

Aditya Birla Fashion

BSE SENSEX

58,117

S&P CNX

17,325



Stock Info

Bloomberg	ABFRL IN
Equity Shares (m)	817
M.Cap.(INRb)/(USD\$)	265.7 / 3.5
52-Week Range (INR)	310 / 144
1, 6, 12 Rel. Per (%)	-1/27/52
12M Avg Val (INR M)	780
Free float (%)	43.9

Financials Snapshot (INR b)

INRb	FY21	FY22E	FY23E	FY24E
Sales	52.5	80.9	109.0	125.3
EBITDA	5.5	11.0	19.1	23.3
Adj. PAT	-7.4	-1.2	2.5	3.7
EBITDA Margin (%)	10.6	13.6	17.6	18.6
Adj. EPS (INR)	-8.0	-1.1	2.2	3.1
EPS Gr. (%)	1,727.9	-86.9	-306.8	44.3
BV/Sh. (INR)	29.2	24.1	26.2	29.4

Ratios

Net D:E	0.2	0.3	0.0	0.0
RoE (%)	-39.1	-4.5	8.6	11.3
RoCE (%)	-9.2	5.0	19.9	23.6
Payout (%)	0.0	0.0	0.0	0.0

Valuations

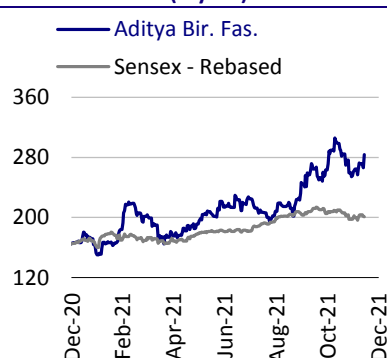
P/E (x)	-35.4	-271.1	131.1	90.9
EV/EBITDA (x)	48.6	31.2	17.9	14.4
EV/Sales (x)	5.1	4.3	3.1	2.7
Div. Yield (%)	0.0	0.0	0.0	0.0
FCF Yield (%)	3.4	-0.1	3.1	5.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	56.1	56.1	59.8
DII	18.2	17.0	22.3
FII	14.4	14.4	6.6
Others	11.3	12.5	11.3

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR284
TP: INR340 (+20%)
Buy

ABFRL bags exclusive licensing rights for Reebok India – profitable biz with limited upfront investment

Key highlights:

- Aditya Birla Fashion and Retail Ltd (ABFRL) acquired Reebok India's current business and exclusive licensing rights for an investment of just INR750m–INR1b. Reebok India has a steady revenue/EBITDA of INR4.3b/INR721m
- In our view, this is a highly value-accretive deal – ABFRL has acquired a strong and established Indian brand, with high visibility, for a very low upfront payment.
- Sportswear is the fastest growing category in the Footwear market and has seen peers growing to 2–3x Reebok India's size over the last few years – this underscores high growth opportunity.
- FY20 EBITDA of INR721m (for Reebok India) is just 4% of ABFRL's estimated FY23E EBITDA. However, it could add incremental value of 8–10%, with scope in Athleisure, among others.
- We revise our TP for ABFRL to INR340 (on stronger growth and an improved balance sheet), valuing it on Sept'23E EBITDA. We further assign an EV/EBITDA of 17x to the Lifestyle Brands business and 16x to the Pantaloon segment, and EV/sales of 1x to other businesses. Maintain Buy.

Deal contours

- **Long-term exclusive licensing, with low upfront investment:** ABFRL announced the acquisition of long-term exclusive licensing rights for Reebok India and the ASEAN business. The expected consideration would be INR750m–INR1b towards the purchase of inventory and other current assets/liabilities, with a revenue/EBITDA scale of INR4.3b/INR721m.
- **Flexibility to grow:** While the royalty has not been disclosed, assuming it is in the single digits, it could stand at INR200–300m annually. ABFRL would partner with Reebok Design Group (RDG) on all product design/development and also have the flexibility to source locally, saving on custom duty.
- **Change of hands globally:** Owned by Adidas AG globally, in Aug'21, the Reebok brand was sold to Authentic Brands Group (ABG) for USD2.5b – ABG owns over 40 global brands, with Forever 21, Arrow, Van Heusen, Nautica, and Izod among these.
- **A good deal:** In our view, this is a highly value-accretive deal – ABFRL has acquired a strong and established Indian brand, with high visibility, for a very low upfront payment. Reebok has a steady, profitable business, contrary to some of the companies that ABFRL has recently entered into deals with. This is also a new untapped space for ABFRL, which is in a very high growth phase in India. Moreover, going by the company's strategy, it aims to build India's leading sports athletic lifestyle brand. It could endeavor to achieve this with a steady flow of >INR500m recurring cashflow from operations – this is a good opportunity for a limited upfront investment.

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Business

- **Highly profitable:** Reebok India's revenue at INR4.3b has remained flattish over the last 3–4 years, with a 17% EBITDA margin. Nearly 60% of the revenue is generated from Footwear, while the remaining 40% comes from Athleisure.
- **Massive scope for growth:** 30–40% of the business is contributed by the retail channel, with 150–180 small stores (1000–1200 sq ft), while the rest is contributed by e-commerce and multi-brand outlets (MBO). The brand has the ability to grow by 3–4x over the next few years.

Opportunity and competition

- **Fastest growing segment in Footwear:** In the last five years, the Sportswear category has seen strong double-digit growth and emerged as the fastest growing segment in the Footwear market – it has grown to a size of INR900–1000b, particularly in the last couple of years since the advent of COVID. Interestingly, given the specialized and high-performance nature of the product, Sportswear is one category within the Footwear market where consumers are highly brand loyal.
- **Strong brand left behind in the race:** This is validated by the dominance of global sports footwear brands such as Adidas, Puma, Nike, ASICS, and Skechers (which has recently seen high growth). Despite Reebok being an old hand in the market, with strong brand recall, other competitors have reached INR8–14b, i.e., grown 2–3x Reebok's size. This is possibly attributable to a lower focus by Adidas, which has grown 3x Reebok's size in India.

How does it fit in the overall scheme of things?

- **Small share, but big opportunity:** Reebok would contribute just 4% to ABFRL's total estimated revenue/EBITDA of INR109b/INR19b in FY23E. However, it has the ability to grow by 3–4x over the next few years; this could add incremental EBITDA of 8–10%, even after adjusting for the estimated single-digit royalty. Furthermore, ABFRL could bring better efficiencies through local sourcing.

Valuation and view

- After the recent fundraise through a rights issue and the strategic stake sale to Flipkart, ABFRL's leverage has come under control.
- The increase in losses from its expansion in the Ethnic Wear vertical should be offset by a) a reduction in losses from other businesses as well as b) growth in the Lifestyle Brands / Pantaloons business.
- We revise our TP for ABFRL to INR340 (on stronger growth and an improved balance sheet), valuing it on Sept'23E EBITDA. We further assign an EV/EBITDA of 17x to the Lifestyle Brands business and 16x to the Pantaloons segment, and EV/sales of 1x to other businesses. Maintain Buy.

Exhibit 1: FY23E valuation based on SoTP

Particulars	EBITDA/sales	Multiple (x)	INR m
Lifestyle Brands	10,562	17	1,79,546
Pantaloons	9,918	16	1,60,962
Others	12,386	1	18,146
Total EV			3,58,654
Less: Net debt			47,096
Equity Value			3,11,559
No. of Shares			915
Target price (INR)			340
CMP (INR)			284
Upside			20%

Source: MOFSL, Company

Exhibit 2: Reebok India: Competitive landscape

Companies (FY20)	Annual revenue (INR m)	CAGR (FY16-20) (%)	Gross Margins (%)	EBITDA (INR m)	EBITDA margins (%)	PAT (INR m)	PAT Margins (%)
Adidas India	11,977.0	7.9%	46.7%	2,548.0	21.3%	1,603.0	13.4%
Nike India	7,600.3	0.5%	43.8%	582.6	7.7%	321.0	4.2%
Puma Sports India^	14,117.4	15.9%	44.6%	370.7	2.6%	-187.4	-1.3%
Reebok India	4,286.8	4.8%	43.8%	721.3	16.8%	697.7	16.3%
Skechers Retail (Combined)	7,982.0	53.6%	40.6%	1,190.9	14.9%	647.9	8.1%

^CY19 data

Source: Company, MOFSL

Exhibit 3: Reebok India: Financial highlights

Particulars (INR m)	FY16	FY17	FY18	FY19	FY20	CAGR
P&L						
Revenue from operation	3,549	4,111	3,877	4,000	4,287	5%
Growth (YoY)		16%	-6%	3%	7%	
EBITDA	54	343	436	430	721	91%
Margins	2%	8%	11%	11%	17%	
PAT	-387	199	343	353	698	NM
Growth (YoY)		NM	73%	3%	98%	
Balance Sheet						
Capital Employed	1,008	1,606	1,860	2,249	2,931	
Net current Assets	292	974	1,303	1,710	2,314	
Working capital						
Inventory	454	622	403	593	884	
Accounts receivable	661	712	924	1,082	1,366	
Accounts payable	513	626	752	694	756	
Net WC	602	708	576	981	1,493	
W.C Days						
Inventory	47	55	38	54	75	
Debtor Days	68	63	87	99	116	
Creditor days	53	56	71	63	64	
Net WC days	62	63	54	90	127	
Return ratio						
ROCE (%)	-9.2	15.6	19.9	17.3	27.2	
Cash Flow						
Operating Cash flow	318	183	454	-72	196	
Capex	-93	-96	-58	-83	-115	
FCF	225	87	396	-155	81	
Investing Cash flow	-93	-77	-15	-15	-56	
Financing Cash flow	-23	444	-85	24	-20	

Source: Company, MOFSL

Exhibit 4: India store economics

(INR m)	Reebok	Adidas	Puma
Area (sq ft)	1,150	1,250	1,250
Revenue/sq ft (INR)	9,319.2	13,572	13,924
Annual store revenue	10.7	17.0	17.4
Gross margin (%)	44%	47%	45%
EBITDA	3.6	4.8	6.1
margin (%)	34%	28%	35%
Initial investment	7.2	7.8	7.8
RoCE (%)	50%	61%	78%
Payback period (yrs)	2.0	1.6	1.3

Source: MOFSL, Company

Financials and valuations

Consolidated – Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	60,339	66,029	71,721	81,177	87,879	52,489	80,911	1,08,974	1,25,278
Change (%)	226.0	9.4	8.6	13.2	8.3	-40.3	54.1	34.7	15.0
Raw Materials	27,518	30,070	33,901	39,250	42,242	25,630	39,809	53,058	61,270
Employees Cost	6,205	7,058	7,723	9,130	10,805	8,654	11,328	12,968	14,783
Rent	9,032	10,871	10,429	11,104	4,870	107	1,780	5,340	6,013
Other Expenses	13,801	13,638	14,985	16,153	17,843	12,552	16,951	18,477	19,955
Total Expenditure	56,555	61,637	67,038	75,637	75,760	46,942	69,868	89,842	1,02,021
% of Sales	93.7	93.3	93.5	93.2	86.2	89.4	86.4	82.4	81.4
EBITDA	3,784	4,392	4,683	5,541	12,118	5,548	11,043	19,132	23,258
Margin (%)	6.3	6.7	6.5	6.8	13.8	10.6	13.6	17.6	18.6
Depreciation	3,381	2,425	2,805	2,823	8,853	9,628	9,756	11,475	13,330
EBIT	403	1,967	1,878	2,717	3,265	-4,080	1,287	7,658	9,928
Int. and Finance Charges	1,765	1,797	1,716	1,874	4,247	5,026	3,547	4,934	5,708
Other Income	264	382	328	648	653	734	661	653	653
PBT bef. EO Exp.	-1,098	552	490	1,491	-329	-8,372	-1,600	3,377	4,873
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	-1,098	552	490	1,491	-329	-8,372	-1,600	3,377	4,873
Total Tax	0	0	-688	-1,721	1,321	-1,015	-375	844	1,218
Tax Rate (%)	0.0	0.0	-140.5	-115.4	-401.7	12.1	23.4	25.0	25.0
Reported PAT	-1,098	552	1,178	3,212	-1,650	-7,357	-1,225	2,533	3,654
Adjusted PAT	-1,098	552	494	1,273	-340	-7,357	-1,225	2,533	3,654
Change (%)	-51.9	-150.3	-10.5	157.7	-126.7	2,061.2	-83.4	-306.8	44.3
Margin (%)	-1.8	0.8	0.7	1.6	-0.4	-14.0	-1.5	2.3	2.9

Consolidated – Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	7,688	7,705	7,717	7,735	7,740	9,151	11,651	11,651	11,651
Total Reserves	1,367	1,876	3,214	6,554	3,138	17,612	16,388	18,920	22,575
Net Worth	9,055	9,582	10,931	14,289	10,878	26,763	28,038	30,571	34,225
Total Loans	15,436	20,446	18,615	11,982	23,688	11,364	12,364	12,364	12,364
Lease Liability					25,018	24,634	33,174	40,775	48,665
Deferred Tax Liabilities	0	0	-688	-2,634	-1,950	-3,339	-3,339	-3,339	-3,339
Capital Employed	24,491	30,028	28,857	23,637	57,634	59,421	70,237	80,370	91,915
Gross Block	24,943	27,575	30,667	32,410	63,457	75,981	90,081	1,05,231	1,21,656
Less: Accum. Deprn.	1,711	2,704	4,844	6,855	14,022	21,851	31,607	43,082	56,412
Net Fixed Assets	23,232	24,871	25,823	25,555	49,435	54,130	58,474	62,149	65,245
Right to use Assets					22,069	21,414	25,084	27,441	29,544
Capital WIP	254	250	459	224	441	376	376	376	376
Total Investments	0	0	42	42	142	4,198	4,198	4,198	4,198
Curr. Assets, Loans&Adv.	22,338	25,238	30,326	37,756	45,688	39,671	46,646	54,848	67,745
Inventory	14,105	14,313	16,912	19,213	23,668	18,470	22,167	26,870	30,890
Account Receivables	3,124	4,522	5,518	7,808	8,405	7,305	8,867	10,450	12,013
Cash and Bank Balance	192	497	728	574	2,669	2,618	95	2,600	10,426
Loans and Advances	4,917	5,907	7,168	10,161	10,946	11,279	15,517	14,928	14,416
Curr. Liability & Prov.	21,334	20,331	27,793	39,940	38,072	38,954	39,458	41,201	45,649
Account Payables	14,298	14,578	20,093	23,974	22,899	23,734	24,384	28,363	30,890
Other Current Liabilities	6,290	3,823	5,780	13,943	13,284	13,342	13,300	10,450	12,013
Provisions	746	1,929	1,920	2,023	1,888	1,878	1,773	2,388	2,746
Net Current Assets	1,005	4,907	2,533	-2,184	7,616	717	7,188	13,647	22,095
Appl. of Funds	24,491	30,028	28,858	23,637	57,634	59,421	70,237	80,370	91,914

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	-1.4	0.7	0.6	1.6	-0.4	-8.0	-1.1	2.2	3.1
Cash EPS	3.0	3.9	4.3	5.3	11.0	2.5	7.3	12.0	14.6
BV/Share	11.8	12.4	14.2	18.5	14.1	29.2	24.1	26.2	29.4
DPS	0.0	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	0.0
Valuation (x)									
P/E	-200.1	397.8	444.4	173.2	-648.0	-35.4	-271.1	131.1	90.9
Cash P/E	96.2	73.8	66.6	53.6	25.9	114.8	38.9	23.7	19.6
P/BV	24.3	22.9	20.1	15.4	20.3	9.7	11.8	10.9	9.7
EV/Sales	3.9	3.6	3.3	2.9	2.7	5.1	4.3	3.1	2.7
EV/EBITDA	61.9	54.5	50.8	41.8	19.9	48.6	31.2	17.9	14.4
Dividend Yield (%)	0.0	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	9.8	-0.4	9.0	14.9
Return Ratios (%)									
RoE	-11.4	5.9	4.8	10.1	-2.7	-39.1	-4.5	8.6	11.3
RoCE	2.6	8.6	7.4	12.1	12.9	-9.2	5.0	19.9	23.6
RoIC	1.6	7.4	6.6	10.8	8.5	-6.7	1.7	8.3	9.9
Working Capital Ratios									
Fixed Asset Turnover (x)	2.4	2.4	2.3	2.5	1.4	0.7	0.9	1.0	1.0
Asset Turnover (x)	2.5	2.2	2.5	3.4	1.5	0.9	1.2	1.4	1.4
Inventory (Days)	85	79	86	86	98	128	100	90	90
Debtor (Days)	19	25	28	35	35	51	40	35	35
Creditor (Days)	86	81	102	108	95	165	110	95	90
Leverage Ratio (x)									
Current Ratio	1.0	1.2	1.1	0.9	1.2	1.0	1.2	1.3	1.5
Interest Cover Ratio	0.2	1.1	1.1	1.4	0.8	-0.8	0.4	1.6	1.7
Net Debt/Equity	1.7	2.1	1.6	0.8	1.9	0.2	0.3	0.2	-0.1

Consolidated – Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	-1,098	535	490	1,491	-329	-8,375	-1,600	3,377	4,873
Depreciation	3,381	2,425	2,805	2,823	8,853	9,628	9,756	11,475	13,330
Interest & Finance Charges	1,765	1,761	1,669	1,846	4,220	5,004	3,547	4,934	5,708
Direct Taxes Paid	-19	-30	-10	-196	-65	-28	375	-844	-1,218
(Inc)/Dec in WC	-741	-573	760	-937	-6,126	8,528	-8,994	-3,953	-623
CF from Operations	3,288	4,118	5,714	5,028	6,552	14,756	3,084	14,988	22,069
Others	-179	134	237	249	-112	-3,718	-661	-653	-653
CF from Operating incl EO	3,109	4,252	5,951	5,276	6,440	11,038	2,423	14,335	21,416
(Inc)/Dec in FA	-2,076	-4,499	-3,271	-2,792	-4,485	-2,101	-2,850	-3,900	-4,050
Lease Payments							-4,927	-6,635	-8,155
Free Cash Flow	1,033	-247	2,680	2,484	1,955	8,937	-427	10,435	17,366
(Pur)/Sale of Investments	0	4	-36	22	-1,027	-6,475	0	0	0
Others	219	40	58	6	5	181	817	809	809
CF from Investments	-1,857	-4,455	-3,250	-2,763	-5,508	-8,396	-6,960	-9,726	-11,396
Issue of Shares	-16	11	12	9	72	22,388	2,500	0	0
Inc/(Dec) in Debt	508	1,948	-1,832	-1,576	10,742	-16,547	1,000	0	0
Interest Paid	-1,821	-1,450	-649	-1,098	-4,243	-4,759	-1,330	-1,948	-2,039
Others	0	0	0	0	-5,407	-3,774	0	0	0
CF from Fin. Activity	-1,330	509	-2,469	-2,664	1,165	-2,692	2,170	-1,948	-2,039
Inc/Dec of Cash	-78	306	233	-152	2,098	-50	-2,366	2,661	7,982
Opening Balance	270	190	495	725	571	2,668	2,461	-61	2,444
Closing Balance	192	496	727	574	2,669	2,618	95	2,600	10,426
less: Other Bank Balance	2	1	2	2	1	156	156	156	156
Net Closing Balance	190	495	725	571	2,668	2,461	-61	2,444	10,269

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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