

## REPORT OF THE BOARD OF DIRECTORS

(INCLUDING MANAGEMENT DISCUSSION AND ANALYSIS)

Dear Members,

Your Company's directors hereby present the Twelfth Annual Report of the Company together with the audited financial statements of the Company for the financial year ended March 31, 2019 (*"year under review/ FY 2019"*).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Overview

The global economic outlook has weakened as compared to the forecast in 2017. The 3.6% growth in 2018 was due to significantly weaker performance in some economies in the second half of 2018. International Monetary Fund (IMF) projects the global economy growth to decelerate to 3.3% in 2019 and return to 3.6% in 2020. The decline in forecast is majorly due to US-China trade tensions, tighter credit policies in China, macro-economic stress in Argentina and Turkey and financial tightening alongside the normalisation of monetary policy in the larger advanced economies.

IMF, however, expects a strong growth in Indian economy while the rest of the world reels under the effects of high trade uncertainty, which threatens to disrupt global supply chains. The Indian economy is estimated to recover from mild slowdown experienced in 2018 to grow by 7.3% in 2019 and 7.5% in 2020, supported by continued recovery of investment. The future forecast of low oil prices continuing has eased inflationary pressures, causing the RBI to ease the pace of monetary tightening.

#### Industry structure and developments

##### Global apparel market

Global apparel market is close to 2.3% <sup>(1)</sup> of world GDP with Europe, USA and China being the largest markets, expected to grow at a compound annual growth rate (CAGR) of 5% by the year 2025. With the shift of economic growth from mature regions in West to emerging markets in South and East Asia, more than half of apparel and footwear sales will originate outside of traditional markets of Europe and North America. This hints at the large opportunity available in these regions, which local and global apparel players will chase in the coming years.

In 2017, India and China collectively accounted for a market of ~ 16% with 36% of the world population. Currently, India and China are expected to grow at a higher steady CAGR of 12% and 10% respectively vis-à-vis overall world average of 5%. The growth in apparel markets in these countries is being driven by continued high economic growth and rise in per capita income. As a result, China will be the largest apparel consumer in the world by 2025 while India will topple Japan to become the fourth largest.

##### Global consumer trends

As customers globally embrace multiple modes of shopping, consumer footfall to physical stores continues to remain under pressure. This is driving most of the brands and retailers across market segments to develop an omni-channel play to address customers across channels. In the last few years, social media has played a key role in shaping the conversation around fashion and will continue to make fashion more democratic, accessible and aligned with the aspirations of evolving consumers.

At the back end, speed in production will be increasingly more critical to every fashion label and retailer. With new technologies such as robotics and 3D printing, companies will be able to deal with time pressures and offer customers greater personalisation at the same time. Taking cue from some of the widely successful fast fashion models, several apparel players are moving to digitise their supply chain for speed and flexibility.

Source:

(1) Basis industry and analyst reports

The trend of digital adoption by consumers is now mainstream and it will continue to be the biggest driver of change in the global fashion industry. The consumer's interaction with fashion is changing fast, with discovery moving online. Digital media and content now influences the way consumers perceive fashion trends and how they transact. This creates a need for the fashion brands to create strong online presence to assist and guide the customers in their non-linear exploration and consumption patterns.

### Indian market

The apparel market for India is expected to grow at CAGR of 12% <sup>(1)</sup> during the period 2017 to 2025. This growth is backed by greater purchasing power leading to higher discretionary spends; majorly riding on increase in youth population, shift to aspirational buying, higher brand affinity, urbanisation and increased penetration of technology.

Similarly, from the supply side, the factors driving growth are innovation in retail experience with digital marketing displays and improved check out mechanisms and investment by large organised players. Innovation on products and services has benefitted the consumers in improved product quality, product availability, competitive pricing and pleasant shopping experience. These changes have been driving growth for the organised apparel business in our country, wherein still majority of the market remains unorganised.

The share of organised retailing in the apparel space is expected to increase from 23% in FY 2017 to 28% <sup>(1)</sup> by FY 2020. This growth would be aided by improved investments, new stores roll out and increased aggression by online players. Increased penetration of organised players in tier 2 and 3 cities, along with the higher disposable income levels are expected to contribute to the growth story. This also shows the magnitude of the opportunity available for the organised apparel and retail players in India.

While the current share of women's wear in the overall apparel market is 37% <sup>(1)</sup>, it is expected to outpace the men's wear category and occupy a majority market share of 41% <sup>(1)</sup> by 2025. This trend is led by an increase in the number of working women, higher disposable income, more experiential lifestyle and higher autonomy in decision making.

The industry continued with its rapid growth this year, led by aggressive expansion in value and mass segments, rise of women's and kid's categories and continued scale up of e-commerce.

On e-commerce side, due to clearer reinforcement of Foreign Direct Investment (FDI) policy, the top e-commerce players had to re-evaluate their business models and strategic partnerships. The industry was also forced to focus more on convenience and service as the key driver with minor reductions in discounting and promotions. Despite few initial hiccups, e-commerce continued to build upon its strength of providing rapid scale and deep access to markets and consumers. However, with increased focus on profitability, the disruptive impact that the sector had on brick and mortar players few years back has diminished; creating a conducive ecosystem for offline and online players in India to partner and grow the market together.

With the developments in e-commerce policy and resulting business model, omni-channel or online-to-offline (O2O) has started emerging as a more suitable model for both online and offline players to test. Both new as well as established players are testing out different models of engaging an O2O framework for their products and services.

### Business overview

Your Company is India's largest pure-play fashion and lifestyle entity with an elegant bouquet of leading fashion brands and retail formats.

### Lifestyle brands

Lifestyle brands reported revenue of ₹ 4,304 Crore during the year, recording a growth of 11% over the previous year (comparable Ind AS and GST adjusted growth rate of 13%). The growth is fuelled by new store additions, growth in e-commerce channel, product innovation and expansion in newer categories. Lifestyle brands recorded a like-to-like growth of 5.3% for the full year. The EBITDA has improved to ₹ 519 Crore, a growth of 15% over previous

Source:

(1) Basis industry and analyst reports

year. Higher profitability is achieved despite more than 60% increase in brand building spends as compared to the previous year.

Louis Philippe, Van Heusen, Allen Solly and Peter England continue to be leaders within their respective segments. The brands expanded its loyal consumer base to approximately 15 Million this year providing high quality products and services to the consumers. With a deeply penetrated distribution network across India, these brands are synonymous with high quality fashion and top-notch consumer experience. The growth in women's and kids sub-brands has strengthened the overall performance of Lifestyle brands. With three of its brands having revenue of more than ₹ 1,000 Crore, Lifestyle brands constitutes the strongest brand portfolio in the industry.

These brands have created very strong equity amongst its loyal customers through years of persistent focus on product innovation, design development, consumer satisfaction and brand building.

During this year, the business further expanded its scale through new store openings in untapped markets. The business focused on integrating consumer feedback into product design and planning, aiming at improving the product satisfaction score amongst consumers. Lifestyle brands business took significant strides towards adopting digital ways of working, both, in terms of consumer engagement and brand building.

Your Company has expanded Peter England deep into tier 3 and 4 towns, providing these markets, an access to high quality branded products and consistent retail experience. High decibel and localised marketing launches with robust operational execution has ensured tremendous customer response across all stores.

### Pantaloons

This has been a turnaround year for Pantaloons, with revenue of ₹ 3,194 Crore during the year, a growth of 12% over the previous year (*comparable Ind AS and GST adjusted growth rate of 15%*). This growth was driven by significant improvement in product freshness, design and quality and improved assortment. The EBITDA improved to ₹ 231 Crore, a growth of 35% over the previous year. EBITDA margins have improved by 120 basis points to 7.2% despite more than 60% increase in brand building spends as compared to the previous year.

Pantaloons is a continuously growing retailer in the value fashion segment with a network of 308 stores across the country, spanning over 4 Million square feet. During the year under review, Pantaloons added 40 new stores to its network and entered many new towns and markets. It also launched its B2C e-commerce platform ([www.pantaloons.com](http://www.pantaloons.com)) during the year and plans to build it in the coming years. Through focused interventions on understanding key customer needs and applying those insights to enhance product quality and assortment, Pantaloons was able to increase its share in private label and ethnic wear.

It also increased spends on marketing to strengthen the brand and create greater brand visibility. Pantaloons has a pool of over 15 Million deeply engaged customers, which is one of the key drivers of the growth, contributing to more than 90% of its sales.

### Fast fashion

Your Company has created and is working towards revamping its fast fashion segment. Forever 21 is one of the most iconic fast fashion brands globally, providing trendy fashion apparel and accessories to girls, women and men.

This year, your Company showed unwavering focus on improving the business model and reducing losses by store rationalisation and cost optimisation. Retail store models were calibrated further to establish proof of success, which will allow for future expansion in Forever 21.

Further, in line with its continued focus on prudent capital allocation, your Company has decided not to pursue "People" brand as a standalone retail format going forward. Considering the brand equity of "People" brand amongst young consumers, it is being transitioned into a private label brand within Pantaloons.

### Innerwear

The Innerwear category is evolving from being a basic commodity to a need, which has more involvement by the customer who wants both; styling without compromising on comfort. Van Heusen (VH) innerwear for men has made significant scale and established itself as a rapidly growing brand in two years' time. In the mid of FY 2019,

the Company also launched VH innerwear for women and encouraged to receive extremely positive customer and partner feedback.

During this year, innerwear segment aggressively added more than 6,000 points of distribution through pan India launches. The business also launched its own e-commerce platform for women innerwear ([www.vanheusenintimates.com](http://www.vanheusenintimates.com)), which gives the consumer a personalised and engaging experience. It is a one-stop solution for all lingerie fit concerns. An in-depth consumer research across 1,800+ respondents gave insight into the key consumer pain points and each of the product is crafted to address the same. Riding on product strategy focused on fit, fashion and innovation and favourable engagement models with channel partners, your Company considers this segment to become an important growth driver in coming years.

### Global brands

Global brands portfolio comprises of 'The Collective', one of India's largest multi-brand retailer of luxury brands and select mono brands. The mono brands portfolio includes Hackett, Ted Baker, Simon Carter, American Eagle, Ralph Lauren and Polo Ralph Lauren. In this financial year, your Company expanded the mono brands foot print by launching new stores of Polo Ralph Lauren, Ralph Lauren, American Eagle and Ted Baker. American Eagle has created a strong brand imagery amongst its target segment, striving to become the most exciting denim-led casual brand for the youth.

With the addition of these brands in its portfolio, your Company will continue on its trajectory on building a strong but selective play in the emerging super premium and bridge to luxury segments.

### Others

Your Company continuously explores growth opportunities in identified white spaces. In FY 2019, the Company has launched a new retail format "Style Up" to address the large opportunity in mass segment for small town India. Your Company is also evaluating various options to increase its presence in ethnic market. Both these opportunities offer tremendous long-term growth potential.

### Business strategy

Your Company will continue to build on its leadership position through investments in key strategic themes.

#### Building strong brands

In order to maintain its leadership position, your Company will continue to invest in building strong vibrant brands that evolve with the changing customer needs. The brand focus will be extended into enhanced product design and a refreshed store experience. The focus on product innovation will continue to drive the differentiation, supplemented with initiatives to interact with customers continuously. The Company will continue to test and implement latest methods of engagement with the customers and create strong associations to strengthen its brands. The organisation's consumer-centricity framework is based on continuous research, big data analytics, real-time feedback from retail outlets and an engaged customer loyalty programme.

#### Enhancing portfolio

Your Company has laid out a clear growth path to create value by strengthening its existing businesses and accelerating play in emerging business segments. The Company continuously identifies emerging segments in the market and seeks to enhance its play through a combination of brand extensions, new product launches and strategic acquisitions.

In the last few years, your Company expanded its presence in casual wear through brand extensions and also gained a strong position in the fast growing value fashion segment through Pantaloons. The portfolio has been strengthened with inclusion of Forever 21 in women's fast fashion and men's and women's innerwear under the brand Van Heusen. The Company has also enhanced focus on women's and kids wear through strengthening the play in these segments through its Lifestyle brands.

Moving forward, your Company will continue to explore further growth opportunities in fast growing segments such as ethnic wear, casual and super-premium categories.

### Building agile design and supply chain

Design and product development is at the core of the apparel business and your Company will continue to invest in these functions. It will drive product innovation by incorporating customer feedback in the design cycle. From a 4-season model, the Company will move to a 12-season model allowing it to reduce lead times significantly. This will enable the Company to continue with the journey of being closer to market in terms of identifying and addressing latest fashion trends. It is a significant shift that is enabling your Company to offer greater freshness and latest fashion in line with the changing consumer trends.

### Expanding distribution footprint

Your Company has been growing rapidly through its multi-channel distribution strategy and is now present in more than 750 cities.

With the expansion of retail opportunity across India, the Company intends to continue building reach and penetration through physical stores, along with strong omni-channel play. Together with increasing its penetration in existing territories, the Company has identified markets for further expansion. It sees tremendous opportunity in the vast tier 2, 3 and 4 towns of the country and plans to expand presence through appropriate business models. This will help in gaining strong position across markets to meet the growing demand for high-quality ready-made branded apparel.

### Digital transformation

Digital, as a way of life, is emerging as a key theme for organisations of tomorrow. The Company needs to embrace digital not only to enhance the customer experience side of it, but also internally to enhance processes and ways of working. Your Company has taken some key steps in this direction and internal and external focused digital transformation interventions will be a core strategy parameter for it.

Digital transformation is significantly disrupting the fashion retail industry. In India, e-commerce players have rapidly grown over the last 5 years, creating new business models, which are both, an opportunity and a threat to the business. Your Company has been a front-runner in adoption of transformational digital and analytics technology. While working closely with leading e-commerce players to extend the reach of its brands, the Company continues to focus on developing the online focus of its own brands. The omni-channel initiatives are rapidly scaling up by leveraging the Company's unique strength of a large store network along with online e-commerce capabilities. Your Company has also launched an initiative to design products digitally using advanced 3D design technology, which will enable digital commerce across trade and retail channels.

Your Company recognises the need for adoption of digital to ensure internal transformation and external market readiness. Significant investments are made in data analytics capabilities by setting up a central data warehouse for aggregating all customer transactions and interactions, both in-store and online. Its focus is on enabling personalised consumer campaigns leveraging the rich data that it has from the loyalty programs and building single-view of customer data models. This has been successfully piloted in Pantaloons and is now being scaled up to extend across brands as well. While analytics led customer engagement is a key priority, the Company has also initiated pilots to knowledge enable core business processes including design, merchandising, allocation and markdown management. The customer-shopping journey is not linear, thus, there is a significant focus to drive transformation using digital platforms, as the Company continues on its journey to build a future-ready organisation.

## Financial performance and analysis

(Amount in ₹ Crore)

Particulars	Year ended March 31, 2019	Year ended March 31, 2018
Revenue from operations <sup>(1)</sup>	8,118	7,181
EBITDA <sup>(2)</sup>	619	501
Finance costs	187	172
Depreciation	282	281
Earnings before tax	149	49
Current tax	22	-
Deferred tax assets/ (liabilities) <sup>(3)</sup>	194	69
Net profit/ (loss) <sup>(2)</sup>	321	118

  

Particulars	As at March 31, 2019	As at March 31, 2018
Net fixed assets (including CWIP)	718	769
Goodwill <sup>(4)</sup>	1,860	1,860
Deferred tax asset <sup>(3)</sup>	263	69
Net working capital	291	256
Capital employed	3,132	2,954
Net worth	1,429	1,093
Debt <sup>(5)</sup>	1,703	1,861

## Notes:

- (1) Revenue from operations for the year ended March 31, 2019 are not comparable with previous period corresponding figures of March 31, 2018 due to:
- GST: Effective July 1, 2017, sales are recorded net of GST whereas earlier the same was recorded gross of excise duty which formed part of expenses.
  - Ind AS 115: Sales is lower by ₹ 84 Crore for the year ended March 31, 2019, on account of impact of purchases on 'sales or return basis' arrangements.
- (2) Includes other income of ₹ 65 Crore (Previous year: ₹ 33 Crore).
- (3) Recognised deferred tax assets as at March 31, 2019 of ₹ 194 Crore (Previous year: ₹ 69 Crore) on brought forward accumulated losses and deductible temporary differences based on reasonable certainty in coming years.
- (4) As on March 31, 2019, goodwill (after testing for impairment in accordance with the Ind AS - 36 issued by the Institute of Chartered Accountants of India) stands at ₹ 1,860 Crore.
- (5) Comprises of non-current borrowings, current borrowings and current maturities of long-term borrowings.

## Net working capital

(Amount in ₹ Crore)

Particulars	As at March 31, 2019	As at March 31, 2019	As at March 31, 2018
	(As reported)	(Adjusted)	(As reported)
Inventories	1,921	1,788	1,691
Trade receivables	787	536	552
Cash and bank balances	57	57	73
Other assets	1,016	893	721
Less: Trade payables	2,399	2,143	2,009
Less: Other liabilities	1,091	840	772
<b>Net working capital</b>	<b>291</b>	<b>291</b>	<b>256</b>

## Notes on adjustment:

- (1) Revision of agreements with vendors pursuant to change in model from sale or return (SOR) basis to outright (OR) basis has resulted in increase in inventory and trade payables - Impact of ₹ 256 Crore.
- (2) Impact of Ind AS 115 on provision for sales return:
- Provision for sales return (refund liabilities) - was netted off from trade receivables, now reclassified in other liabilities and trade receivables is reflected at a gross level - ₹ 251 Crore;
  - COGS value of sales return (return assets) - which was earlier part of Inventories is now required to be reduced from Inventories and reflected in Other assets - ₹ 123 Crore.

Overall impact is that both assets and liabilities has gone up by ₹ 507 Crore.



## Revenue

Your Company reported revenue of ₹ 8,118 Crore during the year, recording a growth of 13% over the previous year (*comparable Ind AS and GST adjusted growth rate of 15%*), due to overall improved performance in both segments.

Your Company has implemented Ind AS 115 - "Revenue from Contracts with Customers" which became mandatory for reporting periods beginning on or after April 1, 2018, replacing the existing revenue recognition requirements. Accordingly, the Company has applied the modified retrospective approach and the revenue for the year ended March 31, 2019 are not comparable with the previous years. However, this does not have any impact on the profitability of the Company.

### Segment performance: Madura Fashion and Lifestyle

Madura Fashion and Lifestyle (MFL) segment includes lifestyle brands, fast fashion and other businesses. MFL reported revenue of ₹ 5,032 Crore recording growth of 13% over the previous year (*comparable Ind AS and GST adjusted growth rate of 14%*).

MFL is expanding its presence in the retail channel by opening new stores and exits the year with 2,161 exclusive brand outlets (EBOs) and 245 value stores. MFL's share of revenue from retail channel has increased to ~ 43% from ~ 35% in the previous year.

### Segment performance: Pantaloons

Pantaloons reported a revenue of ₹ 3,194 Crore recording growth of 12% over the previous year (*comparable Ind AS and GST adjusted growth rate of 15%*). During the year, it added 40 stores taking the total number of stores to 308 spanning 4 Million square feet. Pantaloons reaches out to large middle class Indian households with its diversified offerings for men, women and kids

## Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA of the Company, including other income is ₹ 619 Crore (*previous year ₹ 501 Crore*) and grew by 24%. The EBITDA margin for the Company improved from 7.0% to 7.6% in FY 2019 with a continuous improvement in both the segments.

## Finance cost

Finance cost for the year was ₹ 187 Crore as compared to ₹ 172 Crore in the previous year. The increase is mainly on account of increase in market interest rates. The average borrowing cost for the Company is at 8.0% as compared to 7.7% in the previous year.

## Depreciation

Depreciation during the year remains at ₹ 282 Crore as compared to ₹ 281 Crore in the previous year.

## Dividend

The Board of Directors of your Company, after considering holistically the relevant circumstances and keeping in view the Company's Dividend Distribution Policy, has decided that it would be prudent, not to recommend any dividend for the year under review.

## Borrowings

In order to ensure greater financial flexibility and an optimal financing structure, the Company, at the Eleventh Annual General Meeting held on August 28, 2018, obtained approval of the shareholders by way of a special resolution, to raise funds by issuance of non-convertible debentures for an amount of upto ₹ 1,250 Crore, on private placement basis, within the overall borrowing limits of the Company as approved by the shareholders from time to time.

## Key financial ratios

Particulars	As at March 31, 2019	As at March 31, 2018
Debtors turnover ratio <sup>(1)</sup>	12.13	14.31
Inventory turnover ratio <sup>(2)</sup>	4.49	4.60
Interest coverage ratio	1.80	1.29
Current ratio	0.81	0.84
Debt equity ratio	1.19	1.70
EBITDA margin	7.6%	7.0%
Operating profit margin	4.1%	3.1%
Net profit margin	4.0%	1.6%
Return on net worth	23.6%	20.2%
Return on average capital employed	11.1%	7.4%

Notes:

(1) Adjusted debtors turnover ratio for FY 2019 - 14.93 (FY18 - 14.31)

(2) Adjusted inventory turnover ratio for FY 2019 - 4.67 (FY18 - 4.60)

The formulae used in the computation of the above ratios are as follows:

Ratio	Formula
Debtors turnover ratio	Revenue from operations/ Average of opening and closing trade receivables
Inventory turnover ratio	Revenue from operations/ Average of opening and closing inventories
Interest coverage ratio	Earnings before interest and tax/ Finance costs
Current ratio	Current assets/ Current liabilities
Debt equity ratio	Debt/ Net worth
EBITDA margin	EBITDA/ Revenue from operations
Operating profit margin	Earnings before interest and tax/ Revenue from operations
Net profit margin	Profit after tax/ Revenue from operations
Return on net worth	Earnings before interest and tax/ Net worth
Return on average capital employed	Earnings before interest and tax/ Average capital employed

Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in the key financial ratios:

- (1) Interest coverage ratio and Operating profit margin - Ratios have improved due to better operational performance by the Company.
- (2) Debt equity ratio, Net profit margin and Return on average capital employed - Ratios have improved due to better operational performance and higher deferred tax asset recognition for the period.

## SWOT analysis

## Strengths

Ability to build strong timeless brands

Your Company has been able to create many of the most iconic apparel and lifestyle brands in the country. This was achieved through continuous efforts in marketing, building an evolving distribution network and product innovation. The Company's brands are its strongest and most fundamental strategic asset, enabling it to maintain a differentiated and competitive position in the domestic apparel industry. The hallmark of success of the Company has been to transform these brands with the change in customer behavior. Your Company ensures that the brands it build are not only the leaders in their core segment but evolve and extend to cater needs of new customers and changing market.

The Company will continue to selectively add and build new brands, further strengthening its brand portfolio and expanding its presence across untapped segments.



### Deep expertise in design, product development and sourcing

Your Company's brands derive the strength from the products it creates. Hence, the Company has invested deeply in building robust design and product development capabilities. Our teams are transforming the way we think about fashion cycles by aiming to improve towards closer-to-market creation. Your Company has enabled itself to swiftly and appropriately respond to ever-changing fashion trends by delivering innovative products satisfying consumer needs. This is supported by adoption of global sustainability practices.

### Large distribution network

Your Company runs a wide and extensive distribution network of 2,714 stores and 23,000+ points of sale; making it one of the largest distribution networks of any apparel business in the country. The Company is also at the forefront of expansion into tier 3 and 4 markets, as it aims to expand the brands to travel even further and deeper, creating a distribution network that will become its dominant competitive advantage.

### Strong people processes

Your Company is the preferred choice for talent in the industry due to its focused efforts on building a people focused, meritocratic, professional and progressive organisation. People development is at the core of the business strategy reflected in its extensive management trainee programs with top design and business schools across the country. The Company has also led many initiatives on people development, individual career mapping, mentoring for young women leaders and employee engagement.

### Leadership capability and corporate governance

Home to some of the finest talent in the industry, most of the leadership team in the Company is home grown and has contributed to many important milestones in its long journey of more than two decades. Your Company is governed by a board comprising of industry stalwarts with rich experience across diverse consumer facing industries and multiple geographies.

## Weaknesses

### Sub-optimal presence in some high growth segments

Over the last few years, the Indian apparel industry has witnessed rapid growth in the casual, denim and women's segments. Due to its strong legacy of men's formal wear brands, the Company has been able to extend its offering to some of these opportunities but with moderate success. Company's portfolio still needs more strength in growing categories such as womenswear and kidswear; and across wearing occasions such as casual wear, denims etc. In order to build a strong and balanced portfolio that addresses these gaps and is aligned to the future configuration of the apparel market, your Company is taking aggressive actions to enhance the business.

## Opportunities

### Large, fast growing market

Organised retail in India is experiencing rapid transformation and growth. This has been aided by robust demand due to rising incomes, aspiring middle class population and democratisation of fashion aided by easy access to digital medium for the masses. Certain categories such as women and kids are expected to grow much faster due to a lot of new brand, proliferation and discretion-based purchase replacing need-based buying.

The other big story for Indian market is the tremendous opportunity that exists in tier 2 and 4 towns. These towns have a high propensity to spend, are witnessing urbanisation and have an increasing aspiration to use branded products. The exposure to digital has greatly changed the aspirations and expectations of consumers in these markets. These markets will also see rise of high grade retail space, driving entry of numerous brands trying to address the needs of brand seeking consumers in better quality shopping space.

Rising affluence and increasing global exposure have led to growth in premium international brands business in India.

### Digital influence

Digital has emerged as the biggest force powering B2C businesses by creating digitally influenced and enabled transactions. Your Company has embraced the digital revolution, upgrading the consumer shopping experience through omni-channel play, blending post purchase consumer feedback in its product design process and digitally enabling the brick and mortar stores to offer more efficient and holistic shopping experience. Your Company is also creating an engaged digital presence across all media channels, which have become a primary source of brand discovery for customers.

### Threats and risks

#### Increased markdown in industry

E-commerce growth across the industries created a huge change in customer expectations from brands and now they seek even higher value for every rupee spent. This has forced organisations to either provide more value in the product or use high discounts to compete in the market. EOSS, led by big sale days by online and offline players heavily encourages discount seeking behaviour and shifted a large portion of sales to discounting season; adversely impacting margins.

Year-on-year discount increases are a big risk for the apparel industry. Many players are working on improving the core customer proposition comprising of innovative product, sharp pricing and delightful pre- and post- purchase experience, to shift consumers back to a full price sale regime.

#### Commoditisation of fashion

Many regional and national players have rapidly expanded value fashion formats in untapped new markets. These towns are experiencing quality retail for the first time and the nature of these retail offerings might commoditise fashion for the customer. There is a need to create brands and propositions that provide access to high value products but create a customer connect to the brand identity as well.

#### Inadequate supply of good quality retail space

With larger part of FDI in real estate focusing on residential development in the last few years, commercial real estate development had slowed down. This has led to most of the cities having insufficient supply of grade A malls and good quality commercial space, translating into higher rentals and unviable economics for retail companies.

#### Limited availability of talent

Apparel industry experiences the demand for talent exceeding supply in many critical areas of analytical thinking, technical competency and leadership skills. Growth of e-commerce companies and advent of international players in India has also created tremendous challenge in terms of retaining key talent. The above two factors have made talent development and management an extremely crucial component of business strategy.

### Outlook - Way forward

As per economic survey, India continues to be amongst the fastest growing economies in the world and is expected to continue to remain so in FY 2020 as well.

The policy environment is expected to be stable with a focus on reviving credit and investment in the economy. The government will continue its focus on enhancing ease of doing business, infrastructure development and digital India programs. These investments will help the economy recover back to past levels of growth. The improving economic scenario is expected to translate into positive consumer sentiments. The key factors that are driving the India consumption story are large proportion of young population, rising urbanisation, growing affluence, increasing discretionary spending and deeper penetration of digital content and processes.

However, the sector outlook is expected to be cautiously optimistic basis recent economic indicators on growth. Your Company is well positioned to leverage the opportunity in this growing market with its diverse offerings across varied market segments, price points and portfolio of strong brands.

## Risk management

Effective governance and risk management form the bedrock of a company's sustained performance. The framework revolves around rigorous implementation of standardised policies and processes and development of strong internal control systems.

Your Company has constituted a Risk Management Committee (*RMC*) for identification, evaluation and mitigation of operational, strategic and external risks. RMC is supported by an internal committee, which consists of experts from various business processes and segments. The internal committee assists the RMC in defining the framework for risk management and compliance and undertakes assessment of risks, adopts the risk mitigation plans and regularly monitors them in a structured and controlled environment. It also reviews the developments in socio-economic environment and identifies internal threats and opportunities, updates the framework and refines processes and systems for mitigation. Details of the composition of the RMC and the Risk Management Policy, adopted by the Board, have been disclosed separately.

The key identified risks are covered as part of threats in SWOT analysis.

## Internal control systems and their adequacy

The Company's internal control systems are commensurate with the nature of its business and the size and complexity of its operations. Internal control systems comprising policies and procedures are designed to ensure sound management of your Company's operations, safekeeping of its assets, optimal utilisation of resources, reliability of its financial information and compliance. Systems and procedures are periodically reviewed and these are routinely tested and certified by statutory as well as internal auditors and cover all functions and business areas. The audit committee reviews adequacy and effectiveness of the Company's internal control environment and monitors the implementation of audit recommendations, including those relating to strengthening of the Company's risk management policies and systems.

## Human resources

Your Company's **People Vision** is "To drive a **High Performing** and **Customer Centric Culture** with **Happy and Value Oriented** Employees". The Company's performance is anchored on its capabilities and productivity; customer-centric culture through a strong service orientation; happiness through purposeful behaviour by high quality talent; value-oriented through a deep commitment to the values of the Aditya Birla Group.

The Company has a diverse workforce of 23,000+ employees consisting of mix of people from diverse backgrounds, educational experience and wealth of experience from various industries. It also has a healthy gender diversity with 52% of the workforce comprising of women employees. 55% of the employees of the Company are in less than 30 years of age group.

Your Company has maintained healthy, cordial and harmonious industrial relations at all levels through proactive employee relation, development initiatives, gender diversity and community development.

## Delivering 'Employee Value Proposition' (EVP) through people strategy

"**The Biggest Brands and Best People**" is the philosophy that drives ABFRL. The Company has well-known brands and it is the people behind the brands who have made the brands what they are. The unique EVP of the Company - "**A World of Opportunities**" makes it a preferred employer for professionals in the industry. Your Company is committed to strengthen its employee value proposition in every aspect - career growth, learning & development, rewards & recognition, enrichment of life through healthy work environment and well-being programs.

- Career growth

Your Company believes in harnessing the leadership and people capabilities through sharp focus and initiatives on talent development. The Company has institutionalised an active talent review process to take stock of succession planning for key roles of the business. The talent is reviewed based on the performance and potential to assess their readiness for future role of high scale and complexity. The Company has created a

strong ownership and governance on careers through talent council which run at both apex and business unit level and are chaired by business leaders and meet at periodic intervals. It also invests in hiring bright entry level talent through the Company's young talent management program (*striders*) from B-Schools and fashion institutes (*such as National Institute of Fashion Technology*) to create a strong future pipeline.

- Learning and development

The Company's initiatives equip its employees to develop taller leadership capabilities armed with strong management capabilities in both domain specific and behavioural disciplines.

The Company invests in multiple initiatives such as Gyanodaya, Aditya Birla Group Global Centre for Leadership Learning, for its leaders and management development programs on various managerial capabilities. In-house structured learning program (*ABFRL university*) has also strengthened and it has also expanded its wings to other lines of businesses.

There are also significant opportunities for on the job development through various business and functional projects. Apart from classroom and on the job training modules, employees are also provided opportunity to self-learning through digital interface, which hosts a variety of content. These not only help employees perform to their potential in the current roles, but also prepare them for higher responsibilities.

- Rewards and recognition

The Company's initiatives are aligned to drive the culture of meritocracy and ensuring market competitiveness. They celebrate successes and also help in raising the bar on performance and achievement.

Celebrating success through recognition programme are at the core of building vibrant ABFRL culture. Well-entrenched annual engagement events are forums where it celebrates and recognises team and individual achievements, value champions and feats achieved by employees beyond the call of duty.

Your Company has various forums where it recognises outstanding performance of the employees in the stores, warehouse, manufacturing facilities and offices.

- Enrich the life of employees

Your Company embarks on multiple initiatives to create a wholesome approach for its employees. These include retail olympics focused on sports events leading to employee bonding and competitiveness. It also encourages the employees to volunteer in various CSR initiatives of the Company, offering them an opportunity to work together for the common good of the community. The Company's initiatives also focus on the physical and mental well-being of its employees. It also offer flexible working arrangements for the employees to encourage them to balance their work, family and personal commitments & priorities.

## DIRECTORS' RESPONSIBILITY STATEMENT

The audited financial statements of your Company for the year under review ("*financial statements*") are in conformity with the requirements of the Companies Act, 2013 read with the rules made thereunder ("*Act*") and the Accounting Standards. The financial statements fairly reflect the form and substance of transactions carried out during the year under review and reasonably present your Company's financial condition and results of operations.

Your directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;
- accounting policies selected have been applied consistently and reasonable & prudent judgments and estimates were made, so as to give a true and fair view of the state of affairs of your Company as at the end of the year under review and the profit & loss of your Company for the year under review;

- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- d) the annual accounts of your Company have been prepared on a 'going concern' basis;
- e) adequate internal financial controls were laid down & followed by your Company and such internal financial controls were operating effectively; and
- f) proper systems have been devised by your Company to ensure compliance with the provisions of all applicable laws and such systems were adequate and operating effectively.

### Compliance with Secretarial Standards

Your directors confirm that during the year under review, the Company has been in compliance with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

### SHARE CAPITAL

#### Equity share capital

The paid-up equity share capital of your Company as at the end of the year under review stood at ₹ 773.48 Crore vis-à-vis ₹ 771.69 Crore as at the end of previous year.

Details of shares allotted during the year under review, are as under:

- (i) Allotment to non-resident shareholders of Aditya Birla Nuvo Limited (*now Grasim Industries Limited*) ("ABNL") holding shares on repatriation basis.

In terms of clause 21 of the Composite Scheme of Arrangement amongst the Company, ABNL and Madura Garments Lifestyle Retail Company Limited and their respective shareholders and creditors, under sections 391 to 394 of the Companies Act, 1956 ("*Composite Scheme*"), allotment of 37,82,178 equity shares ("*said shares*") to 3,475 non-resident shareholders, including 4 overseas corporate bodies ("*OCBs*") of ABNL ("*NRE shareholders*") was kept pending until receipt of applicable regulatory approvals. Thereafter, from time to time, the Company has allotted 20,71,265 equity shares to 1,407 NRE shareholders who held accounts in India on non-repatriation basis and provided such valid details.

During the period under review, in view of the amended provisions of the "Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017" ("*FEMA Regulations*") and the authority granted by the Board of Directors (*on February 4, 2019*), 16,94,060 equity shares were allotted to 2,064 NRE shareholders of ABNL (*excluding OCBs*) on March 19, 2019.

Further, post this allotment, out of the said shares, 16,853 equity shares held by 4 OCBs shall remain pending for allotment until receipt of regulatory approvals. Your Company continues to evaluate various options for settling the matter with respect to the pending allotment to 4 OCBs, in terms of the applicable FEMA Regulations and any further development in this regard will be separately intimated to such OCBs.

- (ii) Allotment made pursuant to the Employee Stock Option Scheme - 2013 ("*Scheme 2013*")

51,435 equity shares of ₹ 10/- each were allotted to the eligible employees of the Company, pursuant to the exercise of stock options granted to them under the Scheme 2013.

- (iii) Allotment made pursuant to the Aditya Birla Fashion and Retail Limited Employee Stock Option Scheme 2017 ("*Scheme 2017*")

41,981 equity shares of ₹ 10/- each were allotted to the eligible employees of the Company, pursuant to the exercise of stock options granted to them under the Scheme 2017.

**Preference share capital**

Details of preference share capital of the Company as at March 31, 2019

(Amount in ₹ Lakh)

Particulars	As at March 31, 2019
<b>A Authorised preference share capital</b>	
1,00,00,000 8% Redeemable Cumulative Preference Shares of ₹ 10/- each	1,000.00
15,000 6% Redeemable Cumulative Preference Shares of ₹ 100/- each	15.00
<b>Total</b>	<b>1,015.00</b>
<b>B Issued, subscribed and paid-up share capital</b>	
5,00,000 8% Redeemable Cumulative Preference Shares of ₹ 10/- each	50.00
500 6% Redeemable Cumulative Preference Shares of ₹ 100/- each	0.50
<b>Total</b>	<b>50.50</b>

**Details of redemption/ variation in terms of preference shares issued by the Company**

Pursuant to the terms of issuance, the due dates for redemption of 8% Redeemable Cumulative Preference Shares and 6% Redeemable Cumulative Preference Shares, were March 30, 2019 and October 13, 2019, respectively.

While the Company had net profits for the year, it did not have distributable profits in terms of section 123 of the Act as it had past accumulated losses.

Accordingly, pursuant to the unanimous consent of all the preference shareholders and in terms of the applicable provisions of the Act, the Board of Directors of the Company, vide a circular resolution dated April 11, 2019, approved the variation in terms of the preference shares to the extent of extending their respective redemption dates by a period of 5 years, more particularly as under:

Class of preference shares	Revised redemption date
5,00,000, 8% Redeemable Cumulative Preference Shares of ₹ 10/- each	March 29, 2024
500, 6% Redeemable Cumulative Preference Shares of ₹ 100/- each	October 12, 2024

**DISCLOSURES IN TERMS OF THE PROVISIONS OF THE ACT & SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015****A. Board of Directors ("Board")****(i) Number of meetings**

The Board met 5 (*five*) times during the year under review. The details of such meetings are disclosed in the Corporate Governance Report forming part of this Annual Report. The maximum gap between any two consecutive meetings was less than 120 (*one hundred and twenty*) days, as stipulated under section 173(1) of the Act and regulation 17(2) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("*SEBI Listing Regulations*") and the Secretarial Standards issued by the Institute of Company Secretaries of India.

**(ii) Appointments/ resignations**

During the year under review, no directors were appointed or have resigned.

Further, in accordance with the provisions of the Act and the Articles of Association of the Company, Mr. Pranab Barua, Non-executive Director of the Company, is due to retire by rotation at the ensuing 12<sup>th</sup> AGM and being eligible, he has offered himself for re-appointment. Business with respect to his re-appointment forms part of the notice of the ensuing AGM of the Company.

In addition to the above re-appointment, business with respect to following matters also forms part of the notice of the ensuing AGM of the Company:

- (a) re-appointment of Ms. Sukanya Kripalu, an Independent Director of the Company, whose tenure will expire during the year; and
- (b) continuation of directorship of Mr. Arun Thiagarajan, an Independent Director of the Company, who will attain the age of 75 years during the year.

As required under regulation 36(3) of the SEBI Listing Regulations, particulars of directors seeking appointment/re-appointment at the ensuing 12<sup>th</sup> AGM are given in the annexure to the notice of the AGM.

### (iii) Board evaluation

The Company has devised a framework for performance evaluation of Board, its committees and individual directors in terms of the provisions of the Act, SEBI Listing Regulations and the Nomination Policy of the Company.

During the year under review, the Board carried out the evaluation of its own performance and that of its committees and the individual directors. The performance evaluation of non-independent directors and the Board as a whole was carried out by the independent directors.

The evaluation process consisted of structured questionnaires covering various aspects of the functioning of the Board and its committees, such as composition of the Board and committees, experience and competencies, performance of specific duties and obligations, governance issues etc. The Board also carried out the evaluation of the performance of individual directors based on criteria such as contribution of the director at the meetings, strategic perspective or inputs regarding the growth and performance of the Company etc.

Further, pursuant to the applicable provisions of the Act, the performance evaluation criteria for the independent directors is disclosed in the Corporate Governance Report forming part of this Annual Report.

#### Outcome of the evaluation

The Board of your Company was satisfied with the functioning of the Board and its committees. The committees are functioning well and besides the committee's terms of reference, as mandated by law and important issues are brought up and discussed in the committee meetings. The Board was also satisfied with the contribution of directors, in their respective capacities, which reflects the overall engagement of the individual directors.

### (iv) Declaration of independence

The Company has received necessary declaration from each independent director of the Company stating that they meet the criteria of independence as provided in section 149(6) of the Act and regulation 16(1)(b) of the SEBI Listing Regulations ("*said declarations*").

Based on the said declarations received from independent directors, in the opinion of the Board of Directors, the independent directors of the Company, fulfil the conditions of independence and are independent of the management.

## B. Committees of the Board

### (i) Audit committee

Your Company has a duly constituted audit committee, with its composition, quorum, powers, role and scope in accordance with section 177 of the Act and regulation 18 of the SEBI Listing Regulations. Details regarding the composition of the audit committee alongwith the dates of meeting and the terms of reference of the committee, are disclosed in the Corporate Governance Report forming part of this Annual Report.

The recommendations made by the audit committee to the Board, from time to time during the year under review, have been accepted by the Board.



Vigil mechanism

The Board has, on recommendation of its audit committee, duly adopted a Vigil mechanism/ Whistle Blower Policy and the details of which are provided in the Corporate Governance Report forming part of this Annual Report.

Adequate safeguards are provided against victimisation to those who avail of the mechanism and direct access to the Chairperson of the audit committee is provided to them. The details of establishment of vigil mechanism is also available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

**(ii) Nomination and Remuneration Committee ("NRC")**

Your Company has a duly constituted NRC, with its composition, quorum, powers, role and scope in accordance with section 178 of the Act and regulation 19 of the SEBI Listing Regulations. Details regarding the composition of the NRC alongwith the dates of meeting and the terms of reference of the committee are disclosed in the Corporate Governance Report forming part of this Annual Report.

Nomination Policy and Executive Remuneration Policy/Philosophy

In terms of section 178 of the Act and regulation 19 of the SEBI Listing Regulations, the Board of your Company had, on recommendation of the NRC, adopted a Nomination Policy, which *inter alia* enumerates the Company's policy on appointment of directors, KMP and senior management. Further, the Board has, on recommendation of NRC, also adopted a policy entailing Executive Remuneration Philosophy, which covers remuneration philosophy covering the directors, KMP, senior management and other employees of the Company.

Both the aforesaid policies, as amended from time to time pursuant to the amendment in the applicable regulatory provisions, are available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

Salient features of the aforesaid policies alongwith the changes therein during the period under review, are as under:

**(a) Nomination Policy**

The Nomination Policy is enacted mainly to deal with the following matters, falling within the scope of the NRC:

- To institute processes which enable the identification of individuals who are qualified to become directors and who may be appointed as key managerial personnel and/or in senior management and recommend to the Board of Directors their appointment and removal from time to time;
- To devise a policy on board diversity;
- To review and implement the succession and development plans for managing director, executive directors and officers forming part of senior management;
- To formulate the criteria for determining qualifications, positive attributes and independence of directors;
- To establish evaluation criteria of board, its committees and each director.

During the year under review, the Nomination Policy of the Company was amended to incorporate the change in evaluation process and the definition of Senior Management, pursuant to amendment in the SEBI Listing Regulations.

**(b) Executive Remuneration Policy/ Philosophy**

This Policy supports the design of programmes that align executive rewards - including incentive programmes, retirement benefit programmes, promotion and advancement opportunities - with the long-term success of the stakeholders of the Company.

The executive remuneration program of the Company is designed to attract, retain and reward talented executives who will contribute to our long-term success and thereby build value for our shareholders and intends to:

- Provide for monetary and non-monetary remuneration elements to our executives on a holistic basis.
- Emphasize “Pay for Performance” by aligning incentives with business strategies to reward executives who achieve or exceed Group, business and individual goals.

During the year under review, the Executive Remuneration Policy/ Philosophy of the Company was amended to incorporate the extended scope of NRC pursuant to amendment in the SEBI Listing Regulations, wherein the NRC has to recommend to the Board, all remuneration, in whatever form, payable to the senior management.

### (iii) Risk Management Committee (“RMC”)

Your Company has a duly constituted RMC, which is *inter alia* entrusted with the responsibility of monitoring and reviewing the risk management plan and the cyber security of the Company and such other functions as may be delegated by the Board from time to time.

The composition, quorum, powers, role and scope of the RMC are in accordance with the applicable provisions of the Act and regulation 21 of the SEBI Listing Regulations. Details regarding the composition of the RMC alongwith the dates of meeting and the terms of reference of the committee are disclosed in the Corporate Governance Report forming part of this Annual Report.

Mr. Jagdish Bajaj, Chief Financial Officer of the Company, is also the Chief Risk Officer of your Company.

#### Risk Management Policy

Your Company has framed and implemented a Risk Management Policy in terms of the provisions of regulation 17 of the SEBI Listing Regulations, for the assessment and minimisation of risk, including identification therein of elements of risk, if any, which may threaten the existence of the Company.

The policy is reviewed periodically by the RMC, alongwith the key risks and related mitigation plans. More details on risks and threats have been disclosed hereinabove, as a part of the Management Discussion and Analysis.

Further, in view of the ever increasing size and complexity of the business operations, your Company is exposed to various risks emanating from frauds. Accordingly, the Board has, on recommendation of the audit committee, also adopted an Anti-Fraud Policy and a Whistle Blower Policy, to put in place, a system for detecting and/or preventing and/or deterring and/or controlling the occurrence of frauds.

### (iv) Corporate Social Responsibility Committee (“CSR committee”)

Your Company has a duly constituted CSR committee, with its composition, quorum, powers, role and scope in accordance with section 135 of the Act. Details regarding the composition of the CSR committee alongwith the dates of meeting and the terms of reference of the committee are disclosed in the Corporate Governance Report forming part of this Annual Report.

#### Corporate Social Responsibility Policy (“CSR Policy”)

The Board has, pursuant to the recommendation of the CSR committee, with a vision “to actively contribute to the social and economic development of the communities in which your Company operates and in doing so, build a better, sustainable way of life for the weaker sections of society and raise the country’s human development index”, adopted a CSR Policy and the same is available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

The scope of the CSR Policy is as under:

- Planning project or programmes which a Company plans to undertake falling within the preview of schedule VII of the Act;
- Monitoring process of such project or programmes.

The CSR Policy of the Company *inter alia* includes the process to be implemented with respect to the identification of projects and philosophy of the Company, alongwith key endeavours and goals i.e.

- Education - to spark the desire for learning and knowledge;
- Health care - to render quality health care facilities to people living in the villages and elsewhere through our hospitals;
- Sustainable livelihood - to provide livelihood in a locally appropriate and environmentally sustainable manner;
- Infrastructure development - to set up essential services that form the foundation of sustainable development; and
- Social cause - to bring about the social change we advocate and support.

#### CSR initiatives taken during the year

Your Company's CSR activities are mainly focused towards girl child education, skilling, health and sanitation.

An annual report on CSR activities of the Company for the financial year 2018-19 is annexed as **Annexure I** to this Report.

### **C. Key Managerial Personnel**

Pursuant to section 203 of the Act, the key managerial personnel ("*KMP*") of the Company are:

- i. Mr. Ashish Dikshit, Managing Director;
- ii. Mr. Jagdish Bajaj, Chief Financial Officer; and
- iii. Ms. Geetika Anand, Company Secretary.

Board had, at its meeting held on January 9, 2018, in terms of the applicable provisions of the Act and on recommendation of the NRC, appointed Mr. Jagdish Bajaj as the Chief Financial Officer of the Company with effect from April 1, 2018.

Further, Mr. Vishak Kumar, Chief Executive Officer of the Madura Finance and Lifestyle division ("*CEO*") of the Company, was appointed as a KMP of the Company with effect from November 24, 2016. Pursuant to the approval of the Board, he has ceased to be a KMP of the Company under the provisions of section 203 of the Act with effect from May 11, 2018. However, Mr. Kumar will continue to be the CEO of the Company.

Detailed profiles of the KMP and other key executives of your Company are available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

### **D. Remuneration of directors and employees**

Disclosure comprising particulars with respect to the remuneration of directors and employees, as required to be disclosed in terms of the provisions of section 197(12) of the Act and rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is annexed as **Annexure II** to this Report.

Further, a statement containing such particulars of employees as required in terms of the provisions of section 197(12) of the Act read with rules 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, forms part of the Annual Report. However, in line with the provisions of the first proviso to section 136(1) of the Act, the reports and accounts, as set out therein, are being sent to all shareholders of the Company, excluding the aforesaid information and the same is open for inspection at the registered office of the Company during working hours. Further, any shareholder interested in obtaining such information may write to the Company Secretary at the registered office of the Company.

### **E. Employee stock option scheme and share based employee benefits**

Grant of share based benefits to employees is a mechanism to align the interest of employees, with those of the Company, to provide them with an opportunity to share the growth of the Company and also to foster the long-term commitment.

Your Company regards employee stock options as instruments that would enable the employees to share the value they create for the Company in the years to come. Accordingly, in the year 2013, the 'Employee Stock Option Scheme - 2013' ("*Scheme 2013*") was instituted by the Company, to reward its employees for their past association and performance, as well as to motivate them to contribute in the Company's future growth and profitability.

Further, pursuant to the approval of shareholders of the Company at the 10<sup>th</sup> AGM held on August 23, 2017, the NRC, at its meeting held on September 8, 2017, instituted and implemented the 'Aditya Birla Fashion and Retail Limited Employee Stock Option Scheme 2017' ("*Scheme 2017*").

Both the Schemes of the Company i.e. Scheme 2013 and Scheme 2017, are governed by the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 ("*SEBI SBEB Regulations*") and in terms of the approvals granted by the shareholders of the Company, the NRC *inter alia* administers, implements and monitors the aforesaid schemes, thereby governing the grant of share based benefits to its employees, in the form of options and restricted stock units ("*RSUs*") (collectively referred to as "*stock options*").

A certificate from the Statutory Auditor of the Company, confirming that the aforesaid schemes have been implemented in accordance with the SEBI SBEB Regulations, will be open for inspection at the ensuing 12<sup>th</sup> AGM.

#### Disclosure pursuant to the regulation 14 of the SEBI SBEB Regulations

In terms of the provisions of regulation 14 of the SEBI SBEB Regulations, details of the aforesaid schemes are available on the website of the Company i.e. [www.abfrrl.com](http://www.abfrrl.com) and a summary of the stock options granted, vested and lapsed during the year under review, is as under:

Particulars	Scheme 2013		Scheme 2017	
	Options	RSUs	Options	RSUs
No. of stock options granted	Nil	Nil	90,039	30,349
No. of stock options vested	Nil	Nil	8,65,024	Nil
No. of stock options exercised <sup>(1)</sup>	5,843	22,760	46,483	Nil
Total no. of equity shares of ₹ 10/- each, arising as a result of exercise of stock options	5,843	22,760	41,981 <sup>(2)</sup>	Nil
No. of stock options lapsed	5,843	Nil	4,79,678	1,96,655

Note:

(1) No loan was provided by your Company to exercise any of these stock options.

(2) 4,502 options were exercised during the year ended March 31, 2019. However, the consequent allotment of 4,502 equity shares was pending as on March 31, 2019 ("*said shares*"). The said shares were allotted on April 30, 2019.

The aforesaid details have been also disclosed in the financial statements of your Company for the year under review.

#### Stock Appreciation Rights ("*SARs*")

Your Company has also instituted a 'Plan for Stock Appreciation Rights Plan, 2013' ("*SAR Plan 2013*") in the year 2013, which is a cash based plan linked to the actual stock price movement over the plan tenure.

Further, pursuant to the enforcement of SEBI SBEB Regulations, in the event of transfer of employee to any Group Company ("*said transfer*"), all the options and RSUs granted to an employee under the employee stock option scheme of the Company, if not exercised by such employee before the last working day in the Company shall lapse as on the date of said transfer.

In view of the above, in order to compensate the loss to an employee due to the lapse of options and RSUs in the event of said transfer and pursuant to the approval of the Board vide a resolution passed at its meeting held on February 4, 2019, the NRC, at its meeting held on May 15, 2019, instituted and implemented the 'Aditya Birla Fashion and Retail Limited Stock Appreciation Rights Scheme 2019' ("*SAR Scheme 2019*"), to grant SARs in the form of 'Option SARs' (*in place of options*) and 'RSU SARs' (*in place of the RSUs*), to such employees.

The above SAR Plan 2013 and SAR Scheme 2019, does not give rise to any right towards any equity share of the Company and hence, they are not covered under the provisions of SEBI SBEB Regulations. On exercise of the SARs granted under the said plan/ scheme, the employee exercising the SARs becomes entitled to receive cash, in terms of the respective plan/ scheme.

Details of the SARs granted by your Company under the SAR Plan 2013 and the SAR Scheme 2019 are available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

#### **F. Related party transactions**

All related party transactions entered into during the year under review were approved by the audit committee and the board, from time to time and the same are disclosed in the financial statements of your Company for the year under review. Further, pursuant to the provisions of the Act and the SEBI Listing Regulations, the board has, on recommendation of its audit committee, adopted a Policy on Related Party Transactions and the said policy is available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com). Also, during the year under review, pursuant to the amendments in the SEBI Listing Regulations, the aforesaid policy was reviewed and amended by the board.

Further, in terms of the provisions of section 188(1) of the Act read with the Companies (Meetings of Board and its Powers) Rules, 2014 and regulation 23 of the SEBI Listing Regulations, all contracts/ arrangements/ transactions entered into by the Company with its related parties, during the year under review, were:

- in “ordinary course of business” of the Company;
- on “an arm’s length basis”; and
- not “material”.

All transactions with related parties are in accordance with the policy on related party transactions formulated by the Company.

Accordingly, Form no. AOC-2, prescribed under the provisions of section 134(3)(h) of the Act and rule 8 of the Companies (Accounts) Rules, 2014, for disclosure of details of related party transactions, which are “not at arm’s length basis” and also which are “material and at arm’s length basis”, is not provided as an annexure of this Report.

#### **G. Dividend Distribution Policy**

In terms of regulation 43A of the SEBI Listing Regulations, your Company has formulated a Dividend Distribution Policy, with an objective to provide the dividend distribution framework to the Stakeholders of the Company. The policy sets out various internal and external factors, which shall be considered by the board in determining the dividend pay-out. The policy is annexed as **Annexure III** to this Report and is also available on the website of the Company i.e. [www.abfirl.com](http://www.abfirl.com).

#### **H. Subsidiaries, joint ventures, associate companies**

During the year under review, no company became/ ceased to be a subsidiary/ associate/ joint venture of the Company. Also, the Company did not become a part of any joint venture during the year.

Accordingly, as at the end of the year under review and also as on the date of this Report, your Company does not have any subsidiary and/or associate company and your Company is also not a part of any joint ventures.

#### **I. Conservation of energy, technology absorption, foreign exchange earnings and outgo**

Your Company consciously makes all efforts to conserve energy across all its operations. A report containing details with respect to conservation of energy, technology absorption and foreign exchange earnings and outgo, required to be disclosed in terms of section 134(3)(m) of the Act read with the Companies (Accounts) Rules, 2014, is annexed as **Annexure IV** to this Report.

#### **J. Sustainability and business responsibility report**

Your Company’s sustainability initiatives are aligned with the Aditya Birla Group’s sustainability vision, which mainly comprises of responsible stewardship, stakeholder engagement and future-proofing. Accordingly,

under the aegis of the Aditya Birla Group's sustainability vision, your Company is strengthening its 'ReEarth' programme, to design a roadmap, which will align with the group level sustainability policies and international frameworks.

Through this mission, we hope to create a future ready organisation, which addresses the needs of all stakeholders thereby securing a sustainable future for tomorrow.

In accordance with our sustainability vision and in terms of regulation 34(2)(f) of the SEBI Listing Regulations, a Sustainability and Business Responsibility Report forms a part of this Annual Report.

## K. Auditors and auditors report

During the year under review, no frauds in terms of the provisions of section 143(12) of the Act, have been reported by the statutory auditor and secretarial auditor in their report for the year under review.

### (i) Statutory auditor

M/s. S R B C & CO LLP, Chartered Accountants (ICAI registration no. 324982E/E30003), were appointed as the statutory auditor of the Company at the 9<sup>th</sup> AGM, for a term of 5 years i.e. till the conclusion of the 14<sup>th</sup> AGM, subject to the ratification of their appointment by the members at every AGM. Accordingly, business with respect to the same forms part of the notice of the ensuing 12<sup>th</sup> AGM of the Company.

Further, the auditors' report "with an unmodified opinion", given by the statutory auditor on the financial statements of the Company for FY 2018-19, is disclosed in the financial statements forming part of this Annual Report. There has been no qualification, reservation, adverse remark or disclaimer given by the statutory auditor in their report for the year under review.

The notes to the financial statements are self-explanatory and do not call for any further comments.

### (ii) Secretarial auditor

Pursuant to the provisions of section 204 of the Act, M/s. Dilip Bharadiya & Associates, Company Secretaries, were appointed as the secretarial auditor of the Company, to conduct secretarial audit of the board processes for the year under review.

The Secretarial Audit Report given by the secretarial auditor of the Company is annexed as **Annexure V** to this Report. There has been no qualification, reservation, adverse remark or disclaimer given by the secretarial auditor in his report for the year under review.

### (iii) Cost auditor

During the year under review, your Company was not required to maintain cost records under sub-section (1) of section 148 of the Act. Hence, the provisions related to appointment of Cost auditor is not applicable.

## L. Other disclosures

In terms of the applicable provisions of the Act and SEBI Listing Regulations, your Company additionally discloses that, during the year under review:

- there was no change in the nature of business of your Company;
- your Company has not accepted any fixed deposits from the public falling under section 73 of the Act read with the Companies (Acceptance of Deposits) Rules, 2014. Thus, as on March 31, 2019, there were no deposits which were unpaid or unclaimed and due for repayment, hence, there has been no default in repayment of deposits or payment of interest thereon;
- your Company has not issued any shares with differential voting rights;
- your Company has not any sweat equity shares; and
- no significant or material orders were passed by the regulators or courts or tribunals which impact the going concern status operations of your Company in future.



It is further disclosed that:

- There is no plan to revise the financial statements or directors' report in respect of any previous financial year.
- There have been no material changes and commitments, which affect the financial position of the Company, which have occurred between the end of the financial year to which the financial statements relate and the date of this Report.
- Particulars of the loans, guarantees and investments as required under section 186 of the Act are disclosed in the financial statements of your Company for the year under review.
- Details pertaining to unclaimed shares demat suspense account of your Company are disclosed in the General Shareholder Information forming part of this Annual Report.
- Your Company does not engage in commodity hedging activities.

## CORPORATE GOVERNANCE

Your Company is committed to follow the best practices of corporate governance and the Board is responsible to ensure the same, from time to time.

Your Company has duly complied with the corporate governance requirements as set out under chapter IV of the SEBI Listing Regulations and the M/s. Dilip Bharadiya & Associates, Company Secretaries, vide their certificate dated May 14, 2019, have confirmed that the Company is and has been compliant with the conditions stipulated in the chapter IV of the SEBI Listing Regulations. The said certificate is annexed as **Annexure VI** to this Report.

Further, a separate report on corporate governance forms part of this Annual Report.

## EXTRACT OF ANNUAL RETURN

Pursuant to the provisions of sections 92(3) and 134(3)(a) of the Act and the Companies (Management and Administration) Rules, 2014, an extract of the annual return in Form no. MGT-9 is annexed as **Annexure VII** to this Report and is also available on the website of the Company i.e. [www.abfrl.com](http://www.abfrl.com).

## DISCLOSURES PURSUANT TO THE SEXUAL HARASSMENT OF WOMEN AT THE WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

Your Company has in place a policy on Prevention of Sexual Harassment at Workplace, which is in line with requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 ("POSH Act"). The objective of this policy is to provide an effective complaint redressal mechanism if there is an occurrence of sexual harassment.

This policy is applicable to all employees, irrespective of their level and it also includes 'third party harassment' cases i.e. where sexual harassment is committed by any person who is not an employee of the Company.

Your Company has also set up an internal complaints committee at each of its administrative office, which is duly constituted in compliance with the provisions of the POSH Act. Further, the Company also conducts interactive sessions for all the employees, to build awareness amongst employees about the policy and the provisions of POSH Act.

During the year under review, no cases were filed under the POSH Act.

## AWARDS AND RECOGNITIONS

Your Company has been proud recipient of many awards and recognitions during the year under review and significant ones amongst them are as under:

- ABFRL won the '**Retailer of the Year Award (Fashion & Lifestyle)**' conferred by **ET Now Global Awards for Retail Excellence**.
- ABFRL bagged '**Stars of the Industry Award 2018**' by **ET Now** for **Excellence in CSR**.
- ABFRL received a **Social Impact Award** from the **Indian Chamber of Commerce (ICC)** for **Empowering the Rural Population, in the Mega Enterprise Category**.



- ABFRL was recognized as a **'Leader in Employee Volunteer - 2018'** by iVolunteer Awards.
- ABFRL has been conferred a **Silver Rating** by IGBC (Indian Green Building Council) for its manufacturing unit, **Crafted Clothing Limited**.
- ABFRL received the **First Prize** at the **Lean Six Sigma Excellence Awards 2018** conducted by **Symbiosis Centre for Management and Human Resource Development** in two categories such as **'DMAIC'** and **'Kaizen'**.
- Van Heusen Innerwear was adjudged **IMAGES Most Admired Fashion Brand of the Year for Innerwear (Men)**.
- Pantaloons was ranked amongst **Top Two Most Trusted Brands** in the **Retail category** by **ET Brand Equity**.
- Pantaloons was ranked amongst **Top Twenty Most Trusted Brands** in the **Service category** by **ET Brand Equity**.
- Pantaloons won the **IMAGES Most Admired Retailer of the Year: Enterprise Solution Implementation** in recognition of Excellence in Deployment of Technology in Retail.
- Pantaloons received the **'Segment of One - Top Project Award'** by Aditya Birla Group at its Quantum Jump Conference, 2018.
- Pantaloons won big in the **Customer Loyalty Awards** by Kamikaze. It won the **'Best use of Direct Marketing in a Loyalty Program'** Award.
- Pantaloons was awarded **Merit Certificate** in the **Visual Merchandising and Retail Awards** for **'Best Window Display - Festivals and EOSS - Kids Festive Fun'**.

## ACKNOWLEDGEMENT

We take this opportunity to thank all the customers, members, investors, vendors, suppliers, business associates, bankers and financial institutions for their continuous support. We also thank the central and state governments and other regulatory authorities for their co-operation.

We acknowledge the patronage of the Aditya Birla Group and above all, we place on record our sincere appreciation for the hard-work, solidarity and contribution of each and every employee of the Company in driving the growth of the Company.

For and on behalf of the Board of Directors

Place : Mumbai  
Date : May 15, 2019

**Ashish Dikshit**                      **Arun Thiagarajan**  
Managing Director                  Independent Director

## Disclaimer:

Certain statements in the "Management Discussion and Analysis" may not be based on historical information or facts and may be "forward looking statements" within the meaning of applicable securities laws and regulations, including but not limited to those relating to general business plans and strategy of the Company, its future outlook and growth prospects, future developments in its businesses, its competitive and regulatory environment and management's current views and assumptions, which may not remain constant due to risks and uncertainties. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand-supply conditions, finished goods prices, stock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, competitor's actions, economic developments, within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any statement, on the basis of any subsequent development, information or events, or otherwise. The "Management Discussion and Analysis" does not constitute a prospectus, offering circular or offering memorandum or an offer to acquire any shares and should not be considered as a recommendation that any investor should subscribe for or purchase any of the Company's securities. The financial figures have been rounded off to the nearest Rupee One Crore.