

## Branded apparels

### Trade channels yet to fully recover from GST hiccups

Trade channels which got impacted in Jun-Jul'17 due to GST implementation saw pick-up in Sep'17 due to early festive season this year. However, optimum re-stocking is expected only over next few quarters as better clarity emerges on taxation / invoicing etc. Retail channels started to recover from mid-Aug'17 after witnessing significant decline in Jul'17 post an advancement of EoSS by 10-15 days in Jun'17. Coupled with higher GST rates, branded apparel and retail companies are expected to report lower than usual revenue growth in a seasonally strong quarter; while margins for branded apparel companies are likely to be impacted by one-time cost on inventory due to GST. Pure apparel brands and retail (B&R) companies under our coverage are expected to report 11% YoY revenue and 7% YoY EBITDA growth during Q2FY18. We recommend investing in the space with a 3-4 years horizon as companies attain scale by expanding distribution network and improve margins, cashflows and return ratios.

- ▶ **ABFRL's EBITDA expected to decline 4% YoY at Rs1.6bn:** We expect MF&L to clock ~6% YoY revenue growth on a low base of Q2FY17 (-10% SSSG owing to calibrated discounting). Pantaloon is expected to register revenue growth of 16% YoY despite high base of last year (6% SSSG, 22% revenue growth) as value fashion format is expected to benefit under GST regime. We expect 109bps YoY margin decline at 7.6% owing to continued investments in innerwear and fast fashion.
- ▶ **ARVND's consolidated EBITDA expected to decline ~7% YoY to Rs2.2bn:** We factor 320bps YoY margin decline in the textile segment at 13.8% led by an increase in cotton prices and INR appreciation. We factor ~5% YoY revenue growth at Rs14.9bn in textiles mainly led by 14% YoY growth in garments, ~6% in wovens and just ~2% in denims division. B&R segment financials are not comparable on YoY basis due to inclusion of *Tommy Hilfiger* and *Calvin Klein* w.e.f FY18. On a reported basis, B&R segment revenues are expected to increase by 21% YoY to Rs9bn with EBITDA margin improvement of 61bps YoY to 5.7%.
- ▶ **TRENT EBITDA expected to increase 31% YoY to Rs325mn:** EBITDA margin is expected to increase by 73bps YoY to 6.3% led by better operating leverage on strong high single-digit SSSG. We factor revenue growth of 16% YoY to Rs5.2bn.
- ▶ **FLFL EBITDA expected to increase 13% YoY to Rs956mn:** We factor revenue growth of 10% YoY to Rs11.2bn with 7% YoY revenue growth in owned / licensed brands and ~12% YoY growth in third party brands. EBITDA margin is expected to remain flat YoY at 8.5%. We expect FLFL to report double digit return ratios.
- ▶ **Key factors to watch:** Management commentary on consumer sentiment, SSSG, impact of GST, recovery in trade channel, margin outlook.
- ▶ **Key result picks:** Trent and FLFL are expected to report 31% YoY/ 13% YoY EBITDA growth respectively. .

#### Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	JAS'17*	% chg		JAS '17*	% chg		JAS'17*	% chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
ARVND	25,820	10.8	4.3	2,152	(7.4)	3.9	670	(14.1)	0.5
ABFRL	20,688	9.6	16.9	1,582	(4.0)	113.7	609	(6.1)	NM
FLFL	11,244	10.0	3.7	956	12.7	(3.5)	268	269.0	(16.2)
TRENT	5,203	16.0	4.2	325	31.4	(44.4)	256	21.5	(32.9)
<b>Total pure-play</b>	<b>46,224</b>	<b>10.6</b>	<b>12.0</b>	<b>3,382</b>	<b>7.1</b>	<b>33.4</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>

\*JAS: July-August-September'17; Source: I-Sec research

#### Top picks

- Arvind
- FLFL

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Table 1: Valuation summary

Company	Reco	MCap (Rs bn)	TP (Rs)	EBITDA CAGR (%) (FY17-20)	EV/E (x)		RoE (%)		RoCE (%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ARVND	BUY	99	445	15.8	10.4	8.5	12.9	15.3	10.0	11.8
ABFRL	BUY	124	196	25.4	20.0	16.2	21.5	24.3	12.4	14.5
FLFL	BUY	65	470	21.5	13.7	11.4	11.1	12.9	9.9	11.2
TRENT	ADD	98	295	30.4	28.4	21.3	9.7	13.0	8.8	11.6

Source: I-Sec research

Note: We are not changing any reco, target and estimates in this report. We will review each stock individually after the quarterly results.

Table 2: ARVND: Q2FY18E EBITDA margin expected to decline by ~164bps YoY

Rs mn	Q2FY18E	Q2FY17	% YoY	Q1FY18	% QoQ
<b>Revenues</b>					
Textiles	14,943	14,275	4.7	15,574	(4.1)
Branded apparels	9,089	7,520	20.9	7,737	17.5
Arvind Internet	82	30	175.0	17	392.0
Engineering & Others	1,949	1,689	15.4	1,528	27.6
<b>Total</b>	<b>26,063</b>	<b>23,514</b>	<b>10.8</b>	<b>24,855</b>	<b>4.9</b>
Less: Inter-segment revenues	243	202	20.1	105	131.5
<b>Net sales</b>	<b>25,820</b>	<b>23,311</b>	<b>10.8</b>	<b>24,750</b>	<b>4.3</b>
<b>EBITDA margin</b>					
Textiles	13.8	17.0		14.1	
Branded Apparels	5.7	5.1		2.9	
<b>Blended</b>	<b>8.3</b>	<b>10.0</b>		<b>8.4</b>	
PAT	670	780	(14.1)	666	0.5

Source: Company data, I-Sec research

Table 3: ABFRL: Q2FY18E EBITDA\* expected to decline by ~4% YoY

Rs mn	Q2FY18E	Q2FY17	% YoY	Q1FY18	% QoQ
<b>Revenues</b>					
MF&L	12,422	11,713	6.0	10,500	18.3
Pantaloon	8,407	7,267	15.7	7,310	15.0
<b>Total sales</b>	<b>20,828</b>	<b>18,980</b>	<b>9.7</b>	<b>17,810</b>	<b>16.9</b>
Less: Inter-segment revenues	140	113	24.2	120	16.9
<b>Net Sales</b>	<b>20,688</b>	<b>18,867</b>	<b>9.6</b>	<b>17,690</b>	<b>16.9</b>
<b>EBITDA*</b>					
MF&L	1,018	1,150	(11.5)	370	175.0
Pantaloon	588	520	13.2	460	27.9
Others/ Adjustments	48	50	(3.8)	(10)	NM
<b>Total EBITDA</b>	<b>1,654</b>	<b>1,720</b>	<b>(3.8)</b>	<b>820</b>	<b>101.7</b>
<b>EBITDA margin</b>					
MF&L	8.2	9.8		3.5	
Pantaloon	7.0	7.2		6.3	
<b>EBITDA margin</b>	<b>8.0</b>	<b>9.1</b>		<b>4.6</b>	
PAT	609	649	(6.1)	(200)	NM

Source: Company data, I-Sec research; \*including other income

Table 4: FLFL: Q2FY18E EBITDA margin expected to remain flat on YoY basis

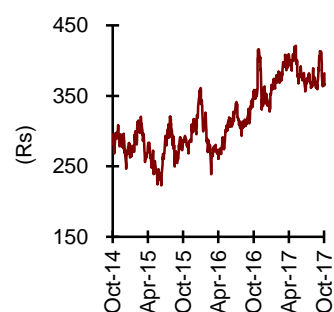
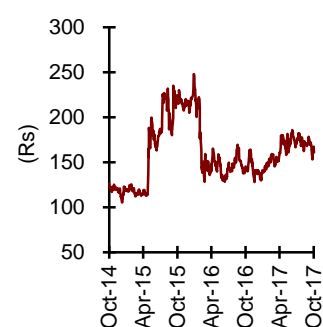
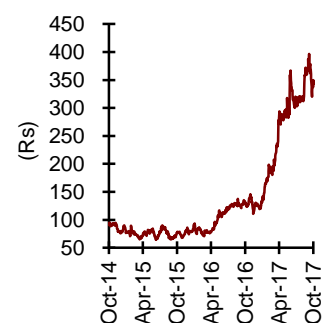
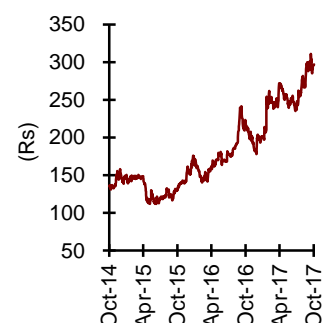
Rs mn	Q2FY18E	Q2FY17	% YoY	Q1FY18	% QoQ
Revenues	11,244	10,222	10.0	10,840	3.7
EBITDA	956	848	12.7	990	(3.5)
EBITDA margin	8.5	8.3		9.1	
PAT	268	73	269.0	320	(16)

Source: Company data, I-Sec research

**Table 5: Trent: Q2FY18E EBITDA margin expected to increase by 73bps YoY**

Rs mn	Q2FY18E	Q2FY17	% YoY	Q1FY18	% QoQ
Revenues	5,203	4,485	16.0	4,992	4.2
EBITDA	325	248	31.4	585	(44.4)
<b>EBITDA margin</b>	<b>6.3</b>	<b>5.5</b>		<b>11.7</b>	
PAT	256	211	21.5	382	(32.9)

Source: Company data, I-Sec research

**Price chart****Arvind****Aditya Birla Fashion****Future Lifestyle****Trent**

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