



Aditya Birla Fashion and Retail Limited

Good Q4; Gearing up for faster growth post normalisation

Consumer Discretionary

Sharekhan code: ABFRL

Result Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Change

Reco: Buy ↔

CMP: Rs. 191

Price Target: Rs. 255 ↔

↑ Upgrade
↔ Maintain
↓ Downgrade

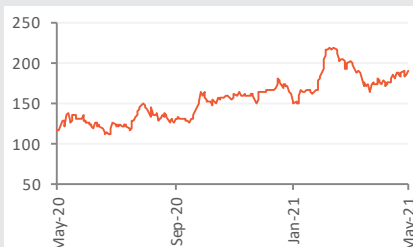
Company details

Market cap:	Rs. 17,914 cr
52-week high/low:	Rs. 259/96
NSE volume: (No of shares)	26.4 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	41.2 cr

Shareholding (%)

Promoters	56.1
FII	14.5
DII	17.5
Others	11.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	-0.9	18.6	63.7
Relative to Sensex	3.0	-4.0	3.3	4.9

Sharekhan Research, Bloomberg

Summary

- Aditya Birla Fashion & Retail Limited's (ABFRL) business recovered to ~100% in Q4FY2021. *Lifestyle* and *Pantaloons* recovered to 94%-95% each compared to pre-COVID levels. OPM improved by 580 bps to 14.4%.
- Despite disrupted FY2021 (revenue down by 41%), the company managed to reduce cost by Rs. 1,221 crore due to rental negotiations and other cost savings. Some benefits are likely to continue in FY2022.
- Management remains focused on strengthening balance sheet; working capital reduced by Rs. 785 crore by liquidating old inventory, while debt was reduced by Rs. 1,939 crore to Rs. 654 crore in FY2021.
- Digitalisation, higher sales from private brands, store expansion, and relevant new launches would benefit ABFRL in the near to medium term. We retain Buy with an unchanged PT of Rs. 255.

Aditya Birla Fashion & Retail Limited's (ABFRL) saw 100% recovery in revenue in Q4FY2021. Revenue stood at Rs. 1,783.2 crore (in-line with our expectation of Rs. 1,769.8 crore). Revenue decreased by 13% on a sequential basis as second surge in COVID-19 cases at the end of the quarter affected footfalls in key states/union territories such as Maharashtra, Karnataka, Tamil Nadu, and Delhi. *Lifestyle* brands (Madura Fashion) business recovered to 94%, while *Pantaloons* business recovered to 95% in Q4. The innerwear and athleisure segments recorded 36% growth each y-o-y. Overall, ABFRL ended FY2021 with a 41% decline in revenue to Rs. 5,181 crore, with sharp recovery in the second half of the year. Rental negotiations, employee cost savings, and discretionary cost cuts led to savings of Rs. 1,221 crore in FY2021. The company's operating profit stood at Rs. 594 crore at the end of the fiscal. The company launched more than 400 stores across businesses and formats during the year. In the current environment of the second wave of COVID-19, only 13% of the company's stores are operational in the area where lockdown restrictions are minimal. With cases receding and some of the states gradually planning to reduce restrictions, management expects recovery to start from July-August and recovery will be stronger during the festive season. With a large number of population likely to get vaccinated by December 2021, the company expects Q4FY2022 to be a much better quarter. The company remains focused on leveraging its strong brand portfolio, evolving its product profile in line with changing consumer preferences and expanding its reach (especially in smaller towns and cities). The company is focusing on strengthening its online platforms to provide comfortable buying option for customers (e-commerce business grew by 40% y-o-y). Investments in Hyper-local, WhatsApp commerce, and mobile apps shall grow their contribution significantly to sales. The company reduced its working by Rs. 785 crore by focusing on liquidating old inventory in H1, deferred buying in line with business recovery in H2FY2021. Equity infusion of Rs. 2,250 crore led to reduction in debt by Rs. 1,939 crore to Rs. 654 crore in FY2021. The company made investment of Rs. 520 crore into ethnic partnerships with Sabhyasachi and Tarun Tahiliani to develop strong ethnic wear business in the long run.

Key positives

- Lifestyle brands and Pantaloons revenue recovered to 94% and 95%, respectively.
- Gross margin and operating profit margin (OPM) expanded by 204 bps and 580 bps, respectively.
- Debt was reduced by Rs. 1,939 crore in Q4 with money raised through equity infusion.

Key negatives

- In lifestyle brands, wholesale revenue decreased by 40%.

Our Call

View: Retained Buy with an unchanged PT of Rs. 255 – We have reduced our earnings estimates for FY2022 and FY2023 to factor in COVID-led disruption in the near term. Strong traction to new launches, increased contribution from private labels, market share gains from unorganised players, and increased contribution from online sales are some of the near-term growth catalysts. The company is confident of achieving Rs. 9,000 crore+ revenue by FY2023 with normalised business environment throughout the year. Further, entering into niche businesses will add-on to revenue in the long run. This, along with sustained focus on strengthening its balance sheet, augurs well from a long-term perspective. The stock trades at ~15x its FY2023E EV/EBIDTA. We retain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 255.

Key risk

Any sustained slowdown in recovery due to localised lockdowns in the coming quarters would act as a risk to our estimates in the near term.

Valuation (Standalone)

Particulars	Rs cr				
	FY19	FY20	FY21*	FY22E*	FY23E*
Revenue	8,118	8,743	5,181	6,514	9,148
OPM (%)	6.8	14.0	11.5	13.3	14.6
Adjusted PAT	127	-39	-581	-167	191
Adjusted EPS (Rs.)	1.6	-0.5	-6.3	-1.8	2.0
P/E (x)	116.1	-	-	-	94.0
P/B (x)	10.3	13.6	6.5	6.3	5.9
EV/EBIDTA (x)	29.8	16.0	35.9	23.7	14.9
RoNW (%)	10.1	-	-	-	6.5
RoCE (%)	10.8	8.8	-	-	6.8

Source: Company; Sharekhan estimates

*Estimates include the impact of Ind-AS 116 and equity dilution led by right issue and preferential allotment to Flipkart

Q4FY2021: Revenue recovered to ~100%; Cost reduction sustained: ABFRL's standalone revenue stood flat at Rs. 1,783.2 crore (in-line with our expectation of Rs. 1,769.8 crore). Madura Fashion (Lifestyle brands) and Pantaloons' revenue recovered to 94%-95%, respectively, during the quarter. Gross margin improved by 204 bps at 53.3%. During the quarter, the company saved cost of Rs. 191 crore through various initiatives. Efficiencies and cost-saving initiatives coupled with low base of last year led to a 540 bps improvement in OPM to 14.4%, better than our expectation of 12.0%. Operating profit grew by 64.4% y-o-y to Rs. 256.6 crore. Interest cost stood flat and depreciation saw marginal a increase of 6%. Losses at PBT level were down by ~50% to Rs. 90 crore. There was one-time deferred tax element of Rs. 68.8 crore due to non-availability of tax depreciation on unamortised goodwill of Rs. 274 crore. Excluding the exceptions, losses at PAT level decreased by 53% to Rs. 66.4 crore.

Key business vertical recovered to 94%-95% of pre-COVID levels

- ◆ **Lifestyle brands - Recovery reaches 94% of pre-COVID levels:** Lifestyle brands (*Louis Philippe, Van Heusen, Allen Solly, and Peter England*) recovered to 94%, driven by industry-leading growth of 8% in the retail channel (like-to-like sales stood flat on a y-o-y basis). E-commerce revenue doubled mainly on account of strong performance of own online platform. Further, growth in the retail and e-commerce channel can be attributed to new product launches based on customer needs. In Q4, wholesale channels decreased by 40% as COVID-19 uncertainties continued to impact businesses in malls. The company has maintained aggressive expansion in new markets with addition of 100 stores in Q4 to end the fiscal with 2,379 stores (added by 383 stores in FY2021; 88% stores franchisee led). EBIDTA margin increased by 220 bps to 17.5%. Product innovation (casual product portfolio share increased to 55% in FY2021 from 50% in FY2020), digital campaigns, enhancing omni-channel presence, and higher contribution of e-commerce (share doubled to 15% from 7% earlier) will drive growth for lifestyle brands in the near to medium term.
- ◆ **Pantaloons – Recovered to 95% of pre-COVID levels in Q3:** Pantaloons' revenue recovered to 95% of pre-COVID levels in Q4. Like-to-like sales declined by 10.6%, better than 27% fall in Q3. Small towns grew on a y-o-y basis, while metros struggled to cross revenue of pre-COVID levels. High street stores grew faster than mall as consumers continued to be conservative in visiting malls. Further, end of March was affected by mall closure/restriction in several states. E-commerce sales grew by 3x. On category front, men's wear and kids wear witnessed strong traction with share of revenue increasing by 180 bps and 140 bps, respectively, in FY2021. Superior inventory management and lower discounts aided in higher gross margins. This along with efficiencies resulted in 560 bps improvement in EBIDTA margin to 23.4%. The company added 19 stores in FY2021 (closed 15 unviable stores). Current store count stands at 346 stores. Adding new own brands, scaling up recently added categories, and higher focus on omni-channel presence and digital expansion will drive growth for Pantaloons in the near to medium term. ABFRL expects to add 20-25 Pantaloons stores in FY2022.
- ◆ **Other businesses - Good growth seen in innerwear and athleisure:** With higher demand for work-from-home categories, there was strong demand for innerwear and athleisure, which resulted in higher growth during the quarter. Revenue of these businesses grew by 56% y-o-y in Q4FY2021. Global brands registered strong performance with Forever 21 growing by 7% and American Eagle growing by 80% y-o-y during the quarter. Ethnic subsidiaries revenue stood at Rs. 38 crore in Q4FY2021 as against Rs. 14 crore in Q4FY2020. For FY2021, ethnic subsidiaries revenue stood at Rs. 68 crore and EBIDTA loss stood at Rs. 39 crore. The company will continue to invest in the ethnic business in the medium term, which will result in losses at EBIDTA level.

Other key highlights

- ◆ **Current business environment:** As of May 25, 2021, 419 ABFRL stores are operational out of total count of 3,212 stores. Store footfalls began falling with surging cases by mid-March in major cities. Initially, malls were shut down in Mumbai with subsequent lockdowns implemented across Maharashtra, Delhi, and most

parts of the country, affecting footfalls. Though normalisation will take some time, the company is working on improving its supply chain and digital backend, putting higher investments in Hyper-local, WhatsApp commerce, and mobile apps shall grow their contribution significantly to sales and renegotiating with mall owners/landlords to obtain rent concessions. The company has refreshed its product portfolio by introducing more casual wear. Larger focus will be on stringently managing inventory at each store.

- ◆ **Debt to reduce by 90% to Rs. 654 crore:** The company reduced its working by Rs. 785 crore by focusing on liquidating old inventory in H1, deferred buying in line with business recovery in H2FY2021. Equity infusion of Rs. 2,250 crore led to reduction in debt by Rs. 1,939 crore to Rs. 654 crore in FY2021.

Results (standalone)

Particulars	Q4FY21	Q4FY20	y-o-y (%)	Q3FY21	q-o-q (%)
Total revenue	1783.2	1817.4	-1.9	2059.0	-13.4
Total expenditure	1526.6	1661.4	-8.1	1647.7	-7.3
Cost of goods sold	832.6	885.6	-6.0	982.3	-15.2
Employee cost	220.4	274.9	-19.8	200.2	10.1
Rent Expenses	86.9	106.2	-18.2	109.7	-20.8
Other expenditure	386.7	394.8	-2.0	355.5	8.8
Operating profit	256.6	156.1	64.4	411.3	-37.6
Other income	20.2	16.9	19.7	14.1	43.3
Interest & other financial cost	119.6	118.6	0.8	109.5	9.2
Depreciation	247.0	232.5	6.2	227.1	8.8
PBT	-89.7	-178.2	-49.6	88.8	-
Tax	-23.3	-37.9	-38.5	22.4	-
Adjusted PAT	-66.4	-140.3	-52.7	66.4	-
Extraordinary items	-68.8	0.0	-	42.9	-
Reported PAT	-135.2	-140.3	-3.6	109.3	-
EPS (Rs)	-0.9	-1.8	-52.6	0.9	-
			bps		bps
GPM (%)	53.3	51.3	204	52.3	102
OPM (%)	14.4	8.6	580	20.0	-559

Source: Company; Sharekhan Research

Lifestyle brand performance

Particulars	Q4FY21	Q4FY20	y-o-y (%)	Q3FY21	q-o-q (%)
Revenues	1217.0	1229.0	-1.0	1263.1	-3.6
EBITDA	188.0	121.0	55.4	217.0	-13.4
EBITDA Margin (%)	15.4	9.8	560	17.2	-173

Source: Company; Sharekhan Research

Pantaloons

Particulars	Q4FY21	Q4FY20	y-o-y (%)	Q3FY21	q-o-q (%)
Revenues	597.0	626.0	-4.6	811.3	-26.4
EBITDA	86.0	56.0	53.6	190.0	-54.7
EBITDA Margin (%)	14.4	8.9	546	23.4	-901

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Recovery would take some more time; Long-term growth prospects intact

Most branded apparel and retail companies were hoping of business recovering to 100% of pre-COVID levels by Q1FY2022. However, the recent spike in COVID-19 cases in India would further slow down recovery, as few states have put restrictions on operations of malls or have implemented localised lockdowns to curb free movement of people in the city. Two key factors that make us believe that recovery would be faster once the rate of growing cases slows down are 1) trend of month-on-month improvement in footfalls and higher purchases prior to the second wave of COVID-19 cases; and 2) increased pace of vaccination in India. Further, changing aspirations, higher sales through the e-commerce platform, and expansion in retail footprints in tier 3 and 4 towns would help keep intact the long-term structural story of the retail industry in India.

■ Company Outlook – Revenue to cross Rs. 9,000 crore in FY2023

With cases receding and some of the states gradually planning to reduce restrictions, management expects recovery to start from July-August and recovery will be stronger during the festive season. With large number population likely to get vaccinated by December 2021, the company expects Q4FY2022 to be a much better quarter. The company remains focused on leveraging its strong brand portfolio, evolving its product profile in line with changing consumer preferences, and expanding its reach (especially in smaller towns and cities). The company is focusing on strengthening its online platforms to provide a comfortable buying option for customers (e-commerce business grew by 40% y-o-y). This would help the company to generate revenue of Rs. 9,150 crore in FY2023, with OPM at 14.5%.

■ Valuation – Recommend Buy with an unchanged PT of Rs. 255

We have reduced our earnings estimates for FY2022 and FY2023 to factor in COVID-led disruption in the near term. Strong traction to new launches, increased contribution from private labels, market share gains from unorganised players, and increased contribution from online sales are some of the near-term growth catalysts. The company is confident of achieving Rs. 9,000 crore+ revenue by FY2023 with normalised business environment throughout the year. Further, entering into niche businesses will add-on to revenue in the long run. This, along with sustained focus on strengthening its balance sheet, augurs well from a long-term perspective. The stock trades at ~15x its FY2023E EV/EBIDTA. We retain our Buy recommendation on the stock with an unchanged PT of Rs. 255.

Peer Comparison

Particulars	EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Trent	75.9	50.0	33.2	3.3	9.6	11.3
ABFRL	35.9	23.7	14.9	-	-	6.8

Source: Company, Sharekhan estimates

About company

ABFRL is India's largest pure-play fashion and retail entity with an elegant bouquet of leading fashion brands and retail formats supported by a pan-India distribution network with a combined retail footprint of 8 million square feet across 750 cities, which includes 2,379 brand stores and 346 Pantaloons stores. The company comprises two segments, Madura Fashion and Lifestyle and Pantaloons. Madura Fashion and Lifestyle includes lifestyle brands (*Louis Philippe, Van Heusen, Allen Solly, and Peter England*), fast fashion brands (*Forever 21*), and other businesses such as the innerwear. The company has also acquired a stake in ethnic wear brands, *Jaypore*, and entered into a partnership with designers Shantanu and Nikhil with an aim of retail expansion.

Investment theme

ABFRL is one of the largest players in the branded apparel and retail space. With redefined strategies, ABFRL has seen consistent improvement in its performance over the past three years (revenue and operating profit reported a CAGR of 10.4% and 13.6%, respectively). The company has built an agile supply chain model to deliver continuous fresh fashion throughout the 12 months season, which will further reduce working capital in the coming years. With the acquisition of Jaypore brand and strategic investment in Sabhyasachi, ABFRL is focusing on tapping the ethnic and wedding segment, which has a large unorganised presence. FY2021/ FY2022 will be affected by COVID-19, but robust recovery is expected in FY2023 due to a strong brand portfolio and expanded reach.

Key Risks

- ◆ Any slowdown in the discretionary demand environment would impact SSSG, affecting revenue growth.
- ◆ Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.

Additional Data

Key management personnel

Ashish Dikshit	Managing Director
Himanshu Kapania	Vice-Chairman
Sangeeta Pendurkar	Chief Executive Officer - Pantaloons
Jagdish Bajaj	Chief Financial Officer
Geetika Anand	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Reliance Capital Trustee Co. Ltd.	6.1
2	UTI Asset Management Co. Ltd.	3.3
3	Franklin Resources Inc.	2.5
4	Invesco Asset Management India Pvt. Ltd.	1.8
5	Mirae Asset Global Investments Co. Ltd.	1.6
6	Sundaram Asset Management Co. Ltd.	1.5
7	ICICI Prudential Life Insurance Co Ltd	1.3
8	India Opportunities Growth Fund Ltd	1.1
9	Canara Robeco Asset Management Co Ltd	1.0
10	Vanguard Group Inc	0.8

Source: Bloomberg (old data)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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