have introduced a concept of good, better, best product categories, depending on the store and the location and the profile of the customer. Earlier, it was only good where good were the lower price point products. Better is normally a private brand and regional brand and best is a national brand and high price point brand. The company is currently working on this strategy very closely. This concept has reached some categories and assortment changes will help us improve productivities and margins.

Finally, addressing the balance sheet, the company is working towards divesting and monetizing various investments. The company has investments in various businesses, which have reasonably substantial value such as insurance, financial services, logistics, e-commerce, media office products and stationery, mobile business and real estate properties in Mumbai of over 20 acres through a joint venture with NTC. We therefore, continue looking out for unlocking value for the company and concentrate only on the core retail business. The company continues to maintain its leadership in most of the categories and continues to focus on growth and profitable growth. We do not intend adding any other new categories or new formats and grow through the current formats. We continue expanding in locations and geographies that we are present in and continue bringing in more efficiency. With this, we can begin the Q&A session.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy My first question is on the eZone. We have opened seven stores in the first half and you said that there are operational issues and competition intensity has increased. Your main competitor is offering 5% cash back and also as a backend supplier. My question is what has changed in the last six months, is the business itself bad or is it that India is not ready for this as a core retail, basically the competitive intensity is too high or India is not ready for this?

Kishore Biyani I would say that the category was growing last year significantly in excess of 20-25%. This year, the growth has been lesser than last year. Secondly, competition intensity has surely grown. Thirdly, this is a category which has shown lower growths. If you look at the IIP data, the consumer durables category is growing at around 26-28% but December and January did not register significantly good growth. This category is totally dependent on brands and three brands account for 55-60% of the business and so the bargaining power is still with the brands.

I don't believe we or any other retailer in this category in India has a formula wherein we can increase the margins nor is there any visibility of this. The cost of retailing also doesn't help as we are in malls and in prime spaces and the product margins are also low.

In India, in the electronics business, we have to hold display and store inventory. Nowhere else in the world does the retailer have to hold display inventory. In addition, the entire supply chain on electronics requires us to have to have warehouses for every store because of the taxation, so the amount of stock which one holds, the amount of business one does and the margins one gets, definitely calls for a relook at the model. We want to move into a model which is more centralized in terms of inventory holding rather than having it spread across 40 or 50 different locations. Servicing orders through a new medium which is much lower in cost is going to be the future for this category. We have seen worldwide that electronics retailers don't make as much as margins, but they all have gone in for building up scale, lot of their own brands as well as gone into digital commerce as a platform and that's what we want to follow rather than opening up lot of stores and be dependent on various brands to give us margins.

Abneesh Roy Sir, one follow up to this, does this mean that you are looking at a partner for backend supply and does digital conversion mean that number of stores will not increase and maybe even cut down, physical stores?

Kishore Biyani I think we would be looking at a new model of physical stores which will be small stores for payment transactions, deliveries, servicing and display of some key categories. So the sizing of the store which currently averages around 14,000-15,000 square feet, will be cut down to around 2,000 square feet. We can also maybe move into a franchise model, wherein the company need not invest, so they become order and payment collection points and servicing points. This strategy of taking eZone online should get implemented by July.

Abneesh Roy Sir, my last question is on KB's Fair Price and Food Bazaar. In KB's Fair Price, we have seen very aggressive expansion, of course the square feet is smaller. I think Food Bazaar; I have hardly seen in the last two quarters any movement. What is the reason, Food Bazaar as such as is doing well?

Kishore Biyani We are not looking at increasing the number of Food Bazaar, but we are increasing Big Bazaars and the idea is to grow KB's Fair Price as a neighborhood store and have Big Bazaar as a destination neighborhood store.

Abneesh Roy And how is it doing sir, KB's Fair Price?

Kishore Biyani We have touched close to 100 stores in Delhi this month, about 55 stores in Mumbai this month and the idea is to grow in these two cities to as many as stores as possible. The productivity is probably the highest in the industry and we are achieving close to Rs.1,600 per square feet per month productivity in KB's Fair Price, considering we don't advertise a single rupee on this. The magic in this format will happen the day every of the 300-350 SKUs which we sell today, are our own private brands.

Abneesh Roy Okay, sir, I will come back if I have more. All the best sir.

Moderator Thank you Mr. Roy. Our next question is from the line of Nillai Shah of Morgan Stanley. Please go ahead.

Nillai Shah On your working capital bit, in the last conference call, you mentioned that overall working capital for the year will likely go up by about Rs.200-300 crore rupees. In the first half, the January sales notwithstanding, your inventory increase in only the PRIL format, the standalone format, is basically about Rs.275 crores. Sir, do you think your target of Rs.250-300 crores is still achievable?

Kishore Biyani Yes it is. A little bit of larger build up was noticed in December, but if you look at numbers in January, we would have done a sales of nearly Rs.1,150 crores, so there is a lot of preparation which happens for the January event. Secondly, we have also done World Cup merchandize, of around Rs.40-50 crores because we have the sole merchandizing rights for the ICC World Cup and have built a lot of stock on this. Lastly, also, we have been little aggressive on holding fashion stocks because of the price increase which has happened and the cycle has been little longer on that side. I think these are the reasons for build up in December. We were also expecting GST implementation by March this year, which would have helped us in terms of our June application of working capital increase, which probably might not just happen. But I think with electronics business moving out, we should see some positive traction on that.

Nillai Shah Okay and coming to your other aspects of working capital, it's basically your loans and advances and the payable days. Even payables on the increased revenue base on a standalone balance sheet is flat and even loans and advances seems to have gone up. Can you comment on both these aspects of working capital too?

B Anand As far as loan and advances are concerned, to large extent, it's on account of the deposits, which is function of the growth that we have set for ourselves. As you would have seen, there is a great amount of growth achieved in terms of the 0.8 million square feet capacity that we built up this quarter.

Nillai Shah So Anand, does it mean that at the end of fiscal year FY11, because of this increased square feet addition to the second half, you will have a higher loans and advances number?

Kishore Biyani These are normally, a six month and nine month deposits which you have to pay on the property. So as much as property which is booked or which we start occupying, the deposit is relative to that.

B Anand From your perspective, you have to see this as a positive momentum, because it effectively means that the company has a clear pipeline and is able to lock in properties, which is quintessential from the growth perspective. Now coming into the payable side, yes, payables are relatively flat largely because there are significant amount of small suppliers in the system and we have consciously not gone in for very significant payables from that end because clearly the credit risk that we have is far better than theirs and it is far more efficient for us to keep a lower credit period and instead get far better price bargains.

Nillai Shah Okay. And in terms of space addition, what's the view for next year, again 2.5 million square feet?

Kishore Biyani I think next year again the view holds of 2.5 to3 million square feet. We are quite confident of next year because most of the properties we are seeing them on ground and there are significant amount of properties which are coming up. So next year is fine, but for the year after that, we will be able to tell you once we get into much more details, but we aim for a similar trend for the third year as well.

Nillai Shah The last question is basically on the electronics business, how is this reporting happening, it will still be a part of core retail, right?

Kishore Biyani Yes, it would be a part of core retail, but there would be a partner who would come in to this business and whatever stake is divested, the consolidation will happen on the amount of stake which we would hold. The other part is that the fresh proceeds will help us build this business up without seeking any incremental capital or outlay from Pantaloon Retail. We will be looking at fresh capital coming in by our partners.

Nillai Shah And one last question, in terms of the investments that have gone up by Rs.200 crores, about half of that is on account of Future Ventures? Why is so much money being pumped into that company, because that company was meant to take off the load of PRIL's balance sheet in terms of some of the so-called non-core businesses. The last two-three quarters, it's just the amount of money that is getting pumped into Future Venture is quite amazing.

Kishore Biyani The total amount invested is Rs.150 crores and no more. The company is ready for an IPO and that was how it was supposed to be from the day it was conceptualized.

Nillai Shah Sir, over the last four quarters, for instance, about Rs.150 crores that we added, and of that, Rs.100 crores that we added this quarter, would that be right?

Kishore Biyani Rs.80 crores would have been added this half year and in FY10 it was around Rs.70 crores.

Nillai Shah So the investments from next quarter onwards will only be on account of the insurance business, am I correct?

Kishore Biyani That's right.

Nillai Shah And how much would that be for the next half?

B Anand I think the same run rate, Nillai which is about Rs.50 crores per quarter.

Nillai Shah Okay, thank you so much, that's it from me.

Moderator Thank you, Mr. Shah. Our next question is from the line of Hemant Patel of Enam. Please go ahead.

Hemant Patel Two questions; one on the margin front, if I were to just strip out the electronic business losses, how would the core retail margins that in operating level look like for this quarter? The second question is you just mentioned that you want to monetize some of the investments that you have had in various subsidiaries. Is there a roadmap in terms of how much quantum you are looking to raise through these monetization plans in this year and the next year? That's it from my end.

Kishore Biyani The negative store EBITDA in eZone would be close to 6% for this quarter and in value terms, it would be around Rs.12 crores. Secondly, on divestments, there are some investments which are regulatory oriented and there are some investments which we believe holds a lot of promise especially digital commerce, and logistics. We have done a second round of funding on logistics which we probably will get by March. We believe our non-core business are NTC joint venture properties, insurance business and to some extent, our financial services business. Any other businesses which we believe does not hold promise for us in the future will be monetized such as mobile business or office supplies business with Staples.

Hemant Patel Sir, just one question on the eZone bit. If you were to strip out that Rs.12 crores on the EBITDA from the lifestyle operating profit, it would indicate that the margins have actually gone down on a year-on-year basis, am I right on that and if so then, what are the reasons for it?

Kishore Biyani It was negative in the earlier year also but it was more in the negative zone this quarter as compared to the same quarter last year. It was not positive in any sense earlier.

Hemant Patel Okay and your view on this in terms of the losses that will continue for the second half of this year as well, in a larger sense?

Kishore Biyani We are making this into a more interesting business which can be valued very differently and that's the reason why an investor comes in. This cannot be viewed with the same lenses today of just as a hardcore physical retail business.

Hemant Patel Okay. Alright sir thanks a lot. Fair point and I will come back if I have few more questions.

Moderator Thank you Mr. Patel. Our next question is from the line of Abhishek Ranganathan of MF Global. Please go ahead.

Abhishek Ranganathan My question basically pertains to what is outlined for funding. Our capex and working capital requirement for incremental space addition considering that we are growing, I think already added around Rs.550 crores of debt at the core retail level. What is the outline on that?

B Anand We have given a guidance of about 1.5-1.8 is the kind of space that we would like to add. We have spent a reasonable amount out of that already in the December balance sheet which reflects the increase in the capital employed. We believe we would need to spend maybe around another Rs.300 crores. There are two parts to this; one is, the cash flows that we see increasingly growing for us from working capital efficiencies and secondly, some of the monetization initiatives we take, would help us to fund this without seeking incremental loan funds.

Abhishek Ranganathan Sure. The standalone balance sheet has grown by about Rs.120-odd crores on the capex that is on the fixed asset. Where do you see this trending?

B Anand We have spent about Rs.450 crores over the last six months on capex in the core retail business.

Abhishek Ranganathan Okay this would include a significant chunk which is basically pertaining to the pipeline which is expected in the next six months?

B Anand Yes.

Abhishek Ranganathan And you said we need another Rs.300 crores of capex. I am assuming this Rs.450 crores is basically business capex including just the fit outs and other ancillary related to the fit outs, excluding your working capital?

B Anand That is right.

Abhishek Ranganathan And working capital we have had about Rs.600 crores.

B Anand Yes that is right. But that working capital is significantly towards the January sales.

Abhishek Ranganathan So basically you are looking at another Rs.300 crores on capex and possibly further working capital funding

Kishore Biyani No, we don’t expect there will be significant working capital additions in the next six months.

Abhishek Ranganathan Okay, sure. And you mentioned that in terms of funding, I just want to come back and dig a little deep into that. How much do you actually propose to realize from the monetization for meeting your funding requirements and for the remaining of this financial year and next financial year?

Kishore Biyani If you look at our plan we have not invested a single rupee in any of our company's subsidiaries which are growing, namely e-commerce business, media business or the logistics business. Except for the insurance business which has to be funded, no other businesses have we put in incremental capital. I can't give you a definite time frame on the monetization, because it's a work in progress, but as a group we believe that the growth should happen out of business rather than increasing our debt.

Abhishek Ranganathan Right. Why I asked is in case we are not able to actually monetize it say whenever we think we should how much of scope do we have to leverage ourselves is what I am trying to understand. Suppose we have outlined capex of Rs.300 crores on the next half of the year and maybe another Rs.1,000 crores for next year, what I am trying to understand is how much of scope do we have in terms of balance sheet. I believe our consolidated level will be close to around Rs.5,000 crores of debt.

B Anand Abhishek, our debt equity gearing ratios are still very comfortable. So if your question is do we have sufficient headroom, should we choose to resort to taking incremental debt, there is significant headroom available. Our core retail debt equity is around 1.06.

Kishore Biyani If we consolidate it, it is basically the NBFC business loan which comes in, which is the distorted picture in a sense.

Abhishek Ranganathan Right sir. And sir, Rs.65 crores of e-commerce funding has come from?

Kishore Biyani They are the current investors in the company.

Abhishek Ranganathan Sure, thank you. I will come back for any more questions.

Moderator Thank you Mr. Ranganathan. Our next question is from the line of Percy Panthaki of HSBC. Please go ahead.

Percy Panthaki Just one quick question on some data, can you give me the net debt for the core retail for December '10, December '09?

B Anand The net debt would be about Rs.3,400 crores for Dec '10 and for December' 09, it was about Rs.3,200.

Percy Panthaki Okay so basically, your net debt has gone up by only Rs.200 crores in the last 12 months?

B Anand That is right.

Percy Panthaki Your increase in fixed capital and working capital was then mainly financed through your equity raising?

B Anand Through a bit of equity raising and to a large extent through the efficiencies in working capital cycles.

Percy Panthaki Okay and secondly, on KB Fair Price, such models have been tried in the past, the main falling till now have been that it is difficult to manage so many number of stores from a management band width kind of perspective and second is obviously keeping inventory control at several different locations.

Kishore Biyani Let me explain how the concept works. We are only doing this concept and growing it in only two cities, that is the first thing which you will have to understand. Secondly, we only sell 350 SKUs. Thirdly, we don't sell anything which is perishable, such as milk, eggs or any fresh produce. We don't even sell onion, potatoes or any perishable item, even including butter.

Percy Panthaki Okay, so you are doing this only Bombay and Delhi?

Kishore Biyani Yes, so there is no network which we are creating and the idea is to gain dominance and prominence only in a particular city.

Percy Panthaki So what are your targets, like over the next three to four years in terms of number of stores in each of the cities?

Kishore Biyani I think Mumbai and Delhi would see 400 stores plus and the third city where we have stores but are not expanding is Bangalore where we have 28 stores.

Percy Panthaki Okay, but surely, in the long-term there is a business opportunity to take this to maybe about 20 large cities? What do you think?

Kishore Biyani I think the opportunity, if I look at the blue ocean strategy and a white board thinking, we can do 10,000 stores.

Percy Panthaki The question I was coming to from the perspective is, have you ever thought of making this into a franchisee model?

Kishore Biyani There is a model which we have thought about and there is a model which has been conceptualized. We will have to create a master franchising model and a lot of technology integration in place before we get into something like this. It also depends a lot on our private brands strategies. The Food Park initiative which is coming up in Future Ventures will determine the entire strategy. This will be right from a farm where we produce, collect, process it in that Food Park, we have a distribution centre and a packaging unit out there and it straightaway gets into various stores. So the whole network design has been created but it is totally dependent on how this Food Park comes about. Our first Food Park is coming up in

Bangalore. This will be about 100 acres of land where consolidated happens, tie ups with the farmers will happen, we do all the food processing like making ketchups, noodles, juices and having a packaging, cold chain facility and a distribution set up which are put up by various companies, not by us, and the product hits our stores and KB's Fair Price.

Percy Panthaki If I understand this concept of Food Park, basically, what is going to be your involvement or investment versus what the third-parties are going to do?

Kishore Biyani Some of our subsidiary companies like Future Agrovet will open up their food processing grocery centre, which they will require in any case. Future Supply Chains will do the distribution and supply chain and all the other factories will be put up by our various vendors who will process these goods.

Percy Panthaki Okay and your investment mainly will be in the land and providing infrastructure?

Kishore Biyani We get a subsidy of the government to the extent of Rs.50 crores for developing the infrastructure. So the net capital investment or equity investment in Food Park is not substantial.

Percy Panthaki Okay. The reason for this question is, the purpose is to get product to the retail shelves there are so many third-parties which are able to provide things like ketchup, toiletry and soaps anyways

Kishore Biyani Today, if you look at that supply chain cost , they will buy the farm or the agri inputs from somewhere, then the product will travel into their factories, the packaging unit will be somewhere else, then it will go to a warehouse, that warehouse will supply to a distributor and that distributor will supply to the stores. Our model does not have such activities and everything will happen within those 100 acres. We believe this concept can save 12% to 15% of supply chain cost end-to-end and straightaway the product travels into the stores without a single handling.

Percy Panthaki Okay, understood. And my last question, just one more data point, Anand, is that we were looking at the working capital increasing from June to December and obviously, that's because you stock up in December. Would it be possible for you to give me the figures for December versus December, what's been the increase in the inventory and working capital over that period?

B Anand Last December, inventory was Rs. 2,100 crores and this year it was about Rs.3,000 crores.

Percy Panthaki Okay, that's an increase of Rs.900 crores looks a little bit on the high side, any particular reason?

Kishore Biyani Let's look at it in a different perspective. We expect accelerated revenue growth for the next two years and going forward, the incremental stock increase on a higher topline growth will be much lower than earlier.

Percy Panthaki Okay, because I was just looking at it from the point of view the inventory has increased by about 40%, your sales has increased by about 30%, so as a percentage of sales, your inventory has gone up a little bit.

Kishore Biyani I think you will have to look at the next quarter sales to determine that.

Percy Panthaki Okay, fair enough. That's all from my side. Thank you very much.

Moderator Our next question is from the line of Jaibir Sethi of CLSA. Please go ahead.

Jaibir Sethi Just few things from my side. First could you give me the half year end number for core retail for loans and advances?

B Anand We will revert to you on this.

Jaibir Sethi Sure. You mentioned that in eZone there have been some challenges particularly around things like getting margins from manufacturers and so on. In that context, are you worried about how will you get of some of the obsolete stock in eZone and will that eventually come and hit the margin on the retail business?

Kishore Biyani We are not stopping the business, what we are saying is that we are not looking at expanding the business and we are moving into digital format of using the web and phone for people to order.

Jaibir Sethi You will be using that to clear some of the old stock?

Kishore Biyani Old stock is not the challenge here. It is about a new way of getting orders rather than opening physical stores.

Jaibir Sethi Okay. Further onto that, have you also shut any stores in the last quarter, whether eZone or any other format?

Kishore Biyani Two Food Bazaars and one Brand Factory store.

Jaibir Sethi Just on the interest side, have you seen an uptick in your interest cost with the overall interest rate environment hardening?

B Anand A couple of things. To follow on from an earlier question, from a credit rating perspective, our ratings have been upgraded and our rating has moved to ‘A’ which should allay many questions around our capability and headroom perspective. The second thing which we have done on the debt strategy is that a great part of our debt runs on fixed rate basis. So more than about 75% of our overall debt is on fixed rate, a blended rate is around about 10.8%. So while our debt levels could be high, we have managed to keep ourselves a bit insulated from the increasing interest rate concern by having a significant part of our portfolio being on fixed-rate. And the other thing that we have done is mitigate the refinancing risk. We have been constantly trying to push up our average maturity of the debt profile and our average maturity debt profile would be anywhere between 3.5 to 3.6 years. So we are good on both accounts.

Jaibir Sethi Okay, that's it from my side. Thanks a lot.

Moderator Thank you Mr. Sethi. Our next question is from the line of Rajesh Ranganathan of Doric Capital. Please go ahead.

R Ranganathan A couple of questions to clarify some of the strategic initiatives going ahead. With regard to eZone, you said, it is going to be an ongoing business but a different format. So what happens to the existing store space, are you going to give it up, convert it, and what will be the timeframe for that, when you say July?

Kishore Biyani We are looking at closure of around 8 to 9 stores. The balance stores will continue to operate the way they operate and the new online format called New Zone will begin. There will be a lot of smaller 2,000 square feet digital stores which will come about. The idea is not to increase the number of stores. All the increase will happen through the smaller format and they will become the flagship stores.

R Ranganathan And when you did this job done and getting a new investor, the EBITDA, you had mentioned about a Rs. 12 crores loss, but what about the capital, what sort of working capital will get released?

Kishore Biyani There would be some debt and inventory which will get transferred into this balance sheet. The net block which will get transferred to the balance sheet is close to Rs.160 crores.

R Ranganathan Thank you. And in the home furnishing business, it's a new format as well, can you give us an update on profitability and return on capital on that business and what's the outlook going ahead?

Kishore Biyani We have a new management team, which is working on the Home Town as a business, headed by Mark Ladham who has moved in from B&Q. He has led China and Turkey operations for the Kingfisher Group. Home Town continues to be a very promising business for us. We believe that after the personal adornment which has happened in India, Home adornment is going to be the next big thing and we are seeing a very good traction in terms of throughputs. We have not added up stores, we are only adding one more store, probably this month in Thane. The group believes that this business would be around Rs. 1,000 crores next year with the EBITDA turning healthier. At this point also, we are close to EBITDA positive, but as maturity comes in this business, the operating margins will only increase. We have no competition in these formats and we see the customer base increasing along with efficiencies increasing, because a lot of learning has happened in this business. Our home improvement segment has become a star performer after Mark joined us. We are one of the largest sellers of kitchens and bedroom sets. Probably on the furniture side, we have been able to work a lot, creating a new assortment, reducing the number of SKUs etc. There is a lot of science which is getting into this business and I would believe that in three years time this business will probably be one of the best returns on capital employed

R Ranganathan And the final question, a bit more broader, the challenge for outsiders with the business has been to understand the breadth of the various activities that you're in, you have been explaining to us, that you're trying to reduce that and get as part of your future strategy, but still remains a fairly broad business even within core retail. Could you summarize for us over the next say six months to or in a longer time period in 2 years from a balance sheet perspective, what are the key roles that we should expect you will achieve?

Kishore Biyani If I can explain our business in a simplistic manner, we have a business called 'Pantaloons' which is the fashion business. We are at 53 stores and will add up 8 to 9 stores this year. We are plan to add another 18 stores next year in Pantaloons We are the market leaders and our turnover can be in excess of Rs. 2,000 crores in this format. It is a high margin business and majorly private brand oriented. Compared to any other retailer in the country, this format alone has a potential to give significant returns followed by Central and Brand Factory. In Central, we are at 16 stores and in the next probably 7 to 9 months we would be at around 22 stores. The next business is Brand Factory which is a part of Central and the is managed by the same group We are at 13 stores and expect this to grow much faster than Central in terms of number of stores. In Big Bazaar, we are looking at 30 to 35 stores additions this year and probably next year another 30 to 35 stores. In Home Town, the idea is not to expand the number of stores but create a business model out of what we are calling as 'Design & Build' stores which we opened recently in Lavasa. The idea is wherever there is a huge housing colony coming up, build up a Design and Build store. We have created a design BPO which can process many more designs for people wanting to buy and furnish their new homes. We are building a lot of capabilities and that will lead consumers into the flagship stores. eZone has already been explained. The strategy in Food Bazaar is not an expansion driven strategy and KB Fair Price will be expanded in Delhi and Mumbai.

Participant And from balance sheet target perspective?

Kishore Biyani On the balance sheet target we believe that we need the pure retail balance sheet and our investments which are not valued by anybody, have a significant value according to us. But till the time we don't monetize it, we are not able to displays that value. The company is currently working quite vigorously on all these investments. We believe that each businesses invested in, has a promise but as a policy, we are making it a point that we should divest businesses which are non-core to us and put that money into the core business which is retail.

Participant Thank you very much.

Moderator Thank you Mr. Ranganathan. Our next question is from the line of Amnish Agarwal of Motilal Oswal. Please go ahead.

Amnish Agarwal I have a couple of questions; my first question is regarding the debt burden. Can you share with us the debt which is there in the Future Value retail business?

B Anand The aggregate debt is around Rs.3,500 crores so the difference between core and stand alone debt is attributable to Future Value Retail.

Amnish Agarwal Sir, my next question is that we were actually guiding for increasing our inventory turns over the coming year so as to unlock the working capital as well as into the overall efficiency in business. So can you guide us, where are we currently in comparison to say the year ending June and what are our plans going forward on that?

B Anand We have ended December with inventory turn days of about 98 days. A good part of the increase has been consciously built up for the January sales perspective.

Amnish Agarwal What is the targeted number of days?

B Anand We are looking at reducing it to about 90 days by this June year end.

Amnish Agarwal Okay and finally, you had indicated in your opening remarks that you have got two real estate properties in joint ventures with NTC. What are the plans there?

Kishore Biyani It is not real estate property, it's a textile mill so I think the surplus land can be converted into real estate.

Amnish Agarwal Okay the surplus land can be converted into some commercial space, because I understand it was for an apparel park or something earlier?

Kishore Biyani Yes, but an apparel park is also a commercial space.

Amnish Agarwal Okay, and on the Future Venture, how do you see your IPO of Future Ventures impacting your balance sheet in the coming 6 to 12 months? What sort of impact could it have?

Kishore Biyani I think it should have a positive impact because we believe Future Ventures has very good investments in lot of companies. Future Ventures is building up the Food Park, Future Ventures holds a stake in Capital Foods, which is a food processing company, it holds stakes in Biba, AND, Mother Earth, Aadhar and other companies. Future Ventures is a new idea to make the role of a supply company bigger to meet our modern distribution.

Amnish Agarwal Okay. Sir, is there a possibility that a lot of investments in these smaller joint ventures or other companies, which you have promoted or you have acquired stakes, so that could be actually shifted from Pantaloon Retail to Future Ventures?

Kishore Biyani We are not proposing anything at this moment nor are we wanting to. There is no decision which has been taken on anything as yet.

Amnish Agarwal Okay sir, thanks a lot.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Hiren Dasani of Goldman Sachs. Please go ahead.

Hiren Dasani Just one small clarification, what is the space addition total at the core retail level which you have done in the first six months?

Kishore Biyani 1.2 million.

Hiren Dasani Okay, because if I go by the investor update which was then told the weekend, it looks like about 0.95 million?

B Anand First quarter was 0.4, this following quarter was 0.8.

Hiren Dasani Okay, thank you.

Moderator Thank you. Our next question is from the line of Ritesh Doshi of First Global Securities. Please go ahead.

Ritesh Doshi What is the reason for increase in the raw material cost?

Kishore Biyani Raw material costs are increasing. Cotton prices are up by 30% to 40%, raw material prices in fabrics are virtually up by 50% to 80%. I would say, the other input costs in terms of plastics is up, polymers are up, so all the input costs have gone up significantly. I think in China too, the produce has not been encouraging and has lead to reasonable increase in terms of prices. In fact, China has been reducing production volumes and thereby either maintaining prices or increasing prices for a lot of companies out there.

Ritesh Doshi Is it that you're not able to pass on the hike in price, because sales have grown less proportion than the rise in raw material cost?

Kishore Biyani I think it's a journey and prices don't increase one single day. If you look at our price increase absorption, we have absorbed prices this quarter but have not increased prices on any products as such. But we believe that in the next six months, the prices will get increased, especially on fashion side.

Ritesh Doshi Okay, thank you sir.

Moderator Thank you Mr. Doshi. Our next question is from the line of Abhijeet Kundu of Antique. Please go ahead.

Abhijeet Kundu Hi, my question was essentially on the interest cost. Firstly, in the value retailing business, the interest cost comes to about 14% as compared to the standalone interest cost of about 10%. Why the difference in the interest cost between the two entities?

B Anand We will have to see your number computation understand it better from you. We will take it offline.

Abhijeet Kundu Sure, thanks.

Moderator Thank you. Our next question is from the line of Kaushik Poddar of KB Capital Markets. Please go ahead.

Kaushik Poddar You have rolled out these Next Gen stores, I think you have rolled out five stores of Pantaloons, so how is the customer acceptance for that?

Kishore Biyani Pantaloons and the demographic profile of India is changing significantly and we have to make our stores fresher and younger. So the last 5 new stores which we opened are the new look. We have opened these stores in Pune, Bhopal, Aurangabad, Vasant Kunj in Delhi and Nagpur

Kaushik Poddar Have you seen any sales going up because of that?

Kishore Biyani It has been scientifically designed to see how merchandise needs to be displayed and make it a more exciting experience. How can we sell higher value products more interestingly and how can we use the heights to display products. It's too early for me to comment on the response and the benefits coming out of this format.

Kaushik Poddar Okay, secondly, I see a lot of activities on fruits and vegetables in Calcutta's Food Bazaar store. What is your sense on this?

Kishore Biyani We believe that the fruits and vegetables is going to be a significant part of how we grow our business in Big Bazaar in the coming few months. I was just briefed by the team that the amount of strawberries which we sold yesterday was 350% more than what we would have sold earlier. So we are now looking at each and every SKU and building up an entire supply chain on whether it is strawberries, apples or citrus fruits. There is a full-fledged team in place to build consolidation centers, tie-up with various farms and so on. Big Bazaar has the ability to distribute and sell it to various customers and we need to go closer to the farm and manage it in the right manner and create demand for lot of new categories which did not exist earlier in the country.

Kaushik Poddar And what is the target EBITDA margin for this kind of thing?

Kishore Biyani I think it is little early for me to talk about it, but if you do it in a very efficient manner, the fruits and vegetables can give the highest ROCE.

Kaushik Poddar Yes, absolutely, the turnover is higher.

Kishore Biyani Very high, and it's too early for me to comment. This business is totally dependent on what is a kind of dump or wastage is generated. The dump means if you are able to sell exactly what you had procured, then you don't need to destroy any stocks. Margins can be as high as 25% to 28%. But life is not so simple and it’s a little early for me to talk about margins.

Kaushik Poddar Okay, but this is something which you are focusing on?

Kishore Biyani I think this is the only way to get more customers to your store and as well as to excite customers on few new categories which we believe we can do it quite well.

Kaushik Poddar Okay, thanks, Kishore.

Moderator Thank you Mr. Poddar. Our next question is from the line of Abhishek Ranganathan of MF Global. Please go ahead

Abhishek Ranganathan Sir just wanted to understand, in terms of inventory, are we seeing in terms of number of SKUs and the price of the inventory which you have procured, what would be the breakup, because if our inventory has been increasing, you get how much of it would be because of the SKUs and the number of units and how much would be because of the input price rises?

Kishore Biyani It is a difficult question because we manage around 90,000 SKUs and to exactly answer your question it is not so easy, but I will still try to take. On Fashion, I would say the increase of inventory on account of price would be at least around 10% plus and in other products around 10% to 15%.

Abhishek Ranganathan Right sir, and just wanted to also understand during the last call which we had six months ago basically you mentioned on rationalization of our creditors and suppliers, this quarter we haven’t seen what was basically seen in the Financial Year ‘10 in terms of the creditor days improving significantly and so on.

Kishore Biyani I think we have been able to maintain it more than reduce it.

Abhishek Ranganathan But that has not been seen in this particular quarter, is it one-off or are we going to see it getting normalized by the end of the Financial Year, what is it?

B Anand The focus is to see how we constantly bring down the working capital.

Abhishek Ranganathan And last question, in terms of Fashion, how much would it contribute of our working capital because a significant amount of fashion is involved in the Future Value retail also, basically inventory?

Kishore Biyani I would say around in excess of 40%. Our fashion business is around 35% and in proportion, it is the longest lead cycle.

Abhishek Ranganathan Sure. Thank you very much.

Moderator Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. B Anand to add closing comments. Please go ahead sir.

B Anand The broad theme is pursuing growth strategically and directionally. Margins are a core focus for us. We have a very robust pipeline in place in terms of incremental space. From a balance sheet perspective, there is headroom available for us to fund growth, but nevertheless, the focus is to see how we can constantly deleverage and look at various monetization opportunities while focusing on the cash flows from the retail business. Overall trends are pretty good across the focus categories. With this, we will be happy to take on any further follow-on questions and please feel free to contact Ashish. Thank you all once again for participating in the call.

Moderator Thank you Mr. Anand and other members of the management team. Ladies and gentlemen on behalf of Pantaloon Retail (India) Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.