

Q3FY20 Result Update Aditya Birla Fashion & Retail Ltd.

Strong getting stronger

Inspite of a moderate macroeconomic environment, ABFRL has reported a strong growth of 13% YoY on a strong base of 23% against estimates of 12% growth driven by growth across segments. EBITDA was up by 24% on a YoY basis and came in at INR 214 cr. EBITDA margins improved by 70 bps YoY to 8.3% for the company led by a significant increase in EBITDA margin of Pantaloons to 10.2% from 9.2%. PAT was up by 16% YoY to INR 81 cr. We continue to feel that ABFRL's sheer brand strength alongwith a prudent long term strategy render it a multi-bagger. We maintain BUY with a TP to INR 301.

Madura core brands record strong growth; strategic shift to retail from wholesale

Madura lifestyle brands grew higher than estimates at 14% YoY vs our estimates of 12%. Growth was driven by strong Retail SSG growth of 15% on a base of 8%, e-commerce growth of 45% YoY, and women and kidswear category which grew by 35% and 21% respectively. The strong growth was led by the strategic shift from wholesale to retail as the wholesale channel has witnessed slowdown due to shift in consumer shopping preferences and liquidity issues. However a shift to retail from the more profitable wholesale led to a dip in margins from 11.6% to 10.7% YoY. We do believe that going forward growth will be strong due to shift to a 12 season model along with focus on retail expansion (160 stores added in Q3FY20).

Pantaloons improvement continues

Pantaloons revenues grew 13% YoY on a strong base of 28% and was ahead of estimates of 9%. SSG growth of 4.9% was on a strong base of 17% and this was led by better assortment. EBITDA came in at INR 109 cr up 24% on a YoY basis and is the highest ever reported number. EBITDA margins have kept improving on a YoY basis for the past few quarters and this quarter too, margins improved by 100 bps on a YoY basis to 10.2% because of lower markdown, assortments with higher margin and operating leverage. Home products and saree shall be launched under Pantaloons umbrella in the next few quarters which is expected to aid in achieving higher growth targets.

Fast Fashion losses reduces; Innerwear growth moderates

Fast Fashion revenues reduced 13% YoY, however EBITDA losses reduced to INR 4 cr from INR 12 cr. Fast Fashion margins are likely to improve further in FY21E as local sourcing of products increased and as *People* is completely shifted to Pantaloons by Q4FY20. Innerwear saw slight growth moderation this quarter as compared to growth in the previous quarters.

Outlook and valuations: 'BUY'

Driven by a strong focus on retail and a shift to the 12 season model, the growth thrust witnessed recently is likely to sustain over the next few quarters. With margin expansion from various segments, we believe that profit growth will be robust. We assign a multiple of 3x sales for Madura and 15x EV/EBITDA (pre Ind AS 116) for Pantaloons, leading to a target price of INR 301. The stock currently trades at ~41x P/E FY21E and 21x EV/EBITDA FY21E (based on pre Ind AS 116 basis).

Year to March	Q3FY20	Q3FY19	% change	Q2FY20	% change	FY19	FY20E	FY21E
Net sales (INR cr)	2,583	2,282	13.2%	2,297	12%	8,117	9,312	10,512
Growth (%)						13%	15%	13%
EBITDA (INR cr)	215	173	24%	164	31%	555	782	999
Adj PAT (INR cr)	81	70	15%	31	161%	129	298	482
Growth (%)						158%	131%	62%
Dil. EPS (INR)						4.2	3.9	6.2
Diluted P/E (x)						57	62	39
EV/EBITDA (x)						37	26	20
ROAE (%)						26%	19%	25%

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CMP INR: 256

Rating: BUY

Target INR: 301

Upside: 18%

Bloomberg:	ABFRL:IN
52-week range (INR):	261.00 / 180.00
Share in issue (cr):	77.3
M cap (INR cr):	19,600
Avg. Daily Vol. BSE/NSE :('000):	1000
Promoter Holding (%)	59

Date: 6th February 2020

Aditya Birla Fashion & Retail Ltd.

Q3FY20 Result Highlights

Particulars	Q3FY20	Q3FY19	% change	Q2FY20	% change	9MFY19	9MFY20	% change
Income from operations	2,583	2,282	13%	2,297	12%	6,202	6,945	12%
Cost of goods sold	1,236	1,143	8%	1,141	8%	3,025	3,326	10%
Employee expenses	284	236	20%	248	15%	678	793	17%
Other expenses	848	730	16%	744	14%	2,070	2,309	12%
Total operating expenses	2,368	2,109	12%	2,133	11%	5,773	6,428	11%
EBITDA	215	173	24%	164	31%	430	517	20%
Depreciation and amortization	68	68	0%	65	5%	209	193	-8%
EBIT	147	105	40%	99	48%	220	324	47%
Interest expenses	52	48	8%	52	0%	142	148	4%
Other income	11	13	-18%	13	-15%	41	42	4%
PBT	106	70	51%	60	77%	119	218	84%
Provision for tax	25	0	NA	29	NA	0	67	NA
Core profit	81	70	15%	31	161%	119	151	27%
Extraordinary items	0	0	NA	0	NA	0	0	NA
Adjusted net profit	81	70	15%	31	161%	119	151	27%

Previous Outlook

Q2FY20: The growth thrust witnessed in this quarter is likely to sustain over the next few quarters. Debt is also expected to reduce by ~INR 250 Cr after a spike in Q2FY20 which was seasonal. With margin expansion from various segments, we believe that profitability growth will be robust. We assign a multiple of 3x sales for Madura and 15x EV/EBITDA (pre Ind AS 116) for Pantaloons, leading to a target price of INR 301. The stock currently trades at ~35x P/E FY21E and 18x EV/EBITDA FY21E (based on pre Ind AS 116 basis).

Q1FY20: Our belief in ABFRL is unchanged as we feel it's the best placed among branded apparel peers due a well-rounded portfolio. Entry into the ethnic segment provides another lever to drive growth. Lower losses in new segments will drive profitability which will yield target multiple of 3x sales for Madura and 15x EV/EBITDA (pre Ind AS 116) for Pantaloons, leading to a target price of INR 301. The stock currently trades at ~33x P/E FY21E and 18x EV/EBITDA FY21E (based on pre Ind AS 116 basis).

Q4FY19: In spite of a blip, after 5 strong quarters, our belief in ABFRL is unchanged as we feel it's the best placed among branded apparel peers due a well-rounded portfolio which will only grow. Launch of American Eagle, Ralph Lauren and Style Up (value format brand) will drive growth while lower losses in new segments will drive profitability which will yield target multiple of 3x sales for Madura and 15x EV/EBITDA for Pantaloons, leading to a target price of INR 301.

Q2FY20

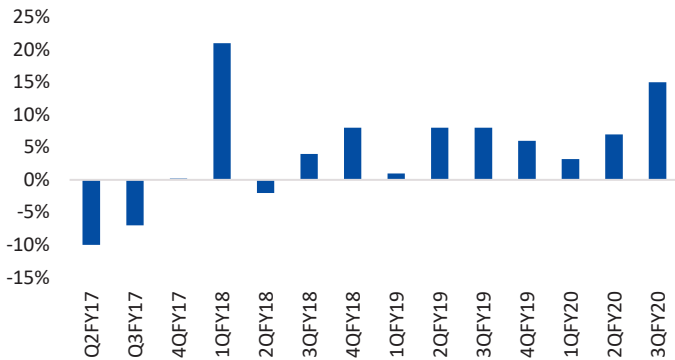
Q1FY20

Q4FY19

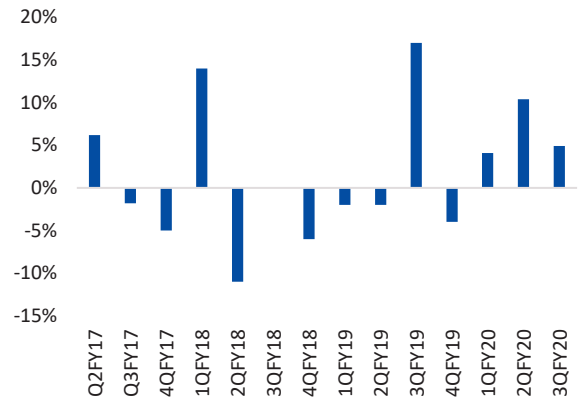
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Q3FY20 Result Highlights

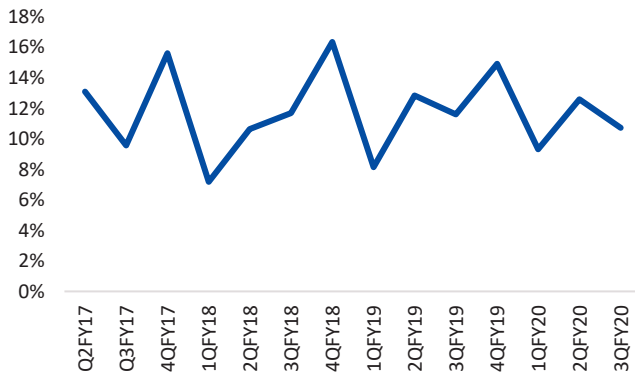
Madura LTL shows robust growth



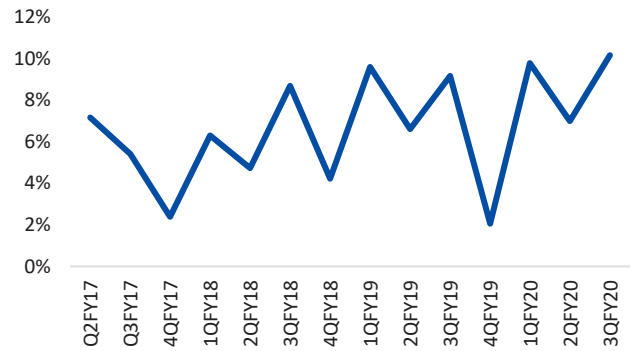
Pantaloons LTL also improves on high base



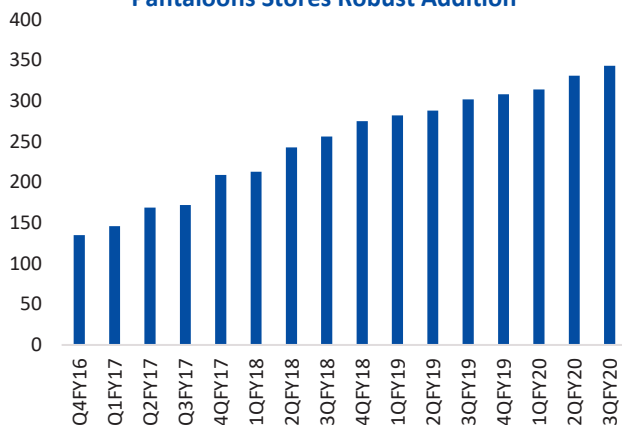
Madura EBITDA Margin contracts due to lower wholesale revenues



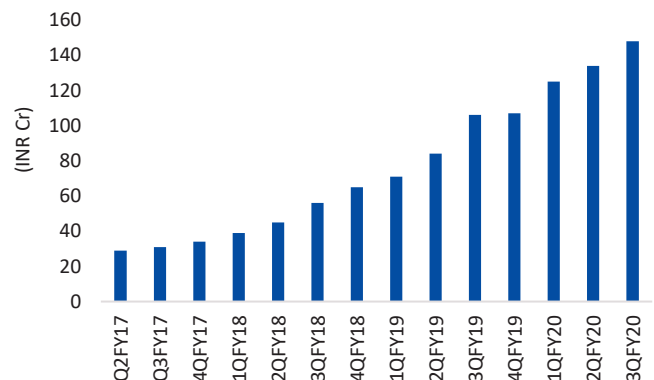
Pantaloons EBITDA Margin improvement continues



Pantaloons Stores Robust Addition



Other Business Revenues (Mainly innerwear) Robust Growth Continues



Source: Edelweiss Professional Investor Research

Financial Statements

(INR cr)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net revenue	6,633	7,182	8,117	9,312	10,512
Materials costs	3,009	3,390	3,924	4,377	4,888
Gross profit	3,624	3,792	4,193	4,935	5,624
Employee costs	706	772	913	996	1,104
Other costs	2,481	2,550	2,725	3,157	2,050
EBITDA	437	470	555	782	999
Depreciation & Amortization	242	281	282	299	311
EBIT	195	189	273	484	687
Other income	38	33	65	65	65
EBIT incl. other income	233	222	338	549	752
Interest expenses	181	172	187	176	150
Profit before tax	52	50	151	372	602
Provision for tax	0	0	22	74	120
Adjusted Profit (pre extraordinary)	52	50	129	298	482
Basic shares outstanding (Cr)	77.2	77.2	77.4	77.4	77.4
EPS (INR)	0.7	1.5	4.2	3.9	6.2
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0%	0%	0%	0%	0%

Common size metrics - as % of net revenues

Year to March	FY17	FY18	FY19	FY20E	FY21E
COGS	45.4%	47.2%	48.3%	47.0%	46.5%
Employee Exp	10.6%	10.7%	11.2%	10.7%	10.5%
Other Exp	22.1%	21.0%	19.9%	19.7%	19.5%
Depreciation	3.6%	3.9%	3.5%	3.2%	3.0%
EBITDA margins	6.6%	6.5%	6.8%	8.4%	9.5%
EBIT margins	2.9%	2.6%	3.4%	5.2%	6.5%
Adj profit margins	0.8%	1.7%	4.0%	3.2%	4.6%
Net profit margins	0.8%	0.7%	1.6%	3.2%	4.6%

Growth ratios (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Revenues	9.9%	8.3%	13.0%	14.7%	12.9%
EBITDA	15.3%	7.6%	18.1%	40.9%	27.7%
PBT	NA	-3.8%	202.0%	146.6%	61.6%
Adj profit	NA	128.8%	171.4%	-7.8%	61.6%
Net profit	NA	-3.8%	158.0%	131.0%	61.6%

Aditya Birla Fashion & Retail Ltd.

Financials

Balance sheet					(INR cr)
As on 31st March	FY17	FY18	FY19	FY20E	FY21E
Equity capital	772	772	774	774	774
Reserves & surplus	203	322	645	943	1,425
Borrowings	2,150	1,895	1,780	1,550	1,300
Other long-term liabilities	170	210	208	208	208
Sources of funds	3,295	3,199	3,407	3,474	3,706
Gross Block	1,928	2,313	2,589	2,839	3,089
Accumulated Depreciation	(1,368)	(1,649)	(1,931)	(2,230)	(2,541)
CWIP	-	-	-	-	-
Net Fixed Assets	560	664	658	609	548
Net intangible assets	1,941	1,936	1,920	1,920	1,920
Investments	376	445	674	674	674
Inventories	1,433	1,695	1,921	2,188	2,444
Sundry debtors	454	551	787	816	922
Cash and equivalents	176	178	49	167	414
Loans and advances	200	335	604	604	604
Total current assets	2,263	2,759	3,361	3,776	4,384
Sundry creditors and others	1,525	2,015	2,399	2,698	3,013
Provisions	320	590	807	807	807
Total current liabilities & provisions	1,845	2,605	3,206	3,505	3,820
Net current assets	418	154	155	271	564
Deferred tax assets	-	-	-	-	-
Other long-term assets	-	-	-	-	-
Uses of funds	3,295	3,199	3,407	3,474	3,706
Book value per share (INR)	12.6	14.2	18.3	22.2	28.4

Free cash flow					
Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	52	50	129	298	482
Add : Depreciation	242	281	282	299	311
Others	143	139	122	111	85
Gross cash flow	437	470	533	708	878
Changes in WC	20	267	-130	2	-46
Operating cash flow	457	737	403	710	833
Capex	-230	-385	-276	-350	-350
Free cash flow	227	352	127	360	483

Cash flow metrics					
Year to March	FY17	FY18	FY19	FY20E	FY21E
Cash flow from operations	457	737	403	710	833
Cash Flow from investing activities	-26	-357	-227	-185	-185
Cash Flow from financing activities	110	-427	-301	-406	-400
Capex	-230	-385	-276	-350	-350
Dividends	-	-	-	-	-

Profitability & efficiency ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	5%	12%	26%	19%	25%
ROACE (%)	6%	6%	8%	14%	19%
ROIC (%)	7%	6%	8%	12%	17%
Inventory day	79	86	86	86	85
Debtors days	25	28	35	32	32
Payable days	84	102	108	106	105
Cash conversion cycle (days)	20	12	14	12	12
Current ratio	1.1	1.0	1.0	1.0	1.0
Debt/Equity	2.2	1.7	1.3	0.9	0.6
Core ROACE (%)	17%	17%	22%	34%	50%

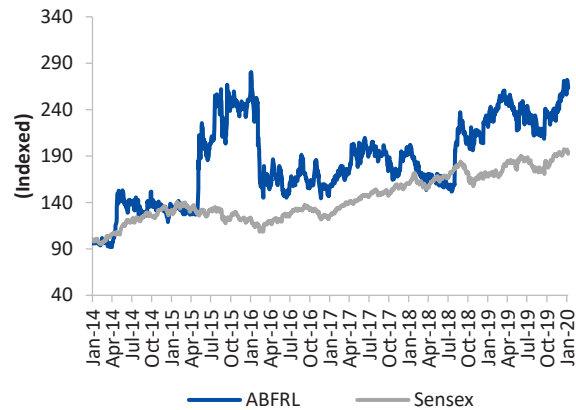
Valuation parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	0.7	1.5	4.2	3.9	6.2
Y-o-Y growth (%)	NA	128.8	170.9	-7.8	61.6
Diluted PE (x)	356.3	155.7	57.5	62.3	38.5
Price/BV (x)	19.0	16.9	13.1	10.8	8.4
EV/Sales (x)	3.1	2.8	2.5	2.1	1.9
EV/EBITDA (x)	46.5	43.2	36.6	25.5	20.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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