December 26, 2018

Aditya Birla Fashion & Retail (ABFRL) ₹ 203

Levers in place for sustainable growth…

We recently met the management of Aditya Birla Fashion & Retail (ABFRL). The key takeaways are: -i) festive period sales have been strong across all formats, ii) anticipates Pantaloons to report healthier revenue growth in H2FY19 owing to a shift in the festive season, iii) lifestyle brands are expected to maintain healthy growth momentum with early double digit SSSG in FY19E, iv) innerwear business growing at a rapid pace and currently has ~10,000 point of sales and v) would go slow in expansion plans for fast fashion business with aim to reduce EBITDA loss.

Pantaloons: Dual lever of healthy revenue growth & margin improvement

The management has affirmed its guidance to add ~ 50 Pantaloons stores (added 66 stores in FY18) each year. Currently the store count is at 300. The management believes there is immense opportunity, especially in non-metro cities, to scale up to 800-1000 Pantaloons stores on a pan India basis. For H1FY19, revenues for Pantaloons grew at a moderate pace of 9% mainly owing to a shift in festive season. The management expects H2FY19 to perform better, particularly Q3FY19. We factor in 16% revenue growth for Pantaloons division for FY18-21E and model 420 stores by FY21. Post acquisition of Pantaloons in FY13, ABFRL has restructured its business model from a departmental store to an apparel value fashion player. Also, it has improved price value proposition with increase in share of private label brands from 48% in FY14 to 62% in H1FY19. These efforts have yielded enhanced profitability for Pantaloons. EBITDA margins doubled from 4% in FY15 to 8% in H1FY19. Going forward, the management highlighted there is enough scope of margin expansion through improvement in gross margins (from current 46%), store rationalisation and better negotiations for rentals.

Lifestyle brands: Revival in revenue growth to sustain

Rationalisation and closure of unprofitable stores, calibrated discounting approach and shift from two to four season cycles resulted in turnaround for Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) which registered strong retail LTL of 9.2% in FY18 (FY17: -5%, FY16: 0%, FY15: 0%). On a high base, the management is confident of sustaining its growth momentum by achieving early double digit LTL sales growth in FY19E. The management expects to add ~220 stores on a net basis (90% franchisee model) in FY19E. ABFRL has recently rolled out a pilot venture called, *'Peter England Red'* stores, mainly capturing the lower price point categories. The management believes there is immense scope of increasing penetration especially in Tier I/II/III cities. Revenues from e-commerce channel are witnessing strong traction, with revenues growing ~60% YoY. E-commerce now contributes 7% to revenues.

Enhanced profitability expected to lead to higher RoCE; maintain BUY!

ABFRL's key business segments - lifestyle brands and Pantaloons - have witnessed enhancement in revenue growth trajectory with upgradation in margin profile over the last two years. Focus on profitable growth through cost optimisation, constant improvement in product portfolio and increased share of private labels would enable the company to deliver superior return ratios, going forward (expect RoCE to improve from 8.5% in FY18 to 15.7% in FY21E). We roll over our estimates to FY21E and expect revenue and EBITDA to grow at a CAGR of 14% and 23%, respectively, in FY18-21E. Furthermore, with healthy free cash flow generation, we expect interest coverage and debt/equity ratio to improve from 1.3x and 1.7x in FY18 to 3.1x and 0.8x, respectively, in FY21E. We revise our target price to ₹ 250, valuing the stock at FY21E 2.0x EV/sales.

Rating Matrix

Rating	:	Buy
Target	:	₹ 250
Target Period	:	12 months
Potential Upside	:	23%

What's Changed?

Target	Changed from ₹ 225 to ₹ 250
EPS FY20E	Unchanged
EPS FY21E	Introduced at ₹ 5.0
Rating	Unchanged

Key Financials

(₹ Crore)	FY 18	FY 19E	FY 20E	FY 21E
Revenues	7,172	8,208	9,333	10,592
EBITDA	500	624	759	927
Net Profit	118	166	261	387
EPS (₹)	1.5	2.2	3.4	5.0

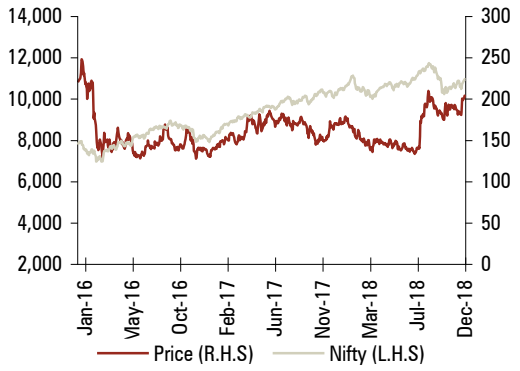
Valuation Summary

	FY 18	FY 19E	FY 20E	FY 21E
EV/Sales	2.4	2.1	1.9	1.6
Target EV/Sales	2.9	2.6	2.2	2.0
EV / EBITDA	34.9	27.9	22.8	18.4
P/BV	14.3	12.4	10.3	8.2
RoNW (%)	10.8	13.2	17.2	20.3
RoCE (%)	8.5	11.4	13.5	15.7

Stock Data

Particular	Amount
Market Capitalisation (₹ Crore)	15,665.3
Total Debt (Mar-18) (₹ Crore)	1,861.5
Cash (Mar-18) (₹ Crore)	72.6
EV (₹ Crore)	17,454.1
52 week H/L (adjusted)	215 / 132
Equity Capital (₹ Crore)	771.7
Face Value (₹)	10.0

Price Movement



Research Analysts

Bharat Chhoda
bharat.chhoda@icicisecurities.com

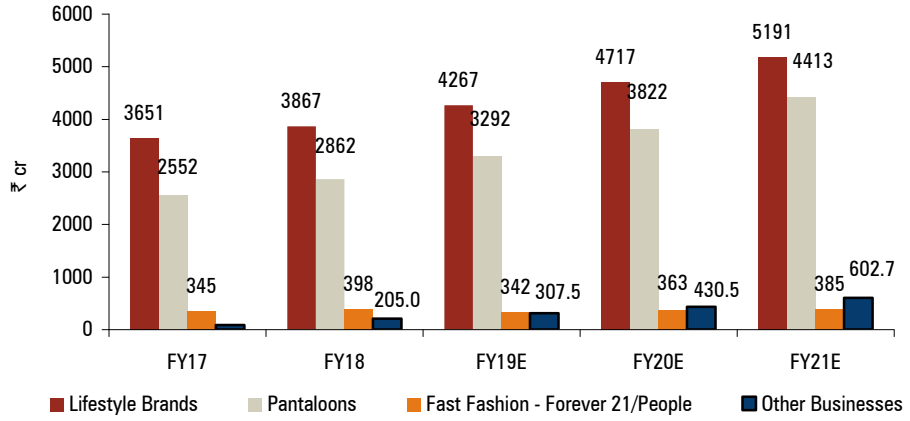
Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Other businesses: Focus on building scale in Innerwear business

ABFRL's foray into the innerwear business has witnessed significant traction in a short time span by capitalising on the strong brand recall of Van Heusen. Currently, it has ~10,000 point of sales and expects to reach 13,000 by end of FY19. ABFRL has recently broadened its product portfolio by launching women's innerwear and athleisure products, which is expected to further provide impetus to revenue growth. With market share gains being the priority, the management anticipates continued investments over the medium term.

For the fast fashion segment (Forever 21 & People) the management's main priority is to restrict losses with a cautious approach to store expansion plans in the near term.

Exhibit 1: Consolidated revenues to grow at CAGR of 14% over FY18-21E



Source: Company, ICICI Direct Research

Exhibit 2: Valuation (₹ crore)

Valuation metrics	
Target EV/Sales multiple	**2.0**
2021E Sales	10,592.4
2021E EV	20,655.2
2021E Debt	1,600.3
2021E Cash	211.8
2021E Market Cap.	19,266.6
No. of shares	77.2
Target Price	**250**
CMP	203.0
Upside/(Downside)	23

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement

(Year-end March)	FY 18	FY 19E	FY 20E	FY 21E
Gross Revenue	7,172.1	8,208.4	9,333.1	10,592.4
Growth (%)	8.6	14.4	13.7	13.5
Cost of Sales	3,390.1	3,820.0	4,326.4	4,923.2
Employee Costs	772.3	856.9	942.6	1,018.0
Administration & Other Exp	2,509.4	2,907.8	3,305.1	3,724.2
EBITDA	500.3	623.7	759.0	927.0
Growth (%)	14.4	24.7	21.7	22.1
Depreciation	280.5	314.6	363.1	416.9
EBIT	219.8	309.1	396.0	510.1
Interest	171.6	183.3	175.5	164.8
Other Income	32.8	40.1	40.5	41.3
PBT	81.0	165.9	261.0	386.6
Growth (%)	51.3	104.9	57.3	48.1
Tax	(68.8)	-	-	-
Adjusted PAT	149.8	165.9	261.0	386.6
Exceptional Items	(32.0)	-	-	-
Reported PAT	117.8	165.9	261.0	386.6
Growth (%)	120.2	40.9	57.3	48.1
EPS	1.5	2.2	3.4	5.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement

(Year-end March)	FY 18	FY 19E	FY 20E	FY 21E
Profit after Tax	117.8	165.9	261.0	386.6
Add: Interest Expense	171.6	183.3	175.5	164.8
Add: Depreciation	280.5	314.6	363.1	416.9
Add: Others	-	-	-	-
Increase/(Decrease) in CL	625.2	285.7	315.3	294.8
(Increase)/Decrease in CA	(554.4)	(382.7)	(481.0)	(492.5)
CF from Operating Activities	640.7	566.8	633.9	770.7
(Add) / Dec in Fixed Assets	(401.6)	(347.9)	(350.8)	(348.2)
Goodwill	5.0	-	-	-
(Inc)/Dec in Investments	(4.2)	(0.2)	(0.2)	(0.2)
CF from Investing Activities	(400.9)	(348.1)	(351.0)	(348.4)
Inc/(Dec) in Loan Funds	(183.2)	(64.5)	(76.7)	(119.9)
Inc/(Dec) in Sh. Cap. & Res.	1.2	-	-	-
Others	(34.7)	(183.3)	(175.5)	(164.8)
CF from financing activities	(216.7)	(247.8)	(252.2)	(284.7)
Change in cash Eq.	23.1	(29.1)	30.7	137.6
Op. Cash and cash Eq.	49.6	72.6	43.6	74.2
Cl. Cash and cash Eq.	72.6	43.6	74.2	211.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet

(Year-end March)	FY 18	FY 19E	FY 20E	FY 21E
Source of Funds				
Equity Capital	771.7	771.7	771.7	771.7
Reserves & Surplus	321.4	487.3	748.4	1,135.0
Shareholder's Fund	1,093.1	1,259.0	1,520.1	1,906.6
Total Loan Funds	1,861.5	1,796.9	1,720.2	1,600.3
Other Non Current Liabilities	7.2	7.2	7.2	7.2
Minority Interest	-	-	-	-
Source of Funds	3,115.2	3,216.6	3,400.9	3,667.6
Application of Funds				
Gross Block	1,083.1	1,430.0	1,779.8	2,127.1
Less: Acc. Depreciation	(436.6)	(751.2)	(1,114.3)	(1,531.2)
Net Block	646.5	678.8	665.6	595.9
Capital WIP	45.9	46.8	47.7	48.7
Total Fixed Assets	692.3	725.6	713.3	644.6
Goodwill	1,935.9	1,935.9	1,935.9	1,935.9
Investments	4.2	4.4	4.6	4.9
Inventories	1,691.2	1,934.0	2,199.0	2,495.7
Debtors	551.8	652.2	792.7	899.6
Cash	72.6	43.6	74.2	211.8
Loan & Advance, Other CA	785.6	825.2	900.6	989.4
Total Current assets	3,101.3	3,454.9	3,966.6	4,596.6
Creditors	2,009.3	2,293.9	2,608.2	2,902.0
Provisions & Other CL	609.2	610.3	611.3	612.2
Total CL and Provisions	2,618.5	2,904.2	3,219.4	3,514.3
Net Working Capital	482.8	550.8	747.1	1,082.3
Miscellaneous expense	-	-	-	-
Application of Funds	3,115.2	3,216.6	3,400.9	3,667.6

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY 18	FY 19E	FY 20E	FY 21E
Per share data (₹)				
Book Value	14.2	16.3	19.7	24.7
EPS	1.5	2.2	3.4	5.0
Cash EPS	0.9	0.6	1.0	2.7
DPS	-	-	-	-
Profitability & Operating Ratios				
EBITDA Margin (%)	7.0	7.6	8.1	8.8
PAT Margin (%)	1.6	2.0	2.8	3.6
Fixed Asset Turnover (x)	2.4	2.7	2.9	3.0
Inventory Turnover (Days)	86.0	86.0	86.0	86.0
Debtor (Days)	28.0	29.0	31.0	31.0
Current Liabilities (Days)	102.1	102.0	102.0	100.0
Return Ratios (%)				
RoE	10.8	13.2	17.2	20.3
RoCE	8.5	11.4	13.5	15.7
RoIC	20.7	26.0	29.5	34.7
Valuation Ratios (x)				
PE	133.0	94.4	60.0	40.5
Price to Book Value	14.3	12.4	10.3	8.2
EV/EBITDA	34.9	27.9	22.8	18.4
EV/Sales	2.4	2.1	1.9	1.6
Leverage & Solvency Ratios				
Debt to equity (x)	1.7	1.4	1.1	0.8
Interest Coverage (x)	1.3	1.7	2.3	3.1
Debt to EBITDA (x)	3.7	2.9	2.3	1.7
Current Ratio	1.2	1.2	1.2	1.2
Quick ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Bharat Chhoda, MBA and Cheragh Sidhwa, MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Bharat Chhoda, MBA and Cheragh Sidhwa, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that Bharat Chhoda and Cheragh Sidhwa, MBA Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.