



PROVOGUE

E P I C F A S H I O N

ANNUAL REPORT 2016



VISION

“ To be india’s leading Fashion Lifestyle Label through an innovation-led approach to cutting edge design and quality within inspiring retail formats

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Dinesh Arya	Chairman and Independent Director
Mr. Hetal Hakani	Independent Director
Ms. Gauri Pote	Woman Independent Director (w.e.f. 30 th September 2015)
Mr. Nikhil Chaturvedi	Managing Director
Mr. Deep Gupta	Whole Time Director & CFO
Mr. Akhil Chaturvedi	Deputy Managing Director
Mr. Salil Chaturvedi	Non-executive Director

COMPANY SECRETARY

Mr. Vishant Shetty (w.e.f. 20th January 2016)

STATUTORY AUDITORS

M/s Ajay Shobha & Co.

Chartered Accountant

A-701, La Chappelle, Evershine Nagar

Malad (West), Mumbai 400064

BANKERS

Andhra Bank | Corporation Bank | Central Bank of India |

Punjab National Bank | Bank of India | IndusInd Bank |

Small Industrial Development Bank of India

REGISTERED OFFICE

Provogue (India) Limited

105/106, Provogue House,

Off New Link Road, Andheri (West), Mumbai - 400053

Phone: 022-30680560, **Fax:** 022-30680570

Email ID: investorservice@provogue.com

Website: www.provogue.com

CIN: L18101MH1997PLC111924

REGISTRAR AND SHARE TRANSFER AGENT

Link Intime India Private Limited

C/13, Pannalal Silk Mills Compound,

L.B.S. Marg, Bhandup (W),

Mumbai - 400078

Phone: 022-25963838

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders

Welcome to the Provogue Annual Report for financial year 2016. It's been the toughest year in our history and we had to take certain steps to ensure that our brand remained strong and our balance sheet was protected from a series of market forces and unexpected events.

We are still reeling from the effects of the fire in our Daman factory that wiped out our 2014 fashion collection, and which had such a negative impact on our market share in 2014-15. Fortunately with the support of our vendor base we've been able to rebuild the supply chain and get ready again for the future.

The fashion market in India has changed significantly in the past couple of years. The advent of online e-commerce has created new challenges for the brick-and-mortar retailers as deep discounts are squeezing margins across most retail categories, fashion being no exception. In addition, with the global economy struggling for growth, many international brands have entered the market looking for market shares to prop up their portfolios.

Therefore we are realigning the business into an omni-channel model and are repositioning the brand to a youth-focused casualwear platform that addresses the main target consumer of modern India. With 72% of the population under 35 and disposable incomes rising year-on-year, the latent demand for branded fashion remains strong. Fortunately we have one of the most powerful youth-centric brands in the country and this will be our key to ensuring a strong future.

Business Strategy 2016

Against these market conditions we had to take steps to protect our balance sheet and prepare for the future. Thanks to the support of our bankers and our shareholders we were able to successfully execute an SDR scheme that restores a strong financial foundation from which we can now build.

We are working on new fast-to-market mechanisms that reduce stocks in the system and release working capital

for growth. And we are increasing our focus online to broaden the Provogue offer and become available to potential customers in every corner of the country.

We have also realigned our operations into distinct stand-alone business units that are managed by dedicated teams motivated to optimise results independently in their own businesses.

We now operate under 4 business units as follows:

Fashion and Lifestyle: New occasion-centric collections have been developed that are casualwear-centric and meet the needs of the youth market.

FMCG Personal Care: The Unisex Deodorants range will be supported by other Personal Grooming ranges in Skin Care, Face & Body Wash, Shaving Toiletries and Hair Care.

Institutional Sales: Demand for Provogue Gifting products from Corporates and Institutions remains strong and we continue to see high growth year-on-year.

Provogue.com: We are ramping up our online presence to build a contemporary omni-channel retail business. We know that we must build this platform for a robust future.

Going Forward

The Provogue brand remains our major asset and the key to long-term value creation. We have multiple opportunities available to us and we continue to explore the best ways to do this.

I want to thank our employees, our bankers, our shareholders, our business partners, vendors and suppliers for their support. Together – as one - we will surge ahead once again.

Sincerely,

Nikhil Chaturvedi
Managing Director

“

It's been a
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MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW

The Indian economy witnessed a challenging phase in FY2013 and FY2014, as it struggled with a slowdown, policy in action, double-digit inflation and an unsupportive external environment. Widening twin deficits – current account deficit and fiscal deficit, along with dwindling foreign exchange reserves, deteriorated the situation further. However, the macro-economic environment improved significantly in the following year. The Indian economy grew by 7.4% in FY2015, as compared to 5.1% in FY2013 and 6.9% in FY2014.

FY2015 was a significant year with leadership changes at the Centre.

The NDA government coming into power in May 2014 led to a revival in India's economy, which is now firmly on the growth track. On the positive side, India continued its growth charge as its Gross Domestic Product (GDP) grew by 7.6% in FY2016, versus 7.4% in FY2015. Inflation further softened to 4.83% in March 2016, from 6.8% in FY2015 and 9.5% in FY2014, primarily driven by falling commodity prices. Declining crude oil prices and the fiscal discipline of the Indian Government helped in shoring up of the twin deficits – fiscal deficit and current account deficit. Strong inflows in Foreign Direct Investment (FDI) helped lift foreign exchange reserves by ~US\$ 47 billion since the end of March 2014, to ~US\$ 350 billion at the end of December 2015. However, two successive under-performing monsoons led to significant pain in the rural economy. Nevertheless, with the projection of a normal monsoon in 2016, the outlook for FY2017 is positive, with economic growth expected to sustain at 7.5%, as per the International Monetary Fund (IMF). This will make India the fastest growing major economy in FY2016-17, at a time when global growth is facing increasing downside risks, thereby placing India in a sweet spot in the global economic landscape. (IMF Report)

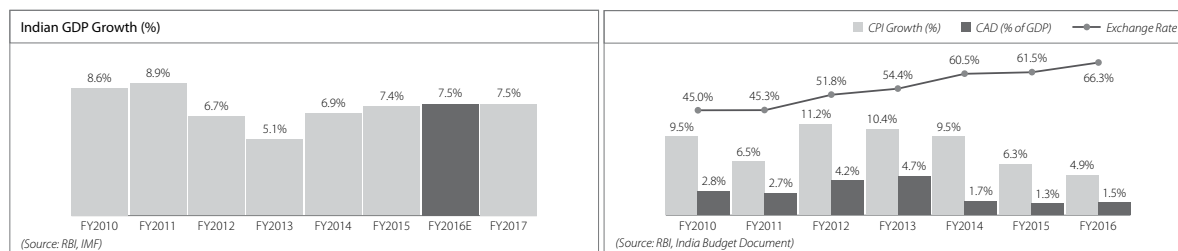
RETAIL INDUSTRY OVERVIEW

The Indian Retail sector is currently estimated to be around US \$600 billion, growing at ~8% CAGR over the last 15 years (Source: IBEF). However, in recent years the pace of growth in the industry has fastened. The retail sector registered an annual growth of ~14% since 2009 (Source: IBEF & Crisil). Retail demand in India witnessed a stupendous growth, driven by urbanisation, an expanding middle-class and the growing number of women entering the workforce. This is also supported by factors such as improving demographics; rising disposable incomes; large middle-class households with significant increase in incomes; large and growing working population; increase in rural consumption; expansion of organised retail in tier 2 and 3 cities and changing consumer habits. The Indian Retail sector is seen touching ~ US\$ 948 billion by FY2019, recording ~12% CAGR (Source: KPMG), providing a wide window of opportunity for domestic and international players to grow in the next five to ten years.

Growth of Organized Retail – Rising Penetration Across India

Organised retail has been growing at a faster rate than the overall retail industry, driven by increasing incomes, changing aspirations, improving brand awareness, urbanisation and rising exposure to global trends and international brands. The industry has grown at CAGR of ~20% over the last 6 years, compared to the overall CAGR of ~14% recorded by the retail sector. A prime reason for this has been the rising penetration of organised retail not only in metros and tier 1 cities, but also in tier 2 & 3 cities. The share of "Organized Retail" has risen sharply from 5.8% in 2009 to ~8% in 2015. This is expected to further rise to 10% by FY2019, resulting in a CAGR of ~19% with the organised retail industry, reaching a market size of ~US\$ 94 billion, doubling from ~ US\$ 47 billion in 2015. (Source: KPMG)

Improving Macroeconomic Environment – Key Indicators



Key Growth Drivers Of Retail Industry In India

Rural Consumers

Rural markets constitute ~70% of the total population base, but currently account for only 40% of the total consumption in India, due to minimal penetration of organised retailing. Several national and international retail and FMCG players have been planning to explore these untapped markets and are localising their products with regard to price points, packaging, stock-keeping units (SKU) size and promotions.

Opportunity Size & Key Retail Segments

Potential Consumer Base: 833 Million

- Personal Care; Hair Care, Teeth Care
- CDIT; Selected Electronics
- Food & Beverages

Working Population

India's population in the working age group of 15 years to 54 years is the largest spender on retail. As per the census of 2011, more than 50% of India's total population falls under this category, indicating the significant influence wielded by this segment on consumer spending.

Opportunity Size & Key Retail Segments

Potential Consumer Base: 600 Million

- Packaged Foods & Beverages
- Luxury Products, Consumer Electronics
- Indentation, Personal Care, Beauty & Wellness

Youth

As per the census of 2011, India has about 500 million people under the age of 25 years. Young Indians are driving purchases in categories such as mobile phones, fashion, accessories, food and beverage and quick service restaurants. They are more willing to experiment and change habits. Young Indians have access to more money than before, driving independence, aspirations and demand for products.

Opportunity Size & Key Retail Segments

Potential Consumer Base: 500 Million

- F&B (Packaged Food Products)
- Apparels & Accessories
- Mobile, Personal Care & Affordable Luxury

Middle Income Households

India has a large and aspirational middle-class of 75 million households or 300 million individuals. Over the years, the disposable incomes of middle-class Indian

consumers have increased significantly, leading to a substantial change in their spending habits.

Opportunity Size & Key Retail Segments

Potential Consumer Base: 500 Million

- F&B (Packaged Food Products)
- Apparels & Accessories
- Mobile, Personal Care & Affordable Luxury

Growing Number of Millionaires

The astounding rise in the number of millionaires in India is driving indulgence in luxury products such as fine wines, Scotch whiskies, expensive handbags and branded jewellery and accessories. According to the World Wealth Report 2014, the total number of millionaires in India (with investible assets, excluding main residence and consumer durables, of more than

Opportunity Size & Key Retail Segments

Potential consumer Base: 1,56,000 (USD Millionaires)

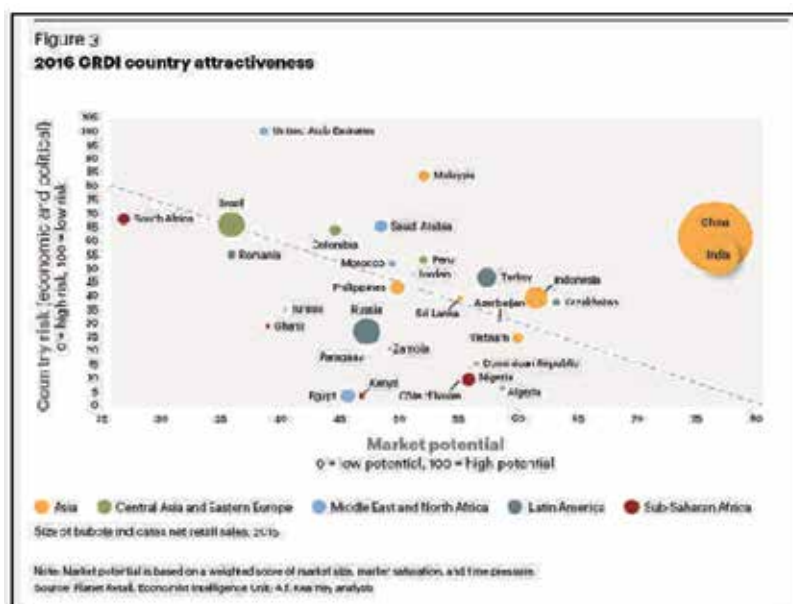
- Luxury Consumer Electronics
- Home Furnishings
- Luxury Products

USD 1 million) grew by ~51%, the second fastest in the Asia-Pacific Region.

Indian Retail – In a Growth Sweet Spot

Strong GDP growth, improved ease of Doing Business and better clarity regarding FDI regulations has significantly improved the conditions for international and domestic brands to expand their presence in India and benefit from the rising opportunity offered by the Indian retail market. In fact, India has been ranked 2nd among developing nations in the AT Kearney Global Retail Development Index Report, 2016. In addition, steps taken by the current government such as relaxing several key FDI regulations in single brand retail and opening up of FDI in multi-brand processed food retail (as long as the food is sourced and processed in India) has encouraged several international brands to make their debut in India. This will also encourage many other international brands such as Apple, Xiaomi and Walmart, to expand their presence and footprint in the country. Overall, the Indian Retail Market is supported by its enormous potential, improving regulatory environment and favourable demographics and is expected to continue growing in the longer-term. It appears to be in a growth sweet spot in an era where many advanced and developing economies are struggling for growth.

The chart below highlights the attractiveness of the Indian market versus 30 other developing countries around the world:



interest. The Company makes all round efforts in its pursuit to enhance market share and enhance shareholders value in the industry.

Provogue Operations

Provogue commenced operations as a manufacturer and retailer of apparel under the brand Provogue in 1997. Over time, the brand has gained strong recognition and has grown to become a leading retailer of fashion apparel and accessories for men and women. Projecting itself as a customer-first company, Provogue constantly strives to provide the Indian consumer complete satisfaction when it comes to their fashion retail needs.

TEXTILE AND FASHION INDUSTRY OVERVIEW

India's Textile and Fashion Industry

India is the world's second largest producer of textiles and garments and accounts for 63 per cent of the market share of textiles and garments. The textile and apparel industry can be broadly divided into two segments, yarn & fibre and processed fabrics & apparel. India has the highest loom capacity (including hand looms) with 63 per cent of the world's market share. In addition, India accounts for about 14 per cent of the world's production of textile fibres and yarns (largest producer of jute, second largest producer of silk and cotton; and third largest in cellulosic fibre).

The domestic textile and apparel industry in India is estimated to reach US\$ 100 billion by 2017 and US\$ 141 billion by 2021 from US\$ 67 billion in 2014. The size of India's textile market in 2014 was US\$ 99 billion; the market is expected to expand at a compound annual growth rate (CAGR) of 9.6 per cent over 2014–23 to US\$ 226 billion as per estimates.

Exports have been a core feature of India's textile and apparel sector and its export is expected to increase to US\$ 82 billion by 2021 from US\$ 40 billion in 2014. Demand for apparel is likely to rise to US\$ 122 billion by 2017 from US\$ 65 billion in FY11.

BUSINESS OVERVIEW

Business Policy

Provogue maintains generally accepted standards of corporate conduct towards its employees, consumers and society at large. We believe that the policies must balance individual interest with corporate goals and operate within the accepted norms of propriety, equity and sense of justice. The Company believes that it is rewarding to be better managed and governed and to align and intensify its activities with the national

Provogue retails its products through exclusive Provogue Stores and by opening Shop-in-Shop outlets in National Chain Stores (NCS) and Multi Brand Outlets (MBO). As of March 2014, Provogue fashions and accessories were available in 92 doors across the country.

Internal Control System and Adequacies

The Company has adequate internal control procedures commensurate with the size and nature of its businesses. The internal control system is supplemented by extensive internal audits, regular reviews by the management and well-documented policies and guidelines to ensure reliability of all records to prepare financial statements and other data. Moreover, the Company continuously upgrades these systems in line with the best accounting practices. The Company has independent audit systems to monitor the entire operations and the Audit Committee of the Board regularly review the findings and recommendations of internal audits.

OPPORTUNITIES AND THREATS

Opportunities

The retail sector in India is today one of the fastest growing business segments in the country, comprising over 13 million outlets and employing over 18 million people. Rise in disposable income, changing lifestyles and favourable demographics are the key factors driving this growth.

With organised retail and e-commerce expected to grow at a rate of over 20% per annum, India's new consumption story continues to provide the Company immense opportunities. Our strong brand positioning further helps us to leverage this position.

Large investments in new retail concepts are changing the rapidly evolving organized retail landscape in

India. This is not just restricted to the metros but has also spread to Tier-2 and Tier-3 cities. Provogue is expected to benefit significantly from a combination of the growth in retail and as the rise of the consuming class in Tier-2 and Tier-3 cities continues.

Threats

Apart from ever moving fashion trends and the emergence of new e-commerce players, demand for talent may result in increasing attrition of employees. The Company has adopted policies that will attract and retain the best talent.

RISK MANAGEMENT

Economic Risk

A slowdown in economic growth in India could cause the business to suffer as the Company's performance is highly dependent on the growth of the economy, which in turn leads to a rise in disposable incomes and resultant consumption.

Favourable population growth, a large pool of highly skilled workers, greater integration with the world economy and increasing domestic and foreign investment suggest that the Indian economy will continue its growth momentum for several years to come.

Business Risk

The Company operates in upper market lifestyle products associated with high advertisement costs and risk related to brand management. The inventory cost related to lifestyle garments is traditionally a matter of risk, however through effective inventory management the Company has reduced the risk to a minimal level.

The Company has a low debt equity ratio and is well placed to take care of its borrowings. The foreign exchange transactions of the Company are suitably covered and there are no materially significant exchange rate risks associated with international trade.

Fashion Risk

This risk would arise through the Company's inability to set trends and understand changing fashion styles, which can lead to lower sales and profitability.

However, it is the Company's constant endeavour to be closer to and understand the customer through its diversified retail outlets. We also have a talented design team in place that is in step with the latest national and international fashion trends and ensures that they are reflected in designs for our customers. Though the Company has its mitigation in place, fashion risk cannot be completely eliminated.

Brand Risk

Any event that tarnishes the image of the brand can lower the value of the brand and adversely affect the Company's business.

The Company's business model revolves around its brands and, therefore, the Company ensures that none of the characteristics and attributes of the brand are compromised within the Company's communication to its customers. The Company also gives wide focus on customer preferences and conducts extensive in-house research to maintain top-of-the-mind recall with the customer base with respect to the brand. The Company believes that it has an appropriate mitigation plan in place to handle brand risk.

HUMAN RESOURCES

The Company regards its human resources as amongst its most valuable assets and proactively reviews policies and processes by creating a work environment that encourages initiative, provides challenges and opportunities and recognizes the performance and potentials of its employees.

Focused and organized investment in training and development, continuance of productivity improvement efforts and an employee satisfaction survey are some of the highlights of our ongoing HR activities.

Industrial relations across different locations of the Company were cordial during the year and the Company continues to maintain its focus on human resources development. The total number of employees of the Company as on 31st March 2015 stood at 193.

OUTLOOK

A strong brand image, vertical integration in captive manufacturing facilities and diversifying into new retail formats and channels position the Company as an integrated player in the growing domestic consumption story. With the Indian economy on a firm foundation and the organized retail industry surging, the Company is confident that it is well placed to take advantage of the growth opportunities in the coming years.

FINANCIAL PERFORMANCE

Revenue, EBIDTA and Profit after tax

The Company recorded total revenue of Rs. 548.72 Crore against last year's revenue of Rs. 621.78 Crore, which represents degrowth of 11.75 % over the previous year.

Cautionary Statement

This report contains forward-looking statements based on certain assumptions and expectations of future events. Actual performance, results or achievements may differ from those expressed or implied in any such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking