

CMP: ₹ 115

Target: ₹ 140 (21%)

Target Period: 12 months

May 28, 2020

BUY

Focusing on reducing cost structure...

The Covid-19 pandemic had an unprecedented impact on the retail industry, forcing a temporary closure of physical stores from mid-March onwards in India. The same materially impacted ABFRL's performance in Q4FY20. Revenue for the quarter de-grew 5.1% YoY to ₹ 1817.4 crore, with revenues for March halving YoY. The management estimates loss of ₹ 339 crore leading to gross margin loss of ₹ 200.0 crore. Given the fixed cost nature of the business and fairly short period to correct, profitability was severely dented. Hence, the company reported EBITDA loss of ₹ 57.0 crore. ABFRL is mulling aggressively reducing operating expenses through: a) shift from fixed cost rental model to revenue sharing model, b) significantly lowering advertisement spends & c) optimising employee and other overheads. The management will be curtailing capex (by 50-60%) and optimise working capital cycle (selling existing inventory in ensuing season), as it focuses on maintaining liquidity. The company has proposed a rights issue worth ₹ 1000 crore to strengthen the balance sheet.

Store addition fuels growth for lifestyle brands

Revenue from lifestyle brands de-grew 5% YoY to ₹ 1072.0 crore in Q4FY20. The division continued its healthy growth momentum in January-February with revenue growth of 7% YoY (LTL: 10%) but a weak March derailed trajectory. EBITDA fell 61% YoY to ₹ 66.0 crore. ABFRL capitalised its own retail channel to fuel growth by adding record number of stores in FY20 (273 stores) taking total count to 2253 stores. Revenue for FY20 grew 7% YoY (YTD-February: 11%). ABFRL has aggressively rolled out 'Peter England Red' stores, mainly capturing lower price point categories in non-metro cities (crossed 200 stores).

Near perfect year for Pantaloons division

Pantaloons put up a healthy show in YTD-February with revenue growth of 14.6% (LTL: 6.8%) and healthy EBITDA margin of 7.4%. Sustained focus on freshness of merchandise & controlled fixed overheads yielded superior results for Pantaloons. However, owing to Covid-19 disruptions, revenue in Q4FY20 fell 1% to ₹ 626.0 crore (LTL: -11.7) with EBITDA loss of ₹ 38.0 crore vs. profit of ₹ 13.0 crore. New store commissioning got delayed due to lockdown (11 stores in pipeline). ABFRL added 34 Pantaloons stores in FY20.

Valuation & Outlook

Owing to a sharp increase in working capital requirements (NWC days: 38 days vs. 14 days in FY19), net debt increased to ₹ 2500 crore (debt/EBITDA: 6.0x) as on FY20E. The management highlighted that the company has adequate access to banking lines due to lineage of Aditya Birla Group and no long term debt repayment obligation over the next year. Furthermore, to de-leverage the balance sheet, the company has proposed a rights issue worth ₹ 1000 crore to bring debt/equity ratio below 2.5x by FY22E. We believe that with its strong brand patronage and large distribution reach it will be able to revive its revenue growth post normalisation of situation. We reiterate **BUY** rating with a target price of ₹ 140 (1.4x EV/sales).

Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	7,172.1	8,117.7	8,742.5	7,758.3	9,874.2	6%
EBITDA	500.3	554.1	465.5	345.7	671.0	20%
PAT*	117.8	321.2	(80.5)	(77.9)	238.4	
EV/Sales (x)	1.5	1.3	1.3	1.5	1.2	
EV/EBITDA (x)	21.3	19.0	24.5	34.2	17.0	
RoCE (%)	8.5	10.7	6.5	3.8	11.8	
RoE (%)	10.8	22.5	-6.0	-3.4	9.5	

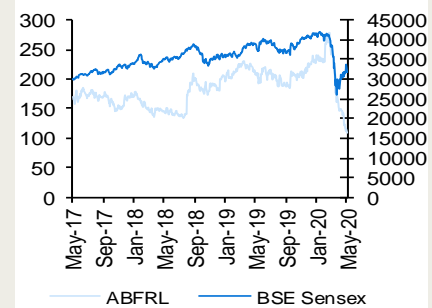
Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax assets worth ₹ 193 crore



Particulars

Particular	Amount
Market Capitalisation (₹Crore)	8,900.4
Total Debt (Mar-20) (₹Crore)	2,776.3
Cash (Mar-20) (₹Crore)	260.2
EV (₹Crore)	11,416.5
52 week H/L	285 / 97
Equity Capital (₹Crore)	774.0
Face Value (₹)	10.0

Price chart



Key Highlights

- Lifestyle brands reported revenue de-growth of 5% YoY, while Pantaloons revenue declined by 1% YoY in Q4FY20
- Maintain BUY recommendation with a target price of ₹ 140

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1817.4	1798.6	1915.3	-5.1	2562.46	-29.1	Weak sales in March (50% down), led to revenue de-growth in Q4FY 20
Raw Material Expense	885.6	848.9	899.8	-1.6	1,230.1	-28.0	Gross margins declined 170 bps YoY to 51.3%
Employee Expenses	274.9	233.8	235.1	16.9	275.7	-0.3	
Rent	106.2	296.8	279.4	-62.0	156.5	-32.2	
Other Expenses	394.8	377.7	376.5	4.8	491.0	-19.6	
EBITDA	156.1	41.4	124.5	25.3	409.1	-61.9	Reported EBITDA and EBITDA margins higher owing to implementation of Ind-AS 116 Owing to negative operating leverage, company reported EBITDA loss of ₹56.9 crore (adjusting for IND-AS 116)
EBITDA Margin (%)	8.6	2.3	6.5	209 bps	16.0	-738 bps	
Depreciation	232.5	66.5	72.9	218.8	220.8	5.3	
Interest	118.6	53.4	45.3	161.9	104.7	13.3	
Other Income	16.9	11.4	24.2	-30.4	14.5	16.6	
PBT before Exceptional item	-178.2	-67.1	30.5	-683.6	98.1	-281.6	Adjusted PBT loss at ₹166.5 crore
Exceptional item	0.0	0.0	0.0		0.0		
PBT	-178.2	-67.1	30.5	-683.6	98.1	-281.6	
Tax Outgo	-37.9	0.0	-172.1		131.5		
PAT	-140.3	-67.1	202.7	-169.2	-33.4	320.5	Company reported net loss of ₹128.0 crore

Key Metrics (excluding IND-AS 116 impact)
Lifestyle Brands

Revenues (₹Crore)	1072.0	1041.4	1132.0	-5.3	1295.0	-17.2	Retail channel grew 7% % while wholesale declined 16% . For Jan-Feb revenue grew 7% (10% LTL)
Segment EBITDA Margin (%)	6.2	NA	14.9	-877 bps	10.7	-450 bps	High fixed cost structure led to significant decline in EBITDA

Pantaloon

Revenues (₹Crore)	626.0	614.0	633.0	-1.1	1083.0	-42.2	For Jan-Feb, revenue grew by 19.5% (LTL: 9.5%)
Segment EBITDA Margin (%)	-6.1	NA	2.1	-812 bps	10.1	-1613 bps	Company reported EBITDA loss of ₹38.0 crore vs. 13.0 crore profit LY

Fast Fashion

Revenues (₹Crore)	41.0	65.6	80.0	-48.8	89.0	-53.9	
Segment EBITDA Margin (%)	-82.9	NA	-6.3	-7668 bps	-4.5	-7843 bps	

Other business

Revenues (₹Crore)	116.0	115.6	107.0	8.4	148.0	-21.6	
Segment EBITDA	-32.0	NA	-24.0	33.3	-21.0		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY 21E			FY 22E		
	Old	New	% Change	Old	New	% Change
Revenue	8,130.3	7,758.3	-4.6	9,886.3	9,874.2	-0.1
EBITDA	425.0	345.7	-18.7	694.3	671.0	-3.4
EBITDA Margin (%)	5.2	4.5	-77 bps	7.0	6.8	-23 bps
PAT	45.2	-77.9	PL	270.1	238.4	-11.7
EPS (₹)	0.6	-0.9	PL	3.5	2.7	-22.1

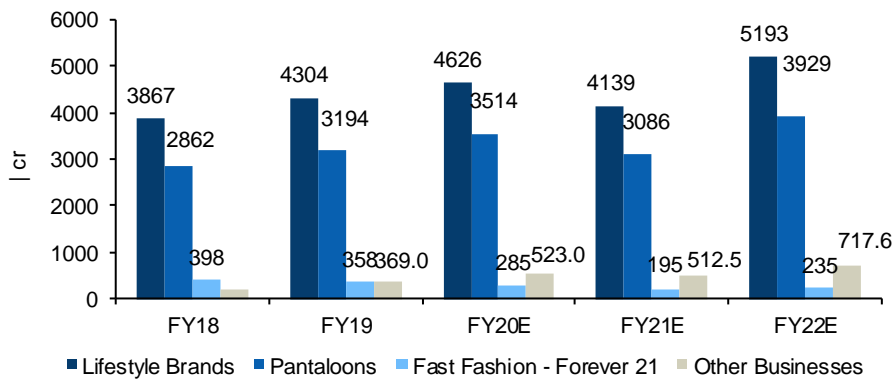
Source: Company, ICICI Direct Research

Key conference call takeaways

- The company has been able to open around 1300 out of 3000 stores (33%). The stores are witnessing a gradual pick-up in revenue owing to pent up demand and average customer basket values has been higher
- The management indicated that the company lost close to ₹ 340 crore revenue due to store closure in March
- Due to lower sales, the company has higher inventory than normal (~₹ 170.0 crore), which it is expecting to sell in the ensuing season (fall/winter season)
- On the cost front, the company is looking to move towards variable rental cost and is engaging with landlords/mall developers
- Also, ABFRL is looking at lowering advertisement spends as it believes the brands are strong and enjoy good patronage from customers. The advertisement spends for Madura brands are in the range of 4-4.5% of revenues while that of Pantaloons is in the range of 3-3.5%
- On the product portfolio front, comfort wear and athleisure segment are witnessing better demand. The company has a good presence in athleisure segment to capture the enhanced demand. ABFRL has also started manufacturing masks across its brands owing to the near term demand for safety products
- Other business (innerwear/international brands) grew 8% in Q4FY20. The management indicated that the growth in the innerwear had started to slow down from December 2019 due to liquidity issues with MBO channel. Innerwear business grew 40% YoY in FY20
- The company is planning to shut unviable stores and enhance its Omni channel presence, which would lead to a healthier distribution network
- On the capex front, the management indicated it could be lower by 60-70% in FY21 than the normal run rate of around ₹ 300-400 crore

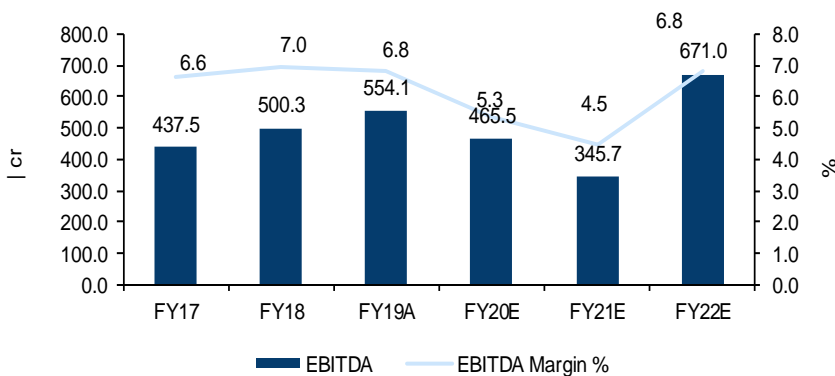
Financial story in charts

Exhibit 3: Consolidated revenues to grow at CAGR of 6.3% in FY20-22E



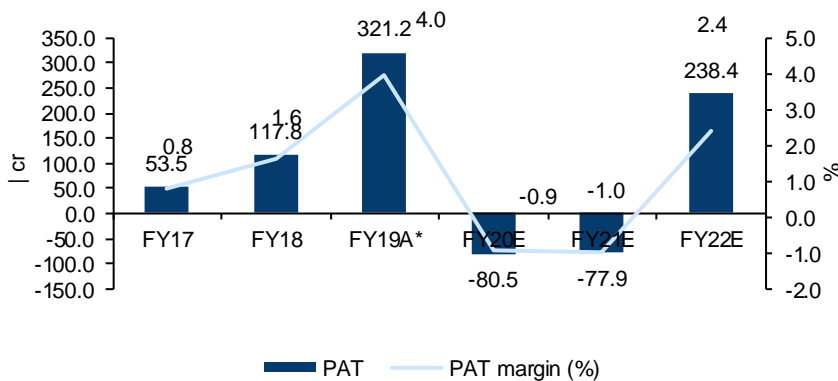
Source: Company, ICICI Direct Research

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

Target EV/Sales multiple	1.4
2022E Sales	9,874.2
2022E EV	13,823.8
2022E Debt	1,618.4
2022E Cash	256.2
2022E Market Cap.	12,461.6
Target Price	140
CMP	115.0
Upside/(Down side)	21

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY 19	FY 20A	FY 21E	FY 22E	
Gross Revenue	8,117.7	8,742.5	7,758.3	9,874.2	
Growth (%)	13.2	7.7	(11.3)	27.3	
Cost of Sales	3,925.0	4,205.8	4,034.0	4,866.1	
Employee Costs	913.0	1,058.4	1,015.6	1,235.7	
Administration & Other E	2,725.7	3,012.9	2,363.0	3,101.4	
EBITDA	554.1	465.5	345.7	671.0	
Growth (%)	10.8	(16.0)	(25.7)	94.1	
Depreciation	282.3	248.8	227.3	237.7	
EBIT	271.7	216.7	118.4	433.3	
Interest	187.4	212.3	245.9	169.9	
Other Income	64.8	52.2	49.6	54.5	
PBT	149.1	56.5	(77.9)	317.9	
Growth (%)	84.1	(62.1)	(237.8)	(508.0)	
Tax	(172.1)	137.0	-	79.5	
Reported PAT	321.2	(80.5)	(77.9)	238.4	
Exceptional Items	(194.0)	158.0	-	-	
Adjusted PAT	127.3	77.5	(77.9)	238.4	
Growth (%)	8.0	(39.1)	(200.5)	(406.0)	
Reported EPS	4.2	(1.0)	(0.9)	2.7	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY 19	FY 20A	FY 21E	FY 22E	
Profit after Tax	321.2	(80.5)	(77.9)	238.4	
Add: Interest Expense	187.4	212.3	245.9	169.9	
Add: Depreciation	282.3	248.8	227.3	237.7	
Add: Others	-	-	-	-	
Increase/(Decrease) in CL	697.1	(78.3)	(146.9)	364.2	
(Increase)/Decrease in CA	(953.2)	(564.3)	(136.1)	(141.6)	
CF from Operating Activities	534.9	(262.0)	112.3	868.6	
(Add) / Dec in Fixed Assets	(248.8)	(268.2)	(121.5)	(294.4)	
Goodwill	16.7	(0.3)	-	-	
(Inc)/Dec in Investments	-	(165.8)	-	-	
CF from Investing Activities	(232.0)	(434.2)	(121.5)	(294.4)	
Inc/(Dec) in Loan Funds	(158.6)	1,073.5	(581.0)	(577.0)	
Inc/(Dec) in Sh. Cap. & Res.	1.8	0.5	100.1	-	
Others	25.8	42.5	900.0	-	
Less: Interest Expense	(187.4)	(212.3)	(245.9)	(169.9)	
CF from financing activities	(318.4)	904.1	173.2	(746.9)	
Change in cash Eq.	(15.6)	207.9	164.0	(172.7)	
Op. Cash and cash Eq.	72.6	57.1	264.9	428.9	
Cl. Cash and cash Eq.	57.1	264.9	428.9	256.2	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY 19	FY 20A	FY 21E	FY 22E	
Source of Funds					
Equity Capital	773.5	774.0	874.0	874.0	
Reserves & Surplus	655.4	574.9	1,397.0	1,635.4	
Shareholder's Fund	1,428.9	1,348.9	2,271.0	2,509.4	
Total Loan Funds	1,702.9	2,776.3	2,195.4	1,618.4	
Other Non Current Liabil	-	-	-	-	
Minority Interest	-	-	-	-	
Source of Funds	3,305.4	4,341.4	4,682.5	4,344.0	
Application of Funds					
Gross Block	1,252.3	1,502.8	1,623.5	1,917.1	
Less: Acc. Depreciation	(615.9)	(864.7)	(1,092.0)	(1,329.7)	
Net Block	636.4	638.1	531.5	587.4	
Capital WIP	22.4	40.1	40.9	41.7	
Total Fixed Assets	658.8	678.2	572.4	629.1	
Goodwill	1,919.1	1,919.4	1,919.4	1,919.4	
Investments	4.2	170.0	170.0	170.0	
Inventories	1,921.3	2,349.4	2,423.1	2,515.9	
Debtors	786.6	840.2	850.2	865.7	
Cash	57.1	264.9	428.9	256.2	
Loan & Advance, Other	1,274.0	1,356.6	1,409.0	1,442.4	
Total Current assets	4,039.0	4,811.2	5,111.3	5,080.2	
Creditors	2,398.6	2,273.3	2,125.6	2,488.8	
Provisions & Other CL	917.0	964.0	964.9	965.8	
Total CL and Provisions	3,315.6	3,237.3	3,090.5	3,454.7	
Net Working Capital	723.3	1,573.8	2,020.8	1,625.6	
Miscellaneous expense	-	-	-	-	
Application of Funds	3,305.4	4,341.4	4,682.5	4,344.0	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY 19	FY 20A	FY 21E	FY 22E	
Per share data (₹)					
Book Value	18.5	17.4	26.0	28.7	
EPS	4.2	(1.0)	(0.9)	2.7	
Cash EPS	7.8	2.2	1.7	5.4	
DPS	-	-	-	-	
Profitability & Operating Ratios					
EBITDA Margin (%)	6.8	5.3	4.5	6.8	
PAT Margin (%)	4.0	(0.9)	(1.0)	2.4	
Fixed Asset Turnover (x)	2.6	2.1	1.7	2.4	
Inventory Turnover (Days)	86.4	98.1	114.0	93.0	
Debtor (Days)	35.4	35.1	40.0	32.0	
Current Liabilities (Days)	107.8	94.9	100.0	92.0	
Return Ratios (%)	13.91	38.25	-	-	
RoE	22.5	(6.0)	(3.4)	9.5	
RoCE	10.7	6.5	3.8	11.8	
RoIC	20.8	10.2	5.2	20.4	
Valuation Ratios (x)					
PE	27.7	(110.6)	(129.0)	42.2	
Price to Book Value	6.2	6.6	4.4	4.0	
EV/EBITDA	19.0	24.5	34.2	17.0	
EV/Sales	1.3	1.3	1.5	1.2	
Leverage & Solvency Ratios					
Debt to equity (x)	1.2	2.1	1.0	0.6	
Interest Coverage (x)	1.4	1.0	0.5	2.5	
Debt to EBITDA (x)	3.1	6.0	6.4	2.4	
Current Ratio	1.2	1.4	1.5	1.4	
Quick ratio	0.6	0.7	0.7	0.7	

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Retail)

Company	CMP		M Cap	EPS (₹)			P/E(x)			EV/EBITDA(x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹crore)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Bata	1280	1430	HOLD	16451	25.4	19.0	35.7	50.3	67.3	35.9	18.7	23.5	15.7	28.2	17.6	28.1	17.2	11.7	19.5
Titan	890	1150	BUY	79217	17.1	14.7	24.0	51.9	60.7	37.2	34.8	41.3	25.2	27.5	20.1	27.6	21.6	16.3	21.9
Trent	457	560	BUY	16217	3.5	1.0	7.8	132.3	469.0	58.4	29.3	39.4	21.8	15.9	10.4	19.5	5.1	1.4	10.6
ABFRL	115	140	BUY	8900	-1.0	-0.9	2.7	-	-	42.2	24.5	34.2	17.0	6.5	3.8	11.8	-6.0	-3.4	9.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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