

Aditya Birla Fashion

BSE SENSEX
62,869

S&P CNX
18,696

CMP: INR317

TP: INR380 (+20%)

Buy

ADITYA BIRLA



FASHION & RETAIL

Stock Info

	ABFRL IN
Bloomberg	ABFRL IN
Equity Shares (m)	938
M.Cap.(INRb)/(USD\$b)	300.9 / 3.7
52-Week Range (INR)	359 / 221
1, 6, 12 Rel. Per (%)	-13/3/13
12M Avg Val (INR M)	827
Free float (%)	43.9

Financials Snapshot (INR b)

INRb	FY22	FY23E	FY24E
Sales	81.4	125.8	150.0
EBITDA	11.0	19.9	25.9
Adj. PAT	-1.2	3.9	6.4
EBITDA Margin (%)	13.5	15.9	17.3
Adj. EPS (INR)	-1.3	4.1	6.8
EPS Gr. (%)	-84.0	LP	65.6
BV/Sh. (INR)	29.7	40.7	47.5

Ratios

Net D:E	0.2	0.0	0.0
RoE (%)	-4.4	11.7	15.4
RoCE (%)	3.3	12.1	14.4
Payout (%)	0.0	0.0	0.0

Valuations

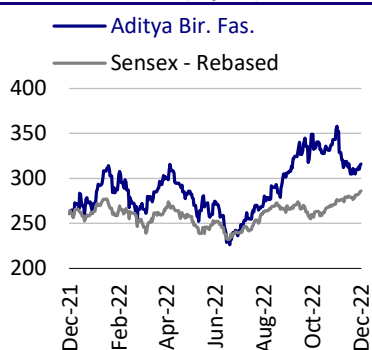
P/E (x)	NM	77.4	46.7
EV/EBITDA (x)	30.7	17.3	13.2
EV/Sales (x)	3.8	2.5	2.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	2.1	1.2	5.3

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	56.1	56.1	56.1
DII	19.4	20.0	18.2
FII	14.7	13.7	14.4
Others	9.9	10.2	11.3

FII Includes depository receipts

Stock Performance (1-year)



D2C takes off with eight digital-first lifestyle brands

Catering to the digital native customer

To cater to the preferences of the digital, native, young customer, ABFRL is building a portfolio of ~30 D2C brands in the Lifestyle categories, including Beauty & Personal Care. ABFRL, with a host of brands across value chain and product categories, could grow it organically. Similar to the inroads in the ethnic wear segment, the idea is to take part in the growth stories of small brands by providing support (capital, supply chain, technology, and backend support) to improve their market offerings.

Acquires eight D2C brands

TMRW, ABFRL's subsidiary, recently announced acquisition of majority stakes in eight digital-first lifestyle brands across categories (see exhibit 2) for a total cash consideration of INR2.9b. The segment now has achieved a revenue run-rate of over INR7b and is on track to cross annual rate of over INR15b in the next 12 months. This would be a contribution of ~10% on ABFRL's FY24E consolidated revenues.

More to follow, aim to create larger scale

The company plans to scale up by adding another 10-12 brands over the next 12 months and create a portfolio of ~30 new-age, digital first brands over the next three years. In the initial round of building its portfolio, ABFRL plans to infuse INR5-6b capital from its balance sheet for both organic and inorganic growth, including loss funding. Post this, with a reasonable number of brands in the portfolio and revenue scale, it may look for a strategic investor for the incremental growth.

ABFRL – a play on multiple growth categories

The lifestyle and apparel space has opened up a host of new growth categories in the recent past, viz., value category, occasion wear, and online space. While a few companies have concentrated on select categories to drive operational focus, some large conglomerates such as Birla Group, Reliance, and Tata have tried to include a wider landscape to offer balance sheet support. ABFRL's strong execution capability is reflected in its ability to scale up a series of strong brands in the last 10 years. Management has reiterated its focus to achieve its FY26 revenue/EBITDA targets of INR210b/23.5b, which should gradually reduce the loss funding in new businesses and turn them profitable.

Leverage position in control

After a series of fund raise (right issue and preferential issues), ABFRL has reduced its net debt to INR2.4b as on Sep'22 from its peak net debt of INR24b as on Mar'20, despite the recent series of acquisitions. The internal accrual (PAT + Depreciation on pre-Ind AS basis) of INR6b/INR10b in FY23/FY24 should well take care of the organic growth capex. The additional INR14.5b from GIC should take care of the D2C funding and yet keep enough capital for new growth engines.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

We value ABFRL on a SoTP basis to arrive at our TP of INR380, assigning an EV/EBITDA ratio of 15x to the Lifestyle brands, given the strong recovery and improved profitability; 15x to Pantaloons; and an EV/sales ratio of 1x to Other businesses on a FY24E basis. On a pre-Ind AS 116 EBITDA of INR12.5b for FY24E, this works out to be EV/EBITDA of ~29x. An improved balance sheet, healthy cash flows, and a strong overall performance remain key tailwinds for the stock. **We reiterate our Buy rating on the stock.**

D2C PLATFORM AND PRODUCTS

Ventures into D2C segment

- In Feb'22, the company approved setting up a new subsidiary "TMRW" to foray into the D2C business with a view of building a portfolio of distinct, new-age, digital brands across categories in fashion, beauty, and other allied lifestyle segments.
- The company plans to build a portfolio of online first and digital brands through organic and inorganic means.
- Within this **D2C platform**, the company plans a capex of INR4b to create a **portfolio of 20-30 online focus brands with the ability to generate INR5-8b revenue** in the near term. The company's initial focus will be to create in-house online focused brands and later acquire specialized product brands with the capability to achieve larger scale.

Rationale for venturing into the D2C segment:

- The company believes that all the existing lifestyle brand under its portfolio present a strong growth opportunity, which will continue to grow as per category extension and consumer ask.
- Further, the LFL (Like for Like) growth of online brands are expected to be far better than the industry. The company looks to tap the opportunity.
- The company would look to build this segment from its learning within the ethnic wear segment where it aligned its core competency with the brand/product expertise to drive business growth.

Composition of D2C segment:

- The company would target brands with a strong online presence and provides them with capital and supply chain network.
- The selected brands could have a specialization in any particular product, e.g., socks, innerwear, shorts, denims, and women kurtas.
- The segment has noted the emergence of these brands in the past few years.
- With more young consumers preferring to buy fashion apparels online, some of these new brands have done well to reach a good revenue scale and attract these young customers.
- The idea would be to create a portfolio of digital only, smaller brands by acquiring them at a reasonable price when they are young and grow the brands by leveraging the digital space.
- Apart from core brands, these will be new digital only brands.

- The company's strategy would be to first focus on building organic brands and then acquire existing brands with good growth potential. This could be a host of 20-30 small brands specialized in a specific product with strong customer pull, but limited ability to scale up.
- **Capex:** Expected investment to be in the range of INR4b for the next 12-18months. The capex outlay would be based on the idea of building a segment capable of generating INR5-8b revenue.

Reason for setting up a separate subsidiary

- Many of the businesses under this segment are in their nascent stages, and thus would require an unconventional support as against traditional brands.
- In addition to separate capital and bandwidth requirements, a separate skillset would be needed to scale up and grow the segment, hence, ABFRL looks to set up a separate company.
- Further, ABFRL has a strong management bandwidth with several brand heads. D2C, on the other hand, would need to have a separate management team to ensure it gets the right focus.
- The company will look to collaborate with the designers and promoters and provide them support in the form of capital, supply chain and technology, and backend support, etc.
- The company will scale up the capex as per requirements going ahead and will decide on onboarding any strategic investor at a later stage.

Exhibit 1: FY23E valuation-based on SoTP

FY24E	EBITDA/Sales	Multiple	EV
Lifestyle Brands	13,586	15	2,01,071
Pantaloons	11,670	15	1,75,057
Others	17,935	1	17,935
Total EV			3,94,063
Less: Net debt			37,256
Equity Value			3,56,807
No of Shares			938
TP			380
CMP			317
Upside			20%

Source: MOFSL, Company

Exhibit 2: Acquisitions made across various segments

Company Name	Category	Incorporation date	Stake acquired	Amount paid (INR m)	Mode of deployment
BerryLush	Women's Western Wear	2017	51%	270	Cash (incl secondary and primary infusion)
Bewakoof	Casual & Expressive Wear	2011	73-80%	2,000	Cash (incl debt, secondary and primary infusion)
Natilene	Teen's Occasion Wear	1994	100%	100	Cash (incl secondary and primary infusion)
Nauti Nati	Kid's Wear				
Nobero	Athleisure & Active Wear	2014	66%	130	Cash (incl secondary and primary infusion)
Urbano	Casual & Denim Wear	2012	55%	180	Cash (incl secondary and primary infusion)
Verido	Casual Wear & Fast Fashion	2020	55%	210	Cash (incl secondary and primary infusion)
Juneberry	Women's Casual & Western Wear				
Total				2,890	

Source: Company, MOFSL

Exhibit 3: Acquisitions executed at a reasonable valuation

Company Name	Revenue (INR m)			EV (INR m)	Valuation (x) (EV/Sales)
	FY20	FY21	FY22		
BerryLush	40	160	370	529.4	1.4
Bewakoof*	2,100	1,290	1,620	2,000.0	1.0
Natilene	290	110	150	100.0	0.3
Nauti Nati					
Nobero	130	190	120	197.0	1.0
Urbano	290	330	550	327.3	0.6
Verido	N.A	310	350	381.8	1.1
Juneberry					
Total					

* Assumed total consideration to be 75% through equity and rest on debt

Source: Company, MOFSL

Story in charts

Exhibit 4: Expect revenue to pick up in FY23E

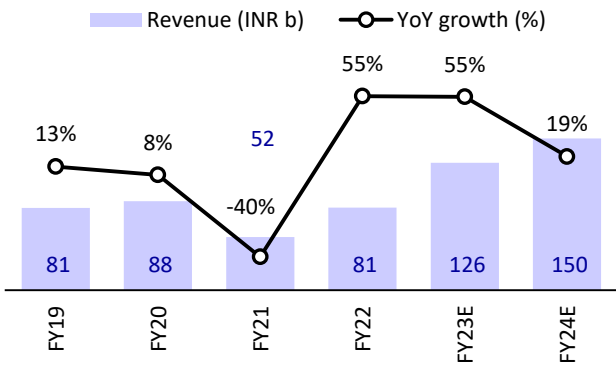


Exhibit 5: Gross margins to improve from FY23 onwards

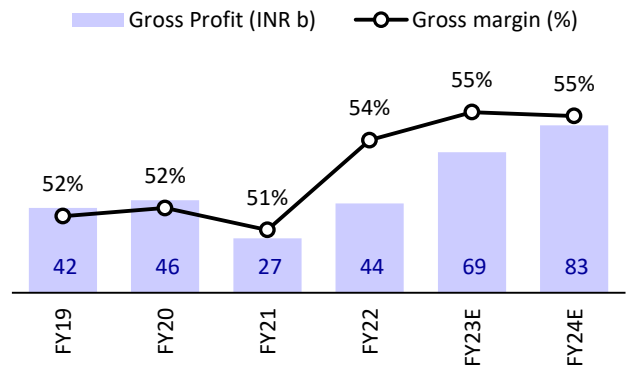


Exhibit 6: EBITDA margins to see gradual expansion

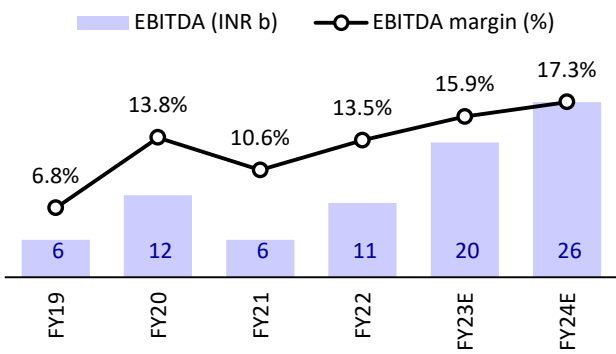


Exhibit 7: Expect profitability to resume from FY23

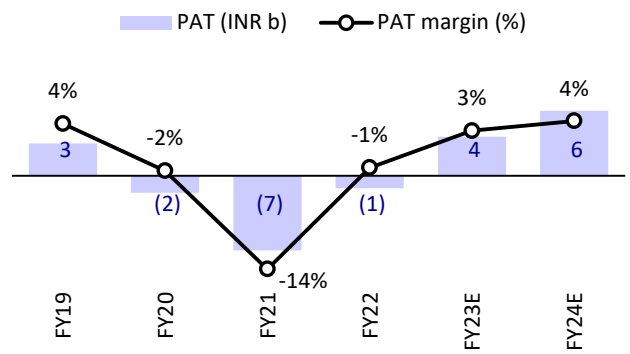
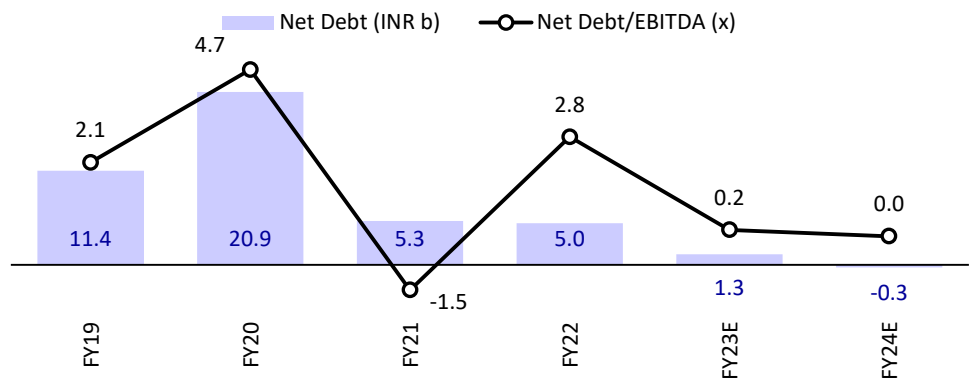


Exhibit 8: Expect leverage position to improve



• Calculated on pre-Ind AS basis. Source: MOFSL, Company

Exhibit 9: Reconciliation of debt movement in 1HFY23

Debt Reconciliation (INR b)	FY22	1HFY23
Gross Debt (Opening)	11.4	12.3
Inflow		
Operating Cash flow	8.8	2.5
Fund Raise	2.5	7.7
Borrowings	1.0	1.3
Total funds	23.6	23.8
Outflow		
WC Changes	-0.2	4.0
Capex	3.2	3.1
Pur of Investments	2.4	0.8
Change in Net Debt	0.3	2.6
Other Cash outflow	5.6	-0.5
Total Outflow	11.2	10.1
Gross Debt (Closing)	12.3	13.7
Cash and cash Equivalent	1.2	1.6
Current Investment	6.1	9.8
Net Debt	5.0	2.4

Source: MOFSL, Company

Exhibit 10: Segmental performance (INR b)

Revenue (INR b)	FY19	FY20	FY21	FY22	FY23E	FY24E	Growth FY20-22 (%)
Lifestyle Brands	43.0	46.3	27.5	45.2	65.6	73.4	(2.3)
Other brands	3.7	5.2	4.9	7.1	11.2	15.5	35.5
Pantaloons	31.9	35.1	18.6	26.3	45.6	55.6	(25.3)
Ethnic		0.5	0.7	3.1	5.3	7.9	591.1
Total revenue	81.2	87.9	52.5	81.4	125.8	150.0	(7.4)
EBITDA (INR b)							
Lifestyle Brands	5.2	8.0	3.4	7.9	11.8	13.6	(1.1)
margin (%)	12.0	17.2	12.4	17.4	18.0	18.5	
Other brands	(0.3)	(0.5)	(0.2)	0.1	0.1	0.2	(113.3)
margin (%)	(9.0)	(9.8)	(3.1)	1.0	0.6	1.1	
Pantaloons	2.3	5.6	2.8	3.7	7.8	11.7	(34.6)
margin (%)	7.2	16.0	14.8	14.0	17.2	21.0	
Ethnic		(0.1)	(0.4)	0.3	(0.9)	(1.4)	(330.8)
margin (%)		(28.9)	(55.9)	9.6	(17.0)	(17.0)	
Consolidated EBITDA	5.5	12.1	5.5	11.0	19.9	25.9	(9.2)
margin (%)	6.8	13.8	10.6	13.5	15.9	17.3	

Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	71,721	81,177	87,879	52,489	81,362	1,25,753	1,49,952
Change (%)	8.6	13.2	8.3	-40.3	55.0	54.6	19.2
Raw Materials	33,901	39,250	42,242	25,630	37,202	56,278	67,310
Employees Cost	7,723	9,130	10,805	8,654	11,585	15,593	19,494
Rent	10,429	11,104	4,870	107	3,932	8,363	7,798
Other Expenses	14,985	16,153	17,843	12,552	17,644	25,584	29,421
Total Expenditure	67,038	75,637	75,760	46,942	70,363	1,05,817	1,24,022
% of Sales	93.5	93.2	86.2	89.4	86.5	84.1	82.7
EBITDA	4,683	5,541	12,118	5,548	10,999	19,936	25,930
Margin (%)	6.5	6.8	13.8	10.6	13.5	15.9	17.3
Depreciation	2,805	2,823	8,853	9,628	9,970	11,831	13,806
EBIT	1,878	2,717	3,265	-4,080	1,029	8,106	12,123
Int. and Finance Charges	1,716	1,874	4,247	5,026	3,507	4,099	4,525
Other Income	328	648	653	734	1,006	980	980
PBT bef. EO Exp.	490	1,491	-329	-8,372	-1,473	4,987	8,578
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	490	1,491	-329	-8,372	-1,473	4,987	8,578
Total Tax	-688	-1,721	1,321	-1,015	-266	1,101	2,144
Tax Rate (%)	-140.5	-115.4	-401.7	12.1	18.0	22.1	25.0
Reported PAT	1,178	3,212	-1,650	-7,357	-1,207	3,886	6,433
Adjusted PAT	1,178	3,212	-1,650	-7,357	-1,207	3,886	6,433
Change (%)	113.4	172.7	-151.4	345.8	-83.6	-421.9	65.6
Margin (%)	1.6	4.0	-1.9	-14.0	-1.5	3.1	4.3

Consolidated - Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	7,717	7,735	7,740	9,151	9,383	9,487	9,487
Total Reserves	3,214	6,554	3,138	17,612	18,502	29,164	35,597
Net Worth	10,931	14,289	10,878	26,763	27,885	38,651	45,084
Total Loans	18,615	11,982	23,688	11,364	12,323	14,123	14,123
Lease Liability			25,018	24,634	28,681	35,952	42,279
Deferred Tax Liabilities	-688	-2,634	-1,950	-3,339	-3,805	-3,805	-3,805
Capital Employed	28,857	23,637	57,634	59,421	65,085	84,922	97,681
Gross Block	30,667	32,410	63,457	75,981	92,395	1,08,130	1,25,890
Less: Accum. Deprn.	4,844	6,855	14,022	21,851	31,821	41,621	55,427
Net Fixed Assets	25,823	25,555	49,435	54,130	60,573	66,509	70,463
Right to use Assets			22,069	21,414	25,229	26,838	27,282
Capital WIP	459	224	441	376	1,032	1,026	1,026
Total Investments	42	42	142	4,198	6,860	6,860	6,860
Curr. Assets, Loans&Adv.	30,326	37,756	45,688	39,671	51,796	70,131	86,298
Inventory	16,912	19,213	23,668	18,470	29,296	37,898	41,083
Account Receivables	5,518	7,808	8,405	7,305	7,564	12,059	14,379
Cash and Bank Balance	728	574	2,669	2,618	1,205	6,738	14,404
Loans and Advances	7,168	10,161	10,946	11,279	13,731	13,437	16,433
Curr. Liability & Prov.	27,793	39,940	38,072	38,954	55,176	59,604	66,965
Account Payables	20,093	23,974	22,899	23,734	34,106	44,789	49,299
Other Current Liabilities	5,780	13,943	13,284	13,342	19,041	12,059	14,379
Provisions	1,920	2,023	1,888	1,878	2,030	2,756	3,287
Net Current Assets	2,533	-2,184	7,616	717	-3,380	10,528	19,334
Appl. of Funds	28,858	23,637	57,634	59,421	65,085	84,922	97,681

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	1.5	4.2	-2.1	-8.0	-1.3	4.1	6.8
Cash EPS	5.2	7.8	9.3	2.5	9.3	16.6	21.3
BV/Share	14.2	18.5	14.1	29.2	29.7	40.7	47.5
DPS	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
Valuation (x)							
P/E	205.4	75.6	-147.3	-39.1	-244.1	76.7	46.3
Cash P/E	60.7	40.1	33.7	126.5	33.6	19.0	14.7
P/BV	22.1	16.9	22.3	10.7	10.6	7.7	6.6
EV/Sales	3.6	3.1	3.0	5.6	3.8	2.4	2.0
EV/EBITDA	55.6	45.9	23.9	57.8	30.4	17.1	13.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.5	3.2	2.5	9.8	6.7	3.9	16.7
Return Ratios (%)							
RoE	11.5	25.5	-13.1	-39.1	-4.4	11.7	15.4
RoCE	7.5	12.8	9.6	-5.7	3.3	12.1	14.4
RoIC	7.8	13.3	10.2	-6.3	3.8	14.4	18.0
Working Capital Ratios							
Fixed Asset Turnover (x)	2.3	2.5	1.4	0.7	0.9	1.2	1.2
Asset Turnover (x)	2.5	3.4	1.5	0.9	1.3	1.5	1.5
Inventory (Days)	86	86	98	128	131	110	100
Debtor (Days)	28	35	35	51	34	35	35
Creditor (Days)	102	108	95	165	153	130	120
Leverage Ratio (x)							
Current Ratio	1.1	0.9	1.2	1.0	0.9	1.2	1.3
Interest Cover Ratio	1.1	1.4	0.8	-0.8	0.3	2.0	2.7
Net Debt/Equity	1.6	0.8	1.9	0.2	0.2	0.0	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)							
OP/(Loss) before Tax	490	1,491	-329	-8,375	-1,449	4,987	8,578
Depreciation	2,805	2,823	8,853	9,628	9,970	11,831	13,806
Interest & Finance Charges	1,669	1,846	4,220	5,004	3,484	4,099	4,525
Direct Taxes Paid	-10	-196	-65	-28	-164	-1,101	-2,144
(Inc)/Dec in WC	760	-937	-6,126	8,528	241	-8,375	-1,140
CF from Operations	5,714	5,028	6,552	14,756	12,082	11,440	23,625
Others	237	249	-112	-3,718	-2,577	-980	-980
CF from Operating incl EO	5,951	5,276	6,440	11,038	9,505	10,460	22,645
(Inc)/Dec in FA	-3,271	-2,792	-4,485	-2,101	-3,185	-6,760	-6,760
Lease Payments					0	-6,023	-7,550
Free Cash Flow	2,680	2,484	1,955	8,937	6,321	3,700	15,885
(Pur)/Sale of Investments	-36	22	-1,027	-6,475	-2,422	0	0
Others	58	6	5	181	116	1,003	1,003
CF from Investments	-3,250	-2,763	-5,508	-8,396	-5,491	-11,780	-13,307
Issue of Shares	12	9	72	22,388	2,476	6,880	0
Inc/(Dec) in Debt	-1,832	-1,576	10,742	-16,547	960	1,800	0
Interest Paid	-649	-1,098	-4,243	-4,759	-3,097	-1,804	-1,649
Dividend Paid	0	0	0	0	0	0	0
Others	0	0	-5,407	-3,774	-5,609	0	0
CF from Fin. Activity	-2,469	-2,664	1,165	-2,692	-5,270	6,876	-1,649
Inc/Dec of Cash	233	-152	2,098	-50	-1,256	5,556	7,689
Opening Balance	495	725	571	2,668	2,461	1,182	6,715
Closing Balance	727	574	2,669	2,618	1,205	6,738	14,404
less: Other Bank Balance	2	2	1	156	23	23	23
Net Closing Balance	725	571	2,668	2,461	1,182	6,715	14,381

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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