February 6, 2019

Rating matrix		
Rating	:	Buy
Target	:	₹ 250
Target Period	:	12 months
Potential Upside	:	18%

What's changed?	
Target	Unchanged
EPS FY20E	Unchanged
EPS FY21E	Unchanged
Rating	Unchanged

Quarterly performance

	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	2,281.6	1,855.0	23.0	2,007.3	13.7
EBITDA	172.9	138.0	25.3	142.8	21.1
EBITDA (%)	7.6	7.4	14 bps	7.1	47 bps
PAT	70.2	35.0	100.7	42.7	64.4

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	2.5	2.2	1.9	1.7
Target EV/Sales	2.9	2.6	2.2	2.0
EV / EBITDA	36.1	28.9	23.6	19.1
P/BV	14.9	12.9	10.7	8.5
RoNW (%)	10.8	13.2	17.2	20.3
RoCE (%)	8.5	11.7	13.5	15.7

Stock Data

Particular	Amount
Market Capitalisation (₹ Crore)	16,282.7
Total Debt (Mar-18) (₹ Crore)	1,861.5
Cash (Mar-18) (₹ Crore)	72.6
EV (₹ Crore)	18,071.5
52 week H/L (adjusted)	219 / 132
Equity Capital (₹ Crore)	771.7
Face Value (₹)	10.0

Price performance

	1M	3M	6M	12M
Raymond	-11.0	-3.6	-9.1	-21.0
Indian Terrain	-13.0	-17.0	-20.0	-42.0
Aditya Bir. Fas.	7.6	10.6	24.7	38.1

Research Analysts

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Aditya Birla Fashion & Retail (ADIFAS) ₹ 212

Shift in festive season spurs performance

- ABFRL reported robust topline growth of 23% YoY to ₹ 2281.6 crore (I-direct estimate: ₹ 2147.5 crore) with healthy growth across all key segments. Healthy festive season resulted in strong LTL sales growth
- EBITDA margins for the quarter improved marginally by 20 bps YoY to 7.6% I-direct estimate: 8.0%)
- Higher other income (up 91% YoY to ₹ 13.3 crore) further boosted PAT growth. Subsequently, PAT for the quarter doubled to ₹ 70.2 crore (I-direct estimate: ₹ 55.0 crore)

Pantaloons delivers impressive performance

After moderate revenue growth in H1FY19 (9% YoY), the revenue trajectory for Pantaloons accelerated at a swift pace with growth of 28% YoY to ₹ 961 crore in Q3FY19. A healthy festive season coupled with aggressive investment in marketing spends (3x higher marketing spends) led to robust LTL sales growth of 17% YoY. EBITDA margin for the division improved 50 bps YoY to 9.2% driven by, a) increased share of private labels (up 300 bps YoY to 63%), b) controlled operational cost structure and c) positive operating leverage. ABFRL added 14 stores in Q3FY19 (27 stores in YTDFY19) taking total store count to 302. The management has affirmed its guidance to add ~50 Pantaloons stores each year, mainly targeting tier II/III towns. Improved price value proposition for customers and refreshing merchandise is expected to aid SSSG, going forward. We factor in 16% revenue growth for Pantaloons division for FY18-21E and model 420 stores by FY21.

Robust store addition/strong SSSG for lifestyle brands to aid revenues

Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe, Peter England) reported healthy revenue growth of 16% YoY to ₹ 1137 crore, driven by strong SSSG of 8% and aggressive retail expansion (added 62 stores in Q3FY19). EBITDA margins for the quarter remained flattish YoY at 11.6% owing to higher marketing spends (up 40%) and scaling up of Peter England stores in Tier II/III cities that have lower gross margins. The management highlighted that kidswear and women's wear have witnessed robust traction in YTDFY19. On a high base, the management is confident of sustaining its growth momentum by achieving high single digit LTL sales growth in FY19E. The management expects to add ~220 stores on a net basis (90% franchisee model) in FY19E.

Investing in innerwear business to gain market share

ABFRL's foray into innerwear business has seen significant traction in a short span of time by capitalising on strong brand recall of Van Heusen. Currently, it has ~12000 points of sale & expects to reach 25,000 by end of FY20. With market share gains being priority, the management expects continued investments till FY20E. ABFRL is well on track to enhance its revenues from innerwear business by 2x to ₹ 200 crore in FY19E.

Revenue growth accompanied by strong profitability; maintain BUY

Focus on profitable growth through cost optimisation, constant improvement in product portfolio and increased share of private labels has been a vital strategy for ABFRL to script a turnaround with EBITDA margins expanding 160 bps YoY and reporting PAT of ₹ 119 crore vs. ₹ 6 crore in YTDFY19. We maintain our estimates and expect revenue and EBITDA to grow at a CAGR of 14% and 24%, respectively, in FY18-21E with significant enhancement in RoCE from current 8.5% in FY18 to 15.7% in FY21E. We reiterate our **BUY** rating on the stock with a target price of ₹ 250 (FY21E 2.0x EV/sales).

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	2281.6	2147.5	1855.0	23.0	2007.34	13.7	Healthy festive season resulted in robust LTL sales growth across all segments
Raw Material Expense	1,142.6	1,009.3	865.0	32.1	961.4	18.9	
Employee Expenses	236.13	236.221	209	13.0	224.14	5.3	
Rent	301.0	289.9	267.0	12.7	264.7	13.7	
Other Expenses	428.85	440.2	376	14.1	414.33	3.5	
EBITDA	172.9	171.8	138.0	25.3	142.8	21.1	
EBITDA Margin (%)	7.6	8.0	7.4	14 bps	7.1	47 bps	Lower gross margins impacted EBITDA to a ceratin extent
Depreciation	68.0	73.2	67	1.6	69.1	-1.5	
Interest	48.0	50.7	43.0	11.7	49.7	-3.4	
Other Income	13.4	7.1	7	91.0	18.7	-28.5	
PBT before Exceptional item	70.2	55.0	35.0	100.7	42.7	64.4	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	70.2	55.0	35.0	100.7	42.7	64.4	
Tax Outgo	0.0	0.0	0.0		0.0		
PAT	70.2	55.0	35.0	100.7	42.7	64.4	Strong operational performance and higher other income further boosted the PAT growth
Key Metrics							
Lifestyle Brands							
Revenues (₹ Crore)	1137.0	1101.0	983.0	15.7	1090.0	4.3	SSSG: 8%. E-commerce exhibits aggressive growth
Segment EBITDA Margin (%)	11.6	NA	11.7	-9 bps	12.8	-123 bps	Margins came in flattish owing higher marketing spends
Pantaloons							
Revenues (₹ Crore)	961.0	870.0	750.0	28.1	787.0	22.1	SSSG: 17%. Shift in festive season resulted in healthy growth
Segment EBITDA Margin (%)	9.2	NA	8.7	49 bps	6.6	255 bps	Increased share of private label brands led to improvement in margins
Fast Fashion							
Revenues (₹ Crore)	102.0	89.1	99.0	3.0	88.0	15.9	
Segment EBITDA Margin (%)	-11.8	NA	-23.2	1147 bps	-11.4	-40 bps	EBITDA losses narrowed down to ₹ 12 crore vs. ₹ 23 crore in Q3FY18
Other business							
Revenues (₹ Crore)	106.0	92.4	56.0	89.3	84.0	26.2	Strong revenue growth on account of rapid scale up in innerwear business. Forayed into women's innerwear category in the quarter.
Segment EBITDA	-19.0	NA	-11.0	72.7	-17.0		

Source: Company, ICICI Direct Research

Change in estimates

	FY 19E			FY 20E			FY 21E		
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	8,208.4	8,208.4	0.0	9,333.1	9,333.1	0.0	10,592.4	10,592.4	0.0
EBITDA	623.7	623.7	0.0	759.0	759.0	0.0	927.0	927.0	0.0
EBITDA Margin (%)	7.6	7.6	0 bps	8.1	8.1	0 bps	8.8	8.8	0 bps
PAT	166.0	166.0	0.0	261.0	261.0	0.0	386.6	386.6	0.0
EPS (₹)	2.2	2.2	0.0	3.4	3.4	0.0	5.0	5.0	0.0

Source: Company, ICICI Direct Research

Company Analysis

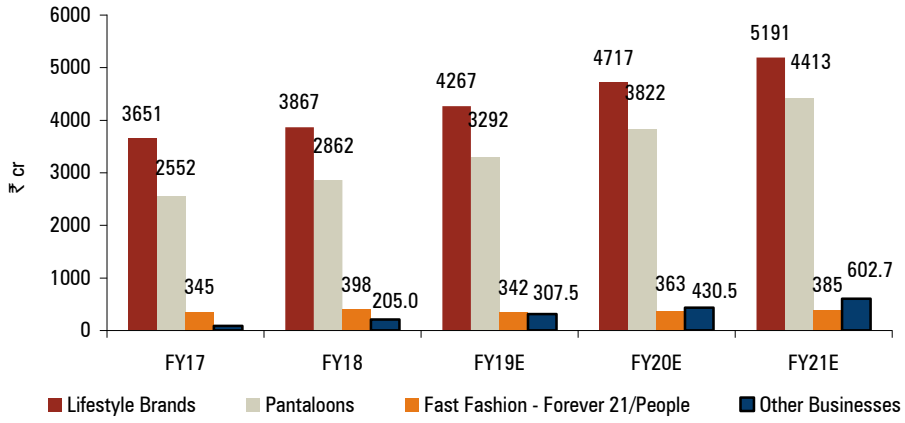
Aditya Birla Fashion & Retail (ABFRL) is India's largest fashion hub. ABFRL was formed by a merger of Madura Fashion & Lifestyle and Pantaloons. Established in 1988 by Madura Coats Ltd, Madura Fashion & Lifestyle has its origins in the erstwhile Coats Viyella Plc, Europe's largest clothing supplier. Aditya Birla Nuvo (one-time Indian Rayon) acquired Madura Fashion & Lifestyle from Madura Coats in 2000. ABFRL inherited brands like Louis Philippe, Van Heusen, Allen Solly and Peter England.

Pantaloons was acquired by Aditya Birla Nuvo in 2013 for a consideration of ₹ 1600 crore (50% debenture + 50% debt). Pantaloons offers one-stop shopping across categories of men, women and kids offering a wide range of brands across apparel (casual, ethnic, formal, party and active wear) and non-apparel (footwear, handbags, cosmetics, perfumes, fashion jewellery and watches). It retails over 200 licensed and international brands, including 14 exclusive in-house brands. Womenswear is the lead category contributing to half of total apparel sales.

Consolidated revenues likely to grow at 14% CAGR in FY18-21E

ABFRL's consolidated revenues are expected to grow at a CAGR of 14% to ~₹ 10592.4 crore by FY21E vs. ₹ 7172 crore in FY18. While majority of incremental growth is expected to be driven by Pantaloons network expansion, rapid scale up of innerwear business coupled with newer brands are expected to further accelerate the incremental revenues.

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



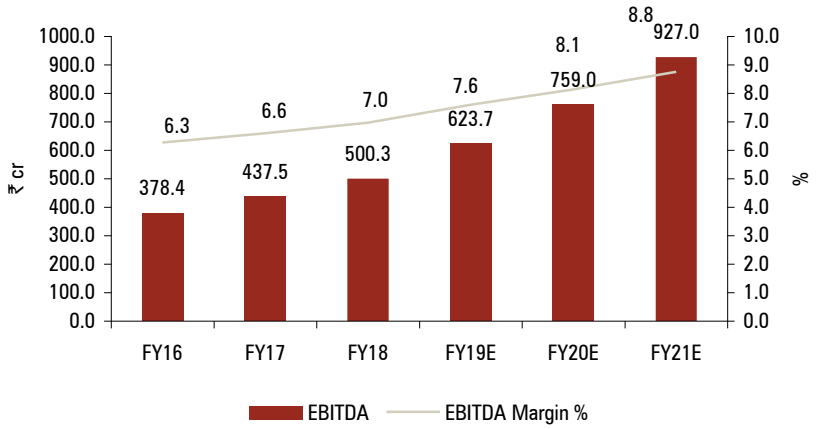
Source: Company, ICICI Direct Research

Pantaloons turnaround to aid margin expansion

Inclusive growth across all segments is expected to bring in healthy revenue growth. Moreover, with margin expansion, PAT is expected to increase from ₹ 117.8 crore in FY18 to ₹ 387 crore in FY21E. In FY18, Pantaloons turned EBIT positive indicating a strong turnaround. Higher emphasis on franchisee based store openings and cost control efficiencies would yield better profitability, going forward. The management expects the fast fashion business to take more than expected time to breakeven.

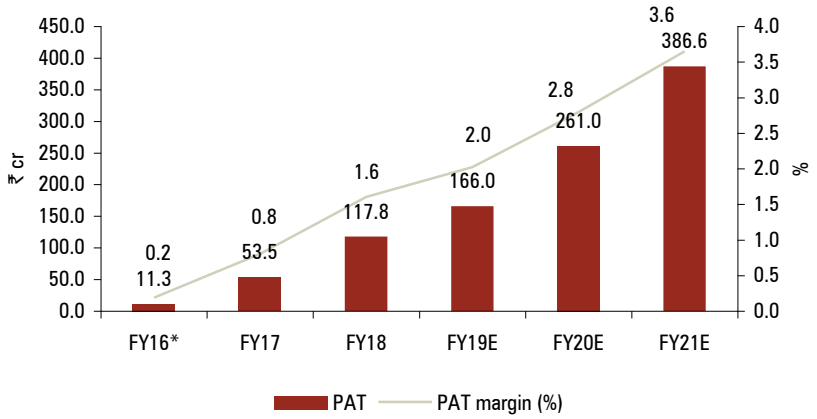
We believe the positive operating leverage on account of store resizing along with improved assortment could recoup recent losses and improve future profits.

Exhibit 2: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 3: Net profit trend



Source: Company, ICICI Direct Research

Valuation

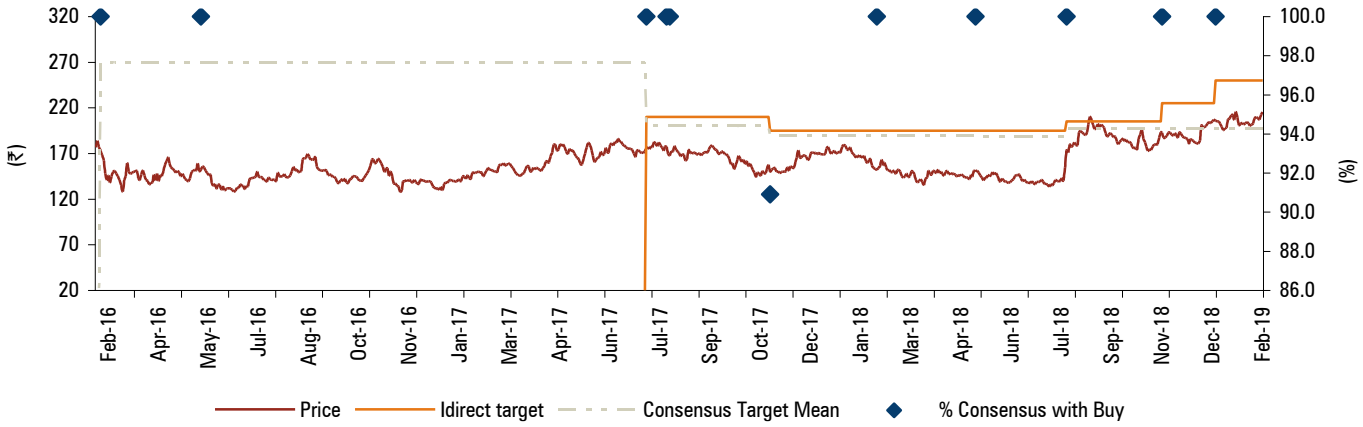
Focus on profitable growth through cost optimisation, constant improvement in product portfolio and increased share of private labels has been a vital strategy for ABFRL to script a turnaround with EBITDA margins expanding 160 bps YoY and reported PAT of ₹ 119 crore vs. ₹ 6 crore in YTDFY19. We maintain our estimates and expect revenue and EBITDA to grow at a CAGR of 14% and 24%, respectively, in FY18-21E with significant enhancement in RoCE from current 8.5% in FY18 to 15.7% in FY21E. We reiterate our **BUY** rating on the stock with a target price of ₹ 250 (FY21E 2.0x EV/sales).

Exhibit 4: 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	211.9
2021E Market Cap.	19,266.7
No. of shares	77.2
Target Price	**250**
CMP	211.0
Upside/(Downside)	18

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Jul-16	ABFRL acquires Forever 21 in India for $26 million
Sep-16	Madura launched men's innerwear and athleisure range under Van Heusen brand in South India
Nov-16	ABFRL signs partnership agreement with Ted Baker
Jan-17	Demonetisation impacted Pantaloons growth, which led to a decline LTL sales by 25% in November
Mar-17	Pantaloon launches first 'Women Store' in Lucknow
Apr-16	Pantaloons opens its first exclusive kids store in Kolkata
Jul-17	ABFRL eyes nationwide rollout of innerwear and athleisure segment

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Aditya Birla Group	31-Dec-18	30.6	236.09	0.00
2	IGH Holdings Pvt. Ltd.	31-Dec-18	11.0	85.03	0.00
3	Umang Commercial Co., Ltd.	31-Dec-18	8.4	64.97	0.00
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Sep-17	8.1	62.30	-4.75
5	Trapti Trading & Investments Pvt. Ltd.	31-Dec-18	6.3	49.00	0.00
6	Reliance Nippon Life Asset Management Limited	31-Dec-18	4.7	36.38	24.22
7	UTI Asset Management Co. Ltd.	31-Dec-18	2.6	19.82	-0.03
8	Birla Group Holdings Pvt. Ltd.	31-Dec-18	2.4	18.77	0.00
9	Life Insurance Corporation of India	31-Dec-18	2.2	16.86	-14.74
10	Mirae Asset Global Investments (India) Pvt. Ltd.	31-Dec-18	1.8	14.21	0.00

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	59.2	59.2	59.2	59.2	59.2
FII	12.2	11.0	10.1	10.0	10.0
DII	14.2	16.1	17.8	19.0	18.8
Others	14.4	13.7	12.9	11.8	12.0

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value (Mn)	Shares(Mn)	Investor name	Value (Mn)	Shares (Mn)
Reliance Nippon Life Asset Management Limited	70.50	24.22	Life Insurance Corporation of India	-42.90	-14.74
IDFC Asset Management Company Private Limited	4.63	1.59	HSBC Global Asset Management (Hong Kong) Limited	-3.47	-1.37
Sundaram Asset Management Company Limited	1.92	0.66	State Street Global Advisors (US)	-0.67	-0.27
Axis Asset Management Company Limited	1.78	0.61	Nordea Investment Management AB (Denmark)	-0.52	-0.19
Edelweiss Asset Management Ltd.	1.27	0.44	Canara Robeco Asset Management Company Ltd.	-0.35	-0.17

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(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	192.3	175.5	164.8
Other Income	32.8	49.2	40.5	41.3
PBT	81.0	166.0	261.0	386.6
Growth (%)	51.3	105.0	57.2	48.1
Tax	(68.8)	-	-	-
Adjusted PAT	149.8	166.0	261.0	386.6
Exceptional Items	(32.0)	-	-	-
Reported PAT	117.8	166.0	261.0	386.6
Growth (%)	120.2	40.9	57.2	48.1
EPS	1.5	2.2	3.4	5.0

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY 18	FY 19E	FY 20E	FY 21E
Profit after Tax	117.8	166.0	261.0	386.6
Add: Interest Expense	171.6	192.3	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	575.9	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)	(192.3)	(175.5)	(164.8)
CF from financing activities	(216.7)	(256.8)	(252.2)	(284.7)
Change in cash Eq.	23.1	(29.0)	30.7	137.6
Op. Cash and cash Eq.	49.6	72.6	43.7	74.3
Cl. Cash and cash Eq.	72.6	43.7	74.3	211.9

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(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	487.4	748.5	1,135.1
Shareholder's Fund	1,093.1	1,259.1	1,520.2	1,906.7
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	3,216.7	3,401.0	3,667.7
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	43.7	74.3	211.9
Loan & Advance, Other CA	785.6	825.2	900.6	989.4
Total Current assets	3,101.3	3,455.0	3,966.7	4,596.7
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	550.9	747.2	1,082.4
Miscellaneous expense	-	-	-	-
Application of Funds	3,115.2	3,216.7	3,401.0	3,667.7

Source: Company, ICICI Direct Research

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	11.7	13.5	15.7
RoIC	20.7	26.0	29.5	34.7
Valuation Ratios (x)				
PE	138.2	98.1	62.4	42.1
Price to Book Value	14.9	12.9	10.7	8.5
EV/EBITDA	36.1	28.9	23.6	19.1
EV/Sales	2.5	2.2	1.9	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	1.7	1.4	1.1	0.8
Interest Coverage (x)	1.3	1.6	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

ICICI Direct Research coverage universe (Retail)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bata India	1,175	1,160	Buy	14,896	17.4	23.5	28.5	67.5	50.0	41.2	35.4	28.4	23.2	19.9	22.1	23.7	15.1	17.8	19.0
Shoppers Stop (SHOSTO)	500	545	Hold	4,420	1.3	10.3	12.9	379.1	48.3	38.8	21.4	17.7	14.8	9.6	12.3	14.4	1.2	9.0	10.4
Titan Company (TITIND)	1,055	1,140	Buy	91,442	12.7	16.6	21.4	82.9	63.6	49.3	55.3	42.9	33.4	29.3	31.5	34.0	22.2	23.9	25.6
Trent	355	410	Buy	11,828	2.6	4.8	6.9	135.5	73.4	51.7	55.8	41.8	32.9	10.0	12.0	14.7	5.5	9.5	12.5
ABFRL	212	250	Buy	16,168	1.5	2.2	3.4	138.9	98.6	62.7	34.9	27.9	22.8	8.5	11.4	13.5	10.8	13.2	17.2

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;

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