

Foray into ethnic wear to enrich product portfolio...

ABFRL has a strong presence in the menswear segment (formal and casual wear). However, ABFRL does not have a foothold in the Indian ethnic wear segment, which is growing in mid-teens. To strengthen its presence in the ethnic wear segment, ABFRL in the last month has done an acquisition of two brands viz. 'Jaypore' and 'Shantanu and Nikhil'.

Key highlights...

- On the overall business front, we believe the apparel category was not as severely impacted as some other consumption categories like Auto. Apparel demand for their products is growing at a reasonable pace and could continue to grow at mid to higher single digits in the near term. Q1 is generally a less significant quarter for ABFRL owing to lack of major revenue growth triggers. Q2FY20 could be characterized with dual revenue growth scenarios. July to Mid-August could see a lower revenue growth trajectory. However, from mid-August, revenue growth should start to pick up on back of festive buying (preponement of certain festivals).
- ABFRL's acquisition of two ethnic wear brands Jaypore & Shantanu and Nikhil would provide the company a foothold into the Indian ethnic wear segment and fill the gaps in the existing product portfolio.
- Jaypore is an Indian retailer of ethnic fashion merchandise (apparel home textiles and accessories). ABFRL acquired 100% stake in Jaypore (FY19 revenue of ₹ 39 crore) for a consideration of ₹ 104 crore, valuing the acquisition at 2.7x EV/sales.
- The brand Shantanu and Nikhil is a super-premium brand with product assortment at higher price points which could yield healthy gross margin. The brand generated revenue of ₹ 35 crore in FY19 (acquisition cost ₹ 60 crore for 51% stake, implied valuation of 3.4x EV/sales). ABFRL could launch prêt lines of Shantanu and Nikhil at lower price points to scale up the brand. Both these acquisitions are expected to be funded through internal accruals with debt expected to remain at ~ FY19 level. The brand Shantanu and Nikhil has five stores while Jaypore has two stores. ABFRL can expand the store footprint for both these brands.

Valuation and outlook

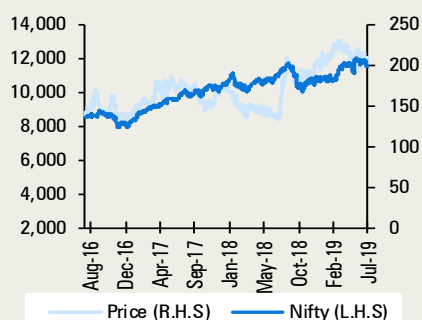
We continue to like ABFRL due to its strong brand portfolio of lifestyle brands and improving profitability metrics for Pantaloon. The ethnic wear acquisition would provide ABFRL an existing ecosystem (designing team, supply chain, dealer network, etc) in an underpenetrated category, which can be scaled up. Since the contribution to overall revenues (~1%) is not material as of now, we do not incorporate the same in our estimates. We pencil in a revenue and EBITDA CAGR of 13% and 23%, respectively, for FY19-21E. We have a **BUY** rating on the stock with a target price of ₹ 240 (1.9x FY21E EV/sales).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	15,701.6
Total Debt (Mar-19) (₹ Crore)	1,703.0
Cash (Mar-19) (₹ Crore)	57.2
EV (₹ Crore)	17,347.4
52 week H/L	236 / 132
Equity Capital (₹ Crore)	773.5
Face Value (₹)	10.0

Price Chart



Key Highlights

- Acquisition of brands Jaypore, Shantanu & Nikhil would provide ABFRL a foothold into the Indian ethnic wear segment
- The brand Shantanu and Nikhil has a revenue of ₹35 crore, while revenues for Jaypore was at ₹ 39 crore for FY19
- Maintain BUY with 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	225.2	340.9	
P/E (x)	292.4	133.0	48.9	69.7	46.1	
EV/Sales (x)	2.7	2.4	2.1	1.9	1.7	
EV/EBITDA (x)	40.3	34.9	31.3	25.2	20.5	
RoCE (%)	2.4	7.8	8.5	10.7	12.1	
RoE (%)	5.6	10.8	22.5	13.6	17.1	

Source: Company. ICICI Direct Research. The company has recognized deferred tax assets worth ₹ 193.9 crore and ₹ 68.8 crore in FY19 and FY18, respectively.

Exhibit 1: Profit & Loss Statement

(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	184.8	170.9
Other Income	32.8	64.8	40.5	41.3
PBT	81.0	149.0	225.2	340.9
Growth (%)	51.3	84.1	51.1	51.3
Tax	(68.8)	(172.1)	-	-
Adjusted PAT	149.8	321.2	225.2	340.9
Exceptional Items	(32.0)	-	-	-
Reported PAT	117.8	321.2	225.2	340.9
Growth (%)	120.2	172.7	(29.9)	51.3
EPS	1.5	4.2	2.9	4.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Profit after Tax	117.8	321.2	225.2	340.9
Add: Interest Expense	171.6	187.4	184.8	170.9
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)	-	(170.8)	(3.5)
CF from Investing Activities	(400.9)	(232.0)	(511.0)	(342.5)
Inc/(Dec) in Loan Funds	(183.2)	(158.4)	40.1	(131.3)
Inc/(Dec) in Sh. Cap. & Res.	1.2	1.8	-	-
Others	(34.7)	(161.6)	(184.8)	(170.9)
CF from financing activities	(216.7)	(318.2)	(144.7)	(302.2)
Change in cash Eq.	23.1	(15.4)	(12.8)	107.7
Op. Cash and cash Eq.	49.6	72.6	57.2	44.4
Cl. Cash and cash Eq.	72.6	57.2	44.4	152.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(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	880.6	1,221.5
Shareholder's Fund	1,093.1	1,428.9	1,654.1	1,995.0
Total Loan Funds	1,861.5	1,703.0	1,743.1	1,611.8
Other Non Current Liabilities	7.2	-	-	-
Minority Interest	-	-	-	-
Source of Funds	3,115.2	3,305.6	3,570.9	3,780.4
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	175.0	178.5
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	44.4	152.1
Loan & Advance, Other CA	785.6	1,274.0	1,294.6	1,315.5
Total Current assets	3,101.3	4,039.1	4,294.4	4,801.4
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	799.9	1,033.0
Miscellaneous expense	-	-	-	-
Application of Funds	3,115.2	3,305.6	3,570.9	3,780.4

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY 18	FY 19A	FY 20E	FY 21E
Per share data (₹)				
Book Value	14.2	18.5	21.4	25.8
EPS	1.5	4.2	2.9	4.4
Cash EPS	5.6	7.8	7.1	9.1
DPS	-	-	-	-
Profitability & Operating Ratios				
EBITDA Margin (%)	7.0	6.8	7.5	8.0
PAT Margin (%)	1.6	4.0	2.4	3.3
Fixed Asset Turnover (x)	2.4	2.6	2.7	2.9
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	13.6	17.1
RoCE	8.5	10.7	12.1	14.2
RoIC	20.7	20.8	23.3	27.9
Valuation Ratios (x)				
PE	133.0	48.9	69.7	46.1
Price to Book Value	14.3	11.0	9.5	7.9
EV/EBITDA	34.9	31.3	25.2	20.5
EV/Sales	2.4	2.1	1.9	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	1.7	1.2	1.1	0.8
Interest Coverage (x)	1.3	1.4	2.0	2.8
Debt to EBITDA (x)	3.7	3.1	2.5	1.9
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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