

STAYING FOCUSED DELIVERING PERFORMANCE



ANNUAL REPORT
2013 - 2014

PANTALOONS FASHION & RETAIL LIMITED



Mr. Aditya Birla
We live by his values.
Integrity, Commitment, Passion, Seamlessness and Speed.



The Global Scenario

Worldwide 2014 portends to be much more encouraging than 2013, with the forces driving the global economic recovery firmly entrenched. The IMF projects that global economic growth will rise from 3% in 2013 to 3.6% in 2014 and to 3.9% in 2015. This is largely due to a turn for the better in the developed economies - estimated to grow 2.25% in 2014, a full percentage point more than in 2013. US GDP growth for 2014 is projected at 2.8%, and in the Euro area at 1.2%, while China's economy is expected to grow at 7.5%. GDP growth in the emerging markets and developing economies is slated to increase from 4.7% in 2013 to 4.9% in 2014, as these regions step up exports to the developed markets.

Continued fiscal easing, loose monetary policy in developed economies and stable commodity prices should boost the global recovery. The nervousness in the financial markets, particularly related to stability of the southern European economies, has abated considerably. Furthermore, we must be prepared for unforeseen geopolitical developments which may have disruptive ripple effects on the global economy.

The Indian Economy – moving on to a stable footing

The outlook for the Indian economy has turned distinctly positive. The increasing traction of

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the global economic revival and plans to restore vim to India’s economy through a slew of timely measures by the new Government by addressing fiscal imbalances and fast-forwarding investment activity should play out positively in the coming year. The RBI’s deft moves to stabilize the Rupee, enabled it to recover from a low of around Rs. 68/\$ to under Rs. 60/\$. The current account deficit for the year has been contained at around 2.5% of GDP. Some progress has been achieved on clearing the backlog of large projects whose approvals had been held up. GDP growth is predicted at around 5.5% in 2014-15.

However industrial production needs to accelerate with the IIP declining 0.1% year-on-year in the first 11 months of 2013-14, vis-a-vis 0.9% growth in the same period last year. Inflation also remains a concern, with the wholesale and consumer price indices in March 2014 up 5.7% and 8.3% respectively year-on-year. Continuing inflationary pressures have been a constraint in reducing interest rates. In the medium term, the economy stands to benefit, if the Goods and Services Tax is rolled out. Further initiatives and reforms in areas such as land acquisition, allocation of natural resources, and taxation would help greatly to boost investor confidence and accelerate investment activity. Overall, the stage seems set for India to shift to a higher growth trajectory.

During the year, the Aditya Birla Group took over the effective control of the Pantaloons business. In line with the Group’s philosophy to attain a leadership position in the sectors in which it operates, the key emphasis at Pantaloons is to fortify its market positioning as one of the biggest large format fashion retailers in India.

A new management team has been constituted. Its mandate is to ensure that your Company becomes performance driven and future focused. Towards this

your Company is investing extensively in people, processes, expansion of customer reach, productivity of the existing stores and strengthening of the brand portfolio.

Your Company launched 14 new Pantaloons stores taking the total count to 81 stores. It's target is to reach 100 stores in fiscal 2014-15. Three new brands were launched to enrich the brand portfolio. To strengthen its menswear segment and tap operating synergies within the Group, your Company has also started retailing brands owned by Madura Fashion & Lifestyle, a division of Aditya Birla Nuvo Limited.

Profitability was strained given the transition issues and organisation building costs. The benefit of these initiatives will accrue in the future, as the Company grows in scale and size.

Going forward, our strategy is to leverage brand 'Pantaloons' besides expanding the retail network and investing in high margin private label brands, to ride upon the economic upturn.

To our teams

In the face of continuing external challenges, our teams across geographies have stayed focused and delivered performance. I thank all of our employees for their tenacity and commitment to sustain top line and bottom line growth year after year.

The Aditya Birla Group in perspective

Despite the tectonic shifts witnessed globally and in India, at the Group level we have managed to sustain our revenues at USD 40 billion. Much credit must go to the talent resident in our 1,20,000 committed workforce, spanning 36 countries and 42 nationalities.

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I would like to reiterate that we place big bets on our people. Let me elaborate on this aspect in some detail.

As a high performance driven, meritocratic Group, we are constantly focusing on building our talent pool to support our business vision. To this end, substantive initiatives taken earlier have since materialized. These include focused endeavours to build a robust talent pipeline, building the employer brand of our Group beyond India, and achieving the distinction of becoming the most aspirational employer for manufacturing professionals also, besides augmenting talent on the technical side. Furthermore to support our long-term strategies, our business structures have been significantly bolstered.

Our reputation as an employer of choice is again something we are incredibly proud of. We are recognized as an employer that offers a World of Opportunities and is concerned about the professional growth of its people. We continue to fast track our talent – from our management cadre comprising of 38,200 colleagues, 13% have been promoted, 20% have changed roles and 12% have moved location during the year.

Gyanodaya, our in-house world-class university, continues to be an important mainstay of our progress. Leveraging resources across geographies and partnering with leading global faculty, institutions and corporates, it ensure that our leadership and talent pool stays contemporary and is always in the learning mode.

To be learning and growing organization is an ongoing endeavour.

Ranked No. 1 in the Nielsen Corporate Image Monitor

I am pleased to share with you that for the second year running our Group has been ranked **No. 1 in the Nielsen Corporate Image Monitor 2013-14**. Across the six pillars of corporate performance – products and services, vision

and leadership, workplace environment, financial performance, operating style and social responsibility, Aditya Birla Group “emerges as the pace setter, way ahead of 40 corporates. Nielsen’s Corporate Image Monitor measures the reputation of the 40 leading companies in India across sectors and serves as an important indicator of the strength of the corporate brand”, they state. The companies were covered in the survey, using the Economic Times 500 and the Business Today 500 ranking of listed companies.

Nielsen is among the most renowned global market research companies, headquartered in New York and operating in 60 countries.

In sum

With the best of talent in our midst, our strong Balance Sheets, robust cash flows, the eye on the customer and unrelenting focus on delivering shareholder value, we are confident of the future. The year ahead I believe will be the one when we consolidate and reinforce what we have achieved in recent years. And see the fruition of the several projects and initiatives in each of the businesses that are currently underway.



KUMAR MANGALAM BIRLA
Chairman, Aditya Birla Group

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Dear Shareholders,

It is my pleasure to inform you that post the Scheme of Demerger becoming effective on 8th April, 2013, your company acquired the management control of the 'Pantaloons Fashion business'.

Pantaloons is now an integral part of the Aditya Birla Group, a USD 40 billion Indian multinational. The Group's presence in the retailing business is one of the largest in India addressing almost 70% of the organized retail market. The Group is among the leaders in Small Box branded apparel retailing through 'Madura Fashion & Lifestyle', Big Box fashion retailing through 'Pantaloons' and Food & Grocery retailing through 'More' Supermarkets and Hypermarkets respectively.

During fiscal 2013-14, India's GDP growth slowed down largely on account of high inflation and interest rates which affected consumption and investment. This had a bearing on the Apparel and Fashion retailing due to subdued consumer sentiments.

However, growth prospects of the organised Apparel and Fashion retail market remain bright, driven by the following factors:

- growing middle class population (15% in 2008 expected to reach 46% in 2030);
- large young population with median age at 27 years;
- rising disposable income;
- increasing urbanization;
- growing number of working women and
- changing consumer preferences towards branded products and a better shopping experience.

Pantaloons is uniquely positioned to capture this growth opportunity and will invest accordingly.

Pantaloons is among the top three large format fashion retailers in India. With a strong focus on 'Fresh Fashion', 'Indian-ness' and 'Customer Centricity', Pantaloons has emerged as a strong brand in the fashion industry over the past two decades. Our target audience is the aspiring Indian who wants to move up the ladder or is entering the world of brands and fashion while still looking for a Value-for-Money (VFM) proposition. While continuing with VFM, Pantaloons offers exclusive brands, fashionable and contemporary merchandise and quality retail ambience.

Fiscal 2013-14, being a transition year for Pantaloons, brought its own challenges. I am pleased to inform you that your Company has navigated through the transition period effectively and is laying down a strong foundation for the future.

The key initiatives and highlights during the year are:

- **Strengthened the Organization** by adding key executives across critical functions viz., design, merchandise, finance, human resource etc;
- Launched 14 new stores to **expand customer reach** to 81 Pantaloons stores. Our target is to reach 100 stores mark in fiscal 2014-15;
- Effected 22 **stores refurbishments and** 100% store re-layouts of 1.5 million square feet of retail space to drive walk-ins and like-to-like stores sales growth;
- Successfully **launched 3 new brands** viz., Byford, Alto Moda and Chirpie Pie and started retailing Madura brands in Pantaloons stores. The response has been impressive;
- Created **new merchandise** for Spring Summer season 2014 (SS14) and Autumn Winter season 2014 (AW14), to be sold in fiscal 2014-15;
- Created an **entirely new vendor network** for SS14 and AW 14 for timely delivery and achieving quality standards and cost targets;
- Initiated **transition to a new IT system.**

These initiatives are aimed at making Pantaloons a sustainable and future ready organisation. Hence while the initial gestating impact has strained the bottom-line, the real benefit will reflect in the years to come.

In fiscal 2013-14, your Company attained revenue of Rs. 1,661 Crore. Annual sales growth was muted mainly on account of merchandise availability issues as well as weak consumer sentiments. Gross margin improved, driven by better product and brand mix. EBIDTA at Rs. 39 Crore was affected by low sales growth, as well as increase in people costs to rebuild the organisation.

Going forward, your Company has laid out following action plan to drive its vision of fortifying its market position as one of the biggest fashion retailers in India.

- **Scaling up the retail presence** to drive top-line growth;
- **Improving productivity** of existing stores to boost like to like sales growth;
- **Enhancing the fashion quotient** of the merchandise to appeal to a wider range of customers;
- Creating **exclusive destination brands** to offer better choice to the customers;
- **Building a strong vendor base** to optimise costs and to improve delivery time & quality.

Strengthening of the balance sheet will also be a key focus area.

I take this opportunity to thank all the stakeholders of the Company, i.e. our employees, shareholders and all our business partners for their commitment and contribution at all times. I look forward for their continued support in the future.

With best wishes,



Pranab Barua

Managing Director

