

Aditya Birla Fashion

Refer to important disclosures at the end of this report

Addressing high cost structure and leverage concerns

CMP: Rs 108
as of (May 27, 2020)

TP: Rs 150 (▼)
12 months

Rating: BUY (■)

Upside: 38.8 %

- Revenues declined 5% to Rs18bn, in line with expectations and affected by the lockdown in March. Higher fixed-cost structure and increased costs of expansion in Q4 resulted in a sharper fall in profitability with comparable EBITDA loss of Rs569mn.
- Around one-third of the stores have reopened so far, with more expected to open in coming weeks. Management highlighted several initiatives to reduce its high cost structure and become leaner in the future. Favorable outcome of rental negotiations may provide upsides.
- Debt has increased to Rs27bn, however, management expects that conversion of inventory into sales releasing substantial cash, lower capex, and fund infusion through rights issue of Rs10bn will further improve the liquidity and help lower debt in future.
- We cut our FY21-22 forecasts sharply due to the extension of the lockdown and delays in reopening of stores against our earlier expectations. Cost saving and balance sheet strengthening initiatives are positive. We maintain Buy/OW in EAP, with a revised TP of RS150 (from Rs220), based on 20x FY22 comparable EBITDA.

Sales decline 5%; indicating healthy growth pre-Covid-19: Revenues declined 5% to Rs18.2bn. Both Lifestyle (55% of sales) and Pantaloons (35% of sales) delivered ~10% LTL growth in Jan-Feb'20 but store shutdown in the second half of Mar'20 impacted Q4, resulting in sales a fall of 5% and 1%. The innerwear segment saw strong growth (~70% YoY) in H1FY20 but growth moderated in H2FY20 due to liquidity issues in the market, leading to ~42% YoY growth in FY20. With lockdown restriction easing around, 1,300 stores have opened (out of 3,041 total stores) with more expected to open in coming weeks. Management is likely to focus on selling its existing inventory and address the changing demand for apparels. New store addition is expected to remain sluggish as capex will be curtailed.

Higher overhead cost structure result in steeper impact on profitability: High overhead cost structure and aggressive retail expansion further increasing costs resulted in a comparable EBITDA loss of Rs569mn. Normalized for Covid-19 impact, comparable EBITDA would have been flat. Management highlighted substantial cost saving initiatives, including reduction in retail staff, 50-75% cut in discretionary spends like Advertisements, Travel and Communications in FY21E (Combined ~7.5% of sales in FY19) and rental negotiations.

Initiatives on cost savings and improving balance sheet positive; maintain Buy: Near-term profitability impact will be severe and hence, we cut FY21-22 forecasts sharply factoring in delays in store reopening. However, initiatives on cost savings and cash flow and liquidity improvement (incl. rights issue) appear positive. Post the steep correction, the stock now trades at 14x FY22 EBITDA. Maintain Buy, with a revised TP of Rs150 (from Rs220), based on 20x FY22 comparable EBITDA.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	81,177	87,425	71,190	84,194	95,807
EBITDA	5,541	12,254	11,245	13,887	15,879
EBITDA Margin (%)	6.8	14.0	15.8	16.5	16.6
APAT	2,524	(1,452)	(398)	819	1,628
EPS (Rs)	3.3	(1.9)	(0.5)	1.1	2.1
EPS (% chg)	414.0	(157.5)	0.0	0.0	98.7
ROE (%)	20.0	(11.7)	(3.8)	7.7	13.7
P/E (x)	33.1	(57.6)	(210.3)	102.1	51.4
EV/EBITDA (x)	18.1	8.9	9.3	7.5	6.4
P/BV (x)	5.8	7.9	8.2	7.6	6.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(128)/(69)
Target Price change (%)	(31.8)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(0.5)	1.1
Consensus	1.2	4.2
Mean Consensus TP (12M)	Rs 200	

Stock Details

Bloomberg Code	ABFRL IN
Face Value (Rs)	10
Shares outstanding (mn)	774
52 Week H/L	286 / 97
M Cap (Rs bn/USD bn)	84 / 1.10
Daily Avg Volume (nos.)	16,25,796
Daily Avg Turnover (US\$ mn)	3.1

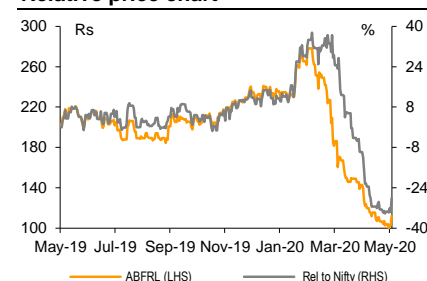
Shareholding Pattern Mar '20

Promoters	59.1%
FIIs	8.4%
DIIIs	21.3%
Public and Others	11.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(59)	(51)	(48)
Rel. to Nifty	(7)	(48)	(36)	(34)

Relative price chart



Source: Bloomberg

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Ashit Desai

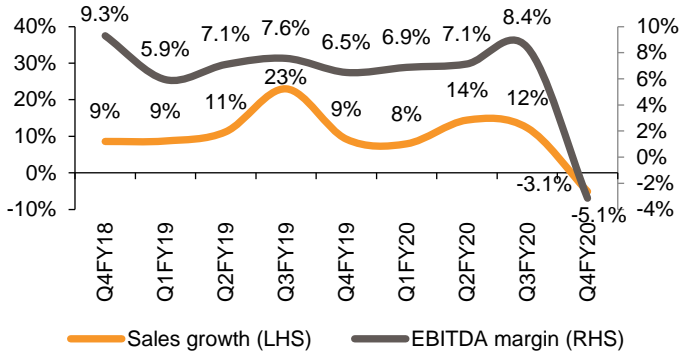
ashit.desai@emkayglobal.com
+91 22 6612 1340

Devanshu Bansal

devanshu.bansal@emkayglobal.com
+91 22 6612 1385

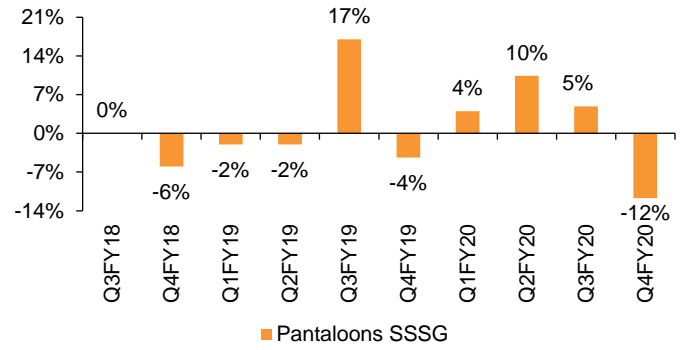
Story in Charts

Exhibit 1: Covid-19 impacted margins and revenues, Normalized margins and rev growth stayed strong



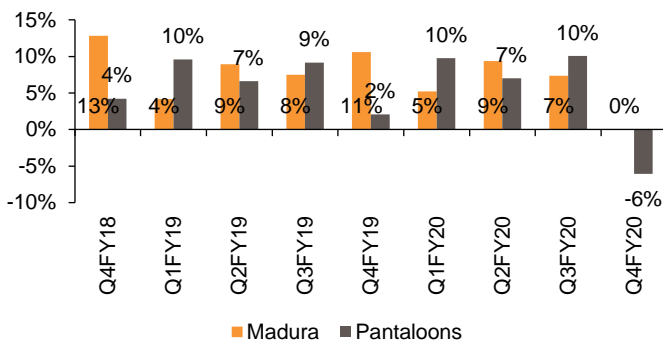
Source: Company, Emkay Research

Exhibit 2: Both Pantaloons and Lifestyle delivered 10% SSSG in Jan-Feb'20 but store closures in Mar'20 impacted overall Q4 SSSG



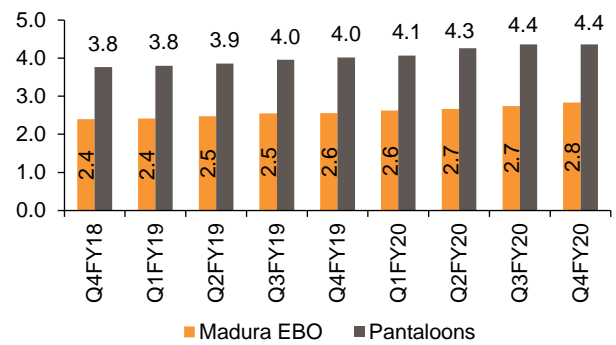
Source: Company, Emkay Research

Exhibit 3: Margins declined across both Madura and Pantaloons due to higher fixed cost structure



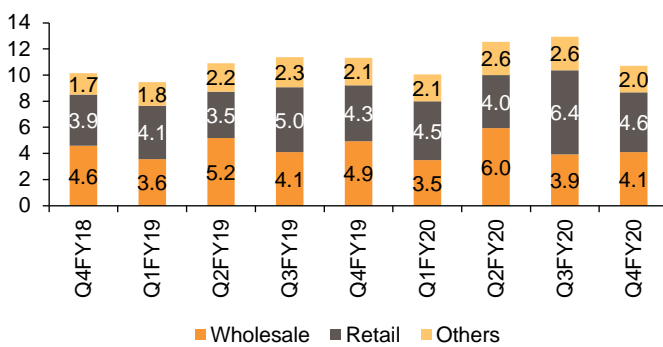
Source: Company, Emkay Research

Exhibit 4: New space addition to remain subdued in FY21E due to focus on cash conservation and inventory liquidation



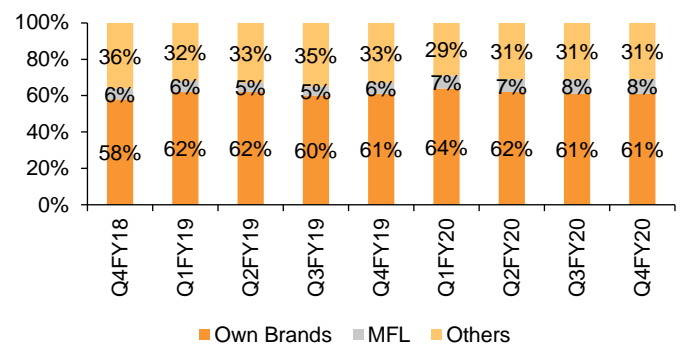
Source: Company, Emkay Research

Exhibit 5: Wholesale channel significantly impacted



Source: Company, Emkay Research

Exhibit 6: Pantaloons' share of own brands remained constant



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q3FY20)

Rs mn	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
SALES	18,174	18,195	18,254	5.4%	-0.4%	Revenues were in line with expectations
EBITDA	1,561	2,490	1,444	-16.6%	8.1%	Margins disappointed due to higher fixed cost structure
EBITDA margin (%)	8.6%	13.7%	7.9%	-2.26%	0.68%	Comparable margins declined 950bps YoY
PAT	-1,403	-405	-735	208.3%	90.9%	Net loss was higher than our street estimates

Source: Company, Emkay Research

Exhibit 8: Profitability adjustment for IND AS 116

	Q4FY20			FY20			FY21e		
	Reported	Impact	Comparable	Post INDAS	Impact	Comparable	Post INDAS	Impact	Comparable
Revenue	18,174		18,174	87,425		87,425	71,190		71,190
Rent expense	1,062	2,130	3,192	4,869	15,719	20,589	4,139	14,015	18,154
EBITDA	1,561	-2,130	-569	12,254	-7,599	4,655	11,245	-6,459	4,786
Other income	169	-29	140	650	-128	522	673	-151	522
Depreciation	2,325	-1,733	592	8,768	-6,281	2,488	8,117	-5,338	2,778
Interest cost	1,186	-543	643	4,098	-1,975	2,123	4,182	-1,679	2,503
PBT	-1,782	117	-1,665	-91	528	437	-532	407	-125

Source: Company, Emkay Research

Exhibit 9: Changes in Estimates

Y/E, Mar (Rs. mn)	FY21E			FY22E			FY23E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenues	91621	71,190	-22.3	106751	84,194	-21.1	95,807
Comparable EBITDA	7083	4,786	-32.4	9080	6,517	-28.2	7,697
EBITDA Margin (%)	7.7	6.7	-100 bps	8.5	7.7	-80 bps	8.0
PAT	1396	-398	-128.5	2636	819	-68.9	1,628
EPS (Rs)	1.8	-0.5	-128.5	3.4	1.1	-68.9	2.1

Source: Company, Emkay Research

Exhibit 10: Quarterly performance (Standalone)

Y/E, Mar (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20
Revenue	19,153	20,655	22,972	25,625	18,174	-5.1	-29.1	81,177	87,425
Expenditure	17,908	17,514	19,510	21,534	16,614	-7.2	-22.8	75,637	75,172
Consumption of RM	8,998	9,483	11,418	12,301	8,856	-1.6	-28.0	39,250	42,058
as % of sales	47.0%	45.9%	49.7%	48.0%	48.7%			48.4%	48.1%
Employee Cost	2,351	2,601	2,477	2,757	2,749	16.9	-0.3	9,130	10,584
as % of sales	12.3%	12.6%	10.8%	10.8%	15.1%			11.2%	12.1%
Rental Cost	2,794	1,223	1,020	1,565	1,062	-62.0	-32.2	11,104	4,869
as % of sales	14.6%	5.9%	4.4%	6.1%	5.8%			13.7%	5.6%
Other expenditure	3,765	4,207	4,596	4,910	3,948	4.8	-19.6	16,153	17,661
as % of sales	19.7%	20.4%	20.0%	19.2%	21.7%			19.9%	20.2%
EBITDA	1,245	3,141	3,462	4,091	1,561	25.3	-61.9	5,541	12,254
Depreciation	729	2,022	2,213	2,208	2,325		5.3	2,823	8,768
EBIT	516	1,118	1,248	1,883	-764	-248.2	-140.6	2,717	3,486
Other Income	242	175	162	145	169		16.6	648	651
Interest	453	942	1,052	1,047	1,186		13.3	1,874	4,227
PBT	305	351	358	981	-1,782	-683.8	-281.6	1,491	-91
Total Tax	-1,721	136	289	1,315	-379			-1,721	1,361
Reported PAT	2,026	216	69	-334	-1,403	-169.2	320.5	3,212	-1,452
(Profit)/loss from JV's/Ass/MI	0.0	0.0	0.0	0.0	0			0	0
APAT after MI	2,026	216	69	-334	-1,403	-169.2	320.5	3,212	-1,452
Extra ordinary items	-1,940	0	0	0	0		-	-1,940	0
Adjusted PAT	87	216	69	-334	-1,403		320.5	1,273	-1,452
Adjusted EPS	0.1	0.3	0.1	-0.4	-1.8		320.3	1.6	-1.9
Margins (%)						(bps)	(bps)		
EBIDTA	6.5	15.2	15.1	16.0	8.6	210	-740	6.8	14.0
EBIT	2.7	5.4	5.4	7.3	-4.2	-690	-1,160	3.3	4.0
EBT	1.6	1.7	1.6	3.8	-9.8	-1,140	-1,360	1.8	-0.1
PAT	10.6	1.0	0.3	-1.3	-7.7	-1,830	-640	4.0	-1.7
Effective Tax rate	-564.0	38.6	80.7	134.0	21.3			-115.4	-1497.2

Source: Company, Emkay Research

Exhibit 11: Segment performance

Quarterly Summary - Standalone	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20
Segment Revenues									
Madura	13,190	12,110	14,630	15,320	12,290	-6.8	-19.8	50,300	54,350
Pantaloons	6,330	8,900	9,150	10,830	6,260	-1.1	-42.2	31,940	35,140
Less: Intersegmental	380	340	810	520	380	0.0	-26.9	1,080	2,050
Total	19,140	20,670	22,970	25,630	18,170	-5.1	-29.1	81,160	87,440
Segment EBIT									
Madura	994	495	1,044	947	-227	-122.8	-124.0	2,634	2,259
Pantaloons	-193	741	500	998	-394	103.8	-139.5	868	1,845
Less: Intersegmental	49	-26	217	-15	51	2.2	-441.2	154	227
Total	751	1,262	1,327	1,960	-671	-189.4	-134.2	3,348	3,878
Segment Margins (%)						(bps)	(bps)		
Madura	7.5	4.1	7.1	6.2	-1.8	-940 bps	-800 bps	5.2	4.2
Pantaloons	-3.1	8.3	5.5	9.2	-6.3	-320 bps	-1550 bps	2.7	5.3
Total	3.9	6.1	5.8	7.6	-3.7	-760 bps	-1130 bps	4.1	4.4

Source: Company, Emkay Research

Exhibit 12: Peer comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	TP (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Titan Company	886	786	Buy	1,100	16.6	19.4	24.0	53.2	45.8	37.0	33.9	29.2	23.8
Jubilant FoodWorks	1,689	223	Buy	1,680	24.1	22.1	34.9	70.0	76.4	48.4	24.5	26.5	19.9
Page Industries	18,587	207	Hold	18,200	337.6	359.4	454.8	55.1	51.7	40.9	35.9	33.5	26.8
ABFRL	108	84	Buy	150	(1.9)	-0.5	1.1	-57.6	-210.3	102.1	8.9	9.3	7.5
Shoppers Stop	133	12	Hold	225	3.4	2.8	7.7	39.6	46.9	17.2	1.8	1.4	1.2

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	81,177	87,425	71,190	84,194	95,807
Expenditure	75,637	75,172	59,945	70,307	79,929
EBITDA	5,541	12,254	11,245	13,887	15,879
Depreciation	2,823	8,768	8,117	9,189	10,300
EBIT	2,717	3,486	3,128	4,698	5,579
Other Income	648	522	522	615	726
Interest expenses	1,874	4,098	4,182	4,218	4,129
PBT	1,491	(91)	(532)	1,095	2,176
Tax	(1,721)	1,361	(134)	276	548
Extraordinary Items	1,940	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,464	(1,452)	(398)	819	1,628
Adjusted PAT	2,524	(1,452)	(398)	819	1,628

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	7,735	7,739	7,739	7,739	7,739
Reserves & surplus	6,554	2,863	2,465	3,284	4,912
Net worth	14,289	10,602	10,204	11,024	12,651
Minority Interest	0	0	0	0	0
Loan Funds	17,029	50,209	49,209	46,209	43,209
Net deferred tax liability	(2,634)	(3,331)	(3,331)	(3,331)	(3,331)
Total Liabilities	28,684	57,480	56,082	53,901	52,529
Net block	25,555	47,611	46,333	45,735	45,196
Investment	42	42	42	42	42
Current Assets	37,756	43,659	37,556	40,603	44,000
Cash & bank balance	574	180	3,160	1,510	119
Other Current Assets	10,018	11,521	13,249	15,237	17,522
Current liabilities & Provision	34,893	34,055	28,072	32,701	36,933
Net current assets	2,863	9,603	9,484	7,901	7,067
Misc. exp	0	0	0	0	0
Total Assets	28,684	57,480	56,083	53,902	52,529

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	843	(613)	(1,053)	480	1,450
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,429)	(7,134)	3,099	(68)	(557)
Operating Cashflow	4,944	3,758	14,478	13,543	14,773
Capital expenditure	(2,320)	(9,081)	(6,838)	(8,591)	(9,762)
Free Cash Flow	2,624	(5,322)	7,640	4,952	5,012
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,672)	(8,559)	(6,317)	(7,975)	(9,036)
Equity Capital Raised	34	5	0	0	0
Loans Taken / (Repaid)	(1,586)	8,500	(1,000)	(3,000)	(3,000)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(3,426)	4,407	(5,181)	(7,218)	(7,129)
Net chg in cash	(154)	(394)	2,980	(1,650)	(1,391)
Opening cash position	728	574	180	3,160	1,510
Closing cash position	574	180	3,160	1,510	119

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	6.8	14.0	15.8	16.5	16.6
EBIT Margin	3.3	4.0	4.4	5.6	5.8
Effective Tax Rate	(115.4)	(1,497.2)	25.2	25.2	25.2
Net Margin	4.0	(1.7)	(0.6)	1.0	1.7
ROCE	11.7	13.0	11.4	17.5	22.1
ROE	20.0	(11.7)	(3.8)	7.7	13.7
RoIC	9.8	8.2	5.7	9.0	10.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	3.3	(1.9)	(0.5)	1.1	2.1
CEPS	6.9	9.5	10.0	12.9	15.4
BVPS	18.5	13.7	13.2	14.2	16.3
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	33.1	(57.6)	(210.3)	102.1	51.4
P/CEPS	15.6	11.4	10.8	8.4	7.0
P/BV	5.8	7.9	8.2	7.6	6.6
EV / Sales	1.2	1.3	1.5	1.2	1.1
EV / EBITDA	18.1	8.9	9.3	7.5	6.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	1.2	2.4	2.1	1.8	1.5
Net Debt/EBIDTA	3.0	2.1	1.9	1.4	1.2
Working Cap Cycle (days)	10.3	39.3	32.4	27.7	26.5

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13.2	7.7	(18.6)	18.3	13.8
EBITDA	18.3	121.2	(8.2)	23.5	14.3
EBIT	44.7	28.3	(10.3)	50.2	18.7
PAT	278.9	(132.5)	0.0	0.0	98.7

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	19,153	20,655	22,972	25,625	18,174
EBITDA	1,245	3,141	3,462	4,091	1,561
EBITDA Margin (%)	6.5	15.2	15.1	16.0	8.6
PAT	2,026	216	69	(334)	(1,403)
EPS (Rs)	2.6	0.3	0.1	(0.4)	(1.8)

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	59.1	59.1	59.1	59.1	59.1
FII	9.9	9.8	9.7	9.4	8.4
DII	18.1	18.4	20.3	20.5	21.3
Public and Others	12.9	12.7	10.9	11.0	11.2

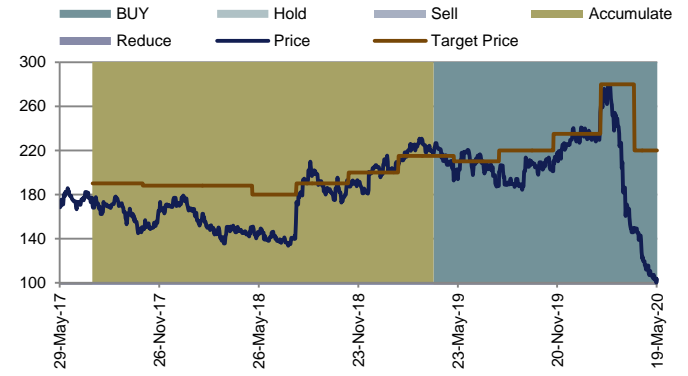
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Apr-20	146	220	12m	Buy	Ashit Desai
08-Apr-20	149	220	12m	Buy	Ashit Desai
07-Feb-20	261	280	12m	Buy	Ashit Desai
25-Dec-19	228	235	12m	Buy	Ashit Desai
13-Nov-19	210	235	12m	Buy	Ashit Desai
20-Sep-19	201	220	12m	Buy	Ashit Desai
06-Aug-19	200	220	12m	Buy	Ashit Desai
16-May-19	195	210	12m	Buy	Ashit Desai
09-Apr-19	218	215	12m	Buy	Ashit Desai
04-Feb-19	207	215	12m	Accumulate	Ashit Desai
05-Nov-18	193	200	12m	Accumulate	Ashit Desai
02-Aug-18	173	190	12m	Accumulate	Ashit Desai
14-May-18	150	180	12m	Accumulate	Ashit Desai
27-Oct-17	149	188	12m	Accumulate	Sameep Kasbekar
27-Sep-17	153	190	12m	Accumulate	Sameep Kasbekar
27-Jul-17	170	190	12m	Accumulate	Sameep Kasbekar

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



Analyst: Ashit Desai

Contact Details

ashit.desai@emkayglobal.com
+91 22 6612 1340

Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Goods & Retail	14.41	14.41	0%	0	100.00
Asian Paints	1.52	0.68	-55%	-84	4.72
Berger Paints	0.23	0.00	-100%	-23	0.00
Britannia Industries	0.77	1.11	44%	34	7.70
Colgate-Palmolive	0.35	0.50	43%	15	3.48
Dabur India	0.50	0.60	19%	10	4.17
Emami	0.09	0.00	-100%	-9	0.00
Godrej Consumer Products	0.45	0.00	-100%	-45	0.00
Hindustan Unilever	3.65	3.11	-15%	-53	21.60
ITC	3.37	3.80	13%	43	26.38
Marico	0.34	0.33	-4%	-2	2.28
Nestle India	1.23	0.99	-20%	-24	6.83
Pidilite Industries	0.45	0.00	-100%	-45	0.00
Radico Khaitan	0.00	0.31	NA	31	2.17
United Breweries	0.13	0.72	451%	59	5.02
United Spirits	0.00	0.49	NA	49	3.37
ABFRL	0.07	0.29	303%	21	1.98
Jubilant FoodWorks	0.26	0.49	83%	22	3.37
Page Industries	0.22	0.00	-100%	-22	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.77	1.00	30%	23	6.92
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

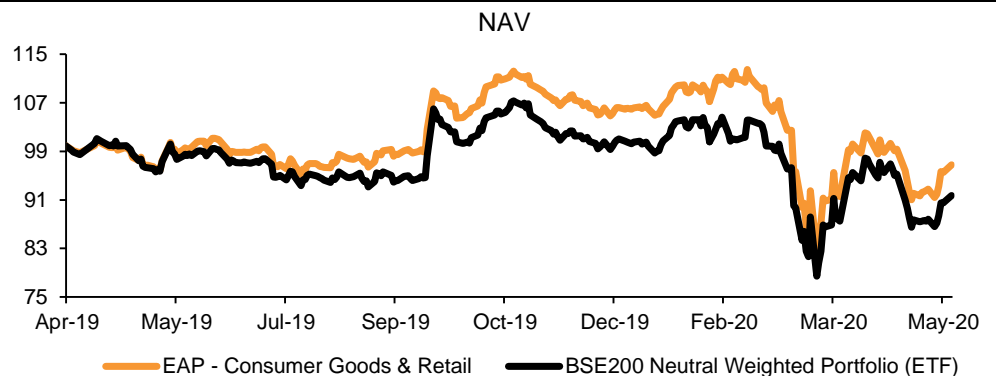
Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Aug-19	26-Nov-19	24-Feb-20	24-Apr-20	26-May-20
EAP - Consumer Goods & Retail	100.0	96.4	107.6	109.7	98.8	96.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.2	101.9	103.7	95.5	91.7

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 May 2020 04:15:28 (SGT)

Dissemination Date: 28 May 2020 04:16:28 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com