

Aditya Birla Fashion

 BSE SENSEX
 46,874

 S&P CNX
 13,818

CMP: INR153
TP: INR200 (+31%)
Buy

Stock Info

Bloomberg	ABFRL IN
Equity Shares (m)	772
M.Cap.(INRb)/(USDb)	129.7 / 1.9
52-Week Range (INR)	281 / 96
1, 6, 12 Rel. Per (%)	-6/2/-47
12M Avg Val (INR M)	358
Free float (%)	40.2

Financials Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	54.5	78.9	92.6
EBITDA	3.3	11.0	12.9
Adj. PAT	-6.0	-1.3	0.2
EBITDA Margin (%)	6.0	14.0	13.9
Adj. EPS (INR)	-3.9	-0.7	0.1
EPS Gr. (%)	NM	NM	NM
BV/Sh. (INR)	8.1	7.7	7.8

Ratios

Net D:E	3.3	2.6	0.0
RoE (%)	NM	NM	1.4
RoCE (%)	NM	3.2	5.6
Payout (%)	0.0	0.0	0.0

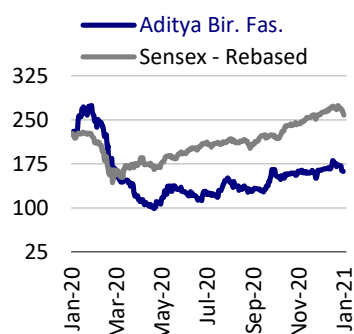
Valuations

P/E (x)	NM	NM	NM
EV/EBITDA (x)	84.2	27.8	23.2
EV/Sales (x)	5.0	3.9	3.2
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.5	2.3	3.7

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	70.4	70.5	73.6
DII	12.3	12.5	8.7
FII	2.6	2.1	2.4
Others	14.6	14.9	15.3

FII Includes depository receipts

Stock Performance (1-year)


Acquires 51% stake in Sabyasachi

Contours of the deal

- ABFRL acquired 51% stake in Sabyasachi Couture for INR4b. Of this, about INR1b would be through the primary route, while the rest would be via the secondary market.
- The deal values Sabyasachi at an EV of INR7.8b, with FY20 EV/Sales of 2.8x and EV/EBITDA of 15x.
- The 'Sabyasachi' brand is engaged in Luxury Designer Apparel and accessories. With a revenue of INR2.7b (9% CAGR over FY18-20) and 20% EBITDA margin, it constitutes a mere 3% of ABFRL's overall revenue.

Ambitious plans for the Ethnic wear market

- The management highlighted that the Ethnic wear is the largest segment in the Apparels space and offers huge long-term growth.
- It eyes growth in the Mass market through Pantaloons and other avenues in the Men's Ethnic wear space.
- But given the small scale of acquisitions and long gestation period for the returns to fructify, these deals may show limited returns in the interim and turn cash guzzlers.

Key highlights from ABFRL's management concall

- **Ambitions in the Ethnic wear market:** The management has a huge long-term ambition to grow in the Ethnic wear market, which is the largest segment in the overall Apparels space with a market size of USD17b.
- **More action may follow:** It may carve out its Mass Ethnic brands from Pantaloons and explore the Mass Men's category.
- Sabyasachi can grow at 20-25% annually through store expansion as well as new products/brand extensions, including accessories.
- **Deleveraged Balance Sheet:** Core net debt reduced to INR4b (excluding lease liability and Sabyasachi investment) after factoring in INR7.5b (out of the INR10b rights issue) and INR15b from stake sale to Flipkart.

Valuation and view: Strong parentage, but leverage remains a concern

- As highlighted in our earlier note, '[ABFRL – On a Steady Ground](#)', despite strong parentage and execution capabilities, high debt had overshadowed the stock valuation. However, the issue now appears to be subsiding.
- 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, revenue/EBITDA CAGR would stand at 32%/55% over FY14-20 (FY20 pre-Ind AS 116 EBITDA of INR4.5b).

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- Pantaloon (31% EBITDA CAGR over FY16-20) and Innerwear (~INR2.7b sales within three years of launch) presents a healthy growth opportunity.
- However, investment in new ventures and acquisition has partly tapered its optimum operating performance and Balance Sheet health as investments in Ethnic wear may take 4-5 years to show a meaningful contribution.
- We value ABFRL on FY22E SoTP basis and assign an EV/EBITDA multiple of 17x/16x to Lifestyle/Pantaloon, and EV/Sales of 1x to other businesses. We arrive at TP of INR200 per share. **Maintain Buy.**

Exhibit 1: ABFRL-Sabyasachi deal details

Particulars	INR m
Acquisition amount	3,980
Stake acquired	51%
EV of Sabyasachi	7,803.9
Target entity's FY20 sales	2740
Target firm's EV/Sales (x)	2.8

Source: MOFSL, Company

Exhibit 2: ABFRL's debt profile

Particulars	INR m
Core net debt as on 2QFY21	29,788
Amount to generate from WC	2,500
Funds to flow from rights issue	5,000
Flipkart investment	15,000
Net debt post fund flow	7,288
Lease liabilities	22,606
Total net debt post fund flow	29,894
Investment in Sabyasachi	3,980
Total net debt post acquisition	33,874
EBITDA as of FY22E	11,040
Leverage (x)	3.1

Source: MOFSL, Company

Exhibit 3: Shantanu & Nikhil business snapshot

Particulars	FY19 (INR m)
Revenue from operations	345
Gross margin (%)	87%
EBITDA margin (%)	4%
Net working capital	39
Net WC days	221
RoE (%)	8.6%
RoCE (%)	13.4%

Source: MOFSL, Company

Exhibit 4: Valuation based on SoTP

Particulars	EBITDA/Sales	Multiple (x)	EV (INR)
Lifestyle Brands	6,110	17	103,877
Pantaloons	5,664	16	90,053
Others	9,310	1	9,310
Total EV			203,240
Less: Net debt			34,991
Equity Value			168,250
No. of Shares			839
Target Price (INR)			200
CMP			153
Upside			31%

Source: MOFSL, Company

Takeaways from ABFRL's management concall on the Sabyasachi acquisition**Key highlights**

- **Ambitions in the Ethnic wear market:** ABFRL has made three acquisitions for INR7-8b over the last couple of years. It has a huge long-term ambition to grow in the Ethnic wear market, which is the largest segment in the overall Apparels space. However, it will take long to scale up.
- **More action may follow:** It may carve out its Mass Ethnic brands from Pantaloons and explore the Mass Men's category.
- Sabyasachi can grow at 20-25% annually through store expansion as well as new products/brand extensions, including accessories.
- **Deleveraging:** The management said it would reach INR4b net debt by FY21, excluding the deal (INR4b), which is lower than its earlier estimate of INR10-12b.

Detailed highlights from the concall**Sabyasachi's business profile**

- Financial details:
 - a. It garners INR2.7b and over 20% operating margin consistently. The funds infused would be used to ramp up design and manufacturing capabilities and build the brand and business.
 - b. Sabyasachi is financially strong, with one of the best margins, return profile, and brand recall. It is also cash rich.
- Growth opportunity
 - c. **Product expansion and pricing range:**
 - i. Sabyasachi would grow into new categories like Designer Accessories (bags, shoes, belts, etc.). It would also build scale over time through brand extensions.
 - ii. For a luxury brand, it is hard to lower pricing levels. This market itself has a huge opportunity to tinker with prices. Thought it would offer some accessibility, it would not lower price points by too much.
 - d. **Increased distribution**
 - i. Sabyasachi has five stores in India and most of its revenue comes from this channel. It also garners some revenue from select multi brand outlets in India and overseas.

- ii. Its existing stores domestically would grow to 8-10 from five at present. The stores have very high throughput given its overall revenue profile.
- iii. Sabyasachi can grow at 20-25% over the next few years. Looking at the space and the opportunity, the company would have to discover and fine tune the potential rate of growth.
- iv. **Overseas market:**
 - 1. Export revenue is currently small despite its high demand and following outside India. Demand at a few exhibitions in luxury stores and affiliations outside India gives the management reason to believe that demand is high overseas.
 - 2. It has a strong pull in the overseas market, where there is a huge Indian diaspora (US, UK, and Middle East). The brand has strong Indian roots and global appeal.
 - 3. Around 40%/20% of online traffic internationally comes from the US/Middle East. It would likely have 3-5 international stores over the next five years.
- v. **Online traction:** The brand has a strong digital pull. Though it doesn't have as much online sales, its engagement with customers remains high.
- **Margin profile:**
 - e. A large part of the operating cost of Sabyasachi is toward product development, which is very high in premium brands. Despite the very high gross margin, EBITDA margin stands at 20%, which itself is among the highest in the industry.
 - f. It has scope to improve as it scales up and with better operating efficiency.
- **Management involvement:** It is one of the best brands created in India, so creative expertise and freedom needs to be retained by the promoters. ABFRL would provide management support for growth.

Transaction details

- **Combination of primary and secondary:**
 - a. A substantial part of the investment in Sabyasachi would be through the primary route. The investment of INR700-1,000m would be through the primary route while the rest should be secondary.
 - b. ABFRL has exclusive rights to increase stake. But it is in ABFRL's interest to let the current founders remain in the business for long.
- **Fund utilization:**
 - c. The amount would be utilized towards store expansion, back-end capabilities, and new product portfolio.
 - d. Over the long term, ABFRL would look to increase its stake, but at present, Sabyasachi would continue to run the brand given its expertise.
 - e. Sabyasachi would not require any additional capital over the next five years, despite the ambitious targets, as it generates very strong cash flows.

Market opportunity from Apparels

- The Indian Apparels market offers an USD70b opportunity. The same is expected to touch USD100b by FY25.
- The Indian Wedding market is valued at USD24b, including accessories.
- The Indian Apparels market for Men's Formal wear is valued at USD15b, while Ethnic wear is bigger at USD17b.

ABFRL's growth strategy

- **Huge opportunity in the Apparels space:** ABFRL has a very large headroom for growth given the opportunity in the Apparels space. Being part of the Aditya Birla Group, it has huge support/sponsorship due to its parentage.
- **Ethnic wear business strategy:**
 - a. **Reasoning for multiple growth:**
 - i. Ethnic wear has multiple sub-segments, with specific brands catering to respective segments. In a narrow market like Men's Formal wear, ABFRL has built four large brands. So, the Ethnic wear market offers a large opportunity to cater to each segment separately.
 - ii. **Have to see Ethnic wear as a portfolio:** The intent is large as ABFRL has entered this space after 25 years of being present in the Apparels industry. The management sees space for multiple brands to grow.
 - b. **Acquisition-led growth:**
 - i. It entered into the Ethnic wear segment in FY20 as it forms 30% of the overall Apparel market and is expected to grow rapidly over the next five years. ABFRL made two small acquisitions earlier: a.) Jaypora and b.) Shantanu & Nikhil.
 - ii. Sabyasachi acquisition would accelerate the company's strategy of acquiring a large share in the Ethnic wear market. This was a planned move. The COVID-19 pandemic compelled it to hold back its expansion plans. Now, that it has already deleveraged its Balance Sheet, it has recommenced its growth plans.
 - c. **Targeting multiple sub-segments in Ethnic wear:**
 - i. **At the base level** there is the Affordable market, which is catered through by Pantaloons' brand Rangmanch. At some point it will be carved out to cater to the wider market.
 - ii. **The Premium market** would be catered via Jaipura, which was acquired two years back, but couldn't be scaled up due to the COVID-19 outbreak.
 - iii. **The largest part of the Ethnic market is the Premium space.** Unlike most other categories, Ethnic wear is the only market where Indian brands own the Luxury segment.
 1. This is where the acquisition of Shantanu & Nikhil, a predominantly Men's Wear brand, would cater.
 2. Sabyasachi would cater to the largest segment of the market, which is The Women's Wedding wear market (part of the USD24b market, including accessories). This brand has a large appeal and as weddings are a perpetual affair, it is a consistent business.
 - iv. **Men's Wear market strategy:** The Premium market is being catered by Shantanu & Nikhil. The management may look to fill the gap in the Mass segment over time.

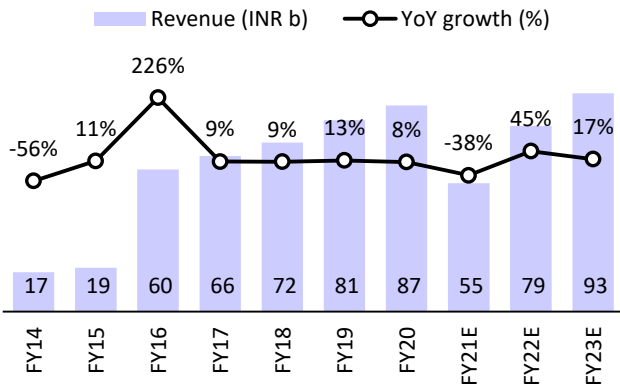
- Pantaloon to drive growth:
 - d. ABFRL's largest long-term growth opportunity may come from Pantaloon, given that it caters to the mass market.
 - e. **Carving out brands from Pantaloon:** The management is developing a Premium Ethnic Women's wear brand, which would be carved out at the right time. There are multiple sub-segments in the Ethnic wear market, which would be patiently built in the Premium as well as Mass segments.

ABFRL's financial position

- Deleveraging:
 - f. The Balance Sheet has improved to INR4b from INR25b at the start of FY21, before the investment of INR4b in Sabyasachi, on the back of an INR15b stake sale to Flipkart and INR7.5b received from the rights issue of INR10b.
 - g. ABFRL can comfortably turn into a zero net debt company. But it also needs to invest for the long term. It would not do justice to shareholders if it doesn't tap strong opportunities along with a healthy Balance Sheet.
- The company has completed 7.8% equity divestment to Flipkart for INR15b.

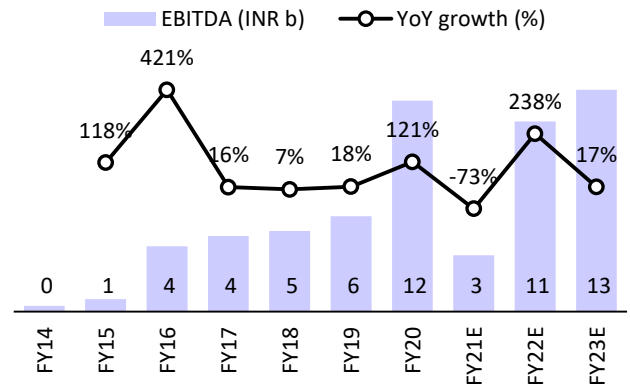
Story in charts

Exhibit 5: Revenue to recover by FY22E



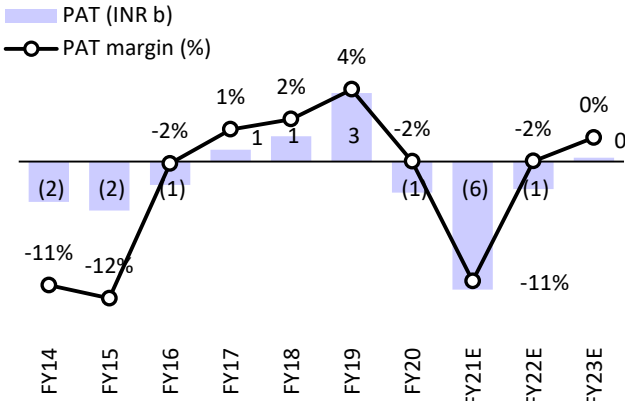
Source: MOFSL, Company

Exhibit 6: EBITDA to recover by FY22E



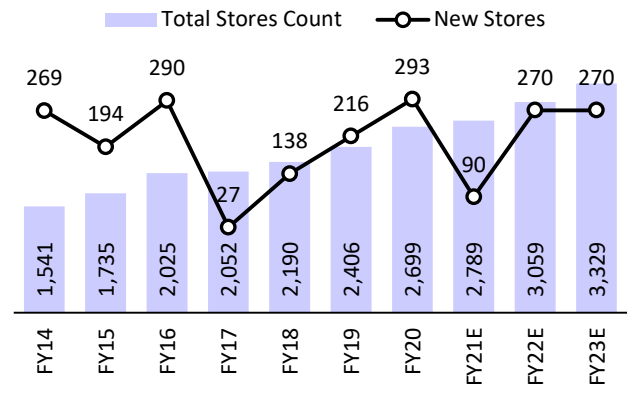
Source: MOFSL, Company

Exhibit 7: PAT to stabilize by FY22E



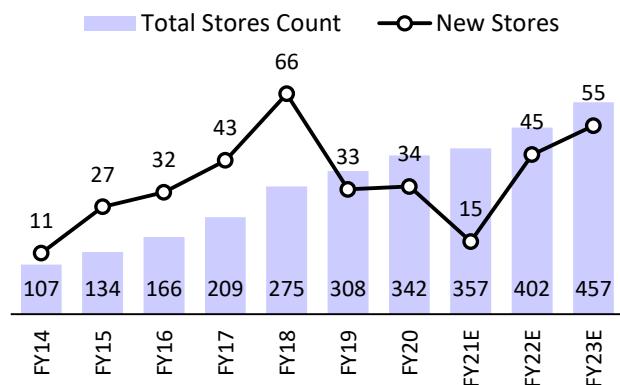
Source: MOFSL, Company

Exhibit 8: Madura's store addition pace remains robust



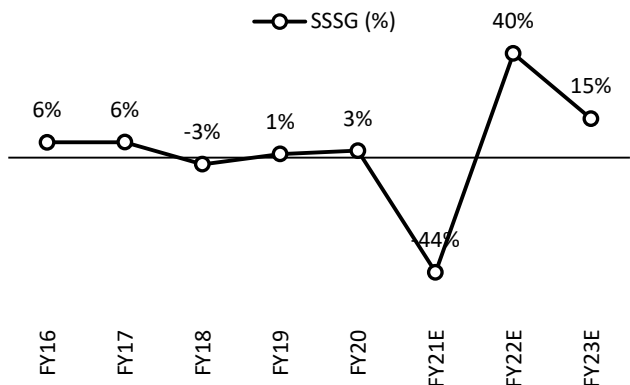
Source: MOFSL, Company

Exhibit 9: Trend in Pantaloon's store additions



Source: MOFSL, Company

Exhibit 10: Pantaloon's SSSG trend



Source: MOFSL, Company

Financials and valuations

Standalone Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	60,339	66,029	71,721	81,177	87,425	54,504	78,855	92,646
Change (%)	226.0	9.4	8.6	13.2	7.7	-37.7	44.7	17.5
Raw Materials	27,518	30,070	33,901	39,250	42,058	27,499	38,195	45,092
Employees Cost	6,205	7,058	7,723	9,130	10,584	8,176	9,857	11,581
Rent	9,032	10,871	10,429	11,104	4,869	3,202	4,928	6,022
Other Expenses	13,801	13,638	14,985	16,153	17,661	12,363	14,835	17,060
Total Expenditure	56,555	61,637	67,038	75,637	75,172	51,239	67,815	79,755
% of Sales	93.7	93.3	93.5	93.2	86.0	94.0	86.0	86.1
EBITDA	3,784	4,392	4,683	5,541	12,254	3,265	11,040	12,891
Margin (%)	6.3	6.7	6.5	6.8	14.0	6.0	14.0	13.9
Depreciation	3,381	2,425	2,805	2,823	8,768	9,581	8,978	9,386
EBIT	403	1,967	1,878	2,717	3,486	-6,316	2,062	3,505
Int. and Finance Charges	1,765	1,797	1,716	1,874	4,227	5,243	4,126	3,628
Other Income	264	382	328	648	651	3,571	344	372
PBT bef. EO Exp.	-1,098	552	490	1,491	-91	-7,988	-1,720	249
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	-1,098	552	490	1,491	-91	-7,988	-1,720	249
Total Tax	0	0	-688	-1,721	1,361	-2,004	-430	62
Tax Rate (%)	0.0	0.0	-140.5	-115.4	-1497.2	25.1	25.0	25.0
Reported PAT	-1,098	552	1,178	3,212	-1,452	-5,984	-1,290	187
Adjusted PAT	-1,098	552	494	1,273	-142	-5,984	-1,290	187
Change (%)	-51.9	-150.3	-10.5	157.7	-111.2	4,114.2	-78.4	-114.5
Margin (%)	-1.8	0.8	0.7	1.6	-0.2	-11.0	-1.6	0.2

Standalone Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	7,688	7,705	7,717	7,735	7,740	15,240	17,740	17,740
Total Reserves	1,367	1,876	3,214	6,554	3,119	-2,865	-4,155	-3,968
Net Worth	9,055	9,582	10,931	14,289	10,859	12,375	13,584	13,771
Total Loans	15,436	20,446	18,615	17,029	52,437	47,437	39,437	36,937
Lease Liability					24,674	24,674	24,674	24,674
Deferred Tax Liabilities	0	0	-688	-2,634	-1,950	-1,950	-1,950	-1,950
Capital Employed	24,491	30,028	28,857	28,684	61,346	57,862	51,072	48,758
Net Fixed Assets	23,232	24,871	25,823	25,555	47,319	39,738	33,910	28,024
Right to use Assets					21,744	21,744	21,744	21,744
Capital WIP	254	250	459	224	401	401	401	1,000
Total Investments	0	0	42	42	1,700	1,700	1,700	1,700
Curr. Assets, Loans and Adv.	22,338	25,238	30,326	37,756	45,520	45,142	48,115	56,108
Inventory	14,105	14,313	16,912	19,213	23,494	21,652	25,925	25,383
Account Receivables	3,124	4,522	5,518	7,866	8,402	7,466	7,561	8,884
Cash and Bank Balance	192	497	728	574	2,651	4,894	2,746	7,881
Loans and Advances	4,917	5,907	7,168	10,103	10,974	11,129	11,882	13,960
Curr. Liability and Prov.	21,334	20,331	27,793	34,893	33,594	29,119	33,054	38,074
Account Payables	14,298	14,578	20,093	23,986	22,733	20,906	21,604	25,383
Other Current Liabilities	6,290	3,823	5,780	8,885	9,011	6,720	9,722	10,153
Provisions	746	1,929	1,920	2,023	1,850	1,493	1,728	2,538
Net Current Assets	1,005	4,907	2,533	2,863	11,926	16,023	15,060	18,034
Appl. of Funds	24,491	30,028	28,858	28,684	61,346	57,861	51,071	48,758

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	-1.4	0.7	0.6	1.6	-0.2	-3.9	-0.7	0.1
Cash EPS	3.0	3.9	4.3	5.3	11.1	2.4	4.3	5.4
BV/Share	11.8	12.4	14.2	18.5	14.0	8.1	7.7	7.8
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	-110.9	220.6	246.4	96.0	-861.2	-38.8	-209.7	1,447.9
Cash P/E	53.3	40.9	36.9	29.7	14.2	64.6	35.2	28.3
P/BV	13.4	12.7	11.1	8.5	11.3	18.8	19.9	19.6
EV/Sales	2.3	2.1	1.9	1.7	2.0	5.0	3.9	3.2
EV/EBITDA	36.1	32.3	29.9	25.0	14.0	84.2	27.8	23.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	1.3	-0.3	3.5	3.2	2.5	0.9	4.0	6.1
Return Ratios (%)								
RoE	-11.4	5.9	4.8	10.1	-1.1	-51.5	-9.9	1.4
RoCE	2.6	8.6	17.8	23.8	139.7	-3.3	3.2	5.6
ROIC	1.6	7.4	15.9	21.1	131.9	-8.8	3.2	6.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.4	2.3	2.4	1.4	0.8	1.1	1.3
Asset Turnover (x)	2.5	2.2	2.5	2.8	1.4	0.9	1.5	1.9
Inventory (Days)	85	79	86	86	98	145	120	100
Debtor (Days)	19	25	28	35	35	50	35	35
Creditor (Days)	86	81	102	108	95	140	100	100
Leverage Ratio (x)								
Current Ratio	1.0	1.2	1.1	1.1	1.4	1.6	1.5	1.5
Interest Coverage Ratio	0.2	1.1	1.1	1.4	0.8	-1.2	0.5	1.0
Net Debt/Equity	1.7	2.1	1.6	1.1	4.4	3.3	2.6	2.0

Standalone Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR m)								
OP/(Loss) before Tax	-1,098	535	490	1,491	-91	-7,988	-1,720	249
Depreciation	3,381	2,425	2,805	2,823	8,768	9,581	8,978	9,386
Interest and Finance Charges	1,765	1,761	1,669	1,846	4,200	5,243	4,126	3,628
Direct Taxes Paid	-19	-30	-10	-196	-61	2,004	430	-62
(Inc.)/Dec. in WC	-741	-573	760	-937	-6,082	-1,853	-1,185	2,161
CF from Operations	3,288	4,118	5,714	5,028	6,734	6,987	10,629	15,362
Others	-179	134	237	249	-117	-3,571	-344	-372
CF from Operations incl. EO	3,109	4,252	5,951	5,276	6,617	3,416	10,285	14,990
(Inc.)/Dec. in FA	-2,076	-4,499	-3,271	-2,792	-4,668	-2,000	-3,150	-4,099
Free Cash Flow	1,033	-247	2,680	2,484	1,949	1,416	7,135	10,891
(Pur.)/Sale of Investments	0	4	-36	22	-11,079	0	0	0
Others	219	40	58	6	7	3,572	346	374
CF from Investments	-1,857	-4,455	-3,250	-2,763	-5,740	1,572	-2,804	-3,726
Issue of Shares	-16	11	12	9	72	7,500	2,500	0
Inc./(Dec.) in Debt	508	1,948	-1,832	-1,576	10,725	-5,000	-8,000	-2,500
Interest Paid	-1,821	-1,450	-649	-1,098	-4,226	-5,243	-4,126	-3,628
Others	0	0	0	0	-5,370	0	0	0
CF from Fin. Activity	-1,330	509	-2,469	-2,664	1,202	-2,743	-9,626	-6,128
Inc./Dec. in Cash	-78	306	233	-151	2,079	2,245	-2,146	5,137
Opening Balance	270	190	495	725	571	2,649	4,892	2,745
Closing Balance	192	496	727	574	2,650	4,894	2,746	7,881
Less: Other Bank Balance	2	1	2	2	1	1	1	0
Net Closing Balance	190	495	725	571	2,649	4,892	2,745	7,881

NOTES

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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