

Institutional Equity Research

## Aditya Birla Fashion & Retail

Retail | India

3QFY20 Result Update | February 07, 2020

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN
Market Cap. (Rs bn)	197
Free Float (%)	41
Shares O/S (mn)	774

**BUY** 

Target Price: Rs290

### In-line Performance; Maintain BUY

Aditya Birla Fashion Retail Ltd. (ABFRL) has reported broadly an in-line performance in 3QFY20. Strong improvement in operating performance of Pantaloons segment was partly offset by lower-than-expected EBITDA margin in lifestyle brands. Total revenue growth was in-line with our estimate with a robust 15% YoY LTL growth in Retail channel (EBOs). Implementation of 12-season model in Lifestyle segment resulted in one-time inventory correction in trade channels, leading to lower primary sales during the quarter. Pantaloons segment demonstrated a decent 4.9% YoY LTL growth on healthy base coupled with significant improvement in EBITDA margin. We remain positive on ABFRL given likely profitable growth in Pantaloons segment after years of investments leading to improved capital efficiency ratios and higher incremental RoCE. We expect the lifestyle brands to continue its leadership position in fashion segment with its high single-digit revenue growth, stable double-digit operating margin. Innerwear segment is likely to create additional optionality value for ABFRL. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs290 (from Rs260 earlier).**

#### Retail Channel Drives Lifestyle Segment; Decent Show by Pantaloons

Total standalone sales grew by 12.3% YoY to Rs25.6bn led by 14% YoY and 13% YoY growth in Madura Fashion and Pantaloons segment, respectively. Within Madura Fashion, Lifestyle brands' revenue grew by 14% YoY in which retail channel grew by 30% (15% YoY LTL growth). E-commerce channel witnessed +45% YoY, Women's segment grew by 35% YoY and Kids wear grew by 21% YoY in Lifestyle segment. Pantaloons reported +4.9% YoY LTL growth (over the base quarter growth of 17%) mainly led by improved product quality and fashion quotient.

#### Operating Profit In-line; Deferred Tax Writebacks Led to Loss

ABFRL's gross margin expanded by 208bps YoY to 52%, while adjusted EBITDA margin expanded by 84bps YoY to 8.4%. Adjusted EBITDA (non-IND AS116) grew by 25% YoY to Rs2.15bn (broadly in-line with our estimate of Rs2.11bn). Employees/Rent/other expenses grew by 17%/16%/15% YoY. Lifestyle brands reported EBITDA margin of 10.7% (-95bps YoY) mainly due to lower sales to wholesale channel. Pantaloons reported 10.1% EBITDA margin (+91bps YoY) led by lower mark-downs, better product quality and improved operating leverage. Comparable PBT grew by 58% YoY to Rs1.1bn mainly led by financial leverage. The Company reported Rs207mn net loss mainly due to write-back of deferred tax assets in 3QFY20.

#### Outlook & Valuation

We revise our earnings estimate by -76%/-11%/-9.1% for FY20E/FY21E/FY22E, incorporating marginally lower EBITDA margin from lifestyle brands and revised tax rates (25% for FY20E & FY21E). We forecast ABFRL's revenue/EBITDA (non-IND AS-116 adjusted)/net profit to clock 12%/26%/4% CAGR through FY19-22E. **We maintain our BUY recommendation on the stock with an SOTP-based revised Target Price of Rs290, valuing Lifestyle brands at 20x (from 17x earlier), Pantaloons segment at 18x (from 15x earlier) based on FY22E EV/EBITDA (not adjusted to IND AS-116).**

Quarterly Performance					
Particulars	Q3 FY20	Q3 FY19	% YoY	Q2 FY20	% QoQ
Revenues	25,625	22,816	12	22,972	4
COGS	12,301	11,426	8	11,418	-100
Gross Profits	13,323	11,389	17	11,554	13
Gross Margins	52.0	49.9	208bps	50.3	170bps
EBITDA	2,899	2,378	22	2,005	-36
EBITDA Margins	11.3	10.4	89bps	8.7	259bps
EBIT	2,371	1,831	29	1,476	-14
PBT	1,848	1,351	37	956	62
PBT Margins	7.2	5.9	129bps	4.2	305bps
Adjusted PAT	533	1,351	-61	667	63

Source: Company, RSec Research

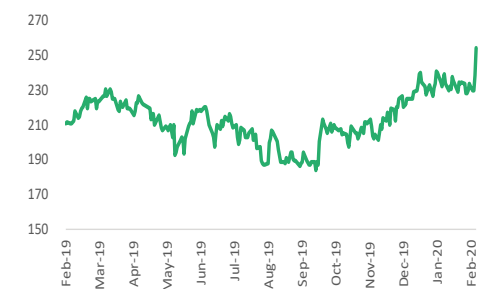
Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.5	24.5	21.0
Relative to Nifty	7.3	23.1	11.3

Shareholding Pattern (%)	Sep-19	Dec-19
Promoter	59.1	59.1
Public	40.9	45.0

Key Financials			
(Rs mn)	FY20E	FY21E	FY22E
Net Sales	90,840	101,966	113,046
EBIDTA	7,131	9,075	11,135
Adj Net Profit	3,977	4,353	6,036
OCF	5,544	8,133	9,891
EPS, Rs	1	3	5
PER, x	358	68	49
EV/EBIDTA, x	27	21	17
P/BV, x	12.0	10.2	8.5
ROE, %	3	16	19
ROCE, %	13	16	18

Change of Estimates			
(% change)	FY20E	FY21E	FY22E
Adjusted EBITDA	(1.9)	(1.1)	(0.5)
Reported PAT	(76.4)	(11.4)	(9.1)
Reported EPS	(76.4)	(11.4)	(9.1)
EBITDA margin (bps)	(15.0)	(10.0)	(5.0)
ROCE (bps)	(31.1)	2.6	35.9

#### 1 Year Stock Price Performance



Note: \* CMP as on February 06, 2020

**Priyank Chheda, CFA**

Research Analyst

Contact: 022 4303 4625

Email: Priyank.chhedda@reliancecfa.com

Institutional Equity Research

**Aditya Birla Fashion & Retail**

Retail | India

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN

**BUY** 

Target Price: Rs290

**Conference Call – Key Highlights****Lifestyle Brands:**

- ▶ Small MBO business has been reeling under stress due to liquidity challenge. ABFRL has been supporting MBO channel via financing partners. Shifting to 12-season model, allowing MBO channel to stock rightly, also impacted the primary sales to certain extent.
- ▶ Trade channel due to 12 season model and liquidity challenge led to lower primary sales in wholesale channel.
- ▶ As per the Management, consumer preference for exclusive stores has been higher.
- ▶ Lower sales from wholesale channel led to dip in margin contraction in lifestyle segment.
- ▶ Scaling-up retail model won't impact margin, going ahead owing to equal focus on trade channel.
- ▶ Better unit economics has led to aggressive store opening with mix of new partners and existing MBO outlets adding EBO stores.

**Pantaloons:**

- ▶ The Company is on the track to add 55 stores by FY20E. Large number of store opening is likely to be in Tier II/III cities. However, metro cities continue to contribute larger revenue share. It plans to open larger stores in metro cities and smaller stores in Tier II/III cities.
- ▶ The Company has been making consistent endeavour to drive SSSG (highest in recent few years). The Management attributed improved profitability to consistent focus on shoppers and improving product quality, planning model at store levels and all investments made at brand levels.
- ▶ The Management maintained that it continues to work on improving margin, but it refrained to give any guidance.
- ▶ Better product assortment, lower mark-downs on product and improved operating leverage due to higher scale are the factors driving margin expansion.
- ▶ The Company is working on adding freshness in inventory every fortnight (depending on store location).
- ▶ Contribution of private label is slower than earlier estimated. ABFRL intends to increase the share, which would however take some time. Focus on newer categories, integration of brand and plan to launch home category/sarees are likely to increase the contribution of private label, going ahead.
- ▶ Newer smaller stores contribute ~75% private label, while the larger stores in metros have contribute ~65%.

**Innerwear:**

- ▶ Sales reported by the company are essentially primary sales. Currently, the secondary sales (from distributors to retailers) are not much different than the primary sales.

**Others:**

- ▶ The Management pegs effective tax rate at 25% for FY21E & FY22E.
- ▶ It expects to incur Rs3-3.5bn capex in FY20E.
- ▶ Debt increased by Rs7.5mn in 3QFY20 due to working capital requirement.

Institutional Equity Research

## Aditya Birla Fashion & Retail

Retail | India

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN

**BUY** 

Target Price: Rs290

### Exhibit 1: Quarterly Performance

Particulars	Q3 FY20	Q3 FY19	% YoY	Q2 FY20	% QoQ	9M FY20	9M FY19	% YoY
<b>Revenues</b>	<b>25,625</b>	<b>22,816</b>	<b>12</b>	<b>22,972</b>	<b>4</b>	<b>69,251</b>	<b>62,024</b>	<b>12</b>
COGS	12,301	11,426	8	11,418	-100	33,202	30,252	10
Gross Profits	13,323	11,389	17	11,554	13	36,049	31,772	13
Gross Margins	52.0	49.9	208bps	50.3	170bps	52.1	51.2	83bps
Employee Expenses	2,757	2,361	17	2,477	3	7,835	6,779	16
Rent Expenses	2,757	2,361	17	2,477	96	9,277	8,310	12
Other Expenses	4,910	4,289	14	4,596	37	13,713	12,388	11
<b>EBITDA</b>	<b>2,899</b>	<b>2,378</b>	<b>22</b>	<b>2,005</b>	<b>-36</b>	<b>5,224</b>	<b>4,296</b>	<b>22</b>
<b>EBITDA Margins</b>	<b>11.3</b>	<b>10.4</b>	<b>89bps</b>	<b>8.7</b>	<b>259bps</b>	<b>7.5</b>	<b>6.9</b>	<b>62bps</b>
Other Income	112	134	-16	131	-31	382	405	-6
Depreciation	639	680	-6	660	-76	1,896	2,094	-9
<b>EBIT</b>	<b>2,371</b>	<b>1,831</b>	<b>29</b>	<b>1,476</b>	<b>-14</b>	<b>3,710</b>	<b>2,607</b>	<b>42</b>
Finance Cost	523	480	9	519	-87	1,480	1,421	4
<b>PBT</b>	<b>1,848</b>	<b>1,351</b>	<b>37</b>	<b>956</b>	<b>62</b>	<b>2,231</b>	<b>1,186</b>	<b>88</b>
PBT Margins	7.2	5.9	129bps	4.2	305bps	3.2	1.9	131bps
Tax Expenses	1,315	0		289	58	1,740	0	
Tax Rate	71	0	7114bps	30	4088bps			
<b>Adjusted PAT</b>	<b>533</b>	<b>1,351</b>	<b>-61</b>	<b>667</b>	<b>63</b>	<b>491</b>	<b>1,186</b>	<b>-59</b>

Source: Company, RSec Research

### Exhibit 2: Change in Estimates (Consolidated)

(Rs mn)	Old			Revised			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Sales	90,840	101,966	113,046	90,840	101,966	113,046	-	-	-
Adjusted EBITDA	7,267	9,177	11,192	7,131	9,075	11,135	(1.9)	(1.1)	(0.5)
Reported PAT	1,899	2,867	3,908	448	2,541	3,551	(76.4)	(11.4)	(9.1)
Reported EPS	2.5	3.7	5.1	0.6	3.3	4.6	(76.4)	(11.4)	(9.1)
EBITDA margin (bps)	8.0	9.0	9.9	7.9	8.9	9.8	(15.0)	(10.0)	(5.0)
ROCE (bps)	13.2	15.5	17.7	12.8	15.5	18.0	(31.1)	2.6	35.9
RoE (bps)	12.5	16.3	18.6	3.1	15.9	18.6	(937.6)	(39.9)	3.4

Source: RSec Research

### Exhibit 3: Valuation Multiples

Segments (Rs mn)	FY20E	FY21E	FY22E	Multiple (x)	Value	Basis
Lifestyle brands - EBITDA	5,402	6,146	6,725	20	134,506	EV/EBITDA
Pantaloons - EBITDA	3,023	3,770	4,579	18	80,139	EV/EBITDA
Others (FF + Innerwear) - Sales	7,613	9,191	10,731	2.0	21,463	EV/SALES
Total EV					236,108	
Net debt - FY22E					12,028	
Market Capitalization					224,079	
Equity (mn shares)					773	
Target Price / share					290	
CMP					256	
% Upside / Downside					14	

Source: RSec Research

Institutional Equity Research

**Aditya Birla Fashion & Retail**

Retail | India

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN

**BUY** 

Target Price: Rs290

**Profit & Loss Statement**

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
<b>Net sales</b>	<b>81,177</b>	<b>90,840</b>	<b>101,966</b>	<b>113,046</b>
Growth, %	13	12	12	11
Raw material expenses	39,250	43,603	48,689	53,697
Gross Profits	41,928	47,237	53,277	59,349
Gross Margins %	52	52	52	53
Employee expenses	9,130	10,447	11,726	13,000
Rent	11,104	12,263	13,765	14,979
Ads & promotions	4,415	4,905	5,098	5,313
Other Expenses	11,738	12,491	13,612	14,922
<b>EBITDA</b>	<b>5,541</b>	<b>7,131</b>	<b>9,075</b>	<b>11,135</b>
Growth, %	18	29	27	23
Margin, %	7	8	9	10
Depreciation	2,823	3,299	4,124	4,949
Other Income	648	295	325	357
<b>EBIT</b>	<b>3,365</b>	<b>4,127</b>	<b>5,275</b>	<b>6,543</b>
Growth, %	53	23	28	24
Margin, %	4	5	5	6
Interest paid	1,874	1,890	1,793	1,715
Pre-tax profit	1,491	2,237	3,482	4,829
Tax provided	1,721	(1,740)	(871)	(1,207)
<b>Profit after tax (Adjusted)</b>	<b>(230)</b>	<b>3,977</b>	<b>4,353</b>	<b>6,036</b>
Growth, %	16	(1,828)	9	39
<b>Profit after tax (Reported)</b>	<b>3,212</b>	<b>497</b>	<b>2,612</b>	<b>3,621</b>
Growth, %	173	(85)	425	39
Total Equity shares (m)	773	773	773	773
EPS (Per share)	4.2	0.6	3.4	4.7

**Balance Sheet**

As at 31st Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Equity	14,289	14,786	17,398	21,019
Debt	17,029	17,329	16,829	15,829
Other Non-Current Liabilities	2,889	2,889	2,889	2,889
<b>Total Liabilities</b>	<b>34,206</b>	<b>35,004</b>	<b>37,115</b>	<b>39,737</b>
Net Fixed Assets	6,588	7,038	7,039	6,214
Net Intangible Assets	19,191	19,191	19,191	19,191
Other Non-Curr Assets	6,740	8,290	8,290	8,290
Inventories	19,213	21,403	24,025	26,636
Trade Receivables	7,866	8,711	9,778	10,840
Other Current Assets	6,041	6,041	6,041	6,041
Trade Payables	23,986	26,879	30,171	33,449
Other Current Liabilities	8,018	8,018	8,018	8,018
Net Current Assets	1,115	1,258	1,654	2,049
Cash & Equivalents	572	(775)	940	3,991
<b>Total Assets</b>	<b>34,206</b>	<b>35,003</b>	<b>37,115</b>	<b>39,736</b>

Institutional Equity Research

**Aditya Birla Fashion & Retail**

Retail | India

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN

**BUY** 

Target Price: Rs290

**Cash Flow Statement**

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Pre-tax profit	1,491	2,188	3,388	4,734
Depreciation	2,823	3,299	4,124	4,949
Opt Profits before working capital	6,409	7,426	9,400	11,492
Chg in working capital	(937)	(143)	(396)	(395)
Total tax paid	(196)	(1,740)	(847)	(1,184)
<b>Cash flow from operating activities</b>	<b>5,276</b>	<b>5,544</b>	<b>8,157</b>	<b>9,914</b>
Capex	(2,867)	(3,750)	(4,125)	(4,125)
Acquisition during the year	-	(1,550)	-	-
Proceeds from sale of FA	75	-	-	-
Current & Non-Current Investments	22	-	-	-
Interest income	4	-	-	-
<b>Cash flow from investing activities</b>	<b>(2,766)</b>	<b>(5,300)</b>	<b>(4,125)</b>	<b>(4,125)</b>
Free cash flow	2,409	1,794	4,032	5,789
Equity raised/(repaid)	9	-	-	-
Debt raised/(repaid)	(1,576)	1,200	(500)	(1,000)
Interest Paid	(1,098)	(1,939)	(1,888)	(1,809)
<b>Cash flow from financing activities</b>	<b>(2,664)</b>	<b>(739)</b>	<b>(2,388)</b>	<b>(2,809)</b>
Net chg in cash	(154)	(496)	1,644	2,980
Opening cash balance	726	572	76	1,720
Closing cash balance	572	76	1,720	4,700

**Key Ratios**

	FY19	FY20E	FY21E	FY22E
<b>Per Share data</b>				
EPS (INR)	4.2	0.6	3.4	4.7
Growth, %	172.7	(84.5)	425.2	38.7
Book NAV/share (INR)	18	19	22	27
<b>Return ratios</b>				
Avg Return on assets (%)	9.7	1.4	7.2	9.4
Avg Return on equity (%)	25.5	3.4	16.2	18.9
Avg Return on capital employed (%)	11.1	13.0	15.9	18.4
<b>Working Capital Days</b>				
Inventory Days	86	86	86	86
Receivable Days	35	35	35	35
Payable Days	108	108	108	108
Working capital days	14	13	13	13
<b>Valuation</b>				
PER (x)	53	358	68	49
Price/Book (x)	11.9	12.0	10.2	8.5
EV/Net sales (x)	2.3	2.2	1.9	1.7
EV/EBITDA (x)	33.7	27.5	21.4	17.0
EV/EBIT (x)	55.5	47.5	36.7	29.0

Institutional Equity Research

**Aditya Birla Fashion & Retail**

Retail | India

CMP* (Rs)	254
Upside/ (Downside) (%)	14
Bloomberg Ticker	ABFRL IN



Target Price: Rs290

Date	Reco	CMP	TP
18-Dec-20	BUY	234	260

[PLEASE CLICK HERE FOR PREVIOUS REPORTS](#)

**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

**SIGNED BY**

**Priyank Chheda, CFA:** Research Analyst

Contact: 022 4303 4625

Email: Priyank.chhedda@relianceada.com

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website [www.reliancecapital.co.in](http://www.reliancecapital.co.in). RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

**General Disclaimers:** This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

**Risks:** Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

**Disclaimers in respect of jurisdiction:** The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

**Disclosure of Interest:** The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services.RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

**Copyright:** The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

**RSL CIN:** U65990MH2005PLC154052. SEBI registration no. ( Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.