

Aditya Birla Fashion and Retail

Bitten off more than it can chew; rising debt a concern

ABFRL's Q1FY24 print disappointed on profitability. The bigger concern is the rising debt and elevated inventory (net debt: INR21bn; likely to inch up to INR28bn by exit FY24) amid slowing demand. This position often lends itself to accidents. Q1 revenue grew 11.2% YoY to INR31.96bn (in-line). Sales densities continue to normalize downwards; in fact, remain weak in Pantaloons. Margins were sub-optimal courtesy (1) lower retail throughput driven by normalizing demand, (2) continued investments in new forays and (3) brand investments. GM/EBITDAM contracted 109/715bps YoY to 54.8/9.1% (HSIE: 55.8/9.2%). Investments are likely to continue. Consequently, we cut our FY25/26 EBITDA estimates by 2-3% each and maintain our REDUCE rating with a DCF-based TP of INR190/sh; implying 22x Sep-25 EV/EBITDA.

- **Q1FY24 highlights:** Revenue grew by 11.2% YoY to INR31.96bn HSIE: INR31.99bn). Madura/Pantaloons grew 11.2/0.3% resp in Q1 to INR20.1/10.3bn (HSIE: 19.8/10.7bn resp). GM/EBITDAM contracted 109/715bps YoY to 54.8/9.1% (HSIE: 55.8/9.2%). Margin contraction was a consequence of (1) lower retail throughput driven by weak demand, (2) continued investments in new forays, (3) less consumption due to fewer wedding dates in Q1, (4) demand slowdown in athleisure and loungewear clothing, and (5) accelerated marketing spends. On segmental margins, Lifestyle Brands/Pantaloons/ethnic wear margins clocked 18.3/13.4/-26.1% EBITDAM (vs HSIE:17.5/8.0/2.0) resp. Consolidated EBITDA declined 37.6% YoY to INR2.92bn (HSIE: 2.95bn). ABFRL added 3/closed 7 (net) Lifestyle brands/Pantaloons stores in Q1 (total store count: 2,643/434 stores). Net losses for Q1 stood at -INR 1.61bn (HSIE: -INR1.18 bn). Management highlighted that investments are likely to continue towards (1) a D2C foray – TMRW and (2) ethnic wear brands TASVA (40 stores to be opened in FY24). Net debt as of 30th June-23 stood at INR21bn.
- **Outlook:** ABFRL's aggressive strategy of expansion (organic and inorganic), the rising debt, and elevated inventory requirements make its balance sheet extremely prone to the vagaries of consumer demand—a slight misstep can lead to (1) inventory liquidation-led margin loss or (2) derailed growth. We cut our FY25/26 EBITDA estimates by 2-3% each and maintain our REDUCE rating on the stock with a DCF-based TP of INR190/sh; implying 22x Sep-25 EV/EBITDA.

Quarterly financial summary

(INR mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	31,961	28,748	11	28,797	11	81,362	1,24,179	1,39,795	1,58,862	1,79,575
Adj EBITDA	2,923	4,684	(38)	1,928	52	10,999	14,936	16,264	20,555	25,013
APAT	(1,616)	944	(271)	(1,945)	(17)	(1,184)	(595)	(1,283)	1,366	3,665
EPS (Rs)	(1.70)	1.01	(269)	(2.05)	(17)	(1.3)	(0.6)	(1.3)	1.3	3.6
P/E (x)						(166.7)	(306.8)	(173.6)	155.9	44.8
EV/EBITDA (x)						80.6	43.7	50.8	32.1	21.3
Core RoCE(%)						1.3	2.3	2.1	7.0	10.6

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,39,795	1,42,000	(1.6)	1,58,862	1,61,371	(1.6)	1,79,575	1,82,411	(1.6)
Gross Profit	77,014	78,229	(1.6)	87,200	88,577	(1.6)	98,390	99,944	(1.6)
Gross Profit Margin (%)	55.1	55.1	-	54.9	54.9	-	54.8	54.8	0 bps
EBITDA	16,264	16,709	(2.7)	20,555	21,077	(2.5)	25,013	25,619	(2.4)
EBITDA margin(%)	11.6	11.8	(13 bps)	12.9	13.1	(12 bps)	13.9	14.0	(12 bps)

Source: Company, HSIE Research

REDUCE

CMP (as on 04 Aug 2023)	INR 210
Target Price	INR 190
NIFTY	19,517

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 190	INR 190
EBITDA %	FY25E -2.5	FY26E -2.3

KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	949
MCap (INR bn) / (\$ mn)	199/2,434
6m avg traded value (INR mn)	714
52 Week high / low	INR 360/184

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.7)	(16.2)	(23.7)
Relative (%)	(13.2)	(24.3)	(36.5)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	51.87	55.47
FIs & Local MFs	12.07	11.13
FPIs	19.95	14.20
Public & Others	16.11	19.20
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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