

Aditya Birla Fashion

BSE SENSEX
40,686

S&P CNX
11,930

CMP: INR165

TP: INR200 (+21%)

Buy



Stock Info

Bloomberg	ABFRL IN
Equity Shares (m)	772
M.Cap.(INRb)/(USD\$b)	137.2 / 1.7
52-Week Range (INR)	281 / 96
1, 6, 12 Rel. Per (%)	17/7/-23
12M Avg Val (INR M)	248
Free float (%)	40.2

Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	87.4	56.3	81.5
EBITDA	12.3	3.5	11.1
Adj. PAT	-0.1	-5.9	-1.7
EBITDA Margin (%)	14.0	6.2	13.6
Adj. EPS (INR)	-0.2	-3.9	-1.0
EPS Gr. (%)	-111.1	NM	NM
BV/Sh. (INR)	14.0	8.2	7.5

Ratios

Net D:E	4.4	3.3	2.5
RoE (%)	NM	NM	NM
RoCE (%)	NM	NM	3.0
Payout (%)	0.0	0.0	0.0

Valuations

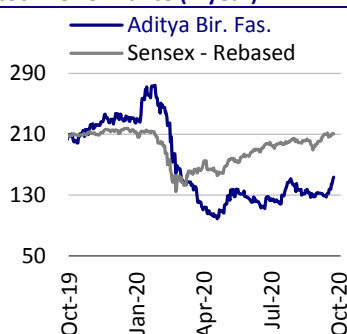
P/E (x)	NM	NM	NM
EV/EBITDA (x)	14.5	84.3	29.5
EV/Sales (x)	2.0	5.2	4.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	1.1	0.3	3.0

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	59.8	59.1	59.1
DII	22.3	22.7	20.8
FII	6.6	7.0	9.7
Others	11.3	11.3	10.4

FII Includes depository receipts

Stock Performance (1-year)



Flipkart bags 8% stake; to aid in deleveraging

Contours of the deal

- Flipkart would invest INR15b as part of a strategic investment in ABFRL, taking 7.8% equity stake at a price of INR205/share, a ~37% premium (on 22nd Oct'20 closing price). It would be entitled to a board seat and Right of First Refusal for 1–5 years.
- Promoter stake in the company would fall to 55.1%, from 59.8% currently, on a post-equity basis.

Potential deleveraging, but unclear on capex increase

- ABFRL had earlier raised INR10b in a rights issue in Jul'20, diluting ~10% of equity. This, along with the recent Flipkart investment, has increased the total funds raised to INR25b.
- The COVID-19 impact, coupled with the recent acquisitions, increased FY20 net debt sharply to INR23.4b (net debt to EBITDA of 5x in FY20), which was a major overhang on the stock. The rights issue is estimated to reduce this to INR16.7b in FY21E, and with further fund infusion of INR15b from Flipkart, net debt should drop to INR1.7b. This does not factor in any potential increase in capex toward its digital transformation or increasing focus on emerging high-growth categories, as indicated by the management.
- The funds raised would reduce FY22E interest cost by ~INR2.5b. Thus, the company should return to net profit of ~INR0.8b v/s the earlier expectation of INR1.4b net loss.

Strategic tie-up to help ramp up omni-channel presence, new product categories; no specifics have been disclosed

- Ramping up technology investments:** ABFRL's tie-up with Flipkart, one of the top e-commerce players in India, shows its intent to transform its online Apparel business. However, the management has not elaborated on the contours in terms of exclusive listings and product categories on the site, potential investment in technology, or new product launches.
- Nonetheless, it has revealed plans to accelerate its digital transformation strategy by building a strong frontend consumer interface for omni-channel functionality and augmenting its backend to expand reach. Furthermore, it intends to focus on new emerging growth categories such as Innerwear, Athleisure, Casualwear, and Ethnic Wear. On the other hand, Flipkart Group would strengthen the range of ABFRL's product offerings on its e-commerce platforms, Flipkart and Myntra.
- Focus on emerging high-growth categories:** ABFRL plans to aggressively scale up existing businesses and grow its presence in emerging high-growth categories, such as Innerwear, Athleisure, Casualwear, and Ethnic Wear, as these segments would be the new growth engines for ABFRL.

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- **Similar deals in the past have seen limited online sales uptick:** Earlier in July, Flipkart also invested INR2.6b in Arvind Fashion’s arm Arvind Youth Brands (which owns brands such as Flying Machine). On the other hand, Amazon has acquired stakes in Shoppers Stop and Future Retail over the last 2–3 years. With these investments, the online giants aimed to build a strong online channel for the fashion retailers by increasing their product listings and onboarding the stores onto their online platforms. However, online sales for the retailers remain in the low single digits. It remains to be seen whether the online channel would prove fruitful for these deals. Thus, the objective change in the business model of ABFRL post the deal with Flipkart would be a key monitorable.

Valuation and view – strong parentage; high execution capabilities

- As highlighted in our earlier note, “[ABFRL – On a Steady Ground](#)”, despite a strong parentage and execution capabilities, high debt had overshadowed the stock valuation. However, high debt issues now appear to be subsiding and allaying investor concerns.
- ABFRL has consistently improved its earnings graph, with a revenue/EBITDA CAGR of 37%/75% over FY14–19. If dented FY20 growth is taken into consideration, the revenue/EBITDA CAGR would stand at 32%/55% over FY14–20 (FY20 pre-Ind-AS 116 EBITDA of INR4.5b).
- In the Lifestyle segment, the Formal Wear Heavy category does pose a risk; however, the company has diversified over 50% of the revenues of Non-Men’s Formal Wear toward Athleisure, Casual Wear, Innerwear, and Women’s Wear, driving healthy double-digit growth. On the other hand, growth engines such as Pantaloons (31% EBITDA CAGR over FY16–20) and Innerwear (~INR2.7b sales within three years of launch) present healthy growth opportunity.
- The management has shown remarkable efforts toward cost control at a time when earnings are muted. This led to ~50% YoY decline in operational expenses in 1QFY21. We expect sales to recover to INR81b by FY22E, with EBITDA of INR11b (moderately below FY20 levels).
- We increase TP to INR200 (v/s INR180 earlier). We raise our target multiple, ascribing 18x EV/EBITDA to Lifestyle, 16x EV/EBITDA to Pantaloons, and 1x EV/sales to other businesses – this is still at a 33% discount to Westside’s target EV/EBITDA multiple of 27x. We believe the sharp reduction in debt and earnings accretion would certainly help lower risk and improve growth. **Maintain Buy.**

Exhibit 1: Flipkart–ABFRL deal details

Particulars	INR m
Issue Size	15,000
Issue Price	205.0
Current Market Price (INR)	165
Premium to CMP (%)	24%
Number of shares issued (m)	73.2
Current shares outstanding (m)	864
Post Issue Shares outstanding (m)	937
Equity holding of Flipkart	7.8%
Equity Dilution (%)	7.8%
Total Interest saving (including INR10b from rights issue)	2,495
PBT in FY22E	(1,920)
FY22E PBT post interest savings	575

Source: MOFSL, Company

Exhibit 2: ABFRL debt profile

Debt schedule	INR b
Net Debt in FY20	23.4
Rights issue amount	10.0
Amount received in FY21	7.5
Flipkart Investment	15.0
Net Debt in FY21E	0.9
Right issue amount to be received in FY22	2.5
Net Debt in FY22E	-1.5

Source: MOFSL, Company

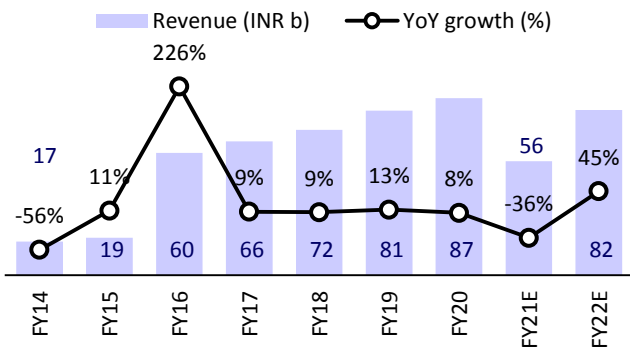
Exhibit 3: Valuation based on SOTP

Particulars	EBITDA/Sales	Multiple	EV
Lifestyle Brands	6,406	18	115,309
Pantaloons	4,896	16	78,335
Others	9,082	1	7,266
Total EV			200,911
Less: Net debt			33,317
Equity Value			167,593
No of Shares			839
Target Price (INR)			200
CMP			165
Upside			21%

Source: MOFSL, Company

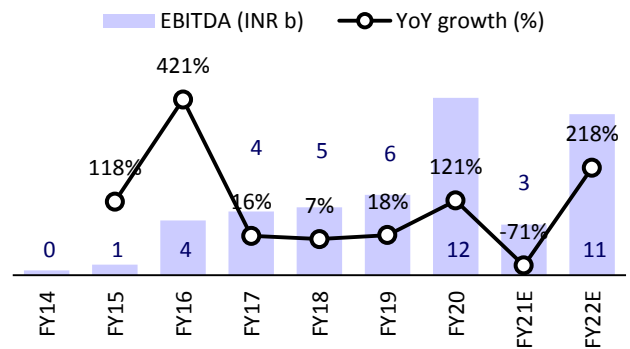
Story in charts

Exhibit 4: Revenue to recover by FY22E



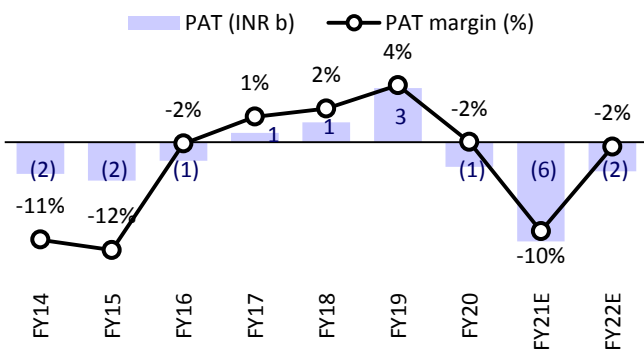
Source: MOFSL, Company

Exhibit 5: EBITDA to recover by FY22E



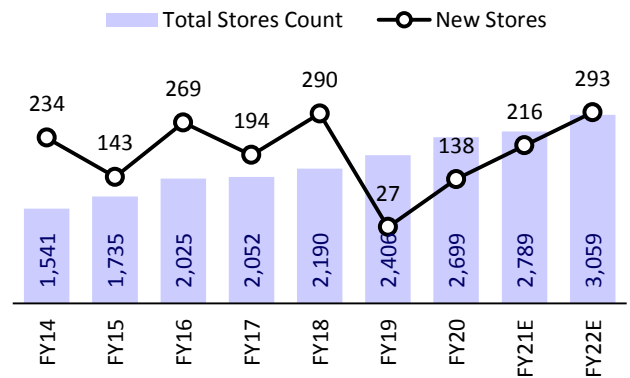
Source: MOFSL, Company

Exhibit 6: PAT to stabilize by FY22E



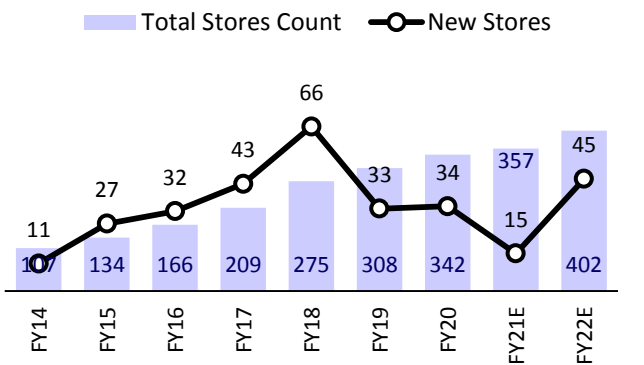
Source: MOFSL, Company

Exhibit 7: Madras store addition pace remains robust



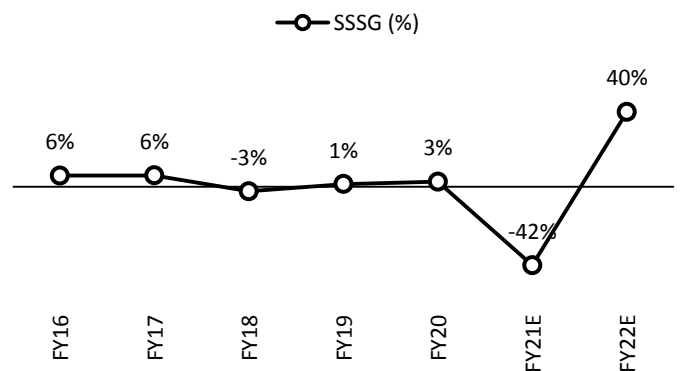
Source: MOFSL, Company

Exhibit 8: Pantaloon store add trend



Source: MOFSL, Company

Exhibit 9: Pantaloon SSSG trend



Source: MOFSL, Company

Financials and valuations

Standalone – Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	18,507	60,339	66,029	71,721	81,177	87,425	56,269	81,519
Change (%)	11.4	226.0	9.4	8.6	13.2	7.7	-35.6	44.9
Raw Materials	10,004	27,518	30,070	33,901	39,250	42,058	27,994	39,477
Employees Cost	1,837	6,205	7,058	7,723	9,130	10,584	7,315	10,190
Rent	2,825	9,032	10,871	10,429	11,104	4,869	4,043	5,299
Other Expenses	3,114	13,801	13,638	14,985	16,153	17,661	13,422	15,436
Total Expenditure	17,780	56,555	61,637	67,038	75,637	75,172	52,775	70,401
% of Sales	96.1	93.7	93.3	93.5	93.2	86.0	93.8	86.4
EBITDA	727	3,784	4,392	4,683	5,541	12,254	3,494	11,118
Margin (%)	3.9	6.3	6.7	6.5	6.8	14.0	6.2	13.6
Depreciation	1,835	3,381	2,425	2,805	2,823	8,768	9,580	9,171
EBIT	-1,108	403	1,967	1,878	2,717	3,486	-6,086	1,947
Int. and Finance Charges	1,202	1,765	1,797	1,716	1,874	4,227	5,032	4,910
Other Income	28	264	382	328	648	651	3,265	651
PBT bef. EO Exp.	-2,281	-1,098	552	490	1,491	-91	-7,852	-2,312
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	-2,281	-1,098	552	490	1,491	-91	-7,852	-2,312
Total Tax	0	0	0	-688	-1,721	1,361	-1,965	-578
Tax Rate (%)	0.0	0.0	0.0	-140.5	-115.4	-1497.2	25.0	25.0
Reported PAT	-2,281	-1,098	552	1,178	3,212	-1,452	-5,887	-1,734
Adjusted PAT	-2,281	-1,098	552	494	1,273	-142	-5,887	-1,734
Change (%)	21.5	-51.9	-150.3	-10.5	157.7	-111.2	4,045.9	-70.5
Margin (%)	-12.3	-1.8	0.8	0.7	1.6	-0.2	-10.5	-2.1

Standalone – Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	928	7,688	7,705	7,717	7,735	7,740	15,240	17,740
Total Reserves	9,211	1,367	1,876	3,214	6,554	3,119	-2,768	-4,502
Net Worth	10,139	9,055	9,582	10,931	14,289	10,859	12,472	13,237
Total Loans	16,864	15,436	20,446	18,615	17,029	52,437	52,937	50,437
Lease Liability						24,674	24,674	24,674
Deferred Tax Liabilities	0	0	0	-688	-2,634	-1,950	-1,950	-1,950
Capital Employed	27,003	24,491	30,028	28,857	28,684	61,346	63,459	61,725
Net Fixed Assets	24,681	23,232	24,871	25,823	25,555	47,319	41,039	34,518
Right to use Assets						21,744	21,744	21,744
Capital WIP	157	254	250	459	224	401	401	401
Total Investments	0	0	0	42	42	1,700	1,700	1,700
Curr. Assets, Loans&Adv.	19,796	22,338	25,238	30,326	37,756	45,520	47,296	58,160
Inventory	11,503	14,105	14,313	16,912	19,213	23,494	19,270	22,334
Account Receivables	4,085	3,124	4,522	5,518	7,866	8,402	7,708	7,817
Cash and Bank Balance	270	192	497	728	574	2,651	9,835	15,419
Loans and Advances	3,938	4,917	5,907	7,168	10,103	10,974	10,483	12,589
Curr. Liability & Prov.	17,631	21,334	20,331	27,793	34,893	33,594	26,978	33,054
Account Payables	12,415	14,298	14,578	20,093	23,986	22,733	18,499	21,217
Other Current Liabilities	4,621	6,290	3,823	5,780	8,885	9,011	6,937	10,050
Provisions	595	746	1,929	1,920	2,023	1,850	1,542	1,787
Net Current Assets	2,165	1,005	4,907	2,533	2,863	11,926	20,318	25,105
Appl. of Funds	27,003	24,491	30,028	28,858	28,684	61,346	63,458	61,724

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	-3.0	-1.4	0.7	0.6	1.6	-0.2	-3.9	-1.0
Cash EPS	-0.6	3.0	3.9	4.3	5.3	11.1	2.4	4.2
BV/Share	13.2	11.8	12.4	14.2	18.5	14.0	8.2	7.5
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	NM	NM	187.0	209.0	100.2	-899.3	-42.7	-168.8
Cash P/E	NM	45.2	34.7	31.3	31.0	14.8	68.1	39.4
P/BV	10.2	11.4	10.8	9.4	8.9	11.8	20.2	22.1
EV/Sales	1.6	2.0	1.9	1.7	1.8	2.0	5.2	4.0
EV/EBITDA	39.9	31.3	28.1	25.9	26.0	14.5	84.3	29.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	NM	1.3	-0.3	3.5	3.2	2.5	0.6	5.5
Return Ratios (%)								
RoE	NM	NM	5.9	4.8	10.1	-1.1	-50.5	-13.5
RoCE	NM	2.6	8.6	17.8	23.8	139.7	-3.3	3.0
RoIC	NM	1.6	7.4	15.9	21.1	131.9	-8.4	3.1
Working Capital Ratios								
Fixed Asset Turnover (x)	0.6	2.4	2.4	2.3	2.4	1.4	0.8	1.2
Asset Turnover (x)	0.7	2.5	2.2	2.5	2.8	1.4	0.9	1.3
Inventory (Days)	227	85	79	86	86	98	125	100
Debtor (Days)	81	19	25	28	35	35	50	35
Creditor (Days)	245	86	81	102	108	95	120	95
Leverage Ratio (x)								
Current Ratio	1.1	1.0	1.2	1.1	1.1	1.4	1.8	1.8
Interest Cover Ratio	NM	0.2	1.1	1.1	1.4	0.8	-1.2	0.4
Net Debt/Equity	1.6	1.7	2.1	1.6	1.1	4.4	3.3	2.5

Standalone – Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
(INR m)								
OP/(Loss) before Tax	-2,281	-1,098	535	490	1,491	-91	-7,852	-2,312
Depreciation	1,835	3,381	2,425	2,805	2,823	8,768	9,580	9,171
Interest & Finance Charges	1,202	1,765	1,761	1,669	1,846	4,200	5,032	4,910
Direct Taxes Paid	-15	-19	-30	-10	-196	-61	1,965	578
(Inc)/Dec in WC	-1,096	-741	-573	760	-937	-6,082	-1,207	797
CF from Operations	-357	3,288	4,118	5,714	5,028	6,734	7,517	13,144
Others	-3	-179	134	237	249	-117	-3,265	-651
CF from Operating incl EO	-359	3,109	4,252	5,951	5,276	6,617	4,252	12,493
(Inc)/Dec in FA	-1,163	-2,076	-4,499	-3,271	-2,792	-4,668	-3,300	-2,650
Free Cash Flow	-1,522	1,033	-247	2,680	2,484	1,949	952	9,843
(Pur)/Sale of Investments	75	0	4	-36	22	-11,079	0	0
Others	198	219	40	58	6	7	3,267	652
CF from Investments	-889	-1,857	-4,455	-3,250	-2,763	-5,740	-33	-1,998
Issue of Shares	0	-16	11	12	9	72	7,500	2,500
Inc/(Dec) in Debt	2,602	508	1,948	-1,832	-1,576	10,725	500	-2,500
Interest Paid	-1,191	-1,821	-1,450	-649	-1,098	-4,226	-5,032	-4,910
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	-5,370	0	0
CF from Fin. Activity	1,411	-1,330	509	-2,469	-2,664	1,202	2,968	-4,910
Inc/Dec of Cash	162	-78	306	233	-151	2,079	7,187	5,585
Opening Balance	108	270	190	495	725	571	2,649	9,834
Closing Balance	271	192	496	727	574	2,650	9,835	15,419

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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