

### Top picks

- Trent
- V-Mart
- ABFRL

## INDIA

# Branded apparels

## Demand recovery getting delayed; structural growth story intact

Apparel brands/retail companies under our coverage are likely to report low single digit revenue growth YoY in Q4FY21 despite low base implying ~80-85% pre-Covid recovery. While Jan-Feb'21 likely witnessed improved footfalls owing to EoSS and declining Covid cases, the same may be impacted again from the second half of Mar'21 owing to rising Covid cases. Coupled with temporary shutdown of malls/stores in Maharashtra and various restrictions imposed by different state governments to combat the spread of Covid, near-term growth / profitability of companies may be impacted. However, companies have been able to variablise / rationalise many of the fixed costs and strengthen balance sheet (albeit via equity dilution) over the past 12 months and are in a much better position to operate in the current pandemic-hit environment. We believe medium-term structural / penetration growth story still remains intact and companies with strong track record of execution are likely to emerge stronger. TRENT, V-Mart and ABFRL remain our preferred picks. Key risks: Lower discretionary spending and increasing online competition.

- ▶ **Key trends for Q4FY21:** (1) After resuming store additions in Q3FY21, companies are likely to continue to add more stores in Q4FY21 as well. (2) MBO channel billing is likely to resume in Q4FY21 with SS'21 and wedding collections. (3) E-commerce sales to continue to rise, given greater adaptability and acceptability of e-commerce as a channel. (4) Value-fashion retail, women wear, kids wear, casualwear, athleisure, sportswear are expected to grow faster, and (5) increased focus on cost control / cash conservation; although net working capital may increase QoQ.
- ▶ **TRENT's revenue may grow by 9% YoY to Rs7.9bn** mainly aided by higher *Zudio* stores addition. The company added 4 *Westside* stores in 9MFY21 and can add another ~4 stores in Q4FY21 taking the total to 173 stores. Similarly, the company added 21 *Zudio* stores in 9MFY21 and may add another 18 stores in Q4FY21 taking the total to 133 stores (including 14 SIS). *Westside* revenue may grow in low single digit YoY, while *Zudio* is likely to see 35% YoY revenue growth. The company may report pre-Ind AS 116 EBITDA margin of 6.6% and PAT of Rs276mn.
- ▶ **ABFRL's revenue is likely to grow 2% YoY to Rs18.6bn:** We expect Lifestyle brand's revenue to be broadly flat YoY, while innerwear business may grow ~18% YoY. The company may add 100 gross EBOs and resume MBO billings during Q4FY21. *Pantaloons* may register a revenue growth of 2% YoY and may see 3-4 stores addition during the quarter, taking the total to 347 stores. Overall, the company may report pre-Ind AS 116 EBITDA margin of 7.4% and PAT of Rs275mn.
- ▶ **V-Mart's revenue may grow 8% YoY to Rs3.6bn,** aided by 13 stores additions in FY21 and given higher exposure to beyond tier-II cities. After adding 10 stores in Q3FY21, the company added net 5 stores in Q4FY21, taking the total to 279 stores. It may report pre-Ind AS 116 EBITDA margin of 6.6% and PAT of Rs130mn.

### Quarterly summary (on pre-Ind AS 116 basis)

Company (Rs mn)	Sales			EBITDA			PAT		
	JFM'21*	% chg		JFM'21*	% chg		JFM'21*	% chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
TRENT	7,896	9.2	8.8	521	144.9	(58.9)	276	331.8	(70.6)
ABFRL	18,646	2.6	(9.4)	1,380	N.A.	(40.6)	275	N.A.	(72.7)
V-MART	3,599	8.1	(23.4)	239	262.8	(68.7)	130	N.A.	(75.0)
TCNSBR	2,206	0.7	(7.3)	148	N.A.	(4.0)	103	N.A.	(6.9)
SHOP	6,368	(10.2)	(10.0)	37	N.A.	(81.2)	(309)	N.A.	(77.0)
ARVINDFA	7,737	8.9	(14.2)	299	N.A.	(13.2)	(291)	N.A.	(30.2)
KEKC	1,276	0.8	8.1	215	(0.2)	59.4	154	(2.1)	42.2
<b>Total</b>	<b>47,729</b>	<b>2.9</b>	<b>(8.6)</b>	<b>2,839</b>	<b>N.A.</b>	<b>(45.2)</b>	<b>338</b>	<b>N.A.</b>	<b>(83.8)</b>

\*JFM: Jan-Feb-Mar; Source: I-Sec research

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- ▶ **TCNSBR's revenue may remain flat YoY at Rs2.2bn.** While *Aurelia* may see low double-digit revenue growth, *W* is likely to see low single digit YoY decline. The company report pre-Ind AS EBITDA margin of 6.7% and PAT of Rs103mn.
- ▶ **SHOP's revenue may decline 10% YoY to Rs6.4bn,** given higher exposure to metros and tier-1 cities where recovery has been gradual. It may just breakeven at EBITDA (pre-Ind AS 116) and may report net loss of Rs309mn.
- ▶ **ARVINDFA's revenue may grow 9% YoY to Rs7.7bn.** Power brand and emerging brands' revenue may grow in double digit YoY as the base was impacted by significant write-offs and with higher MBO billings QoQ. It is likely to cash breakeven with pre-Ind AS 116 EBITDA of Rs299mn and still report net loss of Rs291mn.
- ▶ **KEKC's revenue may remain flat YoY to Rs1.3bn aided by higher MBO billings.** The company may report flat EBITDA margin of 17% and PAT of Rs154mn.

Table 1: Comparative valuations (on pre-Ind AS 116 basis)

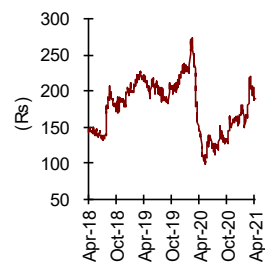
Company	Mcap (Rsbn)	TP (Rs)	Rating	CAGR (FY20-23E) (%)			RoE (%)		RoCE (%)		EV/EBITDA (x)		EV/sales (x)	
				Revenue	EBITDA	PAT	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
TRENT	260	845	BUY	20.3	27.0	30.8	19.0	20.9	16.5	18.4	42.1	33.6	4.6	3.7
ABFRL	178	232	BUY	5.9	19.2	94.0	8.9	11.3	8.2	10.0	24.6	20.1	2.0	1.7
V-MART	51	2,900	BUY	12.7	18.6	21.2	12.5	13.7	12.5	13.7	26.2	20.6	2.4	1.9
TCNSBR	30	430	ADD	6.0	20.9	24.1	14.2	14.2	14.1	14.1	18.9	16.0	2.3	2.0
SHOP	22	234	BUY	1.7	9.7	NA	4.4	7.4	5.4	7.6	10.1	8.9	0.7	0.6
ARVINDFA	16	132	REDUCE	5.0	NA	NA	(2.1)	1.7	0.6	2.4	11.4	9.2	0.6	0.6
KEKC	10	970	ADD	4.4	7.4	8.9	17.5	19.0	15.5	16.8	8.2	7.1	1.6	1.4

Company	P / E (x)		P/B (x)		P/CEPS (x)		EV/EBIT (x)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
TRENT	66.6	51.2	11.7	9.8	53.9	42.5	46.3	36.0
ABFRL	58.0	40.0	4.8	4.3	32.7	26.0	36.3	27.5
V-MART	44.6	35.9	5.2	4.6	32.3	26.1	29.8	23.7
TCNSBR	30.3	25.1	4.0	3.5	22.9	19.8	19.9	17.0
SHOP	83.9	47.1	3.0	2.8	11.0	9.9	38.7	25.9
ARVINDFA	(73.1)	85.9	1.4	1.4	15.5	10.7	26.9	17.3
KEKC	13.2	11.1	2.2	2.0	12.0	10.2	7.4	6.4

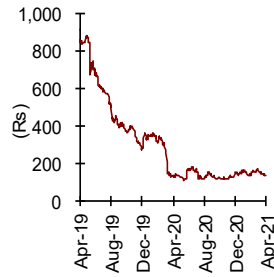
Source: I-Sec research

**Price charts**

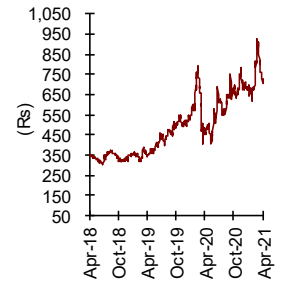
**ABFRL**



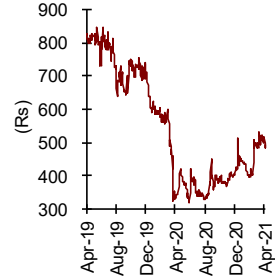
**ARVINDFA**



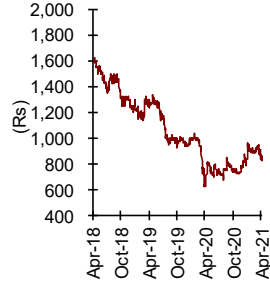
**TRENT**



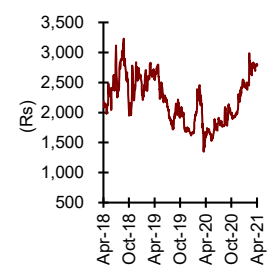
**TCNSBR**



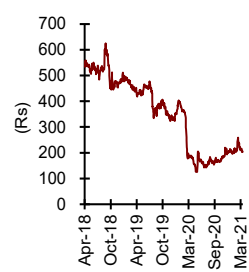
**KEKC**



**VMART**



**Shoppers Stop**



Source: Bloomberg

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