

CMP: ₹ 285

Target: ₹ 360 (26%)

Target Period: 12 months

BUY

December 15, 2021

## Expanding 'footprint' into sportswear, athleisure...

**About the stock:** ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloon's strength as largest value fashion retailer. The company has a robust distribution network having 2874 brand stores along with 342 Pantaloon stores.

- 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

**Company Event:** ABFRL has acquired the licencing rights to sell and distribute Reebok products in India from Authentic Brand Group, US (ABG)

- It has also entered into a purchase agreement to buy inventory and other current assets and liabilities for a consideration of ₹ 75-100 crore
- Reebok has ~180 stores operational in India (mainly franchise led) while revenue as on FY20 was at ₹ 429 crore (with early double digit margins). The company would also leverage its robust distribution network to distribute the products of the brand through Pantaloon and other MBOs
- Historically, under the Adidas group, Reebok's revenue from Indian operations has been subdued with revenue CAGR of ~5% in FY14-20. However, with the change in ownership (Adidas signed a definitive agreement to sell Reebok brand to ABG group in August, 2021), the brand is well placed to script a turnaround with Reebok having significant brand equity globally. The partnership is in line with ABG's global Reebok strategy of connecting strong brands with best-in-class licensees and network of partners that seek to optimise value in the marketplace

**What should investors do?** The stock price of ABFRL has appreciated at a CAGR of ~14% over the last five years.

- ABFRL has strengthened its balance sheet through recent equity infusion with net debt declining sharply from ₹ 2500 crore to ~₹ 870 crore. We remain structurally positive and maintain **BUY** with a revised target price

**Target Price and Valuation:** We value ABFRL at ₹ 360 i.e. 3.0x FY23E EV/sales

### Key triggers for future price performance:

- The deal would mark ABFRL's foray into India's fast-growing sports & active wear-segment (expected to grow to US\$13 billion by FY24E at 14% CAGR)
- We expect ABFRL to accelerate Reebok stores to 500+ over next five years (asset light expansion) with revenue expected to reach ₹ 1000 crore. We expect ~ ₹ 400 crore revenue with EBITDA increasing ~ 3% in FY23E
- ABFRL has aggressive store addition plans for FY22E with 60+ Pantaloon store and 400+ (franchisee) lifestyle brand stores. Besides, it has a target of opening 100 Pantaloon stores annually over the medium term

**Alternate Stock Idea:** Apart from ABFRL, in our retail coverage we also like Trent.

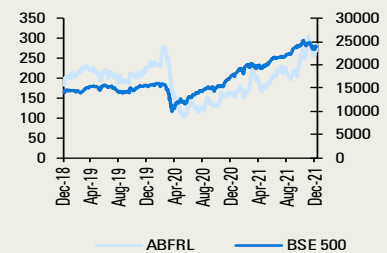
- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of the unlock theme
- BUY with a target price of ₹ 1300



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	26,722.2
Total Debt (Mar-21) (₹ Crore)	1,136.4
Cash (Mar-21) (₹ Crore)	262.3
EV (₹ Crore)	27,596.3
52 week H/L	310 / 144
Equity Capital (₹ Crore)	937.6
Face Value (₹)	10.0

### Price Chart



### Recent event & key risks

- Transaction to be effective upon transfer of global ownership of Reebok brand from Adidas to ABG group (expected by Q1CY22)
- Addition of Reebok, a marquee global sports & active wear brand will fill an important white space in ABFRL's portfolio
- Key Risk:** (i) Re-imposition of lockdown may lower sales (ii) Delay in store network expansion

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### Key Financial Summary

Financials	FY19	FY20	FY21E	4 year CAGR (FY16-FY20)	FY22E	FY23E	2 year CAGR (FY21-FY23E)
Net Sales	8,117.7	8,787.9	5,249.0	10.0%	8,203.0	11,390.5	47%
EBITDA	554.1	1,211.8	555.0		1,088.1	1,808.5	81%
PAT*	321.2	(163.0)	(673.0)		(55.0)	416.6	
EV/Sales (x)	2.9	2.8	5.3		3.4	2.4	
EV/EBITDA (x)	42.8	20.3	-		25.3	15.2	
RoCE (%)	10.7	10.2	(8.9)		5.9	20.6	
RoE (%)	22.5	-15.3	-25.5		-1.9	12.8	

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 20	FY 21	FY 22E	FY 23E
<b>Gross Revenue</b>	<b>8,787.9</b>	<b>5,249.0</b>	<b>8,203.0</b>	<b>11,390.5</b>
Growth (%)	8.3	(40.3)	56.3	38.9
Cost of Sales	4,224.2	2,563.0	3,935.1	5,538.1
Employee Costs	1,080.5	865.0	1,032.1	1,290.1
Administration & Other Exp	2,271.4	1,266.0	2,147.7	2,753.9
<b>EBITDA</b>	<b>1,211.8</b>	<b>555.0</b>	<b>1,088.1</b>	<b>1,808.5</b>
Growth (%)	118.7	PL	LP	66.2
Depreciation	885.3	963.0	963.4	1,044.9
EBIT	326.5	(408.0)	124.7	763.7
Interest	424.7	503.0	319.9	311.7
Other Income	65.3	73.0	94.9	90.2
PBT	(32.9)	(838.0)	(100.2)	542.1
Growth (%)	(122.1)	PL	LP	(640.9)
Tax	132.1	(101.5)	(25.2)	135.5
<b>Reported PAT</b>	<b>(165.0)</b>	<b>(736.5)</b>	<b>(75.0)</b>	<b>406.6</b>
Minority Interest	(2.0)	(63.5)	(20.0)	(10.0)
<b>Adjusted PAT</b>	<b>(163.0)</b>	<b>(673.0)</b>	<b>(55.0)</b>	<b>416.6</b>
Growth (%)		PL	LP	(857.4)
<b>Reported EPS</b>	<b>(2.1)</b>	<b>(7.2)</b>	<b>(0.6)</b>	<b>4.4</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY 20	FY 21	FY 22E	FY 23E
Profit after Tax	(163.0)	(673.0)	(55.0)	416.6
Add: Interest Expense	424.7	503.0	319.9	311.7
Add: Depreciation	885.3	963.0	963.4	1,044.9
Add: Others	-	-	-	-
Increase/(Decrease) in CL	(52.0)	452.8	99.6	399.8
(Increase)/Decrease in CA	(514.9)	(18.5)	(288.7)	(792.3)
<b>CF from Operating Activities</b>	<b>580.1</b>	<b>1,227.3</b>	<b>1,039.2</b>	<b>1,380.7</b>
(Add) / Dec in Fixed Assets	(318.4)	(162.0)	(450.0)	(450.0)
(Inc)/Dec in Investments	(136.3)	(710.0)	219.8	120.0
<b>CF from Investing Activities</b>	<b>(454.7)</b>	<b>(872.0)</b>	<b>(230.2)</b>	<b>(330.0)</b>
Inc/(Dec) in Loan Funds	1,080.1	(1,646.6)	(236.4)	-
Inc/(Dec) in Sh. Cap. & Res.	7.7	2,249.1	248.8	-
Others	(578.7)	(459.5)	(684.6)	(727.4)
Less: Interest Expense	(424.7)	(503.0)	(319.9)	(311.7)
<b>CF from financing activities</b>	<b>84.4</b>	<b>(360.0)</b>	<b>(992.0)</b>	<b>(1,039.1)</b>
Change in cash Eq.	209.8	(4.6)	(183.0)	11.6
Op. Cash and cash Eq.	57.1	266.9	262.3	79.3
Cl. Cash and cash Eq.	266.9	262.3	79.3	90.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY 20	FY 21	FY 22E	FY 23E
<b>Source of Funds</b>				
Equity Capital	774.0	915.1	937.6	937.6
Reserves & Surplus	293.9	1,729.0	1,900.2	2,316.8
Shareholder's Fund	1,067.9	2,644.1	2,837.9	3,254.4
Total Loan Funds	2,783.0	1,136.4	900.0	900.0
Other Non Current Liabilities	2,501.8	2,463.4	2,463.4	2,463.4
Minority Interest	27.2	32.8	33.4	34.1
<b>Source of Funds</b>	<b>6,501.9</b>	<b>6,455.3</b>	<b>6,413.4</b>	<b>6,830.7</b>
<b>Application of Funds</b>				
Gross Block	1,340.1	1,536.9	1,986.9	2,436.9
Less: Acc. Depreciation	(697.2)	(962.2)	(1,240.4)	(1,557.2)
Net Block	642.9	574.7	746.5	879.7
Capital WIP	44.1	37.6	37.6	37.6
Total Fixed Assets	687.0	612.3	784.1	917.3
Goodwill	2,093.8	2,696.7	2,696.7	2,696.7
Investments	14.2	419.8	200.0	80.0
Inventories	2,366.8	1,847.0	2,045.1	2,652.6
Debtors	840.5	730.5	786.6	936.2
Cash	266.9	262.3	79.3	90.9
Loan & Advance, Other CA	1,289.6	1,461.8	1,496.2	1,531.5
Total Current assets	4,763.7	4,301.5	4,407.3	5,211.1
Creditors	2,289.9	2,373.4	2,472.2	2,871.0
Provisions & Other CL	973.7	1,343.0	1,343.9	1,344.8
Total CL and Provisions	3,263.6	3,716.4	3,816.0	4,215.9
Net Working Capital	1,500.1	585.1	591.2	995.3
Other NCA	2,206.9	2,141.4	2,141.4	2,141.4
<b>Application of Funds</b>	<b>6,501.9</b>	<b>6,455.3</b>	<b>6,413.4</b>	<b>6,830.7</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY 20	FY 21	FY 22E	FY 23E
<b>Per share data (₹)</b>				
Book Value	13.8	28.2	30.3	34.7
EPS	(2.1)	(7.2)	(0.6)	4.4
Cash EPS	9.3	3.1	9.7	15.6
DPS	-	-	-	-
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	13.8	10.6	13.3	15.9
PAT Margin (%)	(1.9)	(12.8)	(0.7)	3.7
Fixed Asset Turnover (x)	2.3	1.4	2.2	2.7
Inventory Turnover (Days)	98.3	128.4	91.0	85.0
Debtor (Days)	34.9	52.0	35.0	30.0
Current Liabilities (Days)	95.1	137.0	110.0	92.0
Return Ratios (%)				
RoE	(15.3)	(25.5)	(1.9)	12.8
RoCE	10.2	(8.9)	5.9	20.6
RoIC	17.3	(31.0)	8.6	41.0
<b>Valuation Ratios (x)</b>				
P/E	-	-	-	64.1
Price to Book Value	20.7	10.1	9.4	8.2
EV/EBITDA	20.3	-	25.3	15.2
EV/Sales	2.8	5.3	3.4	2.4
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	2.6	0.4	0.3	0.3
Interest Coverage (x)	0.8	-	0.4	2.4
Debt to EBITDA (x)	2.3	2.0	0.8	0.5
Current Ratio	1.4	1.1	1.1	1.2
Quick ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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