

B/s concerns lingers in uncertain demand environment

Disruptions due to Covid-19 elevated woes in an already challenging FY20 for the company. Revenues for the quarter fell 39% YoY to ₹ 710.5 crore. As per management estimates, the company lost sales worth ₹ ~300 crore due to Covid-19 disruptions. Lower gross margins, negative operating leverage led it to report EBITDA loss of ₹ 92.3 crore. Also, exceptional expense worth ₹ 60.7 crore (pertaining to provision of margins on sales return & inventory dormancy) and higher finance cost (up 36% YoY) led the company to report net loss worth ₹ 226.0 crore. Significantly higher losses in FY20, bloated total debt by 53% YoY to ₹ 1210 crore (D/E: ~1.7x). To address the balance sheet concerns, the company has proposed a rights issue worth ₹ 400 crore and sold a minority stake in Arvind Youth Brands that houses brand 'Flying Machine' for cash consideration worth ₹ 260 crore. Quantum of reduction in overall debt is likely to be lower than the cash infused in the business as part of proceeds will be utilised towards funding operational losses and payment to suppliers. Currently, 75% of stores are operational with June sales reaching 30% of pre-Covid levels. We remain cautious on the outlook given the highly levered balance sheet and ambiguous demand environment.

FY20 performance impacted by trade channel corrections

Power brands (62% of sales) are the only brands that drive the profitability for the company. However, a correction in stock levels in trade channels (exit from long credit cycle customers) significantly impacted the performance in FY20. Power brands reported revenue de-growth of 15% YoY to ₹ 2380 crore with EBITDA falling sharply by 73% YoY to ₹ 93.0 crore (margin: 3.9%) in FY20. Revenue from emerging brands (12% of sales) fell 37% YoY to ₹ 445.0 crore mainly due to exit from unprofitable brands (underlying revenue de-growth: 20% YoY). The division reported significant EBITDA losses of ₹ 134.0 crore (including ₹ 73.0 crore provided for one time exit losses). Revenue from Speciality Retail division de-grew 6% YoY to ₹ 1041.0 crore with EBITDA losses widening to ₹ 76.0 crore. Overall as on FY20, the company reported revenue de-growth of 17% YoY with net losses of ₹ 413.0 crore. Exit from unprofitable emerging brands and trade channel corrections were completed in FY20. Inventory spiked sharply due to loss of sales in FY20 (inventory days: 123 vs. 93). It is mulling releasing cash through inventory reduction (selling in the next ensuing season & cancellation of 60% of autumn-winter orders).

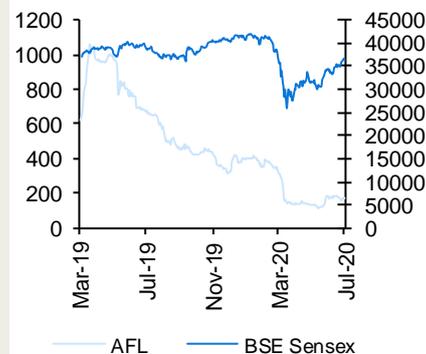
Valuation & Outlook

The company has adopted multiple initiatives to sharply rationalise fixed overheads, going forward. It expects cost reduction of ~35% in FY21E, with 15% reduction to be structural in nature. Expected cash infusion (₹ 660 crore) may provide some cushion but higher anticipated losses will restrict debt reduction ability. Factoring in the elongated Covid-19 impact, we cut our earnings estimates sharply in FY21/22E. Given the balance sheet stress and challenging market scenario, we reiterate our **REDUCE** rating on the stock with a revised target price of ₹ 150 (10.5x FY22E EV/EBITDA).

Particulars

Particulars	Amount
Market Capitalisation (₹crore)	979.9
Total Debt (FY 20) (₹crore)	1,210.4
Cash (FY 20) (₹crore)	11.6
EV (₹crore)	2,178.6
52 Week H / L	607 / 110
Equity Capital (₹crore)	23.5
Face Value (₹)	4.0

Price Chart



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Key Financial Summary

₹ crore	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4,643.9	3,866.3	2,730.5	4,044.5	2.3%
EBITDA	288.1	-44.0	-43.7	234.6	
PAT	16.6	-412.7	-364.5	-82.4	
EV/Sales (x)	0.4	0.6	0.9	0.6	
EV/EBITDA (x)	6.1	-	-	11.2	
RoCE (%)	7.0	-10.7	-11.7	3.8	
RoE (%)	1.9	-20.0	-48.2	-12.0	

Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Net Sales	4,643.9	3,866.3	2,730.5	4,044.5
Growth (%)	10.1	(16.7)	(29.4)	48.1
Total Raw Material Cost	2,288.7	2,131.5	1,542.7	2,103.1
Gross Margins (%)	50.7	44.9	43.5	48.0
Employee Expenses	407.8	349.2	234.8	299.3
Other Expenses	1,659.3	1,429.6	996.6	1,407.5
Total Operating Expenditure	4,355.8	3,910.3	2,774.2	3,809.9
EBITDA	288.1	(44.0)	(43.7)	234.6
EBITDA Margin	6.2	(1.1)	(1.6)	5.8
Interest	126.2	179.4	165.0	152.0
Depreciation	153.2	162.7	161.8	171.3
Other Income	4.1	7.2	7.9	8.3
Exceptional Expense		(133.7)		
PBT	12.9	(512.6)	(362.5)	(80.4)
Total Tax	(8.6)	(101.9)	-	-
Profit After Tax	21.5	(410.7)	(362.5)	(80.4)
Profit After Tax (after m ii)	16.6	(412.7)	(364.5)	(82.4)

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Profit/(Loss) after taxation	16.6	-412.7	-364.5	-82.4
Add: Depreciation	153.2	162.7	161.8	171.3
Net Increase in Current Assets	-348.3	-175.0	291.8	-165.9
Net Increase in Current Liabilities	144.7	110.4	-277.1	6.2
CF from operating activities	-33.8	-314.6	-188.1	-70.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-169.5	-115.7	-70.6	-100.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-169.5	-115.7	-70.6	-100.0
Inc / (Dec) in Equity Capital	0.0	0.3	16.1	0.0
Inc / (Dec) in Loan	120.0	419.6	-210.4	0.0
Others	67.0	10.0	644.0	0.0
CF from financing activities	186.9	429.9	449.7	0.0
Net Cash flow	-16.4	-0.4	191.0	-170.8
Opening Cash	28.4	12.1	11.6	202.7
Closing Cash	12.1	11.6	202.7	31.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20A	FY21E	FY22E
Equity Capital	23.2	23.5	39.6	39.6
Reserve and Surplus	1,106.2	693.5	713.0	630.6
Total Shareholders funds	1,129.4	717.0	752.6	670.2
Total Debt	790.8	1,210.4	1,000.0	1,000.0
Non Current Liabilities	158.1	168.1	428.1	428.1
Source of Funds	2,078.3	2,095.5	2,180.7	2,098.3
Net Block	426.2	389.2	297.5	226.2
Capital WIP	11.4	1.4	2.0	2.0
Net Fixed Assets	437.7	390.7	299.5	228.2
Goodwill on consolidation	111.2	111.2	111.2	111.2
Investments	-	-	-	-
Inventory	1,184.2	1,305.8	1,122.1	1,163.5
Cash	12.1	11.6	202.7	31.9
Debtors	878.2	781.4	673.3	797.8
Loans & Advances & Other	631.3	681.6	681.6	681.6
Total Current Assets	2,705.7	2,780.5	2,679.7	2,674.8
Creditors	1,239.0	1,325.3	1,047.3	1,052.7
Provisions & Other CL	206.5	230.6	231.5	232.3
Total Current Liabilities	1,445.5	1,555.9	1,278.8	1,285.0
Net Current Assets	1,260.2	1,224.5	1,400.9	1,389.8
LT L&A, Other Assets	269.2	369.1	369.1	369.1
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	2,078.3	2,095.5	2,180.7	2,098.3

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	2.9	-70.3	-36.8	-8.3
Cash EPS	30.1	3.3	-20.3	9.2
BV	194.7	122.2	76.0	67.7
Cash Per Share	2.1	2.0	20.5	3.2
Operating Ratios (%)				
EBITDA margins	6.2	-1.1	-1.6	5.8
PBT margins	0.3	-6.3	-13.3	-2.0
Net Profit margins	0.5	-3.7	-13.3	-2.0
Inventory days	93	123	150	105
Debtor days	69	74	90	72
Creditor days	97	125	140	95
Return Ratios (%)				
RoE	1.9	-20.0	-48.2	-12.0
RoCE	7.0	-10.7	-11.7	3.8
Valuation Ratios (x)				
P/E	58.3	-	-	-
EV / EBITDA	6.1	-	-	11.2
EV / Sales	0.4	0.6	0.9	0.6
Market Cap / Revenues	0.2	0.3	0.6	0.4
Price to Book Value	0.9	1.4	2.2	2.5
Solvency Ratios				
Debt / Equity	0.7	1.7	1.3	1.5
Debt/EBITDA	2.7	-27.5	-22.9	4.3
Current Ratio	1.9	1.8	2.1	2.1
Quick Ratio	1.1	0.9	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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