"Pantaloon Retail (India) Limited Q2 & Half Yearly Results Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Pantaloon Retail (India) Limited Q2 and Half Yearly FY12 Results Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" followed by "0" on your touchtone telephone. At this time I would like to hand the conference over to Mr. B Anand -- Director Finance. Thank you. And over to you sir.

B Anand I am delighted to present to you our investor update for the second quarter and the half yearly for the fiscal year 2012. We have with us our Founder and Managing Director -- Mr. Kishore Biyani and our Chief Financial Officer -- Mr. C P Toshniwal.

Mr. Biyani will broadly run you through his outlook on the business and the strategies going forward, after which we will be happy to enter into the Q&A session and take your questions. We have already uploaded the presentation for you; feel free to access that wherever you need to. I hand it over to Mr. Biyani.

Kishore Biyani Today we are discussing the business as we have seen in the last three months and how we look at it going forward. For the first time in the last 15 years of my business in retail, we saw a festive season which was muted in a sense. December of 2011 was unable to match December of 2010 and the same-store sales growth was not as good as what it was.

Our business comprises of three categories; Food, Fashion and Home. Food continues to grow and we are seeing a lot of positive trends, especially in Packaged and Branded Goods. We are witnessing customer off take significantly becoming better and higher. Our private brands continue to do well. The latest Nielsen report talks about our private brand having shares of 35% to 50% even in much evolved categories like Toilet Cleaners. Every category in which our private brands are launched have achieved more than 25% to 30% share of that category. So that's on the positive side.

Home needs, 'general merchandize' as we call them, are also on target and been doing reasonably well. We don't see any signs of muteness in this category. Fashion as a category has been impacted for all the retailers in the country, especially after the budget wherein there was a new levy of excise duty, coupled with rising cotton prices that led to the increase in product values by more than 20% in many cases. Probably, consumers did not lap up the new price points. As a result of which volume growth was impacted, although value growth still has been good. Positively for us Pantaloons as a brand did overcome this and performed relatively better than Central. As a format Pantaloons continues to grow same-store sales on a double-digit basis, but volume growth is not as strong as the value growth. Central, which is a brand player, saw some weaknesses in December. Normally in December, Central does very well. Central has picked up after that and January has been good. We think we are close to 95% to 98% of our ABP now on Central & Brand Factory formats. But we saw weakness on most of the brands in fashion wherein the price point of shirts started touching Rs. 2,000 or so. So, consumers clearly have not accepted certain increased price points.

In electronics, we have not been able to read a trend. There is a change which is happening in the market. People are getting more options whether to buy iPad or a Laptop whether to buy LCD, LED or 3D or a Smart TV. The rapid technological change is creating some challenges. Having said so, we have relooked at the entire business of eZone. We are now focusing on five cities and have closed down 11 stores. We have moved out of many cities and concentrating only on four large cities which is a big revamp for this business. Despite the store closures we have been able to maintain the sales; the strategy seems to be rubbing off very well.

In the Home Town format, we have gone through a strategic shift in the last six months. Apart from the large Home Town stores, we converted the formats wherein we had more than 15,000 sq.ft. of space into a single brand 'Home Town Express'. We also created small satellite stores called 'Home Town Design and Built' which operate on a very low cost basis. These stores are located where there is a lot of construction activity and hence have a potential to acquire new customers. In the down turn which happened in 2008, the Home category was impacted especially in high ticket items which resulted in 25% to 30% decline. But this time this category declined by 3%. We believe, as we move forward, this is one promising category.

In January we did "Sabse Sasta 5 Din" at Big Bazaar along with end of season sales across most of our formats. Sales have been more than good, more than expected and more than better because there was a pent-up demand as customers did not shop during the festive season, waiting for this event to come. In January 2012, we have achieved more than our expectation across formats whether it was Pantaloons, Central, Home Town, eZone or Big Bazaar.. February continues to be reasonably good and we are hoping that this trend shall continue as we go forward.

There has been a significant progress on quite a few of sites which we had signed long time back. The total gross addition of space during the last six months was quiet high close to 1.5 million sq. ft. of retail space. We also closed down some stores including Big Bazaar's and eZone's. Going forward, if one looks at the geography of India, the crowded cities we live in and the pace of mall development, one notices some retail properties coming up within the next three years. Beyond that period, one doesn't see much new space for retail development. We don't see any retail construction happening apart from the properties that will come up within the next three years. So either one has to slow down and let go off these properties or one has to look at an opportunity saying that that new properties won't be available after three years. So that's a dilemma which we are currently working on. As we go forward, there are new stores that are in the pipeline and we will be opening these in the next three months. After these additions, the company is looking at reviewing its strategy in terms of expansion. We believe wherever we can get a quick turnaround, wherever we see the EBIDTA levels of the store being profitable within six months we will open stores. The strategy is to open stores which we believe can achieve profitability very fast. Therefore, perhaps Big Bazaar will open in new locations where a Big Bazaar already doesn't exist and Pantaloons continues to turn around much faster than any other format.

In the Food category, the company is looking at the entire value chain right from sourcing, primary processing, secondary processing, brand & distribution and retail. The company has worked on everything and believes we are going closer to the farms. The company has invested in building consolidation centers for the Fresh business. Earlier we were not majorly into Fresh business on our own. In the last six months we have built nine consolidation centers across the country, creating private mundies, getting in goods directly from the farmers, packing & processing it. Now, if one enters our store there is a remarkable improvement on the fresh side which is visible.

We are also moving into a lot of new categories which we believe consumers are accepting, especially international foods. We opened a concept called "Food Hall" wherein 80% of the items sold are of international origin, and this store has performed beyond our expectations in terms of consumer response.

I believe food as a strategy continues to excite us & continues to grow. Consumers continue to experiment with new categories. We believe we have done enough from the farm to the retail stores and it is time for us to start raking in benefits from that.

In Fashion we have worked on changing our supply chain in anticipation of GST. We have opened our latest, very modern and probably the largest single warehouse, in the country at Nagpur. We have moved our Fashion@BigBazaar merchandise from multiple distribution centers into one single place resulting in substantial reduction of holding points and working capital. In Fashion we wish to operate from two warehouses; one for Big Bazaar and one for rest of the formats. I believe this shall help us in terms of having our working capital cycle much faster.

The Home business continues to be promising, but we have seen two downturns since we launched this format. We do not see real estate sector growing at a rate as it used to grow, however people continue to renovate and refurbish their homes. In this sector, there is not much competition probably for the next 2 or 3 years and margins are fantastic. If we can improve productivity in this business, profitability can be quite high. We are working towards increasing productivity on this sector.

Our theme continues to be Food, Fashion and Home. Food & Fashion is a consolidated play for us. Home is still about buying and selling; we are playing it as it comes and not looking at any major expansion whether it is electronics or home. We would love to expand Pantaloons, Big Bazaar and wherever we believe we can achieve disproportionate sales. For example, in the last quarter we opened our ninth Big Bazaar store in in Pune, a very modern store in one of the most modern malls in the country. In the quarter we also opened a store in Dehradun, probably the first modern retail store in Dehradun. The Dehradun store would be probably be 50% - 60% of the size of the store we opened in Pune. Sales of the Dehradun store were probably higher than Pune store for the first two months. Pune witnessed a slow start, but it is catching up and it might be doing sales equal to Dehradun store but the Dehradun store operates from a much smaller space. We are witnessing some cannibalization wherever we have a number of stores and we would like to avoid this as we go forward.

On the financials, the interest cost has been a concern for us which is eating into our EBITDAs. We have been focusing on reducing, monetizing and realigning our business along with reducing costs and optimizing margins. We achieved quite significant head count reduction close to more than 3,000 people. We have rationalized our work force and productivity per sq. ft. and allocating additional 80 - 90 sq.ft. to a person. We have also rationalized a layer of management structure combining and creating efficiencies at the head office level. As you will see, despite the space addition people cost has not increased and we believe as we move forward will significantly reduce in the next three to six months. We also target to reduce our interest cost in the next 12 - 18 months by rationalizing our debt. Debt rationalization will happen through various activities which we have been talking about - divestment of our non core retail assets and looking at some other options which shall emerge with various changes in regulations.

Finally, we believe that there are other triggers which can be game changers for our company. GST which is expected but delayed continues to be one of the larger game changers for us and can result into modern trade, penetrating much deeper. Food Safety Act can change the controls of the Food business in this country. We believe it can be again a game changer for modern retail on the food side. We would see divestment of a lot of our non core retail assets and you will also see some strategic alignment across our Food, Fashion and Home categories which can result from the FDI regime changing. We are looking at the future with some optimism based on January and February. The markets have been okay, not as great to achieve double-digit growth we have always seen. We believe the growth will not be as high as we have seen all these years. But we see a little bit of positiveness around the market and a little bit of certainty which can result in positive customer outlook and the next season can be much better than the season which we have gone through. We are looking at the future with some optimism, built around consumption growth for new India and incremental asset light strategy and with a leaner balance sheet.

The company is also going to start looking at increasing its Food business through KB's FairPrice which we are looking at growing through franchise network and we are experimenting with our first franchise network probably in the next 30 days. This will let us know whether we will be able to open multiple numbers of stores to sell. The back-end business of food has been built through a very asset light and no capital involved business.

Going forward we are looking at opportunities where capital involved is less and we can still use the strength of our back-end which we have created on the Food and Fashion as a business. With this I will hand it over to Anand.

B Anand Happy to start the Q&A session.

Moderator Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy My first question is on Big Bazaar. You said Pune versus Dehradun, there are a lot of differences. So my first question is which are the cities in which you are seeing a Pune kind of an issue? If I see your value retail growth that's around 5% and HyperCity around 12% same-store growth and we also closed down two Big Bazaar stores in December quarter. So could you give us some sense on what will be the kind of rationalization in Big Bazaar over the next four quarters?

Kishore Biyani For Big Bazaar we have a seven city strategy wherein we believe we have to create dominance in the seven cities. In Mumbai we have around 22 touch points for our Food business including Food Bazaar and Big Bazaars. The idea is to make it a very difficult entry point for new players. If you ask us whether there is any store coming up in Mumbai, there is a small store coming up in Saki Naka. This store will not cannibalize into any sales which we are doing elsewhere. So the idea is to select the ninth store and the tenth store in a city, in a catchment area where it is not serviced by modern retail. The Pune experience tells us that a new city like Dehradun which didn't have a modern retail and once you opened a modern retail a 40,000 Sq.Ft store can do 55 crores to 60 Crores of business.

Abneesh Roy Any closure planned in Big Bazaar?

Kishore Biyani We are rationalizing a lot. During this quarter we will see rationalization of some stores & we will reduce some space, especially in some stores in Rajasthan, wherein we are cutting off some spaces or realigning ourselves.

Abneesh Roy Being the first mover advantage, some of our Big Bazaar stores have the older format. So what's the game plan on refurbishment and changing the look, is that a priority?

Kishore Biyani After completion of 10 years we launched the new logo for Big Bazaar. We changed our logo and called it "Naye India Ka Bazaar." We have refurbished many of our stores, which were started in the early days. I would say more than 20 stores have already been refurbished and all our new stores will sport a much younger look. It will get a feel of the Naye India ka Bazaar. We are having a live kitchen and are able to sell more food services which are a high value and high margin business. The stores have a larger assortment of Fresh for which we have created a back end. Many stores have already gone through the refurbishment exercise and every quarter we'll see some stores getting refurbished.

Abneesh Roy Sir, my next question is on the debt levels and the gross space additions. Suddenly and unfortunately we are seeing both come together. So do we plan to step down the pedal in terms of new space additions?

Kishore Biyani We are consciously looking at pedaling down our gross space additions. Unless there is event which can be FDI or some divestment which might change our policy later, but currently the company is in a mood of stepping down on gross space additions.

Abneesh Roy But any numbers you can share, if FDI doesn't happen.

Kishore Biyani It's a very moving scenario, to be very honest. Currently it is not exciting to sign up a new space but wherever there is a marquee space coming up we are not overlooking it. Currently, we signed a space in Chennai in a place called Velachery. Chennai is highly under served and we believe that is the most important site for us. Had anybody else had taken it we would have lost the leadership position in Chennai. An exceptional property like Chennai is something which we might look at.

Abneesh Roy You have said January sales have been slightly ahead of our expectations and February is also looking okay as of now. So my question is on the inventory levels, how do you see the March quarter based on current run rate and how much of the inventory levels in December quarter ending?

Kishore Biyani We have worked a lot on the inventory levels. We feel confident that our March quarter inventory levels will be much better. March traditionally is not one the greatest of months but we have exchange programs in March, which always does well. After the Valentine Day tomorrow we start with this programme, which is "Purana Lao, Naya Le Jao." This exchange programme traditionally has done very well for us and was created specifically for month's like March.

Moderator Thank you. The next question is from the line of Percy P from Daiwa. Please go ahead.

Percy P Sir, just on the KB's Fair Price format which you are planning to franchise out, can you give us some idea on what kind of margins do the mature stores in this business make?

Kishore Biyani I will just try and explain the format a little bit. KB's Fair Price is a format which operates only in three cities; Mumbai, Delhi and Bengaluru. We would be running around 224 stores in these three cities. The margins that we operate are around close to 15% to 16%. In the long term, the idea is to sell more of our private brands in these stores, wherein the margins can be as high as 19%to 20%. Currently, we are not significantly yet into a private brand, but as we move forward and introduce new categories and new SKUs in private brands this margin models can go up to 17% to 18%.

Percy P You are talking about gross margins, right?

Kishore Biyani Yes absolutely.

Percy P What would translate to in terms of EBIT margins?

Kishore Biyani We are currently breaking even at the city level. Delhi has become profitable for us and probably by this month Mumbai will become positive for us.

Percy P Sir for the matured stores like 1.5-2 years old?

Kishore Biyani There are some stores which do phenomenally well with a turnover of Rs. 2,000 Sq. Ft. a month operating at 14% margin that means Rs.280 Sq. Ft. returns. These stores operate at a cost of Rs. 125 to Rs. 130 Sq.Ft.

Percy P Okay, so you are saying that probably for some of the mature stores the EBIDTA margins at store level could be in high single-digit?

Kishore Biyani Yes, it can, but very few stores.

Percy P Right. the purpose of my question is that in a business where for the system average the EBITDA margins are post all over heads likely to be in low-to-mid single digit is there enough value left for both you and the franchisee to benefit from this pool?

Kishore Biyani A very interesting question let me explain. If we consolidate our Food business and capture the margin at one single place there will be enough on the table for everybody. If we can capture every margin - sourcing margins, primary processing, secondary processing, distribution, brands and retail - there is significant margin in this business and that's the way we have designed our growth going forward.

Percy P Can you give us some idea on these nine centers you have created for the Food business? Basically, what kind of investments has gone into creating those nine centers?

Kishore Biyani These are nine consolidation centers wherein we create private mundies. We buy goods from the farmers and then these units grade, sort, pack. In the fresh category, we sell fruits in punnet boxes in which it can breathe and resulting in limited wastage and enabling much better handling, because fruits is a very expensive product and handling the transportation becomes very difficult. Hence, we have invested in these logistic centers and invested in technology and people for the last nine to ten months.

Percy P Currently what is the size of your Fresh business in terms of sales turnover?

Kishore Biyani Currently, our size of Fresh business would be around 350-400 Crores. When we started this category it accounted for 3% and has reached 5% to 6%. Going forward, I believe it will account for 10% to 12% of our revenues.

Percy P This 10% to 12% is over what time horizon?

Kishore Biyani We will start seeing it in the next six months.

Percy P So right from 5% to 10% in six months only?

Kishore Biyani This category is all about creating a back end. Once we have a back end for North, West, East, South and the Gujarat zone then we can achieve this output. The front end also needs to change because we have to allocate much better spaces and equipment on the front end to sell.

Percy P My impression was that the Fresh business is not really worth it in terms of margins and ROC. Has something really changed and it has become so attractive now?

Kishore Biyani Firstly, Fresh business is the most important business in terms of getting in customers for daily needs. Customer acquisition cost normally is around 2% to 3% whereas Fresh business acquires customer without incurring any cost. It's a very important tool and every competitor seems to be present in this category and if we are not there it is not good for our business. Secondly, we have learnt from the mistakes made by everybody on the Farm Fresh side and that's why we didn't do it ourselves in the first 8-9 years of our operations. There are enough margins in the system. It's all about how do you manage your dump and how do you manage your wastages. Our first zone was Kolkata, when we started Fresh business probably nine months ago our dump was around 18% to 20% that means virtually we were not earning any margins. Currently our dumps have come down to less than 7% to 8% but learning from Kolkata, the other regions in which we started the category now the dump is not in excess of 7% to 8%.

Percy P Right. Sir would you give an idea on what kind of sales per Sq.Ft in the Fresh category generate?

Kishore Biyani It can generate more than Rs. 1,000 to Rs. 1,200 a Sq.Ft per month easily.

Percy P My last question is on space addition. Depending on the properties that you already signed up and the monitoring that you would be doing in terms of at what stage the mall has come up to, what is the visibility you have in terms of Sq. Ft. addition for the next 12 to 18 months?

Kishore Biyani The addition visibility is reasonable but it is a policy decision which we are taking as how much to do and how much not to do.

Percy P Will you be able to give a guidance of how much space addition could come up in the next 12 months?

Kishore Biyani We have always been mentioning that in all probabilities we can always do 2 million sq ft to 2.5million Sq. Ft. every year. In our first six months we are added close to 1.5 million Sq. Ft.

Further space addition will depend largely on environmental issues rather in our ability to do so.

Moderator Thank you. The next question is from the line of Sagar Tanna from Kotak. Please go ahead.

Sagar Tanna You mentioned about slow down in some of the categories, especially Fashion which was impacted by certain factors. But do you think in this year i.e. 2012 we will see demand growing in single-digits especially if you can bifurcate between urban and Non-Urban areas.

Kishore Biyani I want to answer this question little elaborately. If you look at the Fashion business it comprises of Men's, Ladies, Children and Accessories. We are seeing pressure in the Men's category whereas Women's category continues to grow significantly. Women are more keen and adaptable to Fashion and are willing to pay a price. Today Men's fashion is not changing; the White and Blue Shirts or Casual Denim attire; they always postpone their demand as they know that during the sale the Fashion doesn't change and they can still buy those goods during the sale time. Anybody in the Fashion business will have to break this cycle. We will have to make men's category more interesting and will have to excite them to change their Fashion faster. All the companies are working towards it and we will see that happening.

Children's category has been steady because this category still continues to be a Holiday Season sale; people still spend on children which will not change. The price point change in the Men's wear has resulted in consumers postponing their purchases to a discount period.

Sagar Tanna But overall how do you see demand across various categories for 2012?

Kishore Biyani Demand at the price exists significantly.

Sagar Tanna Do you think we will grow in double-digits or we will be in single digit? Do you think the urban areas have saturated and are more matured now?

Kishore Biyani The penetration level of retail in some of the urban centers has grown significantly. Let's take the case of Bengaluru; penetration of modern retail is around 30%. We continue to have a very good share of around 30%. To increase this from 30% to 40%, the stretch is quite a lot and that's where the market gets impacted. In a city like Dehradun where we are opening the first store there the pressure to acquire new customers is relatively lesser. We have also seen a lot of small towns not doing well. Whenever we open a store in a new small town or Tier II or Tier III we have learnt to look at the migration and new economic activity that is happening in that city or town. Otherwise it does not make much of sense and it has to be absolutely a right size store.

Sagar Tanna On rentals. You mentioned about limited supply coming down the line. Do you think that will impact rentals?

Kishore Biyani Today rent is not a challenge, to be very honest. Malls are being developed are large in size and require many anchors. We are not unduly concerned at this moment on rent, because the developer and the retailer develop a relationship in terms of the affordability of a rent for a retailer.

Moderator Thank you. The next question is from the line of Nilay Shah from Morgan Stanley. Please go ahead.

Nilay Shah On the inventories you have spoken about how you have increased the percentage of Fresh, also Food is doing exceedingly well; Packaged Food. Yet we are seeing continuing double-digit increase in inventory days. How do you plan to address this going forward in a short period of time?

Kishore Biyani We have arrested some of the increase in this quarter. We are looking at addition of spaces without increasing inventory and that's been our goal. Secondly, prices of all the goods except for Food Articles, which has come down recently on the Fresh side - some staples and vegetables, there has been a significant price increase. Fashion is nearly 40% to 50% of our business, if the prices increase by 20% the Sq.Ft. stocks also increase by 20%. The customer has not accepted a price increase hence value-wise sales have happened not volume-wise. The January and February clearances would have helped us to significantly bring down our stocks.

Nilay Shah Is there any pressure now because of this sluggish growth to take an inventory write down especially in the Fashion business?

Kishore Biyani Fashion business always has some inventory which we call "Dead." Even in the Food business we have something called "Defective and dead" which we have to write off. In Fashion, we have marked down outlets for every format - Pantaloons has a Pantaloon Factory Outlet; Central has a Brand Factory, wherein the merchandise is moved out. Merchandise that is shop soiled goes back to the warehouse, where we repair it and goes back to the store for sale; otherwise it is destroyed or is sold as "*kabadi*". There is always going to be 50,000 to 75,000 pieces which are there in circulation on items like this.

Nilay Shah And all of this is reflected in the cost of goods sold?

Kishore Biyani Yes.

Nilay Shah The second question is basically on the recent management changes. I am a little confused as to who is, is it the team that is running the day-to-day operations at PRIL now or how is it working?

Kishore Biyani Pantaloons as a concept is run by Mr. Kailash Bhatia, Central and Brand Factory is run out of our Bengaluru office, run by Vishnu Prasad, nothing has changed there. Home Town is run by Mark Ladham, who comes in from B&Q/Kingfisher Group in England, eZone is run by Rajan

Malhotra and Big Bazaar is run by Sadashiv Nayak. The management team is still the same on all the concepts. We have Retail Director -- Rakesh Biyani who oversees every Retail business and reviews and strategizes on every business. That continues the way it is. So nothing has changed in the management design yet.

Nilay Shah My third question is basically on the gross margin expansion that we have witnessed this quarter. I understand you have taken price increases, etc. to offset some of the cost pressure and some of the tax pressure that you had. But given the sluggish growth in the same-store sales growth how are you witnessing gross margin expansion, as there would be more operating leverages that would be there?

Kishore Biyani October, November and December is wherein we do not do any discounting, it's a full price business. December there is no reason to discount anything. In fact this year our promotions were much less than ever.

Nilay Shah I believe there has been about 420,000 Sq.Ft. of closure. Understand two Big Bazaar's, etc. few eZone's but this is a very large number. So what is the break up there on?

Kishore Biyani A lot of spaces have been converted into Home Town so it's an adjustment number also. eZone contributes the highest to store closure close to 150,000 to 180,000 Sq.Ft. We have also reduced a lot of spaces in some of the stores. KB's Fair Price is a quick entry exit model, in which normally stores that do not do well are closed down.. So wherever it doesn't work you can exit within a month's time. We have also closed five Food Bazaars. There is no sense in continuing independent Food Bazaars which do not make money, so we have closed down our independent Food Bazaars.

Nilay Shah In terms of the new store productivity, you see a revenue growth of 5%, space addition which is let's say around 10% to 15% depending upon how you could say the store closures and the same-store sales of about 5%. New store productivity has been extremely poor. Now, I understand you spoke about the Pune store, etc. but is this a broader trend that you are witnessing that the new store which you are opening up have got much lower productivity than what used to happen in the past?

Kishore Biyani May be one isolated case, yes, but space addition also has to be seen in terms of how much time they have been operational for. In that perspective if you look at the space we will get an answer. Secondly, same store sales growth is also dependent on store closures & date of closures.

Nilay Shah What is your view of the same-store volume growth for this quarter?

Kishore Biyani We believe that anything below 15% to 18% growth in a quarter including new store additions is not an optimal result.

Nilay Shah So, you are basically saying 15% to 18% overall growth?

Kishore Biyani Yes. That has always been the intent and we believe this quarter is the first time that we have faulted on that.

Nilay Shah On SSG basis or overall basis?

Kishore Biyani On overall basis I am talking of.

Moderator Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy Most of my questions are answered. Just two from my side; is there a contingency plan in the event that FDI isn't permitted or the divestments don't happen on time? That's my first question. And you know if you are saying you are expecting strategic realignment, what do you all hope to achieve in terms of debt reduction or cash infusion?

Kishore Biyani If there is an FDI and strategic realignment can give us interesting scenario, in which we can envision a virtually zero debt. We can visualize the scenario. I am not saying that is going to happen as such.

Jamshed Dadabhoy Suppose FDI doesn't happen?

Kishore Biyani The Company has many facets of food business. The idea is to create a back end and the front end that is an option which is open to us.

Jamshed Dadabhoy This strategic realignment, divestment or noncore businesses, when do you think that will achieve fruition?

Kishore Biyani Today, a deal is not done until the money is not in the bank. And we expect that by end of this fiscal, we would have concluded some.

Jamshed Dadabhoy Sir, other question I wanted to know is that in terms of rentals, a lot of your stalls the rentals which you had signed up 10- 12 years ago will come through for some sort of escalation in three to four years time?

Kishore Biyani We have gone through escalations, markets not being so great has helped us in renewing every contract till now. We have not exited anything; a lot of people did ask us a question about Phoenix. We are there and it's all been negotiated.

Moderator Thank you. The next question is from the line of Jaibir Sethi from CLSA. Please go ahead.

Jaibir Sethi Two things which I wanted your views on. First, you mentioned that you stepped back your plans on space addition a bit in light of high debt levels. Now, what would it take for you to actually bring the focus back on aggressive space growth?

Kishore Biyani Now the environment has to change very significantly for us to get aggressive but we are looking at still continuing growth through formats wherein the capital employed is lower. With KB's Fair Price we believe is worth experimenting with. In Future Ventures, we have a concept called "Aadhar" wherein we have opened our first wholesale cash-and-carry store which is appointing various franchisees and this is a rural distribution model and again a low cost model. This will create a lot of opportunities for us on our food backend to service the rural and hinterland India. Now, the first store has been operational for the first three to four months, the results have been very promising. As a company, we believe this franchising model we will have to discover for the first time. Through the franchising model we reach in terms of size and scale where the variables are less. Both the models KB's Fair Price and Aadhar, are franchise driven models wherein we will continue to get business which is significant and will not require capital to be deployed.

Moderator Thank you. The next question is from the line of Amnish Agarwal from Motilal Oswal Securities Limited. Please go ahead.

Amnish Agarwal In the light of that and the fact that you are doing the refurbishment of a lot of formats. So what sort of Capex are you looking for in FY12 & FY13?

Kishore Biyani There are a lot of situations which are making us look at it again as how we should go about it. Currently, if you ask me whether my original plan is working exactly as per what we had thought? No. We are again reviewing the plans and looking at how much we can cut down on that.

Amnish Agarwal Finally about the investments which we are making in the back end are the investments entirely happening through Future Logistics or some part of funding is also happening through the balance sheet of PRIL?

Kishore Biyani Future Logistics is doing warehousing part of it. All other investments are done through Pantaloon balance sheet only.

Moderator Thank you. The next question is from the line of Kuldeep Khanapurkar from Kotak Mutual Fund. Please go ahead.

Kuldeep Khanapurkar On the deleveraging process I just wanted to understand what is really delaying the process is it valuation or is it something else. Could you just help us understand?

Kishore Biyani Deleveraging of financial assets are regulated businesses and it's a process which has its own time. There is no short cut to the regulatory process. It's neither for valuation nor for a lack of interest of the buyers.

Kuldeep Khanapurkar Any timelines?

Kishore Biyani We hope and wish that everything should be done by June.

Kuldeep Khanapurkar On the inventories, last six quarters there has been a significant addition to the inventories. So the inventory was Sq.Ft. which was added in the last six quarters is high.

Kishore Biyani We believe that 20% price increase should be taken that into account for Fashion Goods. Even on the Home side the Air-Conditioners are 20% more expensive than what it was earlier. All the Home goods & Furniture is import which is much more expensive than ever.

B Anand We focus more on inventory days. In this specific quarter, we have already seen improvement in incremental inventory buildup. When you consider the relative space addition and the specific build up required for the big event sale in January, which we need to plan much ahead, you will see that in this quarter there has been a reasonable amount of inventory improvement.

Moderator Thank you. The next question is from the line of Amitabh Sonthalia from SKS Capital. Please go ahead.

Amitabh Sonthalia It was related to the DVRs. Recently, we got a communication from the company resolution with regard to the change in voting rights. I was wondering what prevents the company from merging the two classes of shares as you have raised the voting rights.

Kishore Biyani We tried to understand the legal aspect of it and probably we didn't find an answer to that. So that was the first intention which we had. We looked at all the solutions which were available. We were not able to fulfill the purpose for which it was set up, given that there was no market or major interest which got developed on Class B shares. We started looking at all the options and change in voting rights was the best answer we could have got from whatever discussions we had. We had prolonged discussions nearly for a year on this subject.

Amitabh Sontalia As you mentioned in that resolution, you obviously feel that the DVR discount is unwarranted and because of which you introduced this as an interim measure. But what would be the logical next step? Because obviously despite this announcement the discount continues and there is DVR to the main share discount is still at almost 40%-50%. So even this measure has not been enough in terms of achieving your objective of narrowing the discount thereby creating better shareholder value for the DVRs, so what would be the logical next step?

Kishore Biyani Our job is to keep on doing what we believe is right for every shareholder including us in the sense. And because this product is not there in the market, only two or three companies has this product, this has not been able to capture the imagination of the investing public, to be very honest. And I don't think so I have 100% answer to this because this is a very popular product probably around the world.

Moderator Thank you. Ladies and gentlemen due to time constraints we will take the last question from the line of Priya Ranjan from Macquarie. Please go ahead.

Priya Ranjan The same-store sales growth. Due to the reduction in the catchment area because of the competitor opening up the new stores, is the same-store sales growth reduction is on account of that also?

Kishore Biyani Normally, wherever there is a competitive intensity, store sales definitely are impacted for the first three to four months and after six months the same-store sales growth comes back. It does impact for the first three or four months, if in the same catchment area we have multiple stores.

Priya Ranjan Okay. Now, you are talking about reduction in your store space addition. So what's your plan for the Tier II and Tier III cities going forward?

Kishore Biyani We are being very selective about the city. We are looking at the economic activity and migration in that city. We are looking at a lot of factors before opening a store.

Priya Ranjan Any kind of criteria you look at?

Kishore Biyani We are very gung-ho about Patna, so we have opened one store and are opening three or four more stores in Patna in the next six to 12 months. So wherever we believe there is a market and we have experimented, we learn from it, we are opening up stores there.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Anand for closing comments. Please go ahead sir.

B Anand Thank you, everyone. And if any one has any follow-on questions Reenah will be happy to take them so kindly send your e-mail and we will address it accordingly.

Moderator Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Pantaloon Retail (India) Limited that concludes this conference call.