

# Aditya Birla Fashion & Retail

Refer to important disclosures at the end of this report

## Accretive transaction; strong network and brand investments can drive growth

CMP	Target Price
Rs 283 as of (December 14, 2021)	Rs 340 (■) 12 months
Rating	Upside
BUY (■)	20.0 %

- ABFRL has entered into an agreement to acquire the exclusive online and offline distribution rights for the global brand 'Reebok' for the Indian/ASEAN markets. The transaction also involves the purchase of certain inventory and other net current assets of 'Reebok India Company' to the tune of Rs0.8-1.0bn.
- The foray into the fast-growing sports segment increases the addressable market, and is a key positive (industry size: USD10/14bn in FY22/24E; ~14% CAGR). However, the brand has struggled with lower growth, probably due to a lack of proper expansion/positioning in the market. ABFRL will need to invest in the brand for growth, but its strong online and physical retail presence through Pantaloons/MBOs should help expand the brand's distribution significantly, in our view.
- Reebok is the fourth-largest brand in the Indian sports/active-wear market, with Rs4.3bn in revenues in FY20, after Puma/Adidas/Nike whose topline stood at Rs14bn/12bn/8bn in FY20. Reebok has seen a ~5% CAGR in FY15-20 vs. -1%/9%/16% CAGR for Nike/Adidas/Puma in India. Reebok's EBITDA margins have been on an improving trajectory at ~17% in FY20 vs. -11% in FY15.
- The transaction is effective upon the completed transfer of global ownership of 'Reebok' brand from Adidas to Authentic Brand Group, USA, and is expected to close by Q4FY22. We see the transaction as EBITDA/EPS accretive, which can add 5-7% to our EBITDA/EPS estimates in the forecast period. We believe that better margins will offset the impact of slightly higher capital employed on ABFRL's RoIC.
- We await the finalization of the contract before factoring the transaction into our estimates. Faster recovery trends, an aggressive expansion outlook and potential margin gains should drive healthy revenue/EBITDA CAGRs of 11%/25% in FY20-24E for ABFRL (ex-Reebok transaction). We maintain our Buy rating with a TP of Rs340 on 30x Dec'23E pre-IndAS116 EBITDA.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail](#)

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### Ashit Desai

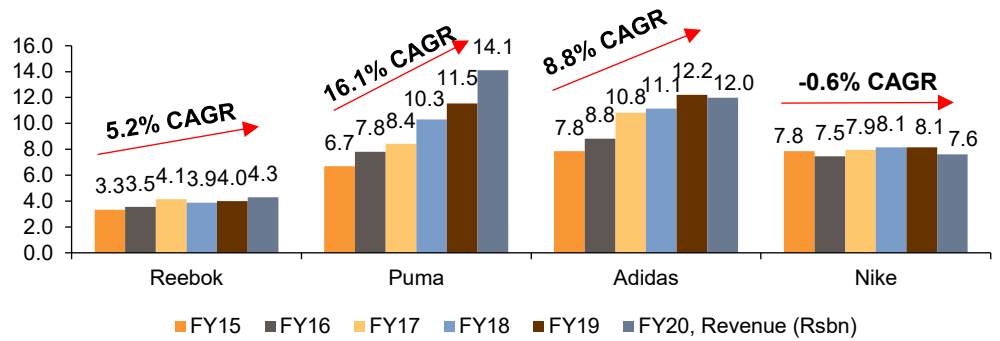
ashit.desai@emkayglobal.com  
+91 22 6612 1340

### Devanshu Bansal

devanshu.bansal@emkayglobal.com  
+91 22 6612 1385

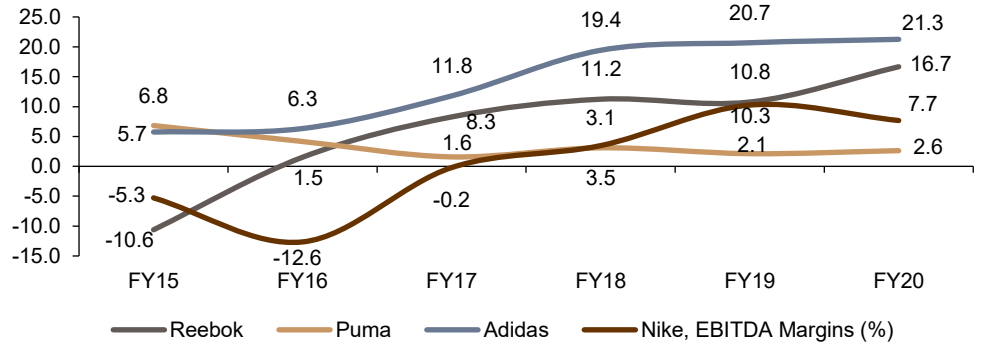
## Story in charts

**Exhibit 1: Reebok India is the fourth-largest brand in the sports segment; ABFRL's strong online and physical presence through pantaloons/MBOs should expand distribution significantly**



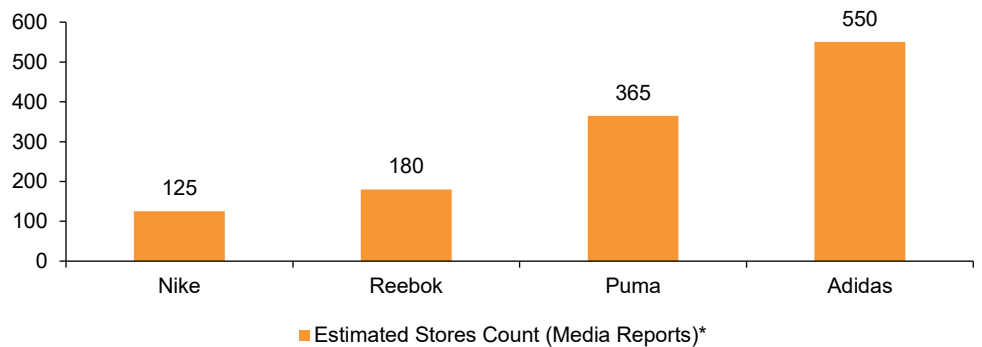
Source: Cogencis (MCA), Emkay Research

**Exhibit 2: Reebok India profitability profile has been on an improving trajectory with ~17% EBITDA margins in FY20 vs. loss-making operations in FY15**



Source: Cogencis (MCA), Emkay Research

**Exhibit 3: Reebok currently has ~180 EBOs, largely operated through franchisees; Potential to improve physical retail presence through EBOs remains healthy**



Source: Media Reports, Emkay Research, \*Store count mentioned is approximate store count

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 15 Dec 2021 02:04:39 (SGT)

Dissemination Date: 15 Dec 2021 02:05:39 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com