

Aditya Birla Fashion and Retail

Just got nimbler

Recovery was all-round at 80% (HSIE: 73%) as all verticals beat expectations. Madura/Pantaloon recovered 81/75% resp. (HSIE: 72/71%). Gross margin recoup (52.3%) was sharper than expected, led by 1. Lower inventory provisioning and discounting levels and 2. Higher retail sales in Lifestyle brands. EBITDAM expanded 193bp YoY to 17.9%. A nimble ABFRL was a welcome change (debt was down from Rs. 33.4bn in Jun-20 to Rs. 5.8bn in Feb-21). We upgrade ABFRL to a Buy recommendation with a DCF-based TP of Rs. 200/sh, implying 14x FY23 EV/EBITDA, given 1. a stronger balance sheet (FY21 net debt/equity estimated at 0.2x), 2. stronger top-line/margin recovery and 3. ebbing working capital stress. (FY22/23 EBITDA estimate changes 8/2% resp).

- 3QFY21 highlights:** Revenue declined 19.6% YoY to Rs. 20.6bn (standalone). Lifestyle brands recovered 79% (HSIE: 71%) underpinned by strong recovery in retail channel (92%). Wholesale channel remains in stress (declined 63.5%). Primary sales are expected to bounce back in 4Q. Secondary sales recovery stood at 70-80%. Pantaloon declined 25% (HSIE: -30%). Other business grew 49% growth in 3Q. Gross margin recoup was sharper than expected led by 1. Lower Inventory provisioning, 2. Lower discounting levels and 3. Lifestyle brand's higher retail skew in 3Q. GM/EBITDAM expanded 30/193bp YoY to 52.3/17.9%. Cash release in 3Q stood at Rs. 5.88bn (Rs. 3.25bn came from inventory reduction). Total cost savings for 9MFY21 stood at Rs. 10.3bn. Company added 88/2 stores (net) in Lifestyle brands/Pantaloon resp (9MFY21) and intends to aggressively start store additions by FY22. The much-awaited deleveraging exercise in now near completion (courtesy Flipkart money + Rights issue). Net debt is likely to reduce to Rs. 2.5bn (ex-Sabyasaachi acquisition) by FY21.
- Outlook:** We are encouraged with ABFRL's top-line/margin recovery and more so by its receding leverage concerns. With its newfound nimbleness, we expect ABFRL to now focus on disciplined growth. Hence, we upgrade ABFRL to a BUY recommendation with a DCF-based TP of Rs. 200/sh (earlier Rs. 180/sh), implying 14x FY23 EV/EBITDA.

Quarterly financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY22E	FY23E
Net Revenue	20,590	25,625	(20)	10,186	102	81,177	87,425	54,926	89,085	100,554	114,799
Adj EBITDA	1,685	2,158	(22)	(1,817)	(193)	5,541	4,655	2,148	12,041	14,041	16,567
APAT	1,245	(207)	(701)	(1,142)	(209)	3,212	(796)	(5,775)	(775)	465	1,466
EPS (Rs)	0.81	(0.43)	(288)	(2.21)	(137)	4.2	(1.0)	(6.7)	(0.8)	0.5	1.6
P/E (x)						36.8	NM	NM	NM	NM	NM
EV/EBITDA (x)						24.3	30.5	71.5	12.2	8.7	7.5
Core RoCE(%)						8.7	6.4	(14.6)	3.7	6.2	9.7

Source: Company, HSIE Research, Standalone Financials

Change in estimates

	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	54,926	50,212	9.4	89,085	81,452	9.4	100,554	97,026	3.6
Gross Profit	26,171	23,925	9.4	44,674	40,846	9.4	50,928	49,141	3.6
Gross Profit Margin (%)	47.6	47.6	-	50.1	50.1	-	50.6	50.6	-
EBITDA	2,148	1,944	10.5	12,041	11,105	8.4	14,041	13,739	2.2
EBITDA margin (%)	3.9	3.9	4 bps	13.5	13.6	(12 bps)	14.0	14.2	(20 bps)

Source: Company, HSIE Research

BUY

CMP (as on 8 Feb 2021)	Rs 164
Target Price	Rs 200
NIFTY	15,116

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	Rs 180	Rs 200
	FY21E	FY22E
EBITDA %	+8.4	+2.2

KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	848
MCap (Rs bn) / (\$ mn)	139/1,910
6m avg traded value (Rs mn)	442
52 Week high / low	Rs 281/96

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.4	35.9	(36.1)
Relative (%)	(15.2)	0.9	(60.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	59.79	59.76
FIs & Local MFs	18.23	17.77
FPIs	6.09	6.28
Public & Others	15.89	16.19
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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