



Aditya Birla Fashion and Retail Limited

Q3 sees bounceback; eyeing to cut debt by Q4

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

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 165	
Price Target: Rs. 200	↑

↑ Upgrade
↔ Maintain
↓ Downgrade

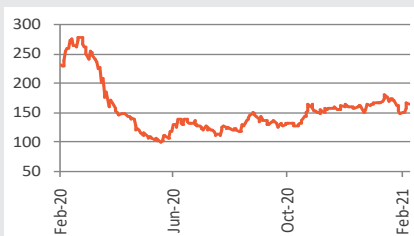
Company details

Market cap:	Rs. 15,475 cr
52-week high/low:	Rs. 281/96
NSE volume: (No of shares)	29.5 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	42.1 cr

Shareholding (%)

Promoters	55.1
FII	14.2
DII	19.5
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	7.5	36	-35.9
Relative to Sensex	2.3	-15.2	1.3	-59.2

Sharekhan Research, Bloomberg

Summary

- Aditya Birla Fashion & Retail Limited (ABFRL) saw an 81% recovery in Q3FY2021 as footfalls and e-Commerce sales improved. Lifestyle and Pantaloons recovered to 80% and 75% respectively compared to pre-covid levels.
- Rental negotiations, employee cost-savings and discretionary cost cuts led to overall cost savings of Rs. 157 crore in Q3 and Rs. 1,029 crore in 9MFY2021. ABFRL posted an operating profit of Rs. 365 crore in Q3.
- Stable working capital management, rights issue funds of Rs. 1,000 crore and strategic fundraising of Rs. 1,500 crore through Flipkart will help reduce debt of Rs. 250 crore (prior to investment in Sabyasachi) by Q4FY2021 from Rs. 2,500 crore in Q4FY2020.
- Digitalisation, higher sales from private brands, store expansions and relevant new launches would benefit ABFRL in near to medium term. We retain a Buy with a revised PT of Rs. 200.

ABFRL's saw an 81% recovery in revenue in Q3FY2021 with revenues standing at Rs. 2,076.2 crore (ahead of our expectations of Rs. 1,887.1 crore). Revenues grew by 104% q-o-q. A strong recovery is attributable to improved footfalls at the store level and sustained higher sales through the e-Commerce platform during festive season. Lifestyle brands (Madura Fashion) business recovered to 80% while the Pantaloons business recovered to 75% in Q3. The innerwear and athleisure segments recorded a 25% growth each y-o-y. Rental negotiations, employee cost-savings and discretionary cost cuts led to Rs. 157 crore in savings in Q3 and Rs. 1,029 crore in 9MFY2021. ABFRL posted an operating profit of Rs. 365 crore in Q3. OPM in Q3FY2021 stood at 17.6%; improved by 159 bps y-o-y. Madura Fashion and Pantaloons saw a 281 bps and a 523 bps improvement in OPM, respectively. The company launched more than 230 stores across businesses and formats. 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). With scare of the virus receding, the management is confident of sequential recovery in performance. Better operating leverage and benefits of cost-saving measures would help the company to post better profitability in the coming quarters. The company generated Rs. 588 crore of operating cash flows. With better cash flows along with funds raised through preferential allotment and stake sale to Flipkart, the company is expected to reduce debt by 90% to Rs. 250 crore (prior to investment in Sabyasachi) by end of the current fiscal. ABFRL to acquire a 51% stake in luxury ethnic designer brand - Sabyasachi for Rs. 398 crore. Through this investment, ABFRL will strengthen its position in the largest and among the fastest growing apparel segment, in line with its stated long-term strategy of building a formidable play in ethnic wear segment.

Key positives

- Lifestyle brands and Pantaloons revenues recovered to 81% and 75%, respectively.
- Prudent cost-savings measures resulted in cost-savings of Rs. 157 crore in Q3.
- Debt to reduce by 90% to Rs. 250 crore by FY2021-end.

Key negatives

- In lifestyle brands, wholesale revenues decreased by 63%.
- Forever 21 and American Eagle decreased by 20% and 58%, respectively.

Our Call

View: Retained Buy with revised PT of Rs. 200 - We have increased earnings estimates for FY2022-23 to factor in better-than-earlier estimated operating performance. With an expected recovery in footfalls, the management expects revenues to reach close to pre-COVID levels by Q4FY2021. Strong traction to new launches, increase in contribution from private labels, market share gains from unorganised players and an increase in contribution from online sales are some of the near-term growth catalysts. This, along with sustained focus on strengthening its balance sheet augurs well from a long-term perspective. The stock trades at ~11x its FY2023E EV/EBIDTA. We retain our Buy recommendation on the stock with a revised price target of Rs. 200 (valuing the stock at 15x its FY2023E EBIDTA).

Key Risks

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

Valuation (Standalone)

	Rs cr				
Particulars	FY19	FY20	FY21E*	FY22E*	FY23E*
Revenue	8,118	8,743	5,328	8,104	9,360
OPM (%)	6.8	14.0	8.3	12.5	14.4
Adjusted PAT	127	-39	-586	29	280
Adjusted EPS (Rs.)	1.6	-0.5	-6.6	0.3	3.0
P/E (x)	100.3	-	-	-	55.3
P/B (x)	8.9	11.8	5.2	4.9	4.5
EV/EBIDTA (x)	26.1	14.4	34.5	15.4	11.2
RoNW (%)	10.1	-	-	1.0	8.4
RoCE (%)	10.8	8.8	-5.8	4.2	10.3

Source: Company; Sharekhan estimates

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

Q3FY2021: Revenue recovered to 81%; cost reduction sustained: Standalone revenue declined by 81% y-o-y to Aditya Birla Fashion & Retail (ABFRL) revenues declined by 19% y-o-y to Rs2076.2crore; grew by 2x q-o-q. Revenues beat expectations of Rs. 1,887.1 crore. Madura Fashion and Pantaloon's revenues recovered to 81% and 75% respectively during the quarter. Gross margins stood almost flat at 52.4%. During the quarter, the company saved cost of Rs. 157 crore through various initiatives. Efficiencies and cost-saving initiatives led to a 159 bps improvement in OPM to 17.6% better than our expectation of 11.8%. Operating profit decreased by 11% to Rs. 364.6 crore. Adjusted PAT stood at Rs. 15.6 crore. Extraordinary items include Rs. 42 crore towards rent concessions received. Reported PAT stood at Rs. 58.4 crore.

Key segments recovered to 75-80%

- ♦ **Lifestyle brands - Recovery reaches ~80% of pre-COVID levels:** Lifestyle brands (Louis Philippe, Van Heusen, Allen Solly and Peter England) recovered to 81% driven by strong 92% recovery in the retail channel. In Q3, wholesale channels decreased by 63%, while the primary sales back to 70-80%. With demand for fresh stock expected to come back on track, the company's primary sales to see strong bounce back in Q4FY2021. The company has maintained aggressive expansion in the new markets with addition of 229 stores to 2,341 stores in 9MFY2021. EBITDA margins 281 bps to 17.2%. Product innovation, digital campaigns, enhancing omni-channel presence and higher contribution of e-Commerce will drive growth for lifestyle brands in the near to medium term.
- ♦ **Pantaloon's - recovered to 75% of pre-COVID levels in Q3:** Pantaloon's revenue recovered to 75% of pre-COVID levels in Q3 on back of strong festive demand. Like-to-like sales declined by 27%. Malls business was down by 30%, while high-street retail stores decreased by ~18% due to better footfalls. E-commerce sales grew by 2.3x, while Pantaloon's.com grew by over 50%. Smaller towns and cities registered a better recovery as compared to Metros and tier-1 towns. Superior inventory management and lower discounts aided in higher gross margins. This along with efficiencies resulted in 523 bps improvement in EBITDA margins to 23.4%. The company added seven stores in Q3 and few more in the pipeline. Current store count stands at 344 stores. Adding new own brands, scaling up recently added categories and higher focus on omni-channel presence and digital expansion will drive growth for Pantaloon's in the near to medium term. ABFRL expects to add 20-25 Pantaloon's stores and ~200 stores in lifestyle brands (~100 already opened in Q2) in FY2021.
- ♦ **Other businesses - Good growth seen in innerwear and athleisure:** With higher demand for work-from-home categories, there was a strong demand for innerwear and athleisure, which resulted in higher growth in Q3FY2021. These businesses grew by 24% y-o-y (e-commerce continued the momentum with 270%+ growth). Global brands registered extraordinary performance with revenue growth of 20% y-o-y while ethnic brand Jaypore grew by 15%, backed strong online sales.

Other key highlights

- ♦ **Acquired a 51% stake premium ethnic brand - Sabyasachi:** The company acquired a 51% stake in luxury designer brand Sabyasachi for Rs. 398 crore (price to sales ratio of 2.9x sales). The brand brands deals into categories such as apparel, accessories and jewellery and has a strong franchise in India, the US, UK and the Middle East. Brand revenues grew at CAGR of 14% over FY2018-20 (revenues stood at Rs. 274 crore). It has strong EBITDA margins of over 20%. Through this investment, ABFRL will strengthen its position in the largest and amongst the fastest-growing apparel segment, in line with its stated long-term strategy of building a formidable play in ethnic-wear segment. The fund would fill opportunity gaps in the men's wear space in the near to medium term.
- ♦ **Debt to reduce by 90% to Rs. 250 crore:** The company successfully completed its rights issue of Rs. 1,000 crore, of which ~Rs. 500 crore was received in July and ~Rs. 250 crore received in January,21. Also, the company raised Rs. 1,500 crore with Flipkart buying a 7.8% stake in ABFRL. This will be utilised to reduce debt. The company expects to reduce debt by 90% to Rs. 250crore (prior to investment in Sabyasachi). The company will receive last tranche of right issue in Q1FY2022.

Results (standalone)

	Rs cr				
Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total revenue	2076.2	2562.5	-19.0	1018.6	103.8
Total expenditure	1711.6	2153.4	-20.5	1020.3	67.8
Operating profit	364.6	409.1	-10.9	-1.7	-
Other income	14.1	14.5	-2.8	19.3	-27.1
Interest & other financial cost	110.6	104.7	5.6	144.0	-23.2
Depreciation	231.1	220.8	4.7	237.5	-2.7
PBT	37.0	98.1	-62.3	-363.9	-
Tax	21.4	25.1	-14.8	-61.1	-
Adjusted PAT	15.6	73.0	-78.7	-302.8	-
Extraordinary items	42.9	-106.3	-	121.5	-
Reported PAT	58.4	-33.4	-275.2	-181.3	-
EPS (Rs)	0.2	0.9	-78.7	-3.9	-
			bps		bps
GPM (%)	52.4	52.0	38	47.4	494
OPM (%)	17.6	16.0	159	-0.2	-

Source: Company; Sharekhan Research

Lifestyle brand performance

	Rs cr		
Particulars	Q3FY21	Q3FY20	y-o-y (%)
Revenues	1263.1	1552.1	-18.6
EBITDA	217.0	223.0	-2.7
EBITDA Margin (%)	17.2	14.4	281BPS

Source: Company; Sharekhan Research

Pantaloon

	Rs cr		
Particulars	Q3FY21	Q3FY20	y-o-y (%)
Revenues	811.3	1082.9	-25.1
EBITDA	190.0	197.0	-3.6
EBITDA Margin (%)	23.4	18.2	523BPS

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Discretionary consumption recovering on Q-o-Q basis

Stores of retail companies are operating at optimum utilisation post the easing of lockdown norms, resulting in sequential recovery in revenue for most companies. With inter-city travel resuming and increased out-of-home consumption products (such as apparels and watches), retail companies will also post consistent recovery in the coming quarters. With malls reopening and better festive/wedding demand, we will see branded apparel companies posting good performance in the coming quarters. Profitability would be severely impacted in FY2021, while we expect it to come back on track in FY2022 (with strong recovery in sales). However, the sector's long-term growth prospects are intact as companies focus on expanding their reach, banking on e-commerce/online channels to drive the next league of growth, improving store fundamentals, and driving efficiencies to see better margins.

■ Company outlook - Full recovery expected by Q4FY2021; profitability to improve ahead

ABFRL's business recovered to ~80% of pre-COVID sales in Q3FY2021. The management expects business to gradually improve with a recovery in footfalls as the scare of virus eases. In Q1FY2022, revenues are likely to grow back to pre-COVID levels with both the business verticals, lifestyle brands and Pantaloons showing a significant recovery. Rental negotiations, employee cost savings and reduction in discretionary cost led to savings of Rs. 1,029 crore in 9MFY2021. Benefits of cost-saving measures (especially on man-power cost front) will continue in the coming quarters. This along with better operating leverage due to recovery in sales would help the company post better operating margins in FY2022 and FY2023.

■ Valuation - Recommend Buy with revised PT of Rs. 200

We have increased earnings estimates for FY2022-23 to factor in better-than-earlier estimated operating performance. With an expected recovery in footfalls, the management expects revenues to reach close to pre-COVID levels by Q4FY2021. Strong traction to new launches, increase in contribution from private labels, market share gains from unorganised players and an increase in contribution from online sales are some of the near-term growth catalysts. This, along with sustained focus on strengthening its balance sheet augurs well from a long-term perspective. The stock trades at ~11x its FY2023E EV/EBIDTA. We retain our Buy recommendation on the stock with a revised price target of Rs. 200 (valuing the stock at 15x its FY2023E EBIDTA).

Peer Comparison

Particulars	EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Trent	89.0	33.8	27.3	1.1	9.6	12.4
ABFRL	34.5	15.4	11.2	-5.8	4.2	10.3

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 2,662 brand stores and 342 Pantaloons stores. The company comprises of two segments, Madura Fashion and Lifestyle (MFL) and Pantaloons. MFL includes lifestyle brands (Louis Philippe, Van Heusen, Allen Solly and Peter England), fast fashion brands (Forever 21) and other businesses such as the innerwear business. The company has also acquired 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 last three years (revenues and operating profit grew at CAGR of 10.4% and 13.6%). The company has built an agile supply chain model to deliver continuous fresh fashion throughout the 12 months season, which will further reduce the working capital in the coming years. With the acquisition of Jaypore brand, ABFRL is focusing on tapping the ethnic and wedding segment, which has a large unorganised presence. FY2021 will be affected by COVID-19 but strong recovery is expected in FY2022 on the back of strong portfolio of brands 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

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

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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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