



PROVOGUE

ANNUAL REPORT 2017



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
Mr. Nikhil Chaturvedi	Managing Director
Mr. Deep Gupta	Whole Time Director & Chief Financial Officer (CFO)
Mr. Akhil Chaturvedi	Whole Time Director
Mr. Salil Chaturvedi	Non-executive Director

COMPANY SECRETARY & COMPLIANCE OFFICER

Mr. Vishant Shetty

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

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CIN: L18101MH1997PLC111924

ISIN: INE968G01033

GSTIN: 27AABCA8524F1ZU

REGISTRAR AND SHARE TRANSFER AGENT

Link Intime India Private Limited

Link Intime India Private Limited

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LETTER TO SHAREHOLDERS

It's been another challenging year but thanks to the support of our stakeholders and the successful launch of new ranges we've been able to build a solid path for the future

Dear Fellow Shareholders

Welcome to this year's annual review of Provogue (India) Limited. It's been another challenging year due to strong competition from deep discount e-commerce players, new international entrants and the short term effects of demonetisation, which had curtailed general retail demand in the second half.

We've had to take certain steps to reduce the footprint of our retail stores, in order financially strengthen our offline platform, while at the same time bolstering our position in online and other channels.

To ensure that our brand remains strong we've launched a new youth collection "Provogue Sport", a casualwear-centric line that meets the needs of the youth market and maintains our strong connect with India's contemporary consumers.

Frankly, we are still reeling from the effects of the fire in our Daman factory in 2014, and which had such a negative impact on our market share, but fortunately with the support of our vendor base we have a strong supply chain in place geared for the future.

We continue to realign the business into an omni-channel model and are positioning the brand firmly on a youth-focused casualwear platform. 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

We've put in place new fast-to-market supply 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.

The strength of our brand has allowed us to develop a commanding position in the Corporate and Institutional sales segment and performance here continues to exceed expectations year on year.

Opportunities for brand extensions continue to be presented and we are exploring select areas for both new product categories across both online and offline distribution channels.

Going Forward

The Provogue brand remains our major asset and the key to long-term value creation. The investment we made in the brand since our inception continues to pay off and will be key to building a robust future for the Company.

I'm grateful for the continued support of our bankers and our shareholders that is enabling us to weather the current business cycles in fashion and retail. I want to also thank our loyal employees, our business partners and suppliers for their support and I'm confident we will come through this period and build a sound future together.

Sincerely,

Nikhil Chaturvedi
Managing Director

“

It's been another challenging year but thanks to the support of our bankers and our shareholders we've been able to weather the storm and course correct for the future ”



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MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW

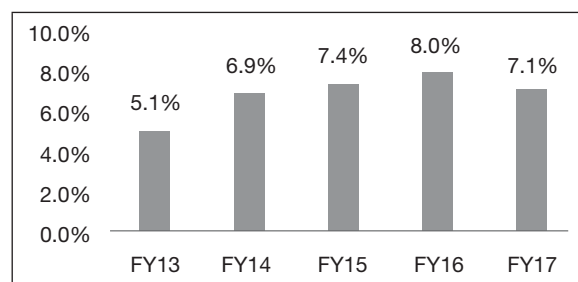
The Indian economy witnessed robust growth and remains a bright spot in the global landscape. The decline of global oil prices has enhanced economic activity in India, further improved the external current account and fiscal positions, and helped to lower inflation. In addition, continued fiscal consolidation, resulting from government deficits and an anti-inflationary monetary policy stance, has helped foster macroeconomic stability.

India's economy grew by 7.1% in fiscal 2017, compared to the growth rate of 8% in FY 2016. India's overall outlook remains positive, although growth slowed temporarily as a result of disruptions to consumption and business activity from the recent withdrawal of high-denomination banknotes from circulation. As India's economy is dependent upon cash to a large extent, the economic activity within the country slowed down in the third quarter.

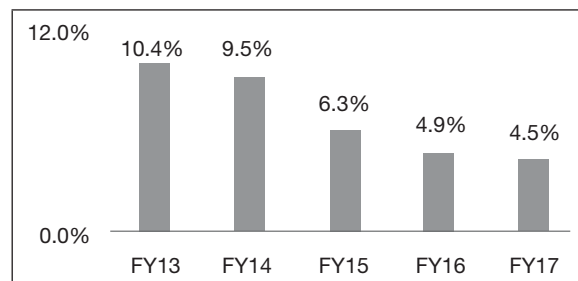
After weathering demonetisation in FY 2017, the Indian economy is seeing another paradigm shift from the implementation of the Goods and Services Tax (GST), which became effective in July FY2018. India's GVA (Gross Value Added) growth is expected to expand from 6.7% in FY 2017 and increase in the range of 7.4% in FY 2018 (RBI estimates) due to accelerated pace of remonetisation, stepping up capital expenditure, the resurgence of the rural economy, easing of crude oil prices, a normal monsoon and the successful roll-out of GST.

Inflation, both Wholesale Price Index (WPI) and Consumer Price Index (CPI), remained under control throughout FY 2017. The CPI inflation declined significantly from a high of 9.9% in FY 2013 to 4.5% in FY 2017.

GDP Growth Rate (%)



Inflation:



TEXTILE AND FASHION INDUSTRY OVERVIEW

India's Textile and Fashion Industry

The textile and apparel industry can be broadly divided into two segments - yarn and fibre, and processed fabrics and apparel. India accounts for approximately 14 per cent of the world's production of textile fibres and yarns. India has the highest loom capacity (including hand looms) with 63 per cent of the world's market share.

The domestic textile and apparel industry in India is estimated to reach US\$ 141 billion by 2021 from US\$ 67 billion in 2014. Increased penetration of organised retail, favourable demographics, and rising income levels are likely to drive demand for textiles. India is the world's second largest exporter of textiles and clothing.

Textile and apparel exports from India are expected to increase to US\$ 82 billion by 2021. Readymade garments remain the largest contributor to total textile and apparel exports from India, contributing 40 per cent to total textile and apparel trade. Cotton and man-made textiles were the other major contributors with shares of 31 per cent and 16 per cent, respectively.

Rising government focus and favourable policies is leading to growth in the textiles and clothing industry. The Ministry of Textiles is encouraging investments through increasing focus on schemes such as Technology Upgradation Fund Scheme (TUFS). To promote apparel exports, 12 locations have been approved by the government to set up apparel parks for exports. As per the 12th Five Year Plan, the Government plans to provide a budgetary support of US\$ 4.25 billion to textiles. Free trade with ASEAN

Fashion Industry Review

In spite of its overwhelming presence in newspapers, magazines and on television, the fashion industry in India is young. The first professional fashion show was held in this country just over 20 years ago. Having said this demand for contemporary fashion in India continues to outpace overall economic growth and reaches across markets from major urban metros to Tier 2 & Tier 3 cities and even now into the heart of rural India.

The Indian fashion industry is expected to reach US\$ 400 million in a couple of years with vigorous growth of over 10 per cent year-on-year. The reason India's fashion industry will have a bright future is that it has a large young population. This, combined with increasing disposable incomes, has led to an increase in consumerism. So, those who can afford are looking for high quality and originality. They love brand names. Hence, we can say that the future of fashion industry in India looks promising.

Textile Sector Review

India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. Even today, textiles sector is one of the largest contributors to India's exports with approximately 15 per cent of total exports. The textiles industry is also labour intensive and is one of the largest employers. The textile industry has two broad segments. First, the unorganised sector consists of handloom, handicrafts and sericulture, which are operated on a small scale and through traditional tools and methods. The second is the organised sector consisting of spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale.

The textile industry employs about 51 million people directly and 68 million people indirectly. India's overall textile exports during FY 2015-16 stood at US\$ 40 billion.

The Indian textiles industry is extremely varied, with the hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.

The Indian textiles industry, currently estimated at around US\$ 120 billion, is expected to reach US\$ 230 billion by 2020. The Indian Textile Industry contributes approximately 4 per cent to India's Gross Domestic Product (GDP), and 14 per cent to overall Index of Industrial Production (IIP).

The textiles sector has witnessed a spurt in investment during the last five years. The industry (including dyed and printed) attracted Foreign Direct Investment (FDI) worth US\$ 2.47 billion during April 2000 to March 2017.

Government Initiatives

The Indian government has come up with a number of export promotion policies for the textiles sector. It has also allowed 100 per cent FDI in the Indian textiles sector under the automatic route. Some of initiatives taken by the government to further promote the industry are as under:

- The Government of India plans to introduce a mega package for the powerloom sector, which will include social welfare schemes, insurance cover, cluster development, and upgradation of obsolete looms, along with tax benefits and marketing support, which is expected to improve the status of power loom weavers in the country.
- The Ministry of Textiles has signed memorandum of understanding (MoU) with 20 e-commerce companies, aimed at providing a platform to artisans and weavers in different handloom and handicraft clusters across the country for selling their products directly to the consumer.
- Memorandum of Understanding (MoU) worth ₹ 8,835 crore (US\$ 1.3 billion) in areas such as

textile parks, textile processing, machinery, carpet development and others, were signed during the Vibrant Gujarat 2017 Summit.

- The Government of India has announced a slew of labour-friendly reforms aimed at generating around 11.1 million jobs in apparel and made-ups sectors, and increasing textile exports to US\$ 32.8 billion and investment of ₹ 80,630 crore (US\$ 12.09 billion) in the next three years.

Textile Road Ahead

The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international into the Indian market. The apparel market in India is estimated to grow at a Compound Annual Growth Rate (CAGR) of 11.8 per cent to reach US\$ 180 billion by 2025.

[References: Ministry of Textiles, Indian Textile Journal, Department of Industrial Policy and Promotion, Press Information Bureau, Union Budget 2017-18]

RETAIL INDUSTRY OVERVIEW

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment.

The Retail segment has seen consistent growth in last few years due to rising disposable income, increasing urbanisation, burgeoning middle class, growing workforce - especially due to increasing women's participation and changing spending habits of the young generation. India's retail market is expected to nearly double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015 (Source: IBEF).

Within the retail space, the organised sector is increasing its market share in the overall pie, fueled further by the high growth online market place. International players are vying for market share in India due to its growing consumption story and strong demand for brands from younger consumers.

Growth of Organised Retail – Rising Penetration Across India

India's young population, increasing affluence, changing lifestyle, their attitude towards spending and the increasing availability of organised retail in smaller towns, is expected to spur consumption further and drive growth of the retail market over the next 10 years (according to a report titled "The Indian Retail Medley" by Confederation of Indian Industry (CII) and Wazir Advisors). In this period, organised retail is expected to grow 7 times and online retail 26 times. However, the unorganised retail segment is still expected to be prolific even by then, and combined, a total of 10-12 million new jobs (direct and indirect) are expected to be created.

In summary, the organised segment is expected to grow at a compounded annual growth rate (CAGR) of 22%, much faster than traditional retail, which is expected to grow at a CAGR of 13%. By 2025 the organised sector is expected to reach about 15% share of the total retail market, up from 8% in 2016.

Foreign Brands entering India

India stands as one of the larger contributors to the global economy. The Government of India (GOI) has been consistent in supporting market development, be it through trade liberalisation, tax ratification or open approach towards foreign investments. With the rollout of the recent Union Budget, India has now allowed 100 percent FDI (Foreign Direct Investment) in single brand retailing. This is expected to help fuel growth opportunities for both foreign retailers as well as the domestic players.

India is among the largest markets in the world in terms of its sheer size, which accounts for an approximate 14.2% of the overall global population. It is also one of the most promising and progressively growing economies in the world, and houses sizeable populations with considerable spending power. Hence, with the increasing globalisation and international trade, the nation has emerged as a land of opportunities for numerous global brands.

Opportunities in the retail sector

Rural and semi-urban opportunities: India is the fifth largest preferred retail investment destination globally. The sector is experiencing exponential growth, with retail developments not just in major cities and metros, but also in Tier-II and Tier-III cities. FMCG players are putting more focus on the rural market as it constitutes over 33% of FMCG consumer base in India. As investment in infrastructure increases, retailers would be able to increase their access to the high-growth potential in the rural and semi-urban markets.

Private Label opportunities: The organised Indian retail industry has begun experiencing an increased level of activity in the private label space. Private label strategy is likely to play a dominant role going forward. Its share in the US and the UK markets is 19% and 39%, respectively, while its share in India is currently only 6%. Further, growth of online retail is also augmenting the growth of private label brand in India.

Sourcing base: India's price competitiveness is attracting large retail players to set up sourcing bases in India. Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India. They are also moving away from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices in India.

Luxury retailing: Luxury retailing is gaining importance in India, with the Indian consumer increasingly ready to spend on luxury items. The domestic luxury market is estimated around US\$ 1.16 billion, with yearly growth rate of the luxury market at 13%. This pace of growth is expected to make India the 12th largest luxury retail market in the world by 2020.

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 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.

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 well as through its ecommerce portal, Provogue.com.

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 14 million outlets and employing over 20 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 2017 stood at 148.

OUTLOOK

A strong brand image 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

Standalone

The Company recorded total revenue of ₹ **21,852.08 lakhs** against last year's revenue of ₹ **42,932.30**. The loss after tax was ₹ **17,980.73 lakhs** as against a loss of ₹ **19,410.29 lakhs** in the previous year.

Consolidated

The Company recorded total revenue of ₹ **27,130.02 lakhs** against last year's revenue of ₹ **53,062.93**. The loss after tax was ₹ **19,721.73 lakhs** as against a loss of ₹ **20,075.14 lakhs** in the previous year.

Cautionary Statement

This document contains statements about expected future events, financial and operating results of PROVOGUE (INDIA) LIMITED, which are forward-looking. By their nature, forward looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of PROVOGUE (INDIA) LIMITED's Annual Report, 2016-17.