

Sustained investment in branding impacts profit

ABFRL reported a weak operational performance with numbers coming in below our estimates. A significant increase in advertisement spend and muted revenue growth in Pantaloons division impacted the overall performance. Revenues grew 9% YoY to ₹ 1915.3 crore mainly driven by steady growth in lifestyle brands. Higher employee expenses (up 36% YoY to ₹ 235 crore) coupled with aggressive marketing spends (~₹ 54 crore higher spend) and one time inventory markdown worth ₹ 10 crore, restricted EBITDA growth. EBITDA margins for the quarter fell 280 bps YoY to 6.5%.

Lifestyle brands continue to report steady revenue growth...

Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe, Peter England) reported healthy revenue growth of 12% YoY to ₹ 1132 crore, driven by SSSG of 6% and robust 53% growth in e-commerce space. Due to a significant increase in marketing spends (up by ~₹ 42 crore), EBITDA margins for the division declined 143 bps YoY to 14.9%. For FY19, lifestyle division achieved healthy revenue growth of 11% YoY to ₹ 4304 crore. The growth was fuelled by aggressive store additions (added 167 stores to 1980) and decent SSSG of 5.3%. With enhanced brand visibility owing to increased ad spend and sustained momentum in space addition, we model in 10% revenue CAGR for lifestyle brands in FY19-21E.

Weak SSSG impacts Pantaloons division...

Pantaloons division reported one of its worst performance in recent times with revenue de-growth of 1.2% YoY to ₹ 633.0 crore (Ind-As adjusted growth: 4%). SSSG declined 4.4% YoY in Q4FY19. The sales growth was impacted on account of advancement of EOSS in Q3FY19 and disruption in winter wear supply. EBITDA margins declined 200 bps YoY to 2.1% owing to one-time inventory markdown (₹ 10 crore), increase in ad-spends by ₹ 5 crore and negative operating leverage. Despite a subdued Q4FY19, Pantaloons exited FY19 with revenue growth of 12% and healthy margin expansion of 120 bps YoY to 7.2%. ABFRL added 33 Pantaloons stores in FY19 taking total store count to 308. The management has affirmed its guidance to add ~60 stores each year, mainly targeting tier II/III towns.

Valuation & Outlook

Despite a weak Q4FY19, ABFRL exited FY19 with steady overall revenue growth of 13% YoY to ₹ 8117.7 crore. ABFRL's foray into innerwear business witnessed significant traction with revenues growing 2x to ₹ 200 crore in FY19. Overall EBITDA margins remained constant at 6.8% on account of higher marketing spends especially in innerwear business and lifestyle brands. Factoring in the performance of Q4FY19, we revise our estimates downwards and expect revenue and EBITDA to grow at a CAGR of 13% and 24%, respectively, in FY19-21E. We believe the growth story remains intact with Q4FY19 being an exception. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 240 (FY21E 1.9x EV/sales).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	14,309.4
Total Debt (Mar-19) (₹ Crore)	1,703.0
Cash (Mar-19) (₹ Crore)	57.2
EV (₹ Crore)	15,955.2
52 week H/L	236 / 132
Equity Capital (₹ Crore)	773.5
Face Value (₹)	10.0

Key Highlights

- Lifestyle brands reported a healthy revenue growth of 12%/11% YoY for Q4FY19/FY19 respectively.
- Pantaloons' reported a revenue de-growth of 1.2% for Q4FY19. However for FY19 it exited with a strong revenue growth of 12%.
- Significant investment on Advertisement led to muted margin for Q4FY19.
- Maintain **BUY** recommendation with a target price of ₹ 240

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	6,602.9	7,172.1	8,117.7	9,219.9	10,400.3	13%
EBITDA	437.5	500.3	554.0	691.6	836.4	23%
PAT*	53.5	117.8	321.2	242.7	358.2	
EPS (₹)	0.7	1.5	4.2	3.1	4.6	
P/E (x)	266.4	121.2	44.6	59.0	39.9	
EV/Sales (x)	2.4	2.2	2.0	1.7	1.5	
EV/EBITDA (x)	37.1	32.1	28.8	22.9	18.6	
RoCE (%)	2.4	7.8	8.5	10.7	12.6	
RoE (%)	5.6	10.8	22.5	14.5	17.6	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	1915.3	2029.9	1753.6	9.2	2281.55	-16.1	Preponing of EOSS and tough market conditions resulted in soft revenue growth
Raw Material Expense	899.8	972.3	825.8	9.0	1,142.6	-21.3	
Employee Expenses	235.14	217.195	173.07	35.9	236.13	-0.4	Higher employee expenses is owing to commencement of new manufacturing facility and one-time provision of ₹ 9 crore under Minimum Wages Act
Rent	279.4	290.3	253.6	10.2	301.0	-7.2	
Other Expenses	376.53	385.7	337.91	11.4	428.85	-12.2	
EBITDA	124.5	164.4	163.3	-23.7	172.9	-28.0	
EBITDA Margin (%)	6.5	8.1	9.3	-281 bps	7.6	-108 bps	Higher marketing spends and one-time inventory markdown impacted profitability
Depreciation	72.9	74.8	87.04	-16.2	68.0	7.2	
Interest	45.3	47.0	42.7	6.2	48.0	-5.6	
Other Income	24.2	11.3	10.76	125.3	13.4	81.3	
PBT before Exceptional item	30.5	53.8	44.3	-31.1	70.2	-56.5	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	30.5	53.8	44.3	-31.1	70.2	-56.5	
Tax Outgo	-172.1	0.0	-68.8		0.0		Deferred tax assets: Q4FY19: ₹ 193 crore, Q4FY18: ₹ 68 crore
PAT	202.7	53.8	114.0	77.7	70.2	188.5	Adjusted PAT de-grew 33% YoY

Key Metrics

Lifestyle Brands

Revenues (₹ Crore)	1132.0	1106.4	1015.0	11.5	1137.0	-0.4	SSSG: 6%. e-commerce exhibits aggressive growth of 53%
Segment EBITDA Margin (%)	14.9	NA	16.4	-143 bps	11.6	332 bps	Margins decline owing to higher marketing spends

Pantaloon

Revenues (₹ Crore)	633.0	782.0	641.0	-1.2	961.0	-34.1	SSSG: (-4.4%). Preponing of EOSS and disruption in supply chain impacted growth
Segment EBITDA Margin (%)	2.1	NA	4.2	-216 bps	9.2	-710 bps	Margins at a multi-year low

Fast Fashion

Revenues (₹ Crore)	80.0	84.2	81.0	-1.2	102.0	-21.6	
Segment EBITDA Margin (%)	-6.3	NA	-6.2	-8 bps	-11.8	551 bps	

Other business

Revenues (₹ Crore)	107.0	107.3	65.0	64.6	106.0	0.9	Strong revenue growth on account of rapid scale up in innerwear business. Forayed into women's innerwear
Segment EBITDA	-24.0	NA	-12.0	100.0	-19.0		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY 19A	FY 20E			FY 21E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	8,117.7	9,333.1	9,219.9	-1.2	10,592.4	10,400.3	-1.8
EBITDA	554.0	759.0	691.6	-8.9	927.0	836.4	-9.8
EBITDA Margin (%)	6.8	8.1	7.5	-63 bps	8.8	8.0	-71 bps
PAT	321.2	261.0	242.7	-7.0	386.6	358.2	-7.3
EPS (₹)	4.2	3.4	3.1	-6.9	5.0	4.6	-7.4

Source: Company, ICICI Direct Research

Conference Call Highlights

Madura Fashions

- Lifestyle business is expected to see aggressive store expansion in FY20. The management highlighted that 'Peter England' brand will lead the store additions
- Other business (innerwear business/international brands) continued to report stellar revenue growth of 65% YoY to ₹ 107 crore. However, due to higher investments, EBITDA losses widened to ₹ 24 crore. For FY19, revenue grew 80% YoY to ₹ 369 crore with EBITDA loss coming in at ₹ 85 crore vs. ₹ 53 crore in FY18
- Innerwear business, which was expected to break even in FY20 is now expected to be closer to breakeven in FY21 as the company has additionally launched women's innerwear and is spending on expanding presence in the women's category
- The company has expanded its distribution network for the innerwear business to ~ 14000 units and is planning to expand the same to ~20,000-25000 stores in FY20 and ~ 30,000-40,000 stores by FY21. Also, ABFRL will launch Van Heusen men/women stores and expand its presence in large format stores. Losses in the innerwear business are expected to remain at FY19 levels
- Fast Fashion business ("Forever 21" and "People") revenues declined 10% YoY to ₹ 358 crore in FY19. However, owing to the rationalisation/store closure of unviable stores, EBITDA loss of ₹ 53 crore in FY18 narrowed down to ₹ 32 crore in FY19. The management is planning to gradually shift its procurement needs for Forever 21 through local sourcing. This would enable better gross margins
- The company has also decided to close down 'People' stores and convert existing stores to other brand store. People will be sold as a private label in Pantaloons store

Pantaloons division

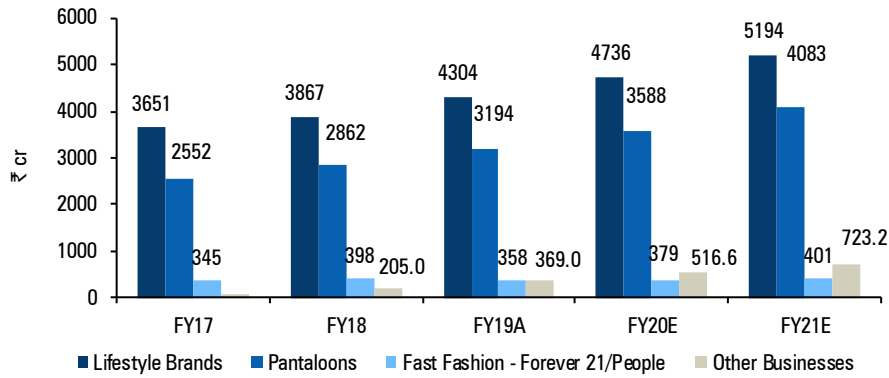
- EBITDA margins for the Pantaloons division improved 120 bps YoY to 7.2%. The management expects the margin improvement trajectory to continue over the next few years. The current share of private labels is ~62% while the company will focus on increasing the share, going ahead. This would act as a margin enhancement trigger
- On a net basis, Pantaloons added 33 new stores in FY19. The management expects to open ~60 stores in FY20 with 80% addition in non-metro cities

Other key points

- Overall capex to be around ₹ 350 crore in FY20
- Started new format 'Style Up' on a pilot project basis with 15 stores opened in East India & Uttar Pradesh. The product proposition is low value products of the ticket size of ~ ₹ 500-600. The focus of this format would be on Tier IV towns with 10 new stores likely to be opened in FY20
- The employee cost was higher during Q4FY19 owing to commencement of a new factory in Odisha. Also, the company provided for minimum wages to the tune of ₹ 9 crore as per new regulations
- Advertisement spend in FY19 has been higher by 100 bps. The company is likely to maintain spend at ~ FY19 level in FY20

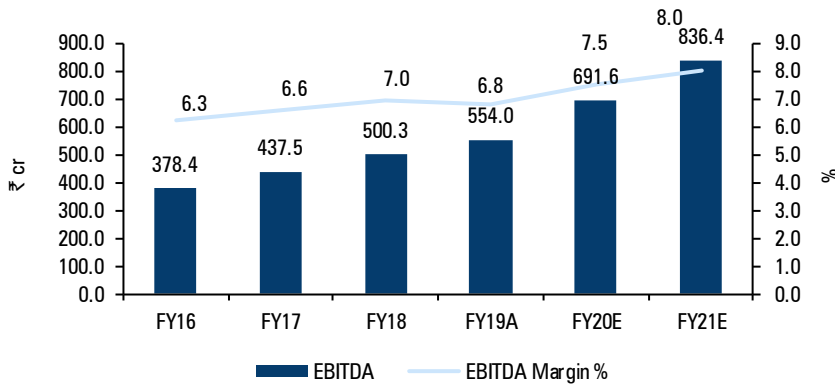
Financial story in charts

Exhibit 3: Consolidated revenues to grow at CAGR of 13% in FY19-21E



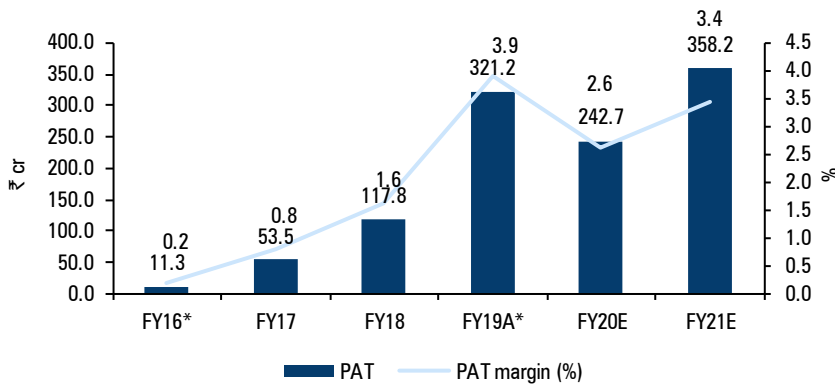
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax assets worth ₹ 193 crore

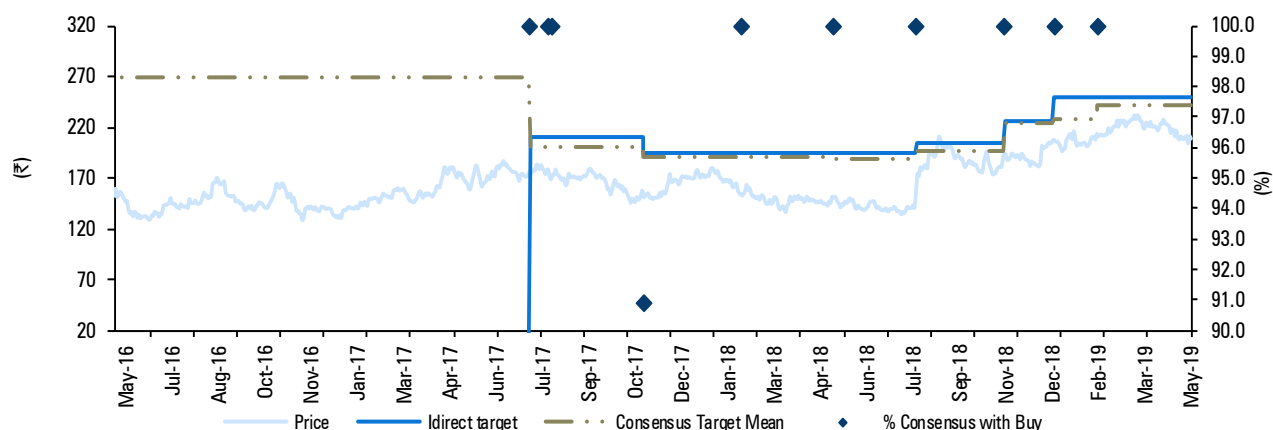
Exhibit 6: Valuation

Valuation metrics

Target EV/Sales multiple	1.9
2021E Sales	10,400.3
2021E EV	19,760.7
2021E Debt	1,461.8
2021E Cash	210.9
2021E Market Cap.	18,509.7
No. of shares	77.2
Target Price	240
CMP	185.0
Upside/(Downside)	30

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Aditya Birla Group	31-Mar-19	30.5	236.09
2	IGH Holdings Pvt. Ltd.	31-Mar-19	11.0	85.03
3	Umang Commercial Co., Ltd.	31-Mar-19	8.4	64.97
4	Trapti Trading & Investments Pvt. Ltd.	31-Mar-19	6.3	49.00
5	Reliance Nippon Life Asset Management Limited	31-Mar-19	4.8	37.40
6	UTI Asset Management Co. Ltd.	31-Mar-19	2.6	20.11
7	Birla Group Holdings Pvt. Ltd.	31-Mar-19	2.4	18.77
8	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-19	2.2	17.25
9	Life Insurance Corporation of India	31-Dec-18	2.2	16.86
10	Sundaram Asset Management Company Limited	30-Apr-19	1.9	14.73

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value (Mn)	Shares(Mn)	Investor name	Value (Mn)	Shares (Mn)
Invesco Asset Management (India) Private Limited	2.60	0.81	Life Insurance Corporation of India	-42.90	-14.74
Manulife Asset Management (Asia)	1.49	0.51	Reliance Nippon Life Asset Management Limited	-8.71	-2.73
Sophus Capital	1.59	0.50	HSBC Global Asset Management (Hong Kong) Limited	-6.32	-2.43
Columbia Threadneedle Investments (US)	1.44	0.45	Goldman Sachs Asset Management International	-2.06	-0.65
Aditya Birla Sun Life AMC Limited	1.23	0.39	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.83	-0.58

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	59.2	59.2	59.2	59.2	59.1
FII	12.2	11.0	10.1	10.0	10.5
DII	14.2	16.1	17.8	19.0	18.1
Others	14.4	13.7	12.9	11.8	12.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Gross Revenue	7,172.1	8,117.7	9,219.9	10,400.3
Growth (%)	8.6	13.2	13.6	12.8
Cost of Sales	3,390.1	3,925.0	4,434.2	4,987.4
Employee Costs	772.3	913.0	1,021.0	1,107.3
Administration & Other Exp	2,509.4	2,725.7	3,073.2	3,469.3
EBITDA	500.3	554.0	691.6	836.4
Growth (%)	14.4	10.7	24.8	20.9
Depreciation	280.5	282.3	322.1	366.1
EBIT	219.8	271.7	369.5	470.4
Interest	171.6	187.4	167.3	153.5
Other Income	32.8	64.8	40.5	41.3
PBT	81.0	149.0	242.7	358.2
Growth (%)	51.3	84.1	62.9	47.6
Tax	(68.8)	(172.1)	-	-
Adjusted PAT	149.8	321.2	242.7	358.2
Exceptional Items	(32.0)	-	-	-
Reported PAT	117.8	321.2	242.7	358.2
Growth (%)	120.2	172.7	(24.4)	47.6
EPS	1.5	4.2	3.1	4.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Profit after Tax	117.8	321.2	242.7	358.2
Add: Interest Expense	171.6	187.4	167.3	153.5
Add: Depreciation	280.5	282.3	322.1	366.1
Add: Others	-	-	-	-
Increase/(Decrease) in CL	625.2	697.1	179.0	273.9
(Increase)/Decrease in CA	(554.4)	(953.2)	(268.1)	(399.3)
CF from Operating Activities	640.7	534.8	642.9	752.4
(Add) / Dec in Fixed Assets	(401.6)	(248.8)	(340.2)	(339.0)
Goodwill	5.0	16.7	-	-
(Inc)/Dec in Investments	(4.2)	-	(0.2)	(0.2)
CF from Investing Activities	(400.9)	(232.0)	(340.5)	(339.2)
Inc/(Dec) in Loan Funds	(183.2)	(158.4)	(109.9)	(131.3)
Inc/(Dec) in Sh. Cap. & Res.	1.2	1.8	-	-
Others	(34.7)	(161.6)	(167.3)	(153.5)
CF from financing activities	(216.7)	(318.2)	(277.2)	(284.8)
Change in cash Eq.	23.1	(15.4)	25.3	128.3
Op. Cash and cash Eq.	49.6	72.6	57.2	82.5
Cl. Cash and cash Eq.	72.6	57.2	82.5	210.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Source of Funds				
Equity Capital	771.7	773.5	773.5	773.5
Reserves & Surplus	321.4	655.4	898.1	1,256.3
Shareholder's Fund	1,093.1	1,428.9	1,671.6	2,029.8
Total Loan Funds	1,861.5	1,703.0	1,593.1	1,461.8
Other Non Current Liabilities	7.2	-	-	-
Minority Interest	-	-	-	-
Source of Funds	3,115.2	3,305.6	3,438.4	3,665.3
Application of Funds				
Gross Block	1,083.1	1,355.3	1,695.1	2,033.6
Less: Acc. Depreciation	(436.6)	(718.9)	(1,041.0)	(1,407.0)
Net Block	646.5	636.4	654.1	626.6
Capital WIP	45.9	22.4	22.8	23.3
Total Fixed Assets	692.3	658.8	676.9	649.9
Goodwill	1,935.9	1,919.1	1,919.1	1,919.1
Investments	4.2	4.2	4.4	4.6
Inventories	1,691.2	1,921.3	2,172.4	2,450.5
Debtors	551.8	786.6	783.1	883.3
Cash	72.6	57.2	82.5	210.9
Loan & Advance, Other CA	785.6	1,274.0	1,294.6	1,315.5
Total Current assets	3,101.3	4,039.1	4,332.5	4,860.2
Creditors	2,009.3	2,398.6	2,576.5	2,849.4
Provisions & Other CL	609.2	917.0	918.1	919.1
Total CL and Provisions	2,618.5	3,315.6	3,494.6	3,768.5
Net Working Capital	482.8	723.5	837.9	1,091.7
Miscellaneous expense	-	-	-	-
Application of Funds	3,115.2	3,305.6	3,438.4	3,665.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Per share data (₹)				
Book Value	14.2	18.5	21.6	26.2
EPS	1.5	4.2	3.1	4.6
Cash EPS	0.9	0.7	1.1	2.7
DPS	-	-	-	-
Profitability & Operating Ratios				
EBITDA Margin (%)	7.0	6.8	7.5	8.0
PAT Margin (%)	1.6	4.0	2.6	3.4
Fixed Asset Turnover (x)	2.4	2.6	2.8	3.0
Inventory Turnover (Days)	86.0	86.4	86.0	86.0
Debtor (Days)	28.0	35.4	31.0	31.0
Current Liabilities (Days)	102.1	107.8	102.0	100.0
Return Ratios (%)				
RoE	10.8	22.5	14.5	17.6
RoCE	8.5	10.7	12.6	14.7
RolC	20.7	20.8	26.1	31.1
Valuation Ratios (x)				
PE	121.2	44.6	59.0	39.9
Price to Book Value	13.1	10.0	8.6	7.0
EV/EBITDA	32.1	28.8	22.9	18.6
EV/Sales	2.2	2.0	1.7	1.5
Leverage & Solvency Ratios				
Debt to equity (x)	1.7	1.2	1.0	0.7
Interest Coverage (x)	1.3	1.4	2.2	3.1
Debt to EBITDA (x)	3.7	3.1	2.3	1.7
Current Ratio	1.2	1.2	1.2	1.2
Quick ratio	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Retail)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bata India	1,350	1,300	Hold	17,363	17.4	25.3	30.1	77.5	53.3	44.9	43.4	31.0	26.2	19.9	25.1	25.8	15.1	19.0	19.7
Shoppers Stop (SHOSTO)	455	510	Hold	4,002	1.3	9.0	11.9	345.0	50.8	38.2	19.3	15.9	13.8	9.6	11.6	14.4	1.2	8.1	9.8
Titan Company (TITIND)	1,095	1,290	Buy	97,213	12.7	15.8	21.5	86.0	69.2	50.9	58.8	45.0	35.3	29.3	32.3	33.7	22.2	23.1	25.6
Trent	374	415	Buy	12,422	2.6	2.9	5.1	142.8	131.0	73.0	61.2	54.5	41.8	10.0	10.1	12.1	5.5	5.8	9.7
ABFRL	185	240	Buy	14,309	1.5	4.2	3.1	121.2	44.6	59.0	32.1	28.8	22.9	8.5	10.7	12.6	10.8	22.5	14.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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