

24 May 2022

Aditya Birla Fashion and Retail

Strengthening balance sheet to accelerate growth; maintaining a Buy

Rating: **Buy**

Target Price: Rs.358

Share Price: Rs.267

Despite Covid'19 disruptions in Jan'22, ABFRL reported healthy revenue and margin growth in Q4 FY22. Its FY22 performance was good on the back of easing Covid'19 restrictions, investments in network expansion, inorganic acquisitions and e-commerce. Focusing on long-term strengthening of its balance sheet so that its expansion over the next 3-5 years is not hampered, it approved raising Rs22bn through a primary issue to GIC. It plans to use this capital to accelerate its growth engine built around its current brands. We raise our FY23e/24e capex to ~Rs6.5-7bn, and, hence our revenue assumption 6%/10% over FY23/24. We reduce our FY23e/24e EBITDA margin to 15%/15.3% as we factor in more marketing spends, higher other overheads and investments. We factor in revenue/EBITDA CAGRs of ~34%/42% over FY22-24. We retain our Buy rating with a TP of Rs358 on ~17x FY24e EV/EBITDA (Rs353 earlier).

Healthy margins despite Covid'19 disruption. Q4 FY22 consolidated revenue/EBITDA grew ~25%/59% to Rs22.8bn/Rs3.7bn. The gross margin expanded 210bps to 55.7% (quarterly the highest of the last couple of years). The EBITDA margin expanded ~340bps y/y to 16.3%. PAT was Rs319m vs. a ~Rs2bn loss in Q4 FY21. Pantaloon's revenue rose 13% y/y to Rs6.8bn; its EBITDA margin slid to 12.1% (14.4%) Madura Lifestyle brands reported 34% y/y revenue growth to Rs13.4bn; its EBITDA margin was 23.2% (17.5% a year ago). Net debt was higher by 5% y/y to Rs. 5,303mn.

GIC to invest Rs22bn in ABFRL for a ~7.5% stake on the latter issuing equity shares and warrants preferentially to the former. The company will issue 10.2m shares and 65.8m warrants at ~Rs289 each (an 8% premium to the ruling price). ABFRL will receive Rs7.7bn now, followed by Rs14.3bn over 18 months. With the proceeds, it plans to accelerate growth in its present portfolio and incur ~Rs7bn organic capex in FY23.

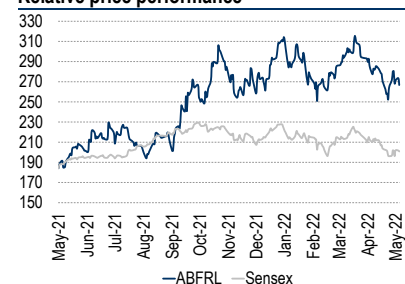
Valuation. We retain our Buy rating with a TP of Rs358 based on ~17x FY24e EV/EBITDA. **Risk:** Keen competition cutting revenue growth.

Key data	ABFRL IN / PNTA.BO
52-week high / low	Rs.322 / 182
Sensex / Nifty	54053 / 16125
3-m average volume	\$9.8m
Market cap	Rs.250bn / \$3225.2m
Shares outstanding	938m

Shareholding pattern (%)	Mar'22	Dec'21	Sept'21
Promoters	56.4	56.1	56.1
- of which, Pledged	-	-	-
Free float	43.6	43.9	43.9
- Foreign institutions	13.2	13.5	13.8
- Domestic institutions	19.5	18.8	17.8
- Public	10.9	11.6	12.3

Estimates revision (%)	FY23e	FY24e
Sales	6.2	10.0
EBITDA	2.3	5.4
EPS	(26.0)	(11.6)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	87,879	52,489	81,362	117,083	144,952
Net profit (Rs m)	(1,650)	(7,360)	(1,184)	2,578	5,667
EPS (Rs)	(2.1)	(8.0)	(1.3)	2.7	5.6
P/E (x)	NA	NA	NA	98.1	47.7
EV / EBITDA (x)	13.9	35.9	28.8	16.0	12.9
P/BV (x)	11.1	6.4	10.2	6.6	4.7
RoE (%)	(13.2)	(39.7)	(4.4)	7.8	11.8
RoCE (%)	9.4	(9.4)	2.2	10.5	13.3
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	2.3	0.2	0.2	(0.0)	(0.2)

Source: Company, Anand Rathi Research Note: Estimates are as reported, i.e., adjusted for IND-AS 116

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Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	87,879	52,489	81,362	117,083	144,952
Growth (%)	8.3	-40.3	55.0	43.9	23.8
Direct costs	42,242	25,630	37,202	55,029	68,127
SG&A	33,519	21,312	33,161	44,502	54,747
EBITDA	12,118	5,548	10,999	17,552	22,078
EBITDA margins (%)	13.8	10.6	13.5	15.0	15.2
Depreciation	8,853	9,628	9,970	11,725	12,756
Other income	653	734	1,006	1,086	1,286
Interest expenses	4,247	5,026	3,507	3,499	3,075
PBT	-329	-8,372	-1,473	3,413	7,533
Effective tax rate (%)	-	12.1	18.3	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	-1,650	-7,360	-1,184	2,578	5,667
Adjusted income	-1,650	-7,360	-1,184	2,578	5,667
WANS	774	915	938	949	1,014
FDEPS (Rs/ sh)	-2.1	-8.0	-1.3	2.7	5.6
FDEPS growth (%)	(151.3)	277.2	(84.3)	(315.4)	105.6
Gross margins (%)	51.9	51.2	54.3	53.0	53.0

Note: Figures are as reported

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT (Adj for int. exp. & other inc)	3,887	-3,396	1,941	6,936	10,631
+ Non-cash items	8,745	5,934	7,487	11,725	12,756
Oper. prof. before WC	12,632	2,538	9,428	18,661	23,387
- Incr. / (decr.) in WC	6,126	-8,528	-241	1,698	3,284
Others incl. taxes	65	28	164	859	1,889
Operating cash-flow	6,440	11,038	9,505	16,103	18,214
- Capex (tang. + intang.)	3,123	1,585	3,185	6,500	7,000
Free cash-flow	3,318	9,453	6,321	9,603	11,214
Acquisitions	-1,363	156	-	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	72	22,388	2,476	7,802	14,250
+ Debt raised	4,856	-20,608	-4,649	-7,000	-1,500
- Fin investments	1,027	7,147	2,422	-	-
- Misc. (CFI + CFF)	3,760	4,448	3,004	12,128	11,704
Net cash-flow	2,096	-207	-1,279	-1,722	12,260

Source: Company, Anand Rathi Research Note: Figures are as reported

Fig 5 – Price movement


Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

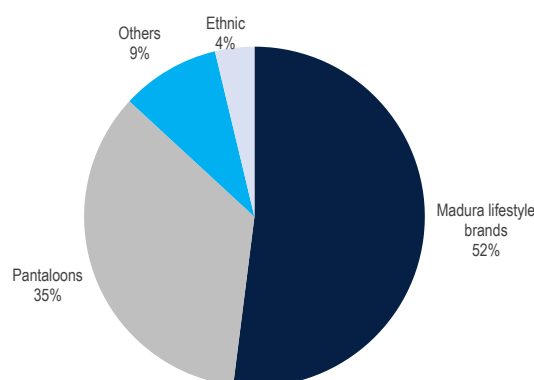
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	7,740	9,151	9,383	9,485	10,143
Net worth	10,679	26,438	27,733	38,113	58,030
Debt	27,830	11,364	12,323	5,323	3,823
Minority interest	199	325	152	152	152
DTL / (Assets)*	23,068	21,295	24,876	24,876	24,876
Capital employed	61,777	59,421	65,085	68,465	86,882
Net tangible assets**	28,497	27,161	31,541	34,445	36,818
Net intangible assets	1,072	6,997	6,940	7,440	7,940
Goodwill	19,831	22,092	22,092	22,092	22,092
CWIP (tang. & intang.)	476	395	1,051	1,051	1,051
Investments (strategic)	72	736	759	759	759
Investments (financial)	70	3,443	6,081	6,081	6,081
Current assets (ex cash)	43,018	35,829	50,591	52,607	65,129
Cash	2,669	2,618	1,205	-517	11,743
Current liabilities	33,929	39,849	55,176	55,494	64,732
Working capital	9,089	-4,020	-4,585	-2,887	397
Capital deployed	61,777	59,421	65,085	68,465	86,882
Contingent liabilities	-	-	-	-	-

Note: Figures are as reported * including lease liabilities ** including right-to-use assets

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	NA	NA	NA	98.1	47.7
EV / EBITDA (x)	13.9	35.9	28.8	16.0	12.9
EV / Sales (x)	1.9	3.8	3.9	2.4	2.0
P/B (x)	11.1	6.4	10.2	6.6	4.7
RoE (%)	-13.2	-39.7	-4.4	7.8	11.8
RoCE (%) - after tax	9.4	-9.4	2.2	10.5	13.3
ROIC (%) - after tax	4.1	-3.7	0.8	3.7	5.4
DPS (Rs /sh)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	2.3	0.2	0.2	-0.0	-0.2
Receivables (days)	35	42	34	35	35
Inventory (days)	98	128	131	91	91
Payables (days)	95	150	153	110	100
CFO : PAT %	-390	-150	-803	625	321

Source: Company, Anand Rathi Research Note: Figures are as reported

Fig 6 – FY22 revenue break-up, by segment


Source: Company

Financial highlights

Fig 7 – Financial performance (reported, ie, includes IND AS 116 impact)

(Rs m)	Q4 FY22	Q4 FY21	Y/Y (%)	Q3 FY22	Q/Q (%)	FY22	FY21	Y/Y (%)
Revenue	22,828	18,216	25.3	29,871	(23.6)	81,362	52,489	55.0
Gross margins %	55.7	53.6	210bps	54.7	101bps	54.3	51.2	310bps
Employee expenses	3,068	2,412	27.2	3,155	(2.8)	11,585	8,654	33.9
Rent expenses	1,403	869	61.5	2,025	(30.7)	3,932	107	3,585.3
Other expenses	4,517	4,133	9.3	5,341	(15.4)	17,644	12,552	40.6
EBITDA	3,730	2,353	58.5	5,821	(35.9)	10,999	5,548	98.3
EBITDA margin %	16.3	12.9	342bps	19.5	-315bps	13.5	10.6	295bps
EBIT	1,062	(180)	(690.8)	3,312	(67.9)	1,029	(4,080)	(125.2)
EBIT margins %	4.7	-1.0	564bps	11.1	-643bps	1.3	-7.8	904bps
PAT	319	(1,959)	(116.3)	1,968	(83.8)	(1,184)	(7,360)	(83.9)
PAT margins %	1.4	-10.8	1,215bps	6.6	-519bps	-1.5	-14.0	1,257bps

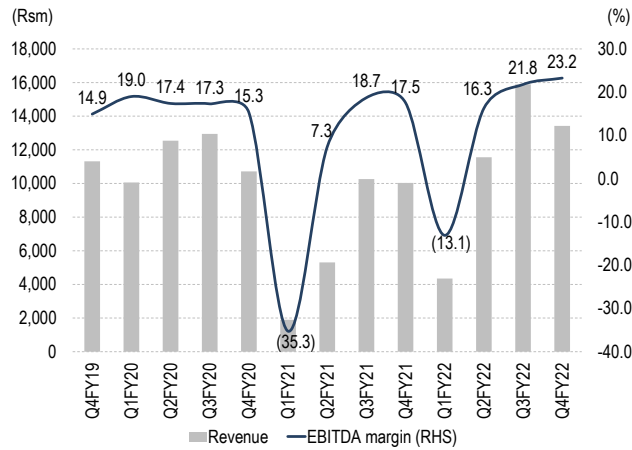
Source: Company

Fig 8 – Performance, by division (consolidated)

(Rs m)	Q4 FY22	Q4 FY21	Y/Y (%)	Q3 FY22	Q/Q (%)	FY22	FY21	Y/Y (%)
Segment revenue								
Madura	15,590	12,170	28.1	18,760	(16.9)	53,810	34,060	58.0
Lifestyle	13,420	10,030	33.8	15,890	(15.5)	45,220	27,500	64.4
Others	2,170	2,140	1.4	2,870	(24.4)	8,590	6,560	30.9
Pantaloons	6,750	5,970	13.1	10,660	(36.7)	26,260	18,590	41.3
Ethnic	1,010	380	165.8	1,140	(11.4)	3,120	680	358.8
Elimination	(520)	(300)	73.3	(700)	(25.7)	(1,830)	(830)	120.5
Total	22,830	18,220	25.3	29,860	(23.5)	81,360	52,500	55.0
Segment EBITDA								
Madura	3,080	1,880	63.8	3,640	(15.4)	8,040	3,660	119.7
Lifestyle	3,120	1,760	77.3	3,460	(9.8)	7,880	3,400	131.8
Others	(40)	120	(133.3)	180	(122.2)	160	260	(38.5)
Pantaloons	820	860	(4.7)	2,160	(62.0)	3,680	2,760	33.3
Ethnic	50	(240)	(120.8)	310	(83.9)	290	(390)	(174.4)
Elimination	70	20	250.0	(20)	(450.0)	20	260	(92.3)
Total	4,020	2,520	59.5	6,090	(34.0)	12,030	6,290	91.3
Segment EBITDA margins (%)								
Madura	19.8	15.4	431bps	19.4	35bps	14.9	10.7	420bps
Lifestyle	23.2	17.5	570bps	21.8	147bps	17.4	12.4	506bps
Others	(1.8)	5.6	-745bps	6.3	-812bps	1.9	4.0	-210bps
Pantaloons	12.1	14.4	-226bps	20.3	-811bps	14.0	14.8	-83bps
Ethnic	5.0	(63.2)	6,811bps	27.2	-2,224bps	9.3	(57.4)	6,665bps
Elimination	(13.5)	(6.7)	-679bps	2.9	-1,632bps	(1.1)	(31.3)	3,023bps
Total	17.6	13.8	378bps	20.4	-279bps	14.8	12.0	281bps
Segment EBIT								
Madura Fashion and Lifestyle	1,603	205	681.9	2,535	(36.8)	2,704	(2,141)	(226.3)
Pantaloons	(332)	(226)	46.9	1,042	(131.8)	(664)	(1,445)	(54.0)
Less: Deduction	(5)	(79)	(94.3)	66	(106.8)	145	(245)	(159.1)
Total	1,276	58	2,091.9	3,510	(63.7)	1,894	(3,341)	(156.7)
Segment EBIT margin (%)								
Madura Fashion and Lifestyle	10.3	1.7	860bps	13.5	-323bps	5.0	(6.3)	1,131bps
Pantaloons	(4.9)	(3.8)	-113bps	9.8	-1,468bps	(2.5)	(7.8)	524bps
Total	5.6	0.3	527bps	11.8	-617bps	2.3	(6.4)	869bps

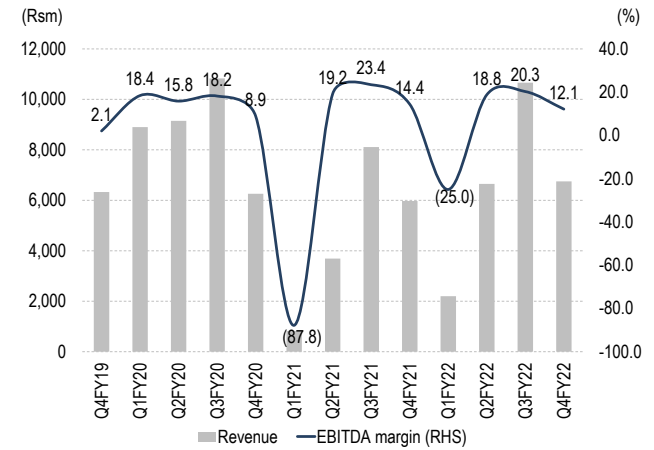
Source: Company. * Others includes Fast Fashion

Fig 9 – Madura Lifestyle brands: revenue, margin trends



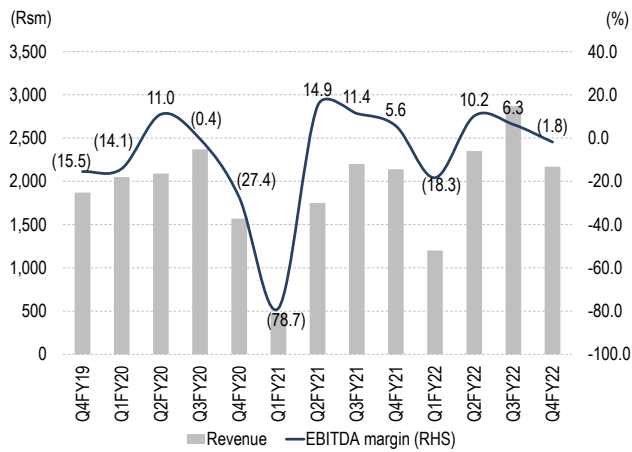
Source: Company

Fig 10 – Pantaloon's revenue, EBITDA margin trends



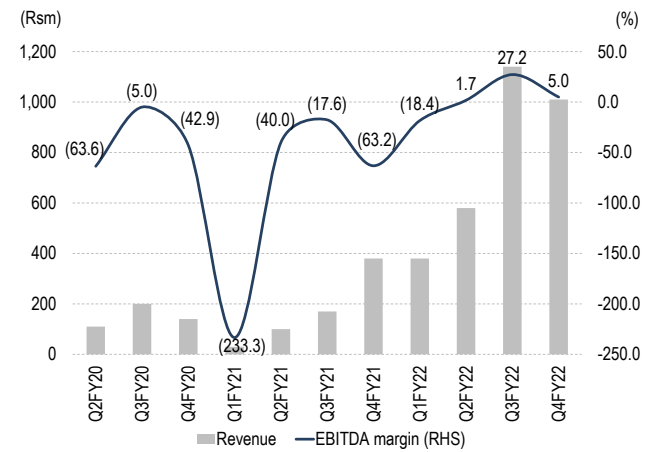
Source: Company

Fig 11 – Others* segment revenue, EBITDA margin trends



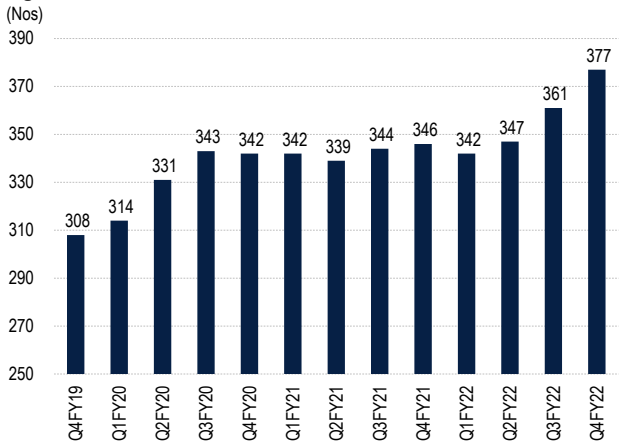
Source: Company *includes Others segment and Fast Fashion

Fig 12 – Ethnic segment revenue, EBITDA margin trends



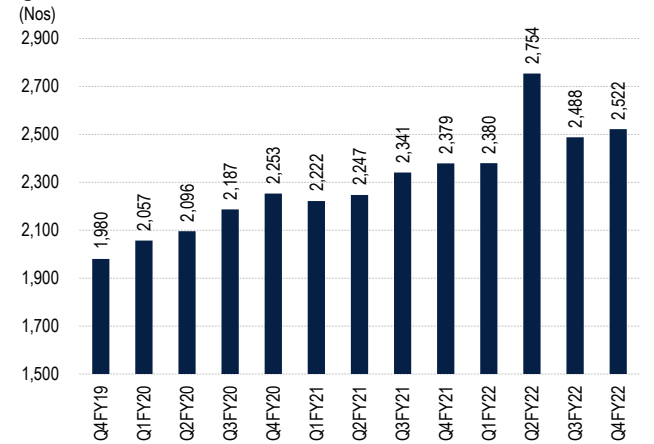
Source: Company

Fig 13 – Pantaloon's EBO network in Q4 FY22



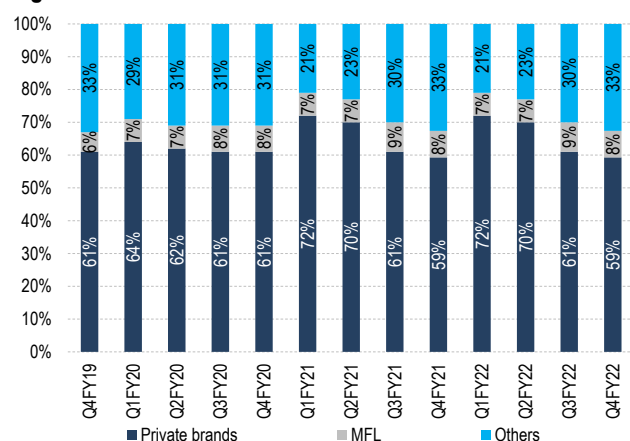
Source: Company

Fig 14 – Madura EBO network in Q4 FY22



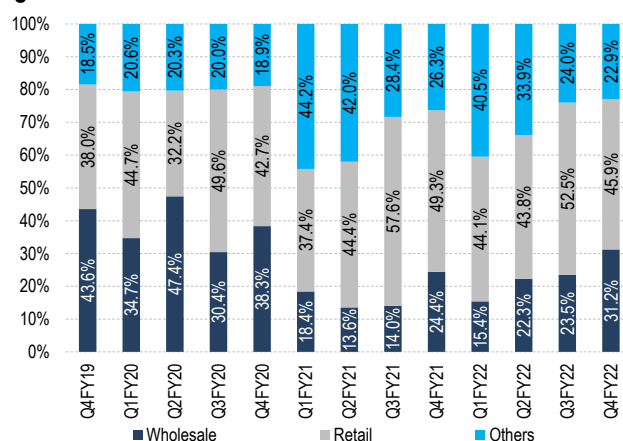
Source: Company

Fig 15 – Pantaloon's sales mix



Source: Company

Fig 16 – Madura channel-wise sales



Source: Company

Other business highlights

Madura Lifestyle brands

- Madura Lifestyle brands' reported ~34% y/y revenue growth in Q4 FY22, up ~25% from pre-Covid'19 (Q4 FY20), driven by the revival of its wholesale business (71% y/y growth) and strong, 13%, comparable retail growth.
- Its EBITDA was up ~77% y/y to Rs3.1bn and the EBITDA margin expanded ~570bps y/y to 23.2%.
- For FY22 the Lifestyle brands reported ~64% y/y revenue growth to Rs45.2bn and the EBITDA margin expanded 506bps y/y to 17.4%.
- Its e-Commerce revenue grew 61% y/y in FY22 with its own Brand.com registering the highest growth of 112%.
- The EBO count was 2,522 at end-FY22 vs. 2,488 at end-Q3 FY22 and 2,379 at end-FY21.

Pantaloon's

- Pantaloon's revenue grew ~13% y/y, pulled down by Covid'19 in Jan-Feb'22; Mar'22 bounced back with ~50% growth y/y. Revenue was Rs6.8bn vs. Rs6bn a year ago.
- Pantaloon's reported Rs820m EBITDA in Q4 FY22 vs. Rs860m a year earlier. The EBITDA margin contracted ~226bps y/y to 12.1%.
- Pantaloon's FY22 revenue grew ~41% y/y to Rs26.3bn, driven by 33% comparable growth. The company added 31 stores in the year (net) and ended the year with 377 stores. EBITDA grew ~33% y/y to Rs3.7bn and the EBITDA margin came at 14%, down 83bps y/y.
- Its store count was 377 at end-FY22. It added 49 stores (net, 31) and renovated 10. Of the stores added, 40% were franchisees.

Fast Fashion and Others

- The ‘Others’ segment (innerwear and athleisure, youth western fashion and super-premium brands) reported ~1% growth to Rs2.2bn, The EBITDA margin was -1.8% vs. 5.6% a year earlier.
- In FY22 the segment reported ~31% y/y revenue growth to Rs8.6bn. The EBITDA margin, however, contracted 210bps to 1.9%.
- Innerwear, athleisure and activewear revenue grew 33% y/y in FY22. Women’s wear contributed one-third of total revenue. It continued rapid network expansion with the company’s products being sold at ~27,000 MBOs while building a strong retail network alongside.
- Youth western fashion. *Forever21* grew 13% y/y in FY22. It successfully piloted a partnered model and expanded its network with three new stores and plans to build on this. *American Eagle* grew 79% y/y. It is gradually building a strong departmental-store network.
- Super premium brands reported the highest revenue for *The Collective* and *Mono* brands. It continued its retail expansion with six stores added.

Ethnic-wear brands

- Ethnic-wear brands’ revenue grew ~3x to Rs1,010m in Q4 FY22; the EBITDA was Rs50m vs. a Rs240m loss a year earlier. FY22 revenue grew ~5x y/y to Rs3,120m and the EBITDA was Rs290m vs. a Rs390m loss in FY21.
- Revenue for *Jaypore* grew 40%+ y/y, driven by strong retail expansion and growth in the e-commerce channel. The company added seven stores during the year, and its newly introduced categories such as home and accessories grew 27% y/y, with men’s apparel quadrupling y/y.
- *Shantanu and Nikhil* achieved its highest quarterly revenue in Q4 FY22 with 93% y/y growth. Two stores were opened in FY22 and it has five more in the pipeline for H1 FY23. The company is consistently investing in strengthening its brand equity.
- *Sabyasachi*’s revenue grew ~100% y/y with its accessories business growing the fastest and jewellery gaining traction. The brand continues to maintain its leading position in celebrity weddings.
- *The Tasva* brand was launched in partnership with Tarun Tahiliani, and is receiving good customer feedback. It opened four stores in the quarter and plans to end the year with 50+ stores.

Other

- Net debt was Rs5,034m vs. Rs5,303m in FY21 (vs. net cash in 9M FY22)

GIC investment details

- The Board approved raising Rs22bn by issuing preference shares and warrants to GIC
- GIC will invest Rs7.7bn now, followed by Rs14.3bn in one or more tranches within 18 months of exercise of warrants
- The company will issue 10.2m shares and 65.8m warrants at Rs288.75 each (an 8% premium to the prevailing price)
- Each warrant is convertible to one equity share and can be exercised in one/more tranches within 18 months
- After the entire conversion, GIC will own ~7.5% equity stake in ABFRL and the promoter stake will be reduced to ~51.9% (from 56.4% in Mar'22)
- After the entire conversion, the number of shares outstanding will increase to 1,014m (of Rs10 each)
- ABFRL plans to use this capital to accelerate its growth engine built around the strength of its current businesses, along with a rapidly-evolving play on emerging high-growth business models

Fig 17 – Shares outstanding post the fund raising from FY20 (no. of shares, m)

Pre-capital infusion (no. of shares)	774
Shares issued for rights issue	90
Shares issued for stake sale to Flipkart	73
Post-capital infusion as of end-FY22end	938
Shares issued to GIC for stake sale	10
Warrants convertible to shares	66
Post-capital infusion as of end-FY24	1,014

Source: Anand Rathi Research

Change in estimates

With the recent fund raising, we increase our FY23e capex to Rs6.5bn and FY24's to Rs7bn (from Rs4.5bn each a year earlier). Hence, with more store openings and investments, our FY23e/24e revenues are revised upward 6%/10%. Our EBITDA estimate is, however, ~2%/6% higher as we expect greater investments, and costs to bounce back to pre-Covid'19 levels.

Our EPS estimate is not comparable due to the change in shares outstanding.

Fig 18 – Change in estimates

(Rs m)	Old		New		% Change	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	110,234	131,819	117,083	144,952	6.2	10.0
EBITDA	17,150	20,948	17,552	22,078	2.3	5.4
EPS	3.7	6.3	2.7	5.6	(26.0)	(11.6)

Source: Anand Rathi Research

Valuation

Its diverse categories lead us to value the company on a sum-of-parts basis. We assign 17x FY24e EV/EBITDA for its Lifestyle brands and 15x FY24e EV/EBITDA for its high-growth, value-fashion category, Pantaloons. To the Fast Fashion and other businesses (innerwear, other premium brands), we assign 1.5x FY24e EV/sales.

We maintain our Buy rating, with a target price of Rs358 at an EV/EBITDA of ~17x FY24e.

Fig 19 – Sum-of-parts valuation summary

Business segment	FY24e	Target multiple (x)	EV (Rs m)
Madura (EBITDA)	12,678	17	215,530
Pantaloons (EBITDA)	8,141	15	122,109
Others (sales)	26,895	1.5	40,342
Sum-of-parts	47,714		377,982
Debt*			32,504
Cash			17,825
Net debt			14,680
Shareholder value			363,302
No. of shares (m)			1,014
TP (Rs)			358
CMP (Rs)			267
Upside / (downside) %			34.4

Source: Anand Rathi Research Note: Estimates are adjusted for IND-AS 116, * Debt includes lease liabilities

Fig 20 – Valuation parameters

	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	NA	NA	NA	98.1	47.7
EV / EBITDA (x)	13.9	35.9	28.8	16.0	12.9
EV / Sales (x)	1.9	3.8	3.9	2.4	2.0
RoE (%)	-13.2	-39.7	-4.4	7.8	11.8
RoCE (%)	9.4	-9.4	2.2	10.5	13.3

Source: Company, Anand Rathi Research

Risks

- Keen competition, slashing revenue growth.
- Mounting losses in its Fast Fashion and other businesses piling pressure on overall profitability.

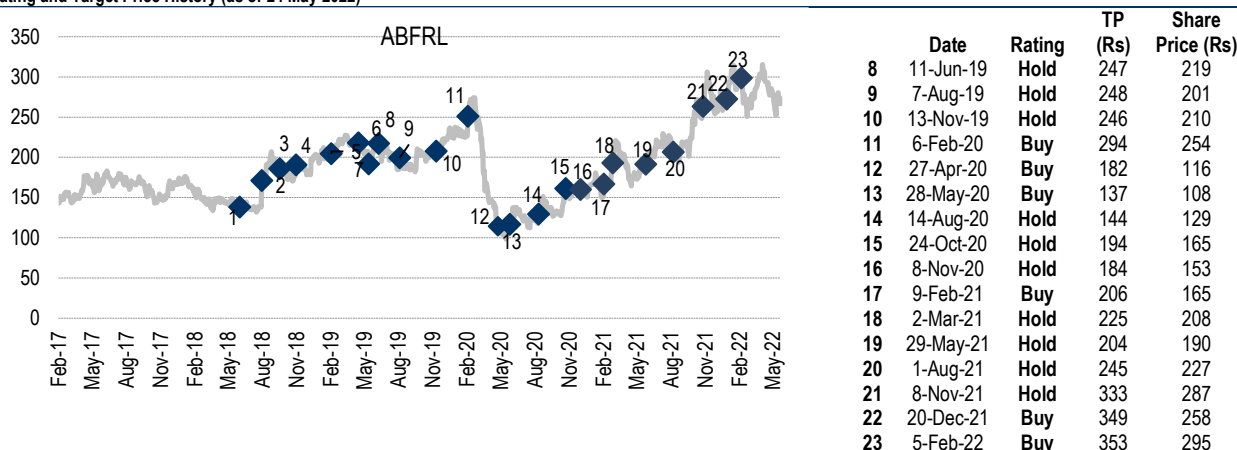
Appendix

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Ratings Guide (12 months)

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