

## Cost optimisation on track; sales normalcy by Q4FY21

Post re-opening of standalone stores, malls, revenue recovery was visible QoQ but it continues to be below pre-Covid levels. Revenue posted de-growth of 55.7% YoY to ₹ 1018.6 crore (I-direct estimate: ₹ 1075 crore), with 95% of stores being operational. ABFRL continued its strategy of significantly reducing cash burns through cost rationalisation measures (₹ 417 crore cost savings in Q2FY21). This led to better than anticipated operational performance in Q2FY21. Reported EBITDA loss (post Ind-AS 116) was at ₹ 1.7 crore vs. I-direct estimate of ₹ 18.3 crore loss. Hence, PBT losses narrowed down significantly QoQ to ₹ 242.4 crore (Q1FY21: ₹ 533 crore). Through better inventory management (cash release worth ₹ 259 crore) and proceeds of first tranche right issue (₹ 497 crore), it has paid off creditors to tune of ₹ 550 crore and debt worth by ₹ 90 crore to ₹ 3159 crore (Q1FY21: ₹ 3250 crore). With upcoming festive season, the management expects revenue recovery rate to improve to 70-80% in Q3FY21E and achieve normalcy levels by Q4FY21E.

## New category of WFH/Athleisure aiding revenue revival

Revenue from Lifestyle brands de-grew 58% YoY to ₹ 531.0 crore. Retail channel (44% of revenue) witnessed better traction with revenue recovery rate of 60% while wholesale channel (14% of revenues) was a laggard due to excess inventory in trade channels. Introduction of new category lines like work from home (WFH), athleisure assisted in revenue recovery (Lifestyle brands predominantly cater to formal wear). The business model of 12 season inventory cycle has assisted in smoothly aligning its inventory with the current demand scenario. Store openings are back on track with ~100 new additions in Q2FY21 (through franchise route). Revenue from other business (including innerwear & athleisure) de-grew 16% YoY to ₹ 175 crore. The management indicated that innerwear & athleisure bounced back the fastest, with sales reaching its pre-Covid levels.

## Higher e-com/private label share aiding Pantaloons recovery

Revenue from Pantaloons division fell 60% YoY to ₹ 369 crore. E-com continued to grow rapidly with 3x growth YoY, with omni-channel coverage up to 50% of network. Private label brand share inched up 500 bps YoY to 67% due to strong sales in kids wear (primarily private labels). It added seven new stores in Q2 and expects to open overall 20 stores by FY21E. ABFRL has embarked on refurbishing existing stores with new retail identity.

## Valuation & Outlook

ABFRL expects the Flipkart deal to be executed by Q4FY21E. Capital infusion worth ₹ 2245 crore (initial two tranches of rights issue: ₹ 746 crore, preferential allotment: ₹ 1500 crore) would strengthen the b/s and result in a significant decline in debt by ~₹ 1760 crore to ₹ 1012 crore (D/E: 0.4x vs. 2.1x) in FY21E. The same would lead to a substantial reduction in interest outflow, going forward. With steady FCF generation from FY22E onwards, we expect debt/EBITDA ratio to decline to 0.7x by FY23E (6.0x in FY20). We believe that with its strong brand patronage and large distribution reach it will be able to revive its revenue growth post normalisation of scenario. We reiterate our **BUY** rating with target price of ₹ 210 (2.0x EV/sales FY23E).

### Key Financial Summary (pre Ind-AS 116)

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	8,117.7	8,742.5	4,938.8	8,885.3	10,100.2	5%
EBITDA	554.1	465.5	(491.8)	539.4	680.1	13%
PAT*	321.2	(80.5)	(741.4)	205.3	323.7	
EV/Sales (x)	1.7	1.6	3.1	1.7	1.5	
EV/EBITDA (x)	24.3	30.8	-	27.8	21.5	
RoCE (%)	10.7	6.5	(17.4)	8.6	11.7	
RoE (%)	22.5	-6.0	-26.0	6.2	8.9	

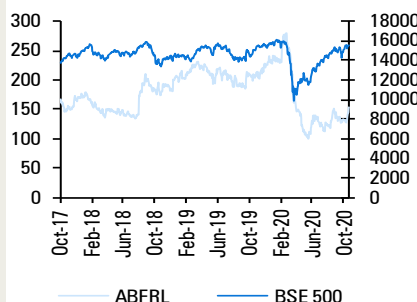
Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax assets worth ₹ 193 crore



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	11,841.4
Total Debt (Mar-20) (₹ Crore)	2,776.3
Cash (Mar-20) (₹ Crore)	264.9
EV (₹ Crore)	14,352.8
52 week H/L	281 / 96
Equity Capital (₹ Crore)	774.0
Face Value (₹)	10.0

### Price chart



### Key Highlights

- ABFRL expects revenue recovery rate to reach 70-80% in Q3FY21E, and normalcy levels by Q4FY21E
- E-commerce continues to grow at robust trajectory. Post normalisation, ABFRL expects share of e-commerce to increase from 7% to 12%
- Flipkart's investment in ABFRL is more financial in nature; proceeds to be utilised towards de-leveraging b/s
- Maintain BUY

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	1018.6	1074.6	2297.2	-55.7	319.96	218.3	From nearly a washout Q1FY21, recovery rate improved to 45% in Q2FY21. Smaller towns witnessed faster recovery with footfalls nearly back to pre-covid levels.
Raw Material Expense	535.4	539.5	1,141.8	-53.1	187.4	185.7	
Employee Expenses	169.1	247.2	247.7	-31.7	240.7	-29.8	Company significantly rationalized operating overheads by ~ ₹ 417 crore (from Q4FY20 levels)
Rent	65.2	48.4	102.0	-36.1	28.0	133.1	Rental expenses (pre IND-AS) declined by 45% YoY to ₹ 156.2 crore.
Other Expenses	250.8	257.9	459.6	-45.4	215.2	16.5	
EBITDA	-1.7	-18.3	346.2	PL	-351.3	NM	EBITDA losses curtailed owing to cost optimisation measures
EBITDA Margin (%)	-0.2	-1.7	15.1	NM	-109.8	NM	
Depreciation	237.5	238.1	221.3	7.3	233.4	1.8	
Interest	144.0	132.8	105.2	36.8	125.3	14.9	
Other Income	140.8	134.0	16.2	768.3	176.5	-20.2	Other income includes cost pertaining to rental waivers: ₹ 122 crore
PBT before Exceptional item	-242.4	-255.2	35.8	PL	-533.5	NM	PBT losses narrowed down significantly on sequential basis
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	-242.4	-255.2	35.8		-533.5		
Tax Outgo	-61.1	0.0	28.9		-133.6		Deferred tax asset worth ₹ 61.1 crore
PAT	-181.3	-255.2	6.9	PL	-399.9	NM	Company reported net loss of ₹ 181.3 crore

Source: Company, ICICI Direct Research

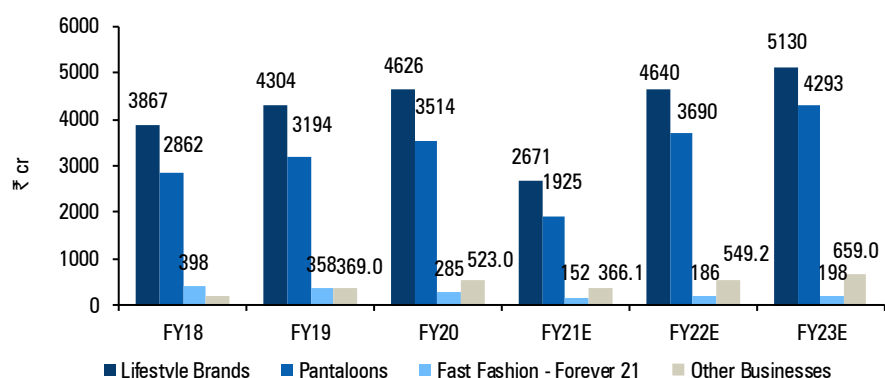
**Exhibit 2: Change in estimates**

(₹ Crore)	FY 21E			FY 22E			FY 23E
	Old	New	% Change	Old	New	% Change	(unchanged)
Revenue	4,938.8	4,938.8	0.0	8,885.3	8,885.3	0.0	10,100.2
EBITDA	-491.8	-491.8	-	539.4	539.4	0.0	680.1
EBITDA Margin (%)	-10.0	-10.0	-	6.1	6.1	0 bps	6.7
PAT	-741.4	-741.4	-	205.3	205.3	0.0	323.7
EPS (₹)	-7.9	-7.9	-	2.2	2.2	0.0	3.5

Source: Company, ICICI Direct Research

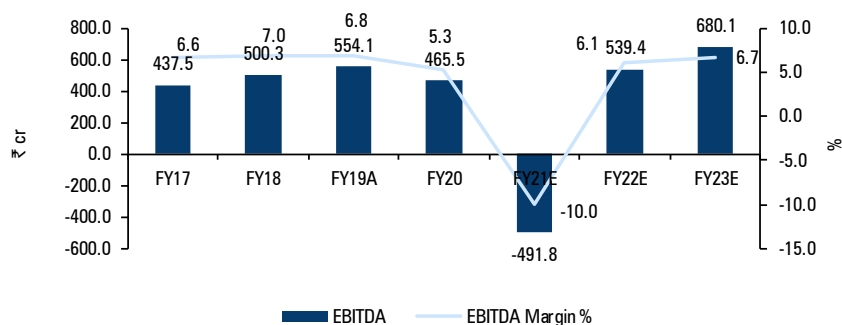
## Financial story in charts

**Exhibit 3: Revenue growth trend**



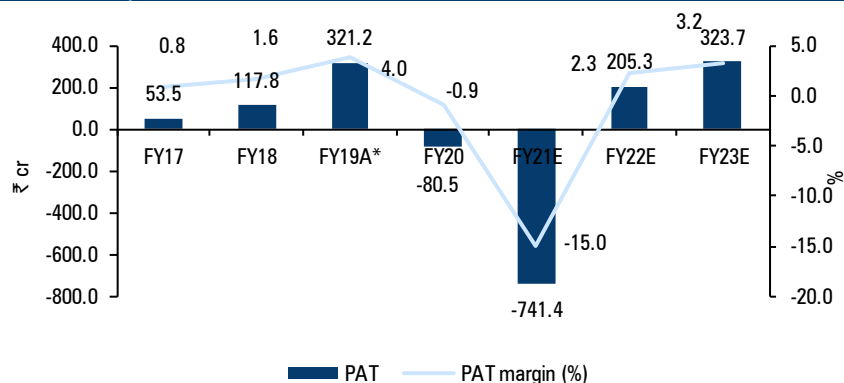
Source: Company, ICICI Direct Research

**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**

<b>Target EV/Sales multiple</b>	<b>2.0</b>
2023E Sales	10,100.2
2023E EV	20,200.4
2023E Debt	455.0
2023E Cash	146.7
2023E Market Cap.	19,892.1
No. of shares	93.8
<b>Target Price</b>	<b>210</b>
CMP	153.0
Upside/(Downside)	37

Source: Company, ICICI Direct Research

## Financial summary (Pre Ind-AS 116)

Exhibit 7: Profit and loss statement ₹ crore				
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
<b>Gross Revenue</b>	<b>8,742.5</b>	<b>4,938.8</b>	<b>8,885.3</b>	<b>10,100.2</b>
Growth (%)	7.7	(43.5)	79.9	13.7
Cost of Sales	4,205.8	2,443.0	4,274.9	4,879.9
Employee Costs	1,058.4	874.3	1,046.3	1,130.0
Administration & Other Exp	3,012.9	2,113.4	3,024.7	3,410.1
<b>EBITDA</b>	<b>465.5</b>	<b>(491.8)</b>	<b>539.4</b>	<b>680.1</b>
Growth (%)	(16.0)	PL	LP	26.1
Depreciation	248.8	231.0	240.8	263.0
EBIT	216.7	(722.9)	298.5	417.1
Interest	212.3	230.8	79.4	45.5
Other Income	52.2	49.6	54.5	60.0
PBT	56.5	(904.1)	273.7	431.6
Growth (%)	(62.1)	PL	LP	57.7
Tax	137.0	(162.7)	68.4	107.9
<b>Reported PAT</b>	<b>(80.5)</b>	<b>(741.4)</b>	<b>205.3</b>	<b>323.7</b>
Exceptional Items	158.0	-	-	-
<b>Adjusted PAT</b>	<b>77.5</b>	<b>(741.4)</b>	<b>205.3</b>	<b>323.7</b>
Growth (%)	(39.1)	PL	LP	57.7
<b>Reported EPS</b>	<b>(1.0)</b>	<b>(7.9)</b>	<b>2.2</b>	<b>3.5</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
<b>Source of Funds</b>				
Equity Capital	774.0	915.1	937.6	937.6
Reserves & Surplus	574.9	1,939.1	2,370.6	2,694.4
Shareholder's Fund	1,348.9	2,854.2	3,308.3	3,632.0
Total Loan Funds	2,776.3	1,012.2	793.6	455.0
Other Non Current Liabilities	-	-	-	-
Minority Interest	-	-	-	-
<b>Source of Funds</b>	<b>4,341.4</b>	<b>4,082.6</b>	<b>4,318.0</b>	<b>4,303.2</b>
<b>Application of Funds</b>				
Gross Block	1,502.8	1,650.3	1,942.3	2,191.6
Less: Acc. Depreciation	(864.7)	(1,095.7)	(1,336.6)	(1,599.6)
Net Block	638.1	554.6	605.7	592.1
Capital WIP	40.1	40.9	41.7	42.5
Total Fixed Assets	678.2	595.5	647.4	634.6
Goodwill	1,919.4	1,919.4	1,919.4	1,919.4
Investments	170.0	170.0	170.0	170.0
Inventories	2,349.4	1,962.0	2,410.0	2,573.5
Debtors	840.2	703.6	779.0	830.2
Cash	264.9	26.3	134.9	146.7
Loan & Advance, Other CA	1,356.6	1,524.5	1,560.2	1,596.8
Total Current assets	4,811.2	4,216.4	4,884.1	5,147.1
Creditors	2,273.3	1,853.8	2,337.0	2,601.1
Provisions & Other CL	964.0	964.9	965.8	966.8
Total CL and Provisions	3,237.3	2,818.7	3,302.8	3,567.9
Net Working Capital	1,573.8	1,397.8	1,581.3	1,579.2
Miscellaneous expense	-	-	-	-
<b>Application of Funds</b>	<b>4,341.4</b>	<b>4,082.6</b>	<b>4,318.0</b>	<b>4,303.2</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore				
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
Profit after Tax	(80.5)	(741.4)	205.3	323.7
Add: Interest Expense	212.3	230.8	79.4	45.5
Add: Depreciation	248.8	231.0	240.8	263.0
Add: Others	-	-	-	-
Increase/(Decrease) in CL	(78.3)	(418.7)	484.1	265.1
(Increase)/Decrease in CA	(564.3)	356.1	(559.1)	(251.2)
<b>CF from Operating Activities</b>	<b>(262.0)</b>	<b>(342.1)</b>	<b>450.5</b>	<b>646.1</b>
(Add) / Dec in Fixed Assets	(268.2)	(148.3)	(292.8)	(250.2)
Goodwill	(0.3)	-	-	-
(Inc)/Dec in Investments	(165.8)	-	-	-
<b>CF from Investing Activities</b>	<b>(434.2)</b>	<b>(148.3)</b>	<b>(292.8)</b>	<b>(250.2)</b>
Inc/(Dec) in Loan Funds	1,073.5	(1,764.1)	(218.6)	(338.6)
Inc/(Dec) in Sh. Cap. & Res.	0.5	141.1	22.6	-
Others	42.5	2,105.6	226.3	-
Less: Interest Expense	(212.3)	(230.8)	(79.4)	(45.5)
<b>CF from financing activities</b>	<b>904.1</b>	<b>251.8</b>	<b>(49.2)</b>	<b>(384.1)</b>
Change in cash Eq.	207.9	(238.7)	108.6	11.9
Op. Cash and cash Eq.	57.1	264.9	26.3	134.9
Cl. Cash and cash Eq.	264.9	26.3	134.9	146.7

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
<b>Per share data (₹)</b>				
Book Value	17.4	30.4	35.3	38.7
EPS	(1.0)	(7.9)	2.2	3.5
Cash EPS	2.2	(5.4)	4.8	6.3
DPS	-	-	-	-
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.3	(10.0)	6.1	6.7
PAT Margin (%)	(0.9)	(15.0)	2.3	3.2
Fixed Asset Turnover (x)	2.1	1.3	2.2	2.5
Inventory Turnover (Days)	98.1	145.0	99.0	93.0
Debtor (Days)	35.1	52.0	32.0	30.0
Current Liabilities (Days)	94.9	137.0	96.0	94.0
<b>Return Ratios (%)</b>				
RoE	(6.0)	(26.0)	6.2	8.9
RoCE	6.5	(17.4)	8.6	11.7
RoIC	10.2	(34.5)	13.4	19.0
<b>Valuation Ratios (x)</b>				
P/E	-	-	69.9	44.3
Price to Book Value	8.8	5.0	4.3	3.9
EV/EBITDA	30.8	-	27.8	21.5
EV/Sales	1.6	3.1	1.7	1.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	2.1	0.4	0.2	0.1
Interest Coverage (x)	1.0	-	3.8	9.2
Debt to EBITDA (x)	6.0	(2.1)	1.5	0.7
Current Ratio	1.4	1.5	1.4	1.4
Quick ratio	0.7	0.8	0.7	0.7

Source: Company, ICICI Direct Research

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