

Aditya Birla Fashion & Retail Ltd (ABFRL)

Sensex: 49858

CMP: INR 206

Target Price: INR 244


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Retail

ABFRL is part of a leading Indian conglomerate, The Aditya Birla Group. It is India's first billion-dollar plus pure-play fashion powerhouse with an elegant bouquet of leading fashion brands and retail formats. The Company has a network of 3041 EBOs (Lifestyle- 2699 & Pantaloons- 342), 25000 MBOs & 6514 LFS across India under Lifestyle brand, its branded apparels SBU that houses market leading brands such as Louis Philippe, Van Heusen, Allen Solly and Peter England established for over 25 years. Total retail space operational under this format stood at 3.7 mnsq ft. Pantaloons, its retail play format, is one of India's largest fashion value retail brand & has total retail space under operations of 4.4mn sq ft with 342 stores under this format.

Very well diversified play on organised retail

ABFRL's business model in India's organised retail segment is very well diversified with presence across lifestyle brands (Louis Philippe to Peter England) as well as organised retail format (Pantaloon). 60% of FY20 revenue contribution was from lifestyle brands and Pantaloon contributed the rest. Business model is also very well balanced in terms of presence across Men (~ 65% of revenue), Women (~ 25%) & Kids category (forming the rest) of apparel industry. Similarly revenue from Formal & Casual segment is balanced with the latter contributing 59% revenue of lifestyle brands. On the price point front also, its presence is very much across price points with Peter England brand catering to the economy segment and rest of the brands (Louis Philippe, Van Heusen & Allen Solly catering to the premium segment).

Strong track record of scalability of revenue & profitability of acquired businesses

ABFRL has strong track record of scaling up profitability of Pantaloon business. In a span of 4 years, profitability of the business increased from EBITDAM of 5% (FY17) to 8% (FY20) along with robust 13% revenue CAGR. Going forward, management is guiding for 11% EBITDAM accompanied by 15%+ revenue CAGR over the next 5 years. In case of Forever 21 business also, losses have been reduced substantially over the last 4 years with the management guiding for profitability of 8% along with 21% revenue CAGR over the next 5 years.

Ideally placed for inorganic growth on the back of virtually debt free BS post fund raising thru rights issue & Flipkart picking up equity stake

During FY21, ABFRL came out with rights issue to the tune of INR 9,950mn as well as Flipkart has picked up 7.8% equity stake in the company @ INR 160/share. ABFRL's BS should turn virtually debt

free once these funds are infused. Again, the management has recently guided for strong FCF generation to the tune of INR 25bn over the next 5 years from its well established businesses (Lifestyle brands & Pantaloon). Such a healthy liquidity should enable strong inorganic growth in the ethnic wear SBUs that has enormous growth potential. ABFRL has acquired "Sabyasachi" and Tarun Tahiliani's luxury couture business under its ethnic wear business at CY21 beginning in addition to "Jaypore" and "S&N", engaged into ethnic wear business that it had acquired in CY19. Even in terms of organic growth, innerwear business (started in FY17) stands on a firm footing with the FCF generated from established businesses seeding this SBU's growth.

Outlook & Valuation

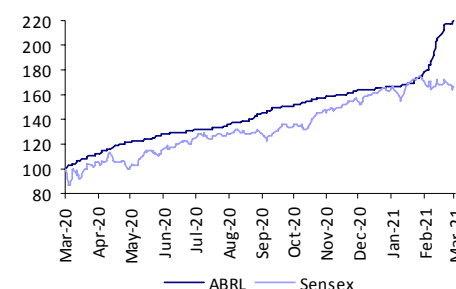
Robust bouquet of lifestyle brands & Pantaloon retail stores that are well established businesses has enabled the company to venture into new business areas of branded apparel segment, innerwear/athleisure and ethnic wear business, having strong growth potential through conversion from unorganised to organised and at the same time having large addressable market. ABFRL is ideally placed for inorganic growth on the back of virtually debt free BS post fund raising thru rights issue & Flipkart picking up equity stake. We estimate Revenue & EBITDA CAGR of 12% & 2% respectively during FY20-23 & initiate coverage on the company with a BUY rating and price target of 244 (18x FY23E EV/EBITDA). We've estimated EBITDA growth to be softer relative to revenue growth as sizeable marketing spend, both above the line as well as below the line, is likely to be incurred during the immediate future to achieve targeted revenue & EBITDA margin by FY26 as guided by the management.

Key Risks:

- Bounceback of COVID-19 cases leading to lockdown once again
- Increase in intensity of competition

| Shareholding (%) | Dec-20 |
|------------------|--------|
| Promoters | 60% |
| FII's | 6% |
| DII's | 22% |
| Others | 12% |

Relative Price Performance



| Key Data | |
|--------------------------|----------|
| BSE Code | 535755 |
| NSE Symbol | ABFRL |
| Bloomberg Code | ABFRL:IN |
| Reuters Code | ADIA.NS |
| Shares Outstanding (mn) | 908.95 |
| Face Value | 10 |
| Mcap (INR bn) | 187.2 |
| 52 Week H/L | 224/95 |
| 2W Avg. Vol, NSE (000's) | 2746 |
| Beta | 0.75 |

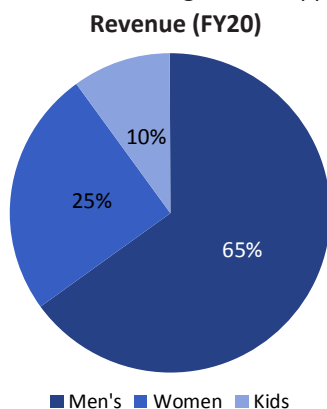
| (INR mn) | FY20 | FY21E | FY22E | FY23E |
|----------------|---------|---------|--------|--------|
| Net Sales | 87879 | 54773 | 107904 | 124790 |
| Growth (%) | 8 | -38 | 97 | 16 |
| EBITDAM (%) | 13.8 | 5.9 | 9.9 | 10.2 |
| Adj. PAT | -1650.6 | -9040.3 | 1061.6 | 3469.3 |
| Growth (%) | -160.3 | 447.7 | -111.7 | 226.8 |
| Adj. EPS (INR) | -2.1 | -9.9 | 1.1 | 3.6 |
| P/E(x) | -96.6 | -20.7 | 185.1 | 56.6 |
| EV/EBITDA | 14.9 | 66.4 | 18.8 | 15.1 |
| EV/Sales | 2.1 | 3.9 | 1.9 | 1.5 |
| ROACE (%) | 8.7 | -12.6 | 4.4 | 8.4 |
| ROAE (%) | -13.2 | -61.5 | 5.1 | 14.3 |



Investment Positives

Very well diversified play on organised retail

With presence across Men (~ 65% of revenue), Women (~ 25%) & Kids category (forming the rest) of apparel industry, ABFRL is very well spread out across all 3 categories of apparel industry.

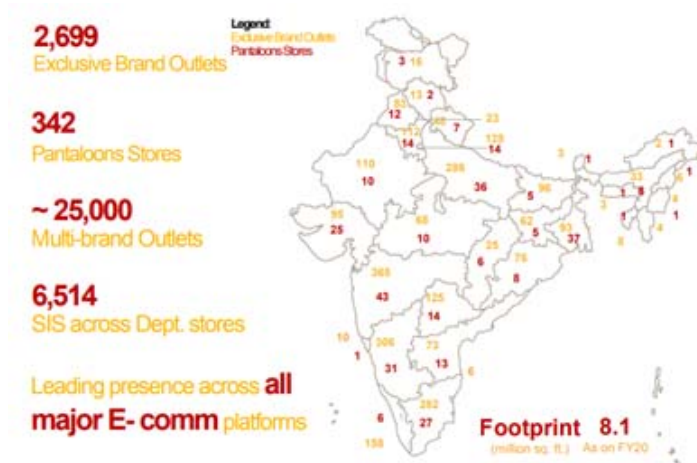


On the price point front also, its presence is very much across price points with Peter England brand catering to the economy segment and rest of the brands (Louis Philippe, Van Heusen & Allen Solly catering to the premium segment).



Substantial retail space under its fold - 8.1mn sq ft that is one of the highest amongst branded apparel players (Lifestyle brands) & organised retail players (Pantaloon) with further expansion potential

The Company has a network of 3041 EBOs (Lifestyle- 2699 & Pantaloon- 342), 25000 MBOs & 6514 LFS across India under Lifestyle brand, its branded apparels SBU that houses market leading brands such as Louis Philippe, Van Heusen, Allen Solly and Peter England established for over 25 years. Total retail space operational under this format stood at 3.7 mnsq ft. Pantaloon, its retail play format, is one of India's largest fashion value retail brand & has total retail space under operations of 4.4mn sq ft with 342 stores under this format. ABFRL is growing its retail space footprints with a CAGR 10% for the last 3 years



Robust presence in Metros & Tier I now moving into Tier II & beyond for expansion

Lifestyle brands

EBO Presence and Future Opportunities

| Brands | Current Stores | Current Towns | New Markets for expansion (next 5 years) |
|--------|----------------|---------------|--|
| IP | 407 | 175 | 500 |
| VH | 354 | 163 | 500 |
| AS | 300 | 145 | 750 |
| PE | 1014 | 450 | 2000 |

The management is guiding towards putting up 3750 new Lifestyle brand stores by next 5 years by expanding in tier 2/3/4 towns with asset light business model strategy of expanding through franchisee route.

Pantaloon Retail format stores

| City Tier | Current Foot print | FY 25 Foot print |
|--------------|--------------------|------------------|
| Metro | 8 | 8 |
| Tier 1 | 31 | 44 |
| Tier 2 | 36 | 43 |
| Tier 3 | 94 | 173 |
| Total | 169 | 268 |

The management has identified more than 100 new location to open Pantaloon retail stores going forward & is guiding towards adding 250 more stores in next 3 years across identified locations, primarily beyond Metro cities.

Leveraging brand through entering new segments & scaling it up

ABFRL identified potentially attractive segments having huge growth potential and launched innerwear segment 3 years back. ABFRL entered the market through the launch of Van Heusen Innerwears in the market with revenue rising multi-fold from INR 120 mn in FY17 to 2800 mn in FY20. Management is targeting to reach



revenue of INR 15000 mn over the next 5 years with a strong profitability of 18% at EBITDA level.

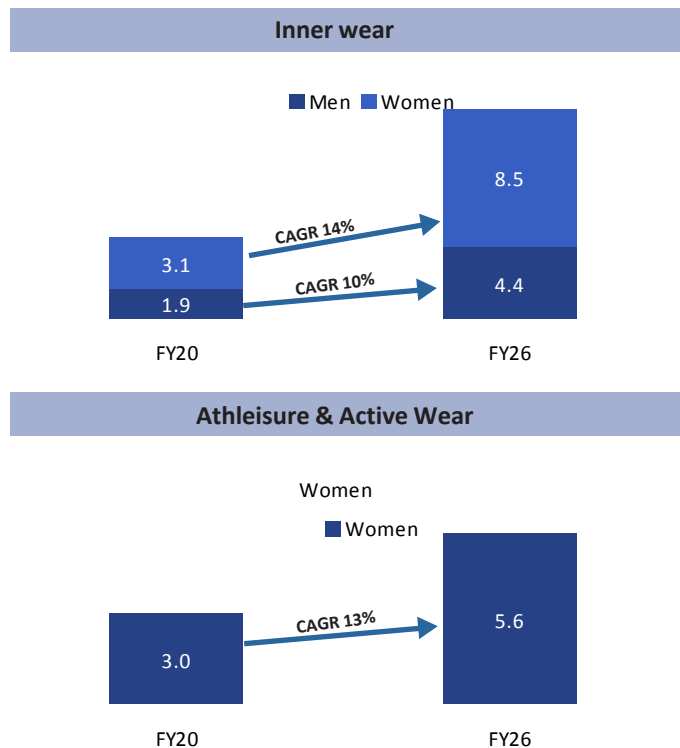
Healthy FCF generation for established businesses that can seed emerging businesses

ABFRL lifestyle brands business (60% of revenue as of FY 2020) is an established and growing business and which creates free cash flows of INR 3000+ mn in each of the last five financial years and this is channelized to seed the upcoming businesses like innerwear and Ethnic wear segments which are expected to grow at strong mid teen CAGR in the years ahead led by shift from unorganised to organised segment.

Innerwear segment and Athleisure wear:

The innerwear segment is largely unorganized and comparatively untapped market in the apparel segment and with a strong consumer-pull towards aspirational brands. Most players in the market offer basic undifferentiated products. It is a highly profitable segment with 15% EBITDAM. The men and women's segment is expected to grow at 10% and 14% CAGR respectively for FY26. In the active wear segment growth is expected to around 13% CAGR.

Market projections 1.2 (USD Bn)

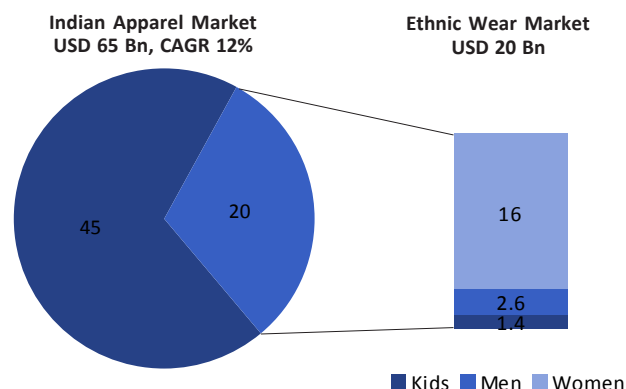


Source: company corporate presentation 2021.

Ethnic Wear:

Indian Ethnic wear industry is estimated to be 20 billion USD in total as of FY20. The major ethnic wear market consists of women wear with 16 billion USD size. The industry has experienced

approximately 10% CAGR over the past 5 years, where the organized market share increased and stood at ~4bn USD and is expected to grow at 15% CAGR.



Strong track record of scalability of revenue & profitability of acquired businesses

ABFRL has strong track record of scaling up profitability of Pantaloon business. In a span of 4 years, profitability of the business increased from EBITDAM of 5% (FY17) to 8% (FY20) along with robust 13% revenue CAGR. Pantaloon widened product portfolio with entry into home/life style products which in turn increased the footprints and walk-ins in the stores from 41.8 mn FY16 to 69.7 mn FY20 with a CAGR 14%. Going forward, management is guiding for 11% EBITDAM accompanied by 15%+ revenue CAGR over the next 5 years.

In case of Forever 21 business also, losses have been reduced substantially over the last 4 years with the management guiding for profitability of 8% along with 21% revenue CAGR over the next 5 years.

Aggressive push to digital presence across both retail as well as lifestyle business

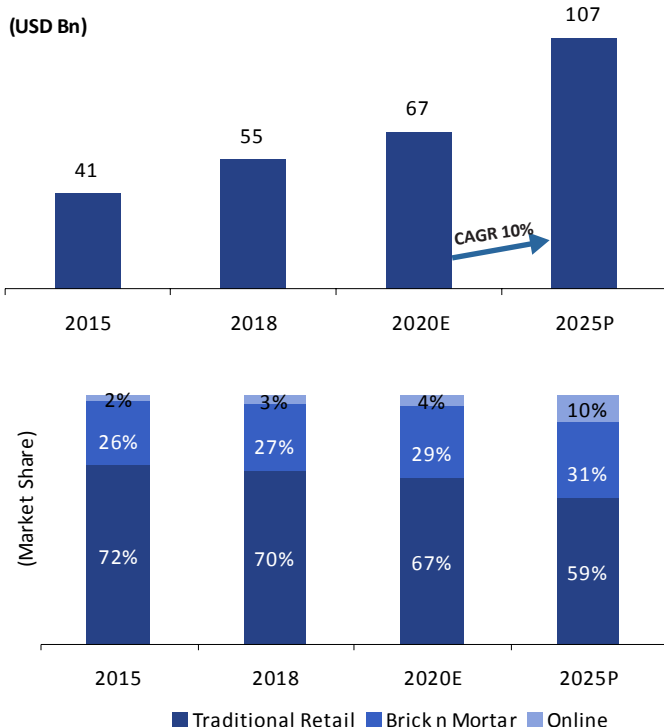
ABFRL has been making continuous investment in technology and sustainability to rebuild business models. They are trying to make 60% omni presence in the market through e-commerce, digital in-store and channel partner management which will help them drive their revenues. Building a stronger brand image through personalization and superior user experience by offering them differentiated and premium services and digital marketing will create a competitive edge for ABFRL. Hence, the digital adoption strategy will act as a force multiplier. Integrated online and offline retail play - a big bet for the future and ABFRL started Phygital way of reaching consumers across 800+ stores where customer can order online and get the product from the store.



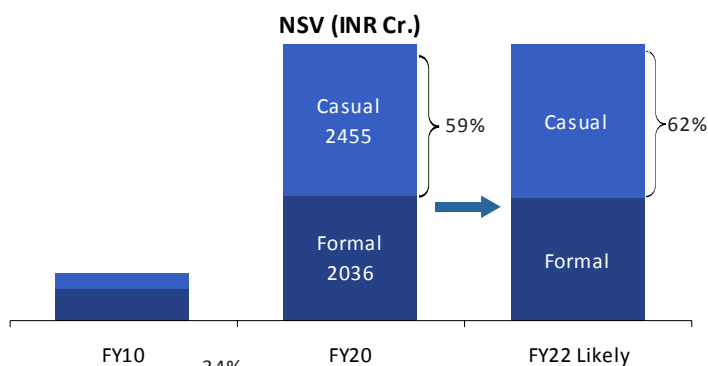
Apparel market to grow at 10% CAGR to USD 107bn by FY25

The apparel market size in India in FY 2020 was pegged at USD 67 Bn. It is also expected to grow at a CAGR of ~10% between FY20 and FY 25 to reach USD 107 Bn by FY25.

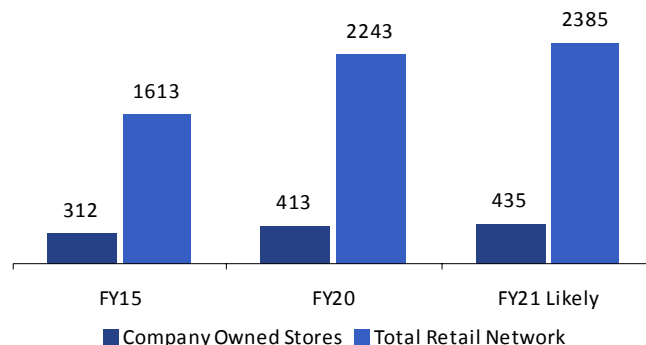
Apparel market is one of the largest segment in Indian retail segment & with rapid shift from traditional retail to organized retail (Online & Brick n Mortar) 33% in FY20 to 41% in FY25, branded apparel players like ABFRL are going to be the biggest beneficiaries.



Brands evolved in line with Consumer Trends; Share of casual business grew from 34% to 59% for Lifestyle Brands



Highly scalable asset light distribution model Driven by partnerships



ABFRL strategy is to be asset light and currently there are 435 outlets which are company owned and company operated and remaining 1950 stores are franchisee led EBO network.

Company Overview:

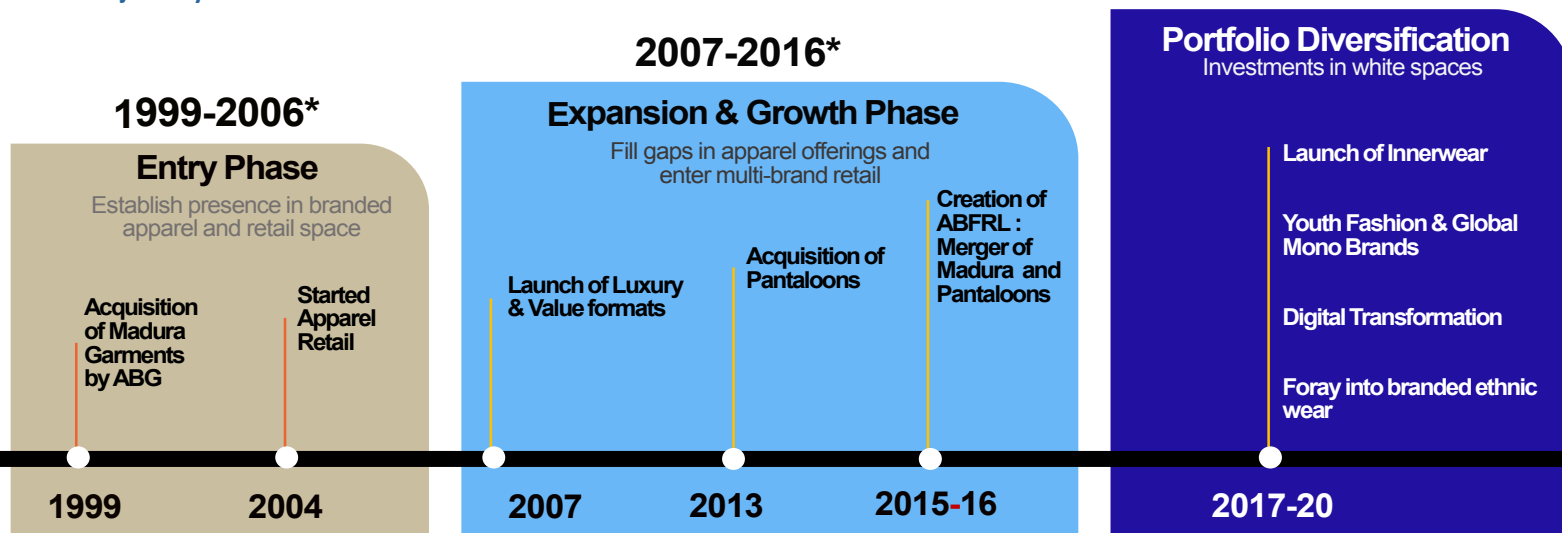
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The Company also holds exclusive online and offline rights of Forever 21. The International Brands portfolio includes - The Collective, India's largest multi-brand retailer of international brands, Simon Carter and select mono-brands such as American Eagle, Ralph Lauren, Hackett London, Ted Baker and Fred Perry. Van Heusen has established itself as India's most innovative and fashionable innerwear, athleisure and active wear brand with entry in this segment 4 years back. Additionally, the company has also made a foray in the branded ethnic wear through investments in Jaypore, Shantanu & Nikhil & recently in Sabyasachi & Tarun Tahiliani's outlets.

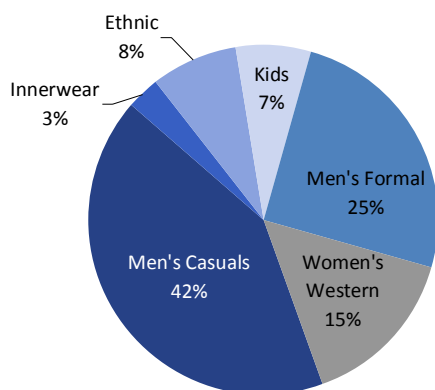
During FY17-20 company has grown its revenue from INR 66330 mn to INR 87430 mn, 10% CAGR and EBITDA at 3% CAGR. PAT has moved from a positive INR 540 mn in FY17 to a negative INR 1450 mn during the same period.



ABFRL journey



Revenue break-up (FY20)



Subsidiaries& JVs:

Sabyasachi

ABFRL acquired 51% stake in Indian luxury designer label Sabyasachi, engaged in the business of manufacturing, distribution and sale of designer apparel, jewellery and accessories. ABFRL has paid consideration of INR 3980 mn for the same.

Finesse International Design Pvt. Ltd (Brand Shantanu & Nikhil)

With the acquisition of 51% stake in Finesse International Design Pvt. Ltd (owner of Shantanu & Nikhil brand) that runs the bespoke apparels brand for men and women. ABFRL paid total consideration of INR 600mn.

TarunTahiliani

ABFRL has struck a deal with fashion designer TarunTahiliani that will give it 34% stake in the latter's luxury business and 80% stake in a new entity that will develop and launch affordable premium ethnic wear and accessories. While the new brand, to be co-created by ABFRL and Tahiliani, aims to build INR 5000mn business in the next five years with more than 250 stores across the country, ABFRL will have the option to increase its stake in the designer's luxury business (Goodview Properties), for which it paid INR670mn, to 51% in the next few years.

Jaypore

ABFRL has acquired 100% stake in ethnic apparel and lifestyle retailer Jaypore for INR 1100mn.

ABFRL's stake in each of the acquired entity is tabulated below:

| Entity | Equity Stake |
|------------------------------|--------------------------------|
| Sabyasachi | 51% |
| Finesse International Design | 51% (Brand- Shantanu & Nikhil) |
| TarunTahiliani | 34% |
| Jaypore | 100% |



Top Management Team

Ashish Dikshit - MD: In a career spanning over 25 years, Mr. Dikshit has worked in diverse roles across industries and functions. He started his career at the Aditya Birla Group with Madura Fashion and Lifestyle, a branded apparel business of the Group, where he worked in different functions such as sales, brand management, supply chain and sourcing. He was appointed President of its lifestyle business in 2007 and went on to become its MD in 2012.

Vishak Kumar - CEO, Madura fashion: Started his career in Madura fashion and played a major role in the success and brand value creation for Madura fashion.

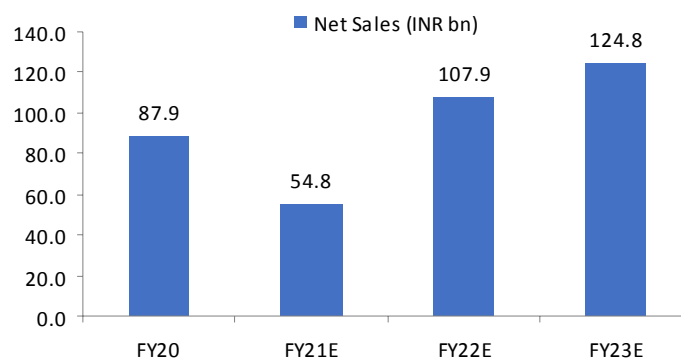
Sangeeta Pendurkar - CEO, Pantaloon: has total experience of 32 years spread across 7years in Novartis - Product Manager, 7years in HUL - Brand and marketing manager, 5years in HSBC as Chief marketing manager, 2 years in Coca cola india as VP, 7year in Kellogg company as MD& currently with ABFRL since 2017.

Puneet Malik - CEO, Innerwear: Started his career in Madura fashion and currently the CEO for innerwear business.

Jagdish Bajaj - CFO: Joined ABFRL in 2018 and has over 3 decades of working experience in Aditya Birla Group across segments and he was part of success story of ultra tech cements.

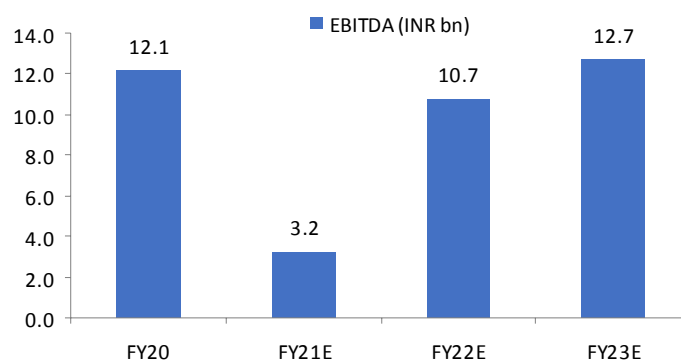
Financials:

Consolidated revenue to compound at 12% annually to INR 12.5bn by FY23

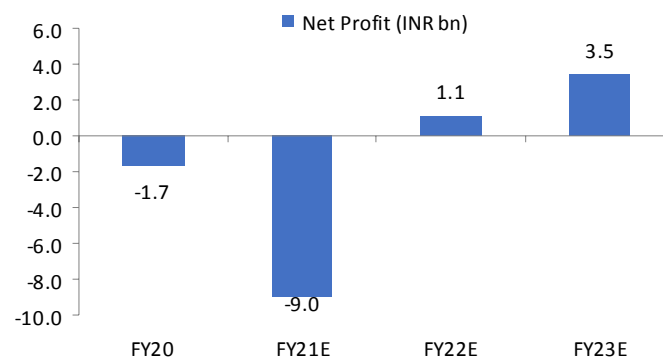


Revenue from Lifestyle brands to reach INR 62.7bn at 9.3% CAGR by FY23 & that of Pantaloon Retail to INR 52.6bn at 13% CAGR.

EBITDA to reach INR 12.7bn by FY23



Consolidated Net Profit to reach INR 3.5bn by FY23





Financials

Income Statement

| Y/E (INR mn) | FY20 | FY21E | FY22E | FY23E |
|----------------------|---------|----------|----------|----------|
| Net Sales | 87878.6 | 54773.0 | 107904.0 | 124790.4 |
| Net Sales Growth (%) | 8.3 | -37.7 | 97.0 | 15.6 |
| Cost of Goods Sold | 42241.5 | 27030.3 | 54167.8 | 62395.2 |
| Employee Cost | 10805.3 | 8503.8 | 14031.2 | 16556.8 |
| Other Optg. Exps. | 22713.9 | 16030.0 | 28975.0 | 33100.0 |
| Total Optg. Exps. | 75760.7 | 51564.1 | 97174.0 | 112052.0 |
| EBITDA (excl OI) | 12117.9 | 3208.9 | 10730.0 | 12738.4 |
| EBITDA Margin (%) | 13.8 | 5.9 | 9.9 | 10.2 |
| Dep./Amortisation | 8853.1 | 9592.7 | 8468.2 | 8421.6 |
| EBIT | 3264.8 | -6383.8 | 2261.8 | 4316.7 |
| EBIT Margin (%) | 6.7 | 6.6 | 7.4 | 8.4 |
| Interest Expense | 4247.1 | 8571.5 | 1620.1 | 608.0 |
| Other Income | 653.0 | 4450.0 | 773.8 | 917.0 |
| Exceptionals | | | | |
| EBT | -329.3 | -10505.3 | 1415.5 | 4625.7 |
| Tax Expenses | 1321.3 | -1465.0 | 353.9 | 1156.4 |
| PAT | -1650.6 | -9040.3 | 1061.6 | 3469.3 |
| PAT Growth (%) | -160.3 | 447.7 | -111.7 | 226.8 |
| PAT Margins (%) | -1.9 | -16.5 | 1.0 | 2.8 |

Key Ratios

| Y/E | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Adj.EPS | -2.1 | -9.9 | 1.1 | 3.6 |
| CEPS | 9.3 | 0.6 | 10.0 | 12.5 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS | 13.8 | 20.6 | 23.6 | 27.2 |
| Return Ratios(%) | | | | |
| RoACE | 8.7 | -12.6 | 4.4 | 8.4 |
| ROAE | -13.2 | -61.5 | 5.1 | 14.3 |
| Liquidity Ratios | | | | |
| Net Debt/Equity | 2.0 | 1.4 | 0.2 | -0.1 |
| Interest Coverage Ratio | 0.8 | -0.7 | 1.4 | 7.1 |
| Current Ratio | 1.0 | 1.0 | 1.0 | 1.1 |
| Quick Ratio | 0.4 | 0.4 | 0.4 | 0.5 |
| Efficiency Ratios | | | | |
| Asset Turnover Ratio | 1.8 | 1.1 | 2.1 | 2.4 |
| Inventory Days | 205 | 199 | 196 | 197 |
| Debtor Days | 35 | 35 | 35 | 35 |
| Creditor Days | 198 | 193 | 189 | 190 |
| Valuation Ratios | | | | |
| P/E(x) | -96.6 | -20.7 | 185.1 | 56.6 |
| P/BV(x) | 14.9 | 10.0 | 8.7 | 7.6 |
| P/CEPS(x) | 22.1 | 339.0 | 20.6 | 16.5 |
| Dividend Yield(%) | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/Net Sales(x) | 2.1 | 3.9 | 1.9 | 1.5 |
| EV/EBITDA(x) | 14.9 | 66.4 | 18.8 | 15.1 |

Balance Sheet

| Y/E (INR mn) | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Source of Funds | | | | |
| Share Capital | 7739.5 | 9089.5 | 9539.5 | 9539.5 |
| Reserves & Surplus | 2939.4 | 9649.1 | 12960.7 | 16430.0 |
| Total Networth | 10678.9 | 18738.6 | 22500.2 | 25969.5 |
| Total Debt | 23688.1 | 26725.4 | 9225.4 | 4225.4 |
| Other Non current Liab | 21230.3 | 13307.4 | 26022.8 | 30064.1 |
| Deferred tax liab (net) | -1877.1 | -1877.1 | -1877.1 | -1877.1 |
| Total Liab | 53720.2 | 56894.3 | 55871.3 | 58381.9 |
| Application of Funds | | | | |
| Net Block | 6428.9 | 3365.2 | 2397.0 | 3974.4 |
| CWIP | 440.8 | 2411.8 | 2411.8 | 2412.8 |
| Goodwill/Intangible Assets | 43006.5 | 48023.3 | 46473.3 | 43573.3 |
| Investments | 3114.8 | 3114.8 | 3114.8 | 3114.8 |
| Other non-current assets | 1006.2 | 627.1 | 1235.5 | 1428.8 |
| Current Assets | 41708.8 | 25521.0 | 51792.4 | 63499.1 |
| Current Liabilities | 41985.9 | 26169.0 | 51553.5 | 59621.3 |
| Net Current Assets | -277.1 | -647.9 | 238.9 | 3877.8 |
| Total Assets | 53720.1 | 56894.3 | 55871.3 | 58381.9 |

Cash Flow

| Y/E | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|---------------|---------------|--------------|--------------|
| EBT | -329 | -10505 | 1415 | 4626 |
| Less: Other Income/Exceptionals | 653 | 4450 | 774 | 917 |
| Add: Depreciation | 8853 | 9593 | 8468 | 8422 |
| Add: Interest Paid | 4247 | 8571 | 1620 | 608 |
| Direct Tax Paid | -1321 | 1465 | -354 | -1156 |
| Change in Working Capital | 30 | -1110 | 1781 | 566 |
| Others | 1072 | 379 | -608 | -193 |
| Cash Flow from Operations (a) | 11898 | 3943 | 11549 | 11955 |
| Change in Fixed Assets | -24911 | -13517 | -5950 | -7100 |
| Change in Investments | -329 | 0 | 0 | 0 |
| Other | -8040 | 0 | 0 | 0 |
| Cash Flow from Investing (b) | -33280 | -13517 | -5950 | -7100 |
| Change in Equity | -1959 | 17100 | 2700 | 0 |
| Debt Raised/(Repaid) | 29031 | -4886 | -4785 | -959 |
| Dividend Paid | 0 | 0 | 0 | 0 |
| Interest Paid | -4247 | -8571 | -1620 | -608 |
| Others Paid | 653 | 4450 | 774 | 917 |
| Cash Flow from Financing (c) | 23477 | 8093 | -2931 | -650 |
| Net Change in Cash (a+b+c) | 2095 | -1481 | 2668 | 4205 |
| Opening Cash | 574 | 2669 | 1189 | 3857 |
| Closing Cash | 2669 | 1189 | 3857 | 8062 |



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