

Aditya Birla Fashion

BSE SENSEX
58,962

S&P CNX
17,304


Stock Info

Bloomberg	ABFRL IN
Equity Shares (m)	938
M.Cap.(INRb)/(USD\$)	217.9 / 2.6
52-Week Range (INR)	359 / 221
1, 6, 12 Rel. Per (%)	-7/-23/-18
12M Avg Val (INR M)	697
Free float (%)	44.5

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	123.4	147.8	173.3
EBITDA	16.3	20.5	26.3
Adj. PAT	1.0	2.4	4.7
EBITDA Margin (%)	13.2	13.9	15.2
Adj. EPS (INR)	1.1	2.3	4.6
EPS Gr. (%)	-181.6	122.8	96.4
BV/Sh. (INR)	37.2	51.5	56.1

Ratios

Net D:E	0.1	-0.3	-0.2
RoE (%)	3.2	5.4	8.5
RoCE (%)	7.2	8.2	10.3
Payout (%)	0.0	0.0	0.0

Valuations

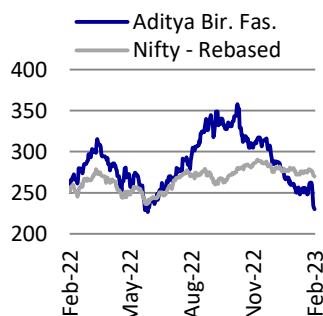
P/E (x)	219.0	98.3	50.0
EV/EBITDA (x)	16.1	12.9	10.4
EV/Sales (x)	1.8	1.5	1.3
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.6	5.1	3.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	55.5	56.1	56.1
DII	19.1	19.4	19.2
FII	15.1	14.7	14.0
Others	10.3	9.9	10.7

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR230
TP: INR305 (+33%)
Buy

Business on track but it is getting bumpy

ABFRL's stock price has fallen 35% from the Nov'22 peak. We deliberate on the business outlook and concerns that may be overplaying.

Potential TCNS acquisition

As per recent [media articles](#), ABFRL is contemplating to acquire a majority stake in TCNS Clothing (women's branded apparel retailer that owns brands such as W, Elleven and Aurelia) from promoters and PE investors (holding 61% stake). At the current market cap of INR29b, the investment could be to the tune of INR12b-15b for a 51% stake and could be funded through a combination of cash and share swap (without taking leverage of GIC's INR14.5b equity infusion likely in the next 18 months). TCNS's FY23E revenue/EBITDA of INR12.5b/INR1.6b (as per BBG estimates) represent only 10% of ABFRL's consolidated revenue/EBITDA as TCNS has been witnessing weak earnings for the last few years. While TCNS has built a decent scale, it operates in a crowded women ethnic wear market that is catering to highly price- and design-conscious women consumers. Therefore, we believe that earnings revival at TCNS may be a challenging journey and that building the scale internally could be a good alternative for ABFRL.

Healthy traction in Lifestyle business but softness in Pantaloons

The Lifestyle business with four men's brands (constituting 54% of total revenue) has posted the best performance in the last couple of years in line with the premium market. The Lifestyle business has seen a healthy 48% YoY growth in FY23 and a 13% CAGR v/s FY20 (pre-Covid), with an 80bp EBITDA margin improvement. On the other hand, Pantaloons has reported a soft recovery, with a revenue CAGR of 5% over FY20-23E, behind its footprint addition of 8%. FY23E EBITDA margin for Pantaloons has been 240bp lower v/s FY20. We expect a consolidated revenue/EBITDA CAGR of 18%/27% over FY23-25E, with healthy footprint addition and improving industry demand.

Building new growth engines

In the last few years, ABFRL has invested in multiple new businesses, and most of them have a smaller scale and are presently loss-making, with revenue/operating loss of INR5.7b/INR630m in the ethnic wear segment (FY23E), INR12.5b/INR100m in other Madhura brands for FY23E and INR820m/INR390m in D2C for 2HFY23E. On the positive side, ABFRL is creating inroads into each of these categories, which should offer growth prospects over the next 3-5 years. But the losses (making up ~20% of gross pre-Ind-AS EBITDA of Lifestyle and Pantaloons) create a long tail of a fragmented portfolio mix in multiple categories with a prolonged phase of investments, which could raise risks to near-term earnings.

Balance sheet improves, but concerns over capital allocation persist

After a large fund raise of INR22.5b and a series of acquisitions in Ethnic Wear in FY21, ABFRL invested in smaller acquisitions (Reebok India and House of Masaba and D2C) in the last couple of years. It maintained net debt (excluding lease liability) at INR2.4b in 1HFY23, much below its peak of INR21b in FY20. But the acquisition of TCNS may result in an outgo of ~INR12-15b, which could dilute equity value and utilize GIC's upcoming equity infusion.

Valuation and view

ABFRL's strong execution capability is reflected in its ability to scale up a series of strong brands in the last 10 years. While the Lifestyle segment continues to deliver a healthy performance, a sluggish recovery in the Pantaloons segment and incremental investments in new businesses could drag down profitability in the near term. Scaling up the Reebok segment and turning around the newly set-up D2C segment/ethnic wear remain key monitorables. We factor in a revenue/EBITDA CAGR of 18%/27% over FY23-25E. We value ABFRL on the SOTP basis, assigning EV/EBITDA of 15x to Lifestyle Brands, 10x to Pantaloons, and EV/sales of 1x to other businesses on FY25E. Subsequently, we arrive at a TP of INR305. We reiterate our Buy rating on the stock.

Exhibit 1: SoTP-based valuation

FY25E	EBITDA/Sales	Multiple	EV
Lifestyle Brands	15,810	15	2,29,239
Pantaloons	9,325	10	88,585
Others	20,709	1	10,354
Total EV			3,28,179
Less: Net debt			38,010
Equity Value			2,90,169
No of Shares			949
TP			305
CMP			230
Upside			33%

Source: MOFSL, Company

Exhibit 2: Acquisitions made across various segments

Date	Acquisition	Segment	Stake Purchased (%)	Consideration (INR m)
Jul-19	Jaypore	Premium - Ethnic	100	1,048
Jul-19	Shantanu & Nikhil	Luxury- Ethnic	51	579
Jul-19	TG Apparel & Decor Pvt Ltd	Premium - Ethnic	100	3
Jan-21	Sabyasachi	Luxury- Ethnic	51	3,898
Feb-21	Tarun Tahiliani (Goodview Fashion Private Limited)	Luxury- Ethnic	34	672
Dec-21	Reebok India - Exclusive Licence	Athleisure	100	875
Jan-22	House of Masaba	Lifestyle, Apparel, Beauty and Accessories.	51	900
Dec-22	TMRW - 8 brands			
	BerryLush	Women's Western Wear	51	270
	Bewakoof	Casual & Expressive Wear	73-80	2,000
	Natilene	Teen's Occasion Wear	100	100
	Nauti Nati	Kid's Wear		
	Nobero	Athleisure & Active Wear	66	130
	Urbano	Casual & Denim Wear	55	180
	Verido	Casual Wear & Fast Fashion	55	210
	Juneberry	Women's Casual & Western Wear		
Total				10,864

Source: Company, MOFSL

Exhibit 3: Debt and cash reconciliation (INR m)

Sources of cash	FY22	1HFY23
Cash from operations (before WC)	9,264	8,970
Fund Raise	2,476	7,714
Borrowings	960	1,421
Net inflow	12,699	18,105
Application of cash		
Capex	3,185	3,064
WC	(241)	4,044
Acquisition	0	795
Others	8,530	6,171
Net outflow	11,473	14,075
Net cash inflow	1,226	4,030
Opening net debt	5,303	5,036
Add: Net borrowings	960	1,421
Less: Net cash inflow	1,226	4,030
Closing net debt	5,036	2,428

Source: MOFSL, Company

Exhibit 4: TCNS revenue/EBITDA represent nearly 10% of ABFRL consolidated revenue/EBITDA

INR m	FY22	FY23E	FY24E
ABFRL			
Revenue	81,362	1,23,437	1,47,788
Growth (%)	55.0	51.7	19.7
EBITDA	10,999	16,287	20,535
Margins (%)	13.5	13.2	13.9
TCNS			
Revenue	8,961	12,501	15,402
% to ABFRL consol	11.0	10.1	10.4
EBITDA	896	1,580	2,431
Margins (%)	10.0	12.6	15.8
% to ABFRL consol	8.2	9.7	11.8
Combined			
Revenue	90,323	1,35,938	1,63,190
Growth (%)		50.5	20.0
EBITDA	11,896	17,867	22,966
Margins (%)	13.2	13.1	14.1

Source: MOFSL, Company

Exhibit 5: TCNS trading at 10x EV/EBITDA on FY25E

Valuation	INR m	
Market Cap	28,200	
Net debt	3,857	
EV	32,057	
based on		
EBITDA	FY24E	FY25E
	2,431	3,165
EV/EBITDA (x)	13.2	10.1

Source: MOFSL, Company

Story in charts

Exhibit 6: Expect revenue to pick up in FY23E

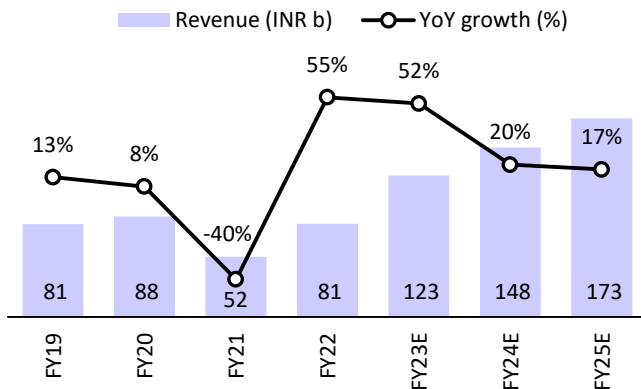


Exhibit 7: Gross margins to improve from FY23 onward

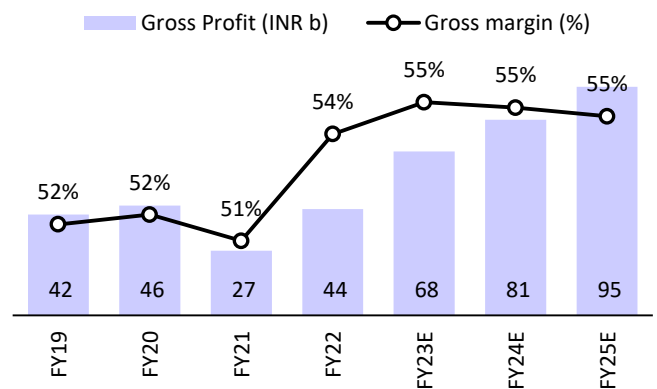


Exhibit 8: EBITDA margins to see gradual expansion

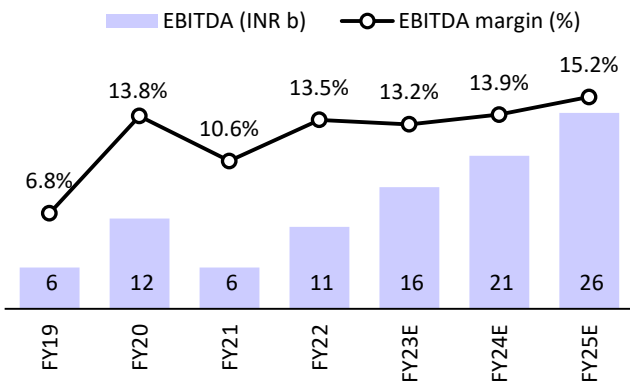


Exhibit 9: Expect profitability to resume from FY23

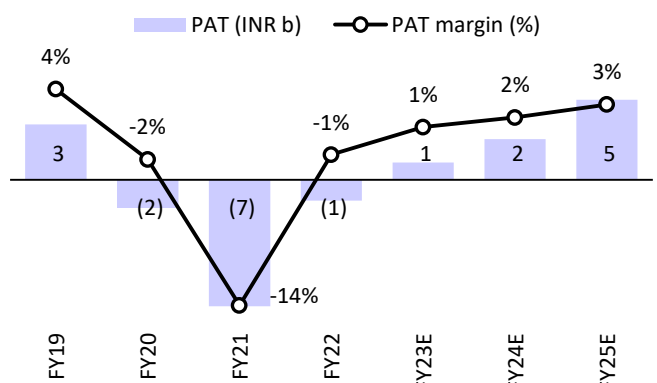
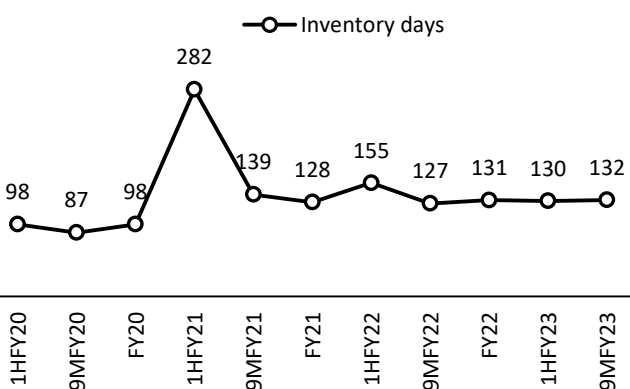
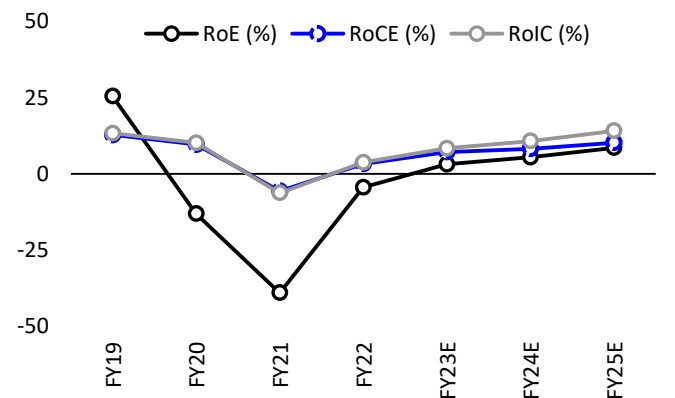


Exhibit 10: Inventory days still higher than pre-Covid levels



Source: MOFSL, Company

Exhibit 11: Return ratio expected to improve



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	71,721	81,177	87,879	52,489	81,362	1,23,437	1,47,788	1,73,320
Change (%)	8.6	13.2	8.3	-40.3	55.0	51.7	19.7	17.3
Raw Materials	33,901	39,250	42,242	25,630	37,202	55,300	66,438	78,351
Employees Cost	7,723	9,130	10,805	8,654	11,585	15,553	18,474	22,878
Rent	10,429	11,104	4,870	107	3,932	8,949	10,345	11,266
Other Expenses	14,985	16,153	17,843	12,552	17,644	27,348	31,997	34,557
Total Expenditure	67,038	75,637	75,760	46,942	70,363	1,07,150	1,27,254	1,47,052
% of Sales	93.5	93.2	86.2	89.4	86.5	86.8	86.1	84.8
EBITDA	4,683	5,541	12,118	5,548	10,999	16,287	20,535	26,269
Margin (%)	6.5	6.8	13.8	10.6	13.5	13.2	13.9	15.2
Depreciation	2,805	2,823	8,853	9,628	9,970	12,090	13,991	16,158
EBIT	1,878	2,717	3,265	-4,080	1,029	4,197	6,543	10,111
Int. and Finance Charges	1,716	1,874	4,247	5,026	3,507	4,009	4,366	4,890
Other Income	328	648	653	734	1,006	980	980	980
PBT bef. EO Exp.	490	1,491	-329	-8,372	-1,473	1,168	3,156	6,200
PBT after EO Exp.	490	1,491	-329	-8,372	-1,473	1,168	3,156	6,200
Total Tax	-688	-1,721	1,321	-1,015	-266	172	789	1,550
Tax Rate (%)	-140.5	-115.4	-401.7	12.1	18.0	14.7	25.0	25.0
Reported PAT	1,178	3,212	-1,650	-7,357	-1,207	996	2,367	4,650
Adjusted PAT	1,178	3,212	-1,650	-7,357	-1,207	996	2,367	4,650
Change (%)	113.4	172.7	-151.4	345.8	-83.6	-182.5	137.6	96.4
Margin (%)	1.6	4.0	-1.9	-14.0	-1.5	0.8	1.6	2.7

Consolidated - Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	7,717	7,735	7,740	9,151	9,383	9,487	10,117	10,117
Total Reserves	3,214	6,554	3,138	17,612	18,502	25,762	41,998	46,649
Net Worth	10,931	14,289	10,878	26,763	27,885	35,248	52,116	56,766
Total Loans	18,615	11,982	23,688	11,364	12,323	14,123	14,123	14,123
Lease Liability			25,018	24,634	28,681	33,952	40,539	46,269
Deferred Tax Liabilities	-688	-2,634	-1,950	-3,339	-3,805	-3,805	-3,805	-3,805
Capital Employed	28,857	23,637	57,634	59,421	65,085	79,519	1,02,973	1,13,353
Gross Block	30,667	32,410	63,457	75,981	92,395	1,05,810	1,23,570	1,41,330
Less: Accum. Deprn.	4,844	6,855	14,022	21,851	31,821	41,880	55,872	72,030
Net Fixed Assets	25,823	25,555	49,435	54,130	60,573	63,929	67,698	69,300
Right to use Assets			22,069	21,414	25,229	24,559	24,780	23,645
Capital WIP	459	224	441	376	1,032	1,026	1,026	1,026
Total Investments	42	42	142	4,198	6,860	6,860	6,860	6,860
Curr. Assets, Loans&Adv.	30,326	37,756	45,688	39,671	51,796	66,211	93,388	99,323
Inventory	16,912	19,213	23,668	18,470	29,296	37,200	40,490	42,737
Account Receivables	5,518	7,808	8,405	7,305	7,564	11,836	14,171	16,620
Cash and Bank Balance	728	574	2,669	2,618	1,205	3,985	22,531	20,973
Loans and Advances	7,168	10,161	10,946	11,279	13,731	13,189	16,196	18,994
Curr. Liability & Prov.	27,793	39,940	38,072	38,954	55,176	58,506	65,999	63,155
Account Payables	20,093	23,974	22,899	23,734	34,106	43,964	48,588	42,737
Other Current Liabilities	5,780	13,943	13,284	13,342	19,041	11,836	14,171	16,620
Provisions	1,920	2,023	1,888	1,878	2,030	2,705	3,239	3,799
Net Current Assets	2,533	-2,184	7,616	717	-3,380	7,705	27,390	36,168
Appl. of Funds	28,858	23,637	57,634	59,421	65,085	79,519	1,02,973	1,13,353

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	1.5	4.2	-2.1	-8.0	-1.3	1.1	2.3	4.6
Cash EPS	5.2	7.8	9.3	2.5	9.3	13.8	16.2	20.6
BV/Share	14.2	18.5	14.1	29.2	29.7	37.2	51.5	56.1
DPS	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
Valuation (x)								
P/E	150.5	55.4	-107.9	-28.6	-178.8	219.0	98.3	50.0
Cash P/E	44.5	29.4	24.7	92.7	24.6	16.7	14.2	11.2
P/BV	16.2	12.4	16.4	7.9	7.7	6.2	4.5	4.1
EV/Sales	2.7	2.3	2.3	4.2	2.8	1.8	1.5	1.3
EV/EBITDA	41.7	34.2	18.5	44.0	23.2	16.1	12.9	10.4
Dividend Yield (%)	0.0	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	1.4	11.7	7.5
Return Ratios (%)								
RoE	11.5	25.5	-13.1	-39.1	-4.4	3.2	5.4	8.5
RoCE	7.5	12.8	9.6	-5.7	3.3	7.2	8.2	10.3
RoIC	7.8	13.3	10.2	-6.3	3.8	8.4	10.7	14.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	2.5	1.4	0.7	0.9	1.2	1.2	1.2
Asset Turnover (x)	2.5	3.4	1.5	0.9	1.3	1.6	1.4	1.5
Inventory (Days)	86	86	98	128	131	110	100	90
Debtor (Days)	28	35	35	51	34	35	35	35
Creditor (Days)	102	108	95	165	153	130	120	90
Leverage Ratio (x)								
Current Ratio	1.1	0.9	1.2	1.0	0.9	1.1	1.4	1.6
Interest Cover Ratio	1.1	1.4	0.8	-0.8	0.3	1.0	1.5	2.1
Net Debt/Equity	1.6	0.8	1.9	0.2	0.2	0.1	-0.3	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	490	1,491	-329	-8,375	-1,449	1,168	3,156	6,200
Depreciation	2,805	2,823	8,853	9,628	9,970	12,090	13,991	16,158
Interest & Finance Charges	1,669	1,846	4,220	5,004	3,484	4,009	4,366	4,890
Direct Taxes Paid	-10	-196	-65	-28	-164	-172	-789	-1,550
(Inc)/Dec in WC	760	-937	-6,126	8,528	241	-8,305	-1,139	-10,336
CF from Operations	5,714	5,028	6,552	14,756	12,082	8,790	19,586	15,362
Others	237	249	-112	-3,718	-2,577	-980	-980	-980
CF from Operating incl EO	5,951	5,276	6,440	11,038	9,505	7,810	18,607	14,382
(Inc)/Dec in FA	-3,271	-2,792	-4,485	-2,101	-3,185	-6,440	-6,760	-6,760
Lease Payments					0	-6,023	-7,130	-8,513
Free Cash Flow	2,680	2,484	1,955	8,937	6,321	1,370	11,847	7,622
(Pur)/Sale of Investments	-36	22	-1,027	-6,475	-2,422	0	0	0
Others	58	6	5	181	116	1,003	1,003	1,003
CF from Investments	-3,250	-2,763	-5,508	-8,396	-5,491	-11,460	-12,887	-14,271
Issue of Shares	12	9	72	22,388	2,476	6,367	14,500	0
Inc/(Dec) in Debt	-1,832	-1,576	10,742	-16,547	960	1,800	0	0
Interest Paid	-649	-1,098	-4,243	-4,759	-3,097	-1,714	-1,650	-1,647
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	-5,407	-3,774	-5,609	0	0	0
CF from Fin. Activity	-2,469	-2,664	1,165	-2,692	-5,270	6,453	12,850	-1,647
Inc/Dec of Cash	233	-152	2,098	-50	-1,256	2,803	18,569	-1,535
Opening Balance	495	725	571	2,668	2,461	1,182	3,962	22,508
Closing Balance	727	574	2,669	2,618	1,205	3,985	22,531	20,973

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

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