

CMP: ₹ 192

Target: ₹ 225 (17%)

Target Period: 12 months

BUY

March 2, 2021

Envisaging strong sales growth, margin expansion

At the recently held virtual ABFRL analyst meet, the company embarked on a five-year growth strategy plan with key emphasis on generating healthy FCF across business formats (cumulative FCF worth ~₹ 1000 crore in FY22-26E) and RoCE of ~25% by FY26E. ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E. It is betting big on the ethnic play (through latest acquisitions) with the category expected to grow at a fast rate (from ₹ 50 crore in FY20 to ₹ 2000 crore by FY26E). Innerwear segment, in a short span of time, has seen significant ramp up with revenues touching ₹ 280 crore in FY20 (launched in FY17). The management expects innerwear revenues to sustain healthy momentum driven by increased touch-points and post 32% CAGR in FY20-26E, with a target of achieving break-even by FY23E.

Lifestyle brands: Consistent cash cow

Lifestyle brands over the years have generated strong operating cashflows with no outside capital incurred for growth. In the last five years, ABFRL has generated ~ ₹ 300 crore (in each year) of FCF, with robust RoCE of ~50%+. The company has rapidly scaled up its distribution reach by having 2200+ stores mainly through asset light franchisee stores (~400 stores are owned). In the next five years, ABFRL expects to increase store count to more than 3500 stores by focusing on enhancing penetration in newer towns. **Driven by healthy store addition, high single digit SSSG, it aims to achieve sales of ₹ 9000 crore by FY26E (CAGR: 12% in FY20-26E) with EBITDA margins of ~11-12%. With no major capex required, the segment is expected to generate robust cumulative FCF worth ₹ 2000 crore in FY22-26E.**

Pantaloons: Consistent enhancement in operating metrics

Pantaloons has, over the years, displayed superior improvement in operating performance with sales growing at ~13% CAGR in FY17-20 and EBITDA margins expanding ~ 300 bps to 8.0% in the same period. It has revamped its product strategy with improved design aesthetics, better freshness and new labels for younger consumers. **The management expects Pantaloons to become a ₹ 8500 crore multi-category retail brand, with an integrated online-offline play by FY26E (e-commerce to contribute 8-10% by FY25E). It plans to add 250 new stores (mainly in non-metro cites) in the next three years across 100 new towns. On the back of healthy double digit EBITDA margins and controlled working capital cycle, the segment is expected to generate cumulative OCF worth ₹ 2100 crore (FY22-26E) of which ₹ 1600 crore would be utilised towards growth capex.**

Valuation & Outlook

We believe focus on generating higher RoCE across business formats coupled with sales growth mainly driven through internal accruals augurs well for ABFRL. It has pared its debt from ₹ 3181 crore in Q2FY21 to ₹ 580 crore (through working capital release, right issues and fund infusion by Flipkart). Controlled working capital cycle, recovery in profitability and steady FCF generation would result in debt/EBITDA ratio falling to 0.6x by FY23E (6.0x in FY20). We continue to like ABFRL in apparel space owing to a strong brand positioning capturing various price points with robust brand recall. We maintain **BUY** with revised TP of ₹ 225 (earlier TP: ₹ 210).

Key Financial Summary (pre IND-AS 116)

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	8,117.7	8,742.5	5,226.9	9,364.8	10,687.3	7%
EBITDA	554.1	465.5	(138.1)	645.4	801.4	20%
PAT*	321.2	(80.5)	(450.9)	286.4	414.7	
EV/Sales (x)	2.0	2.0	3.6	2.0	1.7	
EV/EBITDA (x)	29.8	37.3	-	28.6	22.7	
RoCE (%)	10.7	6.5	(8.0)	10.5	13.2	
RoE (%)	22.5	-6.0	-14.3	7.8	10.1	

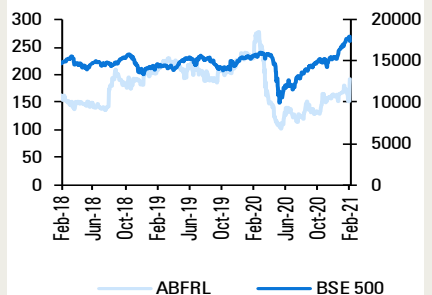
Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax assets worth ₹ 193 crore



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	16,333.0
Total Debt (Mar-20) (₹ Crore)	2,776.3
Cash (Mar-20) (₹ Crore)	264.9
EV (₹ Crore)	18,844.4
52 week H/L	260 / 96
Equity Capital (₹ Crore)	774.0
Face Value (₹)	10.0

Price Performance



Key Risks

- Delay in store rollout can negatively impact estimated revenues
- Re-imposition of lockdown restrictions leading to store closures or restricted movement of people negatively impacting store footfalls leading to lower in-store sales of discretionary products

Research Analyst

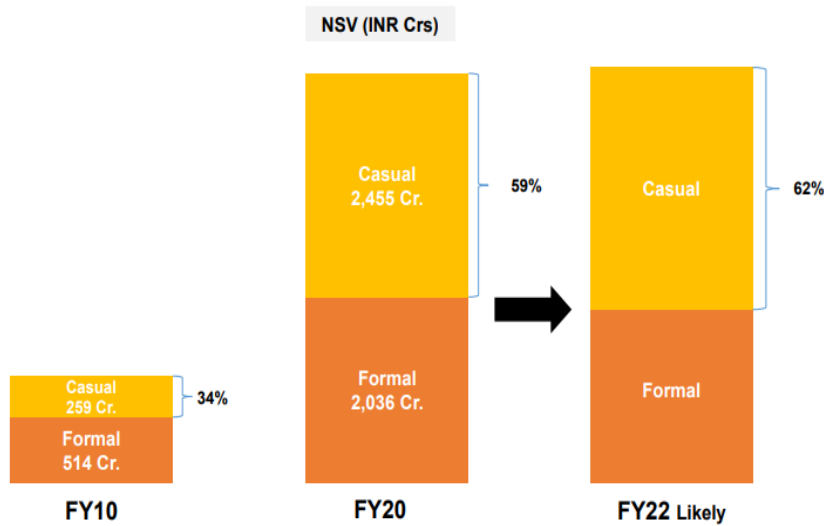
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Story in charts

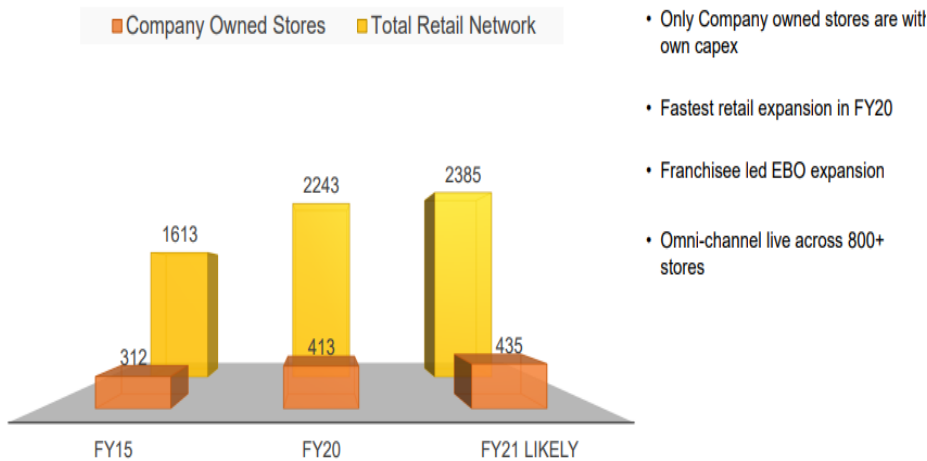
Lifestyle Brands:

Exhibit 1: Share of casual business grows from 34% to 59% for Lifestyle brands



Source: Company, ICICI Direct Research

Exhibit 2: Highly scalable asset light distribution model



Source: Company, ICICI Direct Research

Exhibit 3: Large headroom available to double retail presence

EBO Presence and Future Opportunities

Brands	Current Stores	Current Towns	New Markets for expansion (next 5 years)
LP	407	175	500
VH	354	163	500
AS	300	145	750
PE	1014	450	2000

Source: Company, ICICI Direct Research

Exhibit 4: Enhancing penetration in Tier III/IV cities through different formats

What is PE Red?

- **Exclusive format** for Tier 4-5 towns
- **Asset light**, 100% Franchisee led
- Quality product @ Value; Fashion @999
- Merchandise customized for **local needs**
- Network fostering **local entrepreneurship**
- **Hyperlocal** marketing & merchandizing
- Franchisee Payback in **3 years**

What is the ambition?

Over Next 3 years – To build **Rs 900 Cr** business spread across **1000 Stores**



Source: Company, ICICI Direct Research

Exhibit 5: Lifestyle brands over the years have generated strong FCF with high RoCE

(INR crs)	FY17	FY20N	FY26
Revenue	3,651	4,800	~ 9,000
Growth (CAGR)		10%	11-12%
EBITDA	423	550	~ 1,000
EBITDA %	11.6%	11.5%	~ 11-12%
Capital Employed (w/o GW)	468	772	1,522
Cumulative FCF (FY22 - FY26)	-	-	2,000
ROCE (w/o GW)	74%	45%	50%+

*Goodwill = Rs. 628 Cr.

- Consistently generated strong ROCE for the last 15 years
- Annual Free Cash Flows averaging INR 300+ crores in each of the last five years
- **Strong brands, highly scalable, profitable asset light model : penetrating “Bharat”**

Source: Company, ICICI Direct Research

Pantaloons:

Exhibit 6: Revamped product strategy

- Sharply defined and rationalized **private label architecture**
- New introductions :
 - Improve **relevance for young audience**: Launched PEOPLE, Candies
 - **Strengthen Women's Ethnic**: Foray into Saris with a modern take, **Premium Label launch in Sept 21**
 - **Strengthen Men's wear** - Premium Athleisure and Casual wear labels in FY 22
- Move from **Apparel to Life style**
 - Launched Home – **Living Scapes**
 - Strengthen Accessories
 - Build Beauty & Cosmetics

On course to increase share of Private labels from 61 % in FY 20 to 75 % in FY 25

Source: Company, ICICI Direct Research

Exhibit 7: Pantaloons has embarked on refurbishing existing stores with new retail identity



Source: Company, ICICI Direct Research

Exhibit 8: Scale up of digital channels with great agility

- E-commerce channel scaled up 3x during FY 21; to **contribute 8-10% of sales by FY25**
- Stores migrating to become **“Phygital stores”**
 - 60 % network - **Omni-enabled**
 - **Social commerce** - a key channel going forward
- Plans in place to **accelerate partnered e-commerce business**
- **New website and app** planned for a superior customer experience

Integrated online and offline retail play – a big bet for the future

Source: Company, ICICI Direct Research

Exhibit 9: Pantaloons well placed for accelerated growth

(Rs. Cr.)	FY17	FY20N	FY26E
Revenue	2,552	3,650	~ 8,500
CAGR		13%	15-16%
EBITDA	126	291	~ 900
EBITDA%	4.9%	8.0%	~ 11%
Capital Employed (w/o Goodwill)	512	600	1,622
CFCF (FY 22-26)	-	-	~ 500
ROCE (w/o Goodwill)	NA	27%+	40%+

*Goodwill: Rs. 1,168 Cr.

Over next 5 years, business to generate Rs. 2100 Cr cash; Invest back Rs. 1600 Cr. for growth, thereby delivering Rs. 500 Cr. of free cash flow

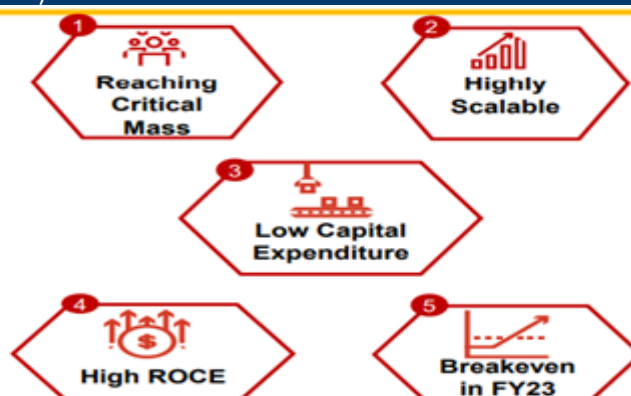
Source: Company, ICICI Direct Research

Innerwear & athleisure:

Exhibit 10: Management expects innerwear segment to break even by FY23E

(Rs. Cr.)	FY17	FY20N	FY26
Revenue	12	280	~ 1,500
CAGR			32%
EBITDA	-18	-48	~ 225
EBITDA%		-19%	~ 15%
Capital Employed	17	173	~ 480
CFCF (FY 22-26)	-	-	~ -100
ROCE	NA	NA	50%+

will need further cash infusion of INR 100 - 150 Cr to achieve this scale



Strong headroom to grow even further...

Source: Company, ICICI Direct Research

Youth fashion brand- Forever 21:

Exhibit 11: Forever 21 – Turned around in last three years

(Rs. Cr.)	FY17	FY20N	FY26
Revenue	201	160	~ 500
CAGR			21%
EBITDA	-34	-1	~ 40
EBITDA%			~ 8%
Capital Employed (W/O) GW)	150	79	~ 86
CFCF (FY 22-26)			~ 10 Cr
ROCE	NA	NA	15%+

- Acquisition didn't work out as per plan mainly due to challenges with erstwhile parent
- New Terms signed with new Parent - Royalty % reduced to half
- Business likely to turn EBIT and Cash positive by FY23

Source: Company, ICICI Direct Research

Super Premium & Luxury (The Collective):

Exhibit 12: Business growing profitably through careful store expansion

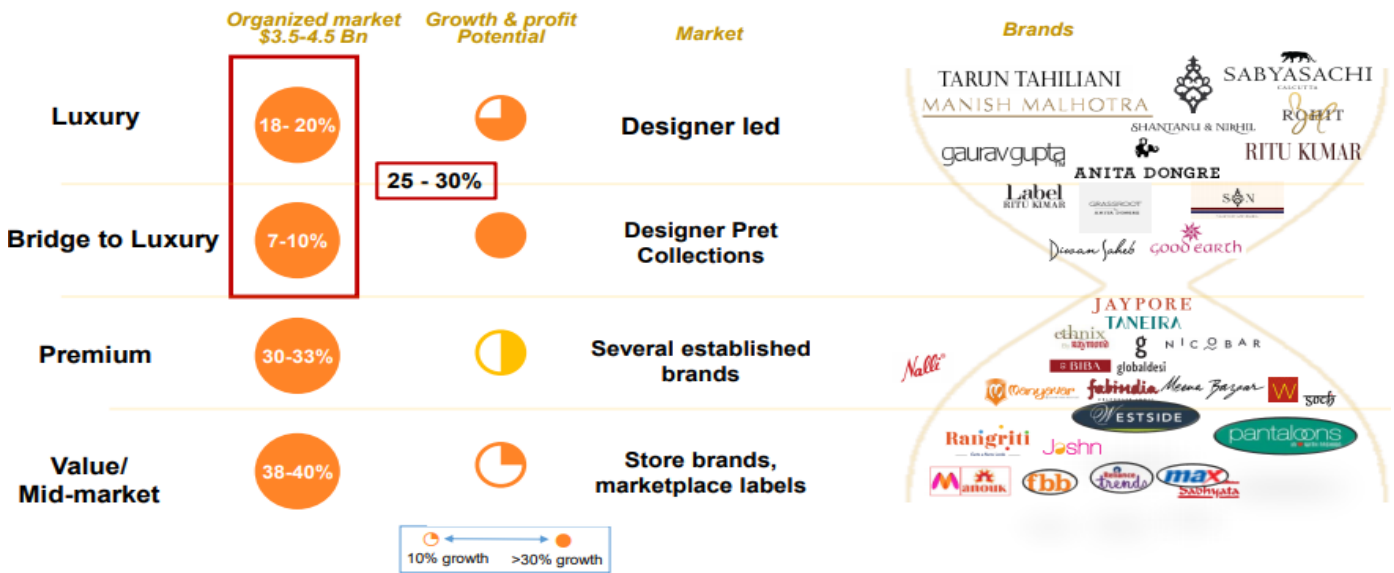
(Rs. Cr.)	FY17	FY20N	FY26
Revenue	106	170	~ 500
CAGR		17%	30%
EBITDA	-13	-6	40-50
EBITDA%			8 – 10%
Capital Employed	36	60	~ 150
CFCF (FY 22-26)			< -10Cr
ROCE	NA	NA	20%+

- Business nurtured over decade, strong consumer and business partner equity
- Business growing profitably through careful store expansion
- Excellent traction on own E-com; large and profitable online luxury play under work
- The Collective & Mono brands to be EBIT positive by FY22 and FY23 respectively
- Total cash infusion required over next 5 years is < Rs. 10 Cr.

Source: Company, ICICI Direct Research

Ethnic Wear:

Exhibit 13: Ethnic market : Unique structure with high share of luxury



Source: Company, ICICI Direct Research

Exhibit 14: Laid down clear, distinct strategy to penetrate each segment



Source: Company, ICICI Direct Research

Exhibit 15: Ethnic wear: Platform for large, long term value creation

Rs. Cr.	FY20N	FY26
Revenue	50	2,000
Growth (CAGR)		90%
EBITDA	-18	~ 225
EBITDA%	-39%	~ 11%
Capital Employed (w/o GW)	61	~ 800
CFCF (FY22 to FY26)		-300
ROCE (w/o GW)	NA	20%+

*Goodwill 334 Cr.

- **Build a strong ethnic portfolio of brands with an ambition to build Rs. 2,000 Cr in 5 years**
- expect the normalized EBITDA to be around 10% - 12% & ROCE of 20%+
- Business to be EBITDA +ve by FY 24 and FCF +ve by FY25

Source: Company, ICICI Direct Research

Exhibit 16: Overall financial performance

	FY17	FY20N	FY26
Revenue	6,633	9,100	~ 21,000
Growth (CAGR)		12%	15%
EBITDA	476	693	~ 2,350
EBITDA%	7.2%	7.6%	11.2%
ROCE (w/o goodwill)	7%	12%	35%+

Continuous focus on profitable growth, as reflected in improved EBITDA and Margins

Source: Company, ICICI Direct Research

Exhibit 17: Valuation

Target EV/Sales multiple	2.0
2023E Sales	10,687.3
2023E EV	21,374.5
2023E Debt	455.0
2023E Cash	229.0
2023E Market Cap.	21,148.5
No. of shares	93.8
Target Price	225
CMP	192.0
Upside/(Downside)	17

Source: Company, ICICI Direct Research

Financial summary (pre Ind-AS 116)

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
Gross Revenue	8,742.5	5,226.9	9,364.8	10,687.3
Growth (%)	7.7	(40.2)	79.2	14.1
Cost of Sales	4,205.8	2,588.5	4,513.6	5,161.6
Employee Costs	1,058.4	821.3	1,064.8	1,160.7
Administration & Other Exp	3,012.9	1,955.3	3,140.9	3,563.6
EBITDA	465.5	(138.1)	645.4	801.4
Growth (%)	(16.0)	PL	LP	24.2
Depreciation	248.8	231.0	240.8	263.0
EBIT	216.7	(369.2)	404.5	538.4
Interest	212.3	230.2	76.3	45.5
Other Income	52.2	49.6	54.5	60.0
PBT	56.5	(549.8)	382.7	552.9
Growth (%)	(62.1)	PL	LP	44.5
Tax	137.0	(99.0)	96.3	138.2
Reported PAT	(80.5)	(450.9)	286.4	414.7
Exceptional Items	158.0	-	-	-
Adjusted PAT	77.5	(450.9)	286.4	414.7
Growth (%)	(39.1)	PL	LP	44.8
Reported EPS	(1.0)	(4.8)	3.1	4.4

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
Source of Funds				
Equity Capital	774.0	915.1	937.6	937.6
Reserves & Surplus	574.9	2,229.6	2,742.3	3,156.9
Shareholder's Fund	1,348.9	3,144.7	3,679.9	4,094.6
Total Loan Funds	2,776.3	862.2	693.6	455.0
Other Non Current Liabilities	-	-	-	-
Minority Interest	-	-	-	-
Source of Funds	4,341.4	4,223.1	4,589.7	4,765.7
Application of Funds				
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	570.0	570.0	570.0
Inventories	2,349.4	1,718.4	2,334.8	2,723.1
Debtors	840.2	744.7	821.0	878.4
Cash	264.9	141.2	230.8	229.0
Loan & Advance, Other CA	1,356.6	1,460.8	1,495.2	1,530.5
Total Current assets	4,811.2	4,065.1	4,881.8	5,360.9
Creditors	2,273.3	1,961.9	2,463.1	2,752.3
Provisions & Other CL	964.0	964.9	965.8	966.8
Total CL and Provisions	3,237.3	2,926.8	3,428.9	3,719.1
Net Working Capital	1,573.8	1,138.3	1,452.9	1,641.8
Miscellaneous expense	-	-	-	-
Application of Funds	4,341.4	4,223.1	4,589.7	4,765.7

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
Profit after Tax	(80.5)	(450.9)	286.4	414.7
Add: Interest Expense	212.3	230.2	76.3	45.5
Add: Depreciation	248.8	231.0	240.8	263.0
Add: Others	-	-	-	-
Increase/(Decrease) in CL	(78.3)	(310.5)	502.1	290.2
(Increase)/Decrease in CA	(564.3)	622.4	(727.1)	(480.9)
CF from Operating Activities	(262.0)	322.2	378.5	532.4
(Add) / Dec in Fixed Assets	(268.2)	(148.3)	(292.8)	(250.2)
Goodwill	(0.3)	-	-	-
(Inc)/Dec in Investments	(165.8)	(400.0)	-	-
CF from Investing Activities	(434.2)	(548.3)	(292.8)	(250.2)
Inc/(Dec) in Loan Funds	1,073.5	(1,914.1)	(168.6)	(238.6)
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)	(230.2)	(76.3)	(45.5)
CF from financing activities	904.1	102.4	3.9	(284.1)
Change in cash Eq.	207.9	(123.7)	89.6	(1.8)
Op. Cash and cash Eq.	57.1	264.9	141.2	230.8
Cl. Cash and cash Eq.	264.9	141.2	230.8	229.0

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E
Per share data (₹)				
Book Value	17.4	33.5	39.2	43.7
EPS	(1.0)	(4.8)	3.1	4.4
Cash EPS	2.2	(2.3)	5.6	7.2
DPS	-	-	-	-
Profitability & Operating Ratios				
EBITDA Margin (%)	5.3	(2.6)	6.9	7.5
PAT Margin (%)	(0.9)	(8.6)	3.1	3.9
Fixed Asset Turnover (x)	2.1	1.3	2.1	2.3
Inventory Turnover (Days)	98.1	120.0	91.0	93.0
Debtor (Days)	35.1	52.0	32.0	30.0
Current Liabilities (Days)	94.9	137.0	96.0	94.0
Return Ratios (%)				
RoE	(6.0)	(14.3)	7.8	10.1
RoCE	6.5	(8.0)	10.5	13.2
RoIC	10.2	(17.4)	16.9	20.9
Valuation Ratios (x)				
P/E	-	-	62.9	43.4
Price to Book Value	11.0	5.7	4.9	4.4
EV/EBITDA	37.3	-	28.6	22.7
EV/Sales	2.0	3.6	2.0	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	2.1	0.3	0.2	0.1
Interest Coverage (x)	1.0	-	5.3	11.8
Debt to EBITDA (x)	6.0	(6.2)	1.1	0.6
Current Ratio	1.4	1.3	1.4	1.4
Quick ratio	0.7	0.8	0.7	0.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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