

Industry Textiles, Apparel & Luxury Goods
Bloomberg ABFRL IN
BSE CODE 535755

Net loss led by one-time tax impact.

RATING	NEUTRAL
CMP	269
Price Target	270
Potential Upside	0%

Rating Change	↓
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	277/180
Mkt Capital (Rs Cr)	20,703
Free float (%)	41%
Avg. Vol 1M (,000)	667
No. of Shares (Crs)	77
Promoters Pledged %	0%

RESEARCH ANALYST

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3QFY20 Result update

- ABFRL reported mixed result; Revenue grew by 13.2% YoY to Rs 2583 crs (vs. expect. Rs 2570 crs) led by strong growth in Madura & Pantaloons segment despite the economic slowdown and tepid consumer sentiment.
- Lifestyle brands grew by 13.9% YoY driven by festive season, strong wedding categories and new ventures in women's & kids. EBITDA margin of the segment declined by 95 bps to 10.7% on account of discounts offered in the festive season. It had Like to like growth (LTL) of 15% YoY.
- Pantaloons grew by 13.9% YoY led by improved product aesthetics and better availability. It had Like to like growth (LTL) of 4.9% YoY.
- Gross margin grew by 220 bps to 52.1% YoY.
- EBITDA margin grew by 821 bps to 16.4% YoY led by decline in rent expenses (post Ind AS 116) by 713 bps. However, employee and other expenses grew by 66 bps and 45 bps respectively.
- The company posted Net Loss of Rs 38 crs (vs. expect. Rs 72 crs profit), a de-growth of 153.6% YoY as the Company adopted a lower corporate tax regime, it had a one-time tax impact of Rs 130 crs for 9MFY20 recorded in the quarter.
- Net debt is at Rs 2241 cr in 3QFY20 vs Rs 2169 cr in 2QFY20 to fund ESOP trust share purchases.

View and Valuation

Aditya Birla Fashion and Retail Ltd. is one of the leader in Apparel industry in India. The company has a diversified portfolio with presence across varied segments, price points and wearing occasions. The company is continuously making stores addition in both segments, aggressively in Madura Lifestyle though the effect is not yet seen in the company's bottom line. Also from past few quarters, it has been focusing on expansion and improving operational efficiency of inner-wear business and Forever 21 brand. Considering this, we value the stock at 2.1x FY21E EV/Sales, price target of Rs 270 and give NEUTRAL rating.

Key Risks to our rating and target

- Decrease in EBITDA margin.
- Area / number of stores added.

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	6633	7181	8118	9101	10220
EBITDA	437	468	554	1412	1699
EBIT	195	188	272	536	670
PAT	53	118	321	12	245
EPS (Rs)	1	2	4	0	3
EPS growth (%)	-149%	120%	172%	-96%	1717%
ROE (%)	6%	11%	22%	1%	15%
ROCE (%)	7%	7%	10%	19%	21%
BV	12	14	18	18	21
P/B (X)	12.4	10.6	12.0	15.0	12.7
P/E (x)	221.5	98.6	53.2	1542.0	84.9

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Result below expectation

3QFY20 Results

Conso./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,282	1,915	2,065	2,308	2,583	13.2%	11.9%	7,181	8,118	13.0%
Other Income	13	24	18	17	15	9.2%	-11.9%	33	65	97.4%
COGS	1,143	900	948	1,147	1,237	8.2%	7.8%	3,390	3,925	15.8%
Gross Margin	50%	53%	54%	50%	52%	2.2%	1.8%	53%	52%	-1.1%
Empl. Cost	236	235	260	253	284	20.4%	12.4%	772	913	18.2%
Other Exp.	429	377	421	466	497	15.9%	6.6%	1,499	1,615	7.8%
EBITDA	173	125	314	339	408	136.1%	20.4%	468	554	18.3%
EBITDA Mar.	8%	7%	15%	15%	16%	8.2%	1.1%	7%	7%	0.3%
Depreciation	68	73	202	225	225	230.7%	0.1%	281	282	0.6%
EBIT	105	52	112	114	183	74.7%	60.2%	188	272	44.7%
Interest	48	45	94	106	105	119.5%	-0.3%	172	187	9.2%
PBT	70	31	35	25	93	31.7%	265.8%	49	149	204.5%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	-	(172)	14	28	130	-	370.8%	(69)	(172)	150.1%
PAT	70	203	22	(2)	(38)	-154%	1502%	118	321	172.7%
PAT Margin	3%	11%	1%	0%	-1%	-4.5%	-1.4%	2%	4%	2.3%

Concall highlights

• Overall

- It is targeting higher gross margins from current levels of 52%.
- Net debt is at Rs 2241 cr in 3QFY20 vs Rs 2169 cr in 2QFY20 to fund ESOP trust share purchases. Target Debt/ EBITDA below 3.5x
- Capex guidance: Rs 350-400 cr in FY21

• Lifestyle Business

- L2L growth in Q3 at 15% with 91 net stores added in the quarter
- Shift to 12-season inventory model complete, current spring-summer season first full season under the model.
- Wholesale channel (small Multi brand outlets) under pressure, structural & strategic shift to exclusive retail outlets continues with 130 new stores opened in Q3. Slight margin pressure is there because of weak wholesale channel.
- Inventory pressure in wholesale channel continues as wholesalers tie down on excess Inventory due to liquidity issues.
- Rising retail network is leading to an increase in rent expenses (Franchisee commission) as it is also linked to retail sales.
- It started fulfilling some e-commerce orders from exclusive retail stores.

• Pantaloons Business

- Revenue grew by 13% YoY to 1083 cr. EBITDA margins at 10.1% vs 9% in Q3FY19
- L2L growth at 4.9% & 12 net stores were added in the quarter.
- Consolidation of People brand into Pantaloons underway and expected to be completed by end FY21.
- Maintain 50-60 stores addition guidance for FY20 largely in tiers 2 & 3 cities.
- It will continue to strive for higher margins and build on solid margin expansion base.
- 12-season Inventory model (fresh delivery every fortnight) live across all Pantaloons stores.
- Other Business (Inner-wear + International brands)
- 20,000 outlets of Inner-wear by 3QFY20 end, across both men and women portfolios.
- Secondary sales are now at par with primary sales. Earlier, primary was outpacing Secondary sales & ultimate customer sales.

• Ethnic wear

- The segment made Rs 31 cr revenue in Q3 and Rs 10 cr. EBITDA losses in Q3.
- Jaypore transition from purely online to online + offline channel with 8-10 stores by end of FY21.
- Shantanu & Nikhil first store to open in Q4FY20. It will open 6-7 stores by FY21 also.

Exhibit: Revenue Mix trend

Madhura and Pantaloons are major contributors to revenue, Share from other business also increasing.

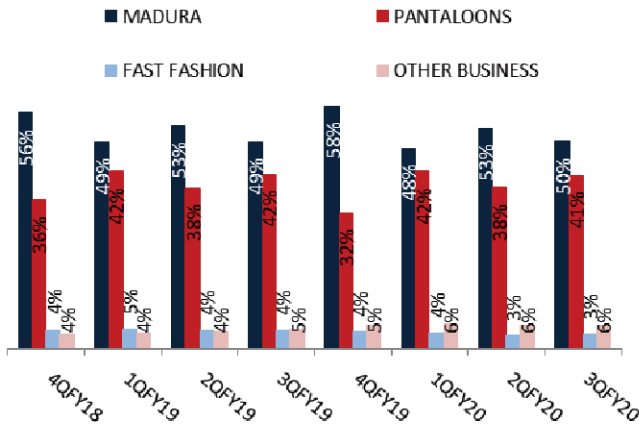


Exhibit: Stores addition

The company is continuously adding stores in both segments, very aggressive addition in Madura.

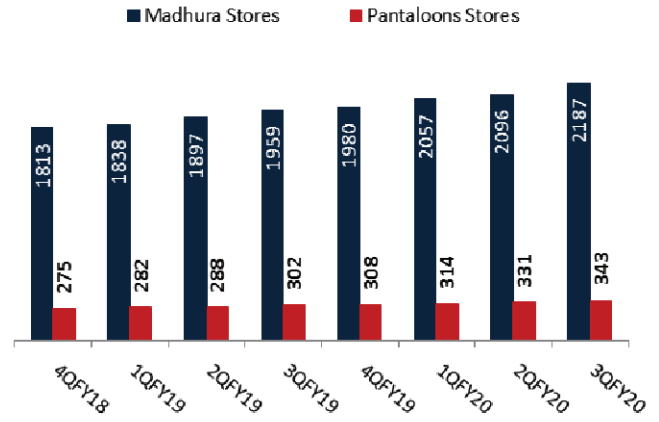


Exhibit: Sales and Sales Growth

Revenue grew by 13.2% YoY to Rs 2583 crs led by strong growth in Madura & Pantaloons segment.

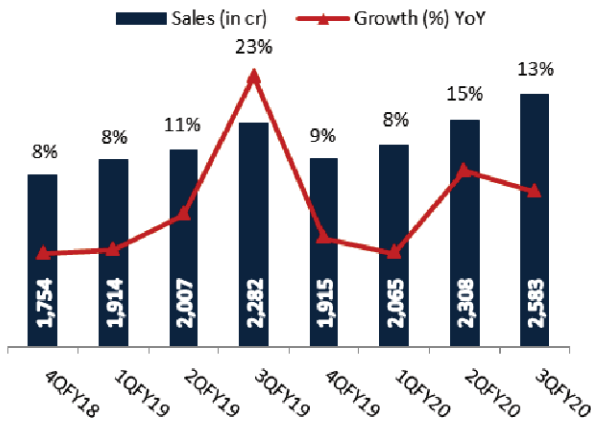


Exhibit: Gross and EBITDA Margin

Gross margin grew by 220 bps YoY and EM grew by 821 bps due to decreased rent expenses (Ind AS 116 impact).

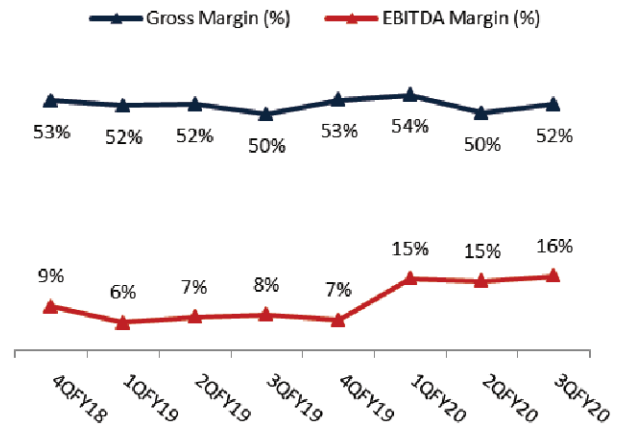


Exhibit: Profit after Tax (PAT)

Net Loss of Rs 38 crs, a de-growth of 153.6% YoY led by one time tax impact due to adoption of new tax rate.

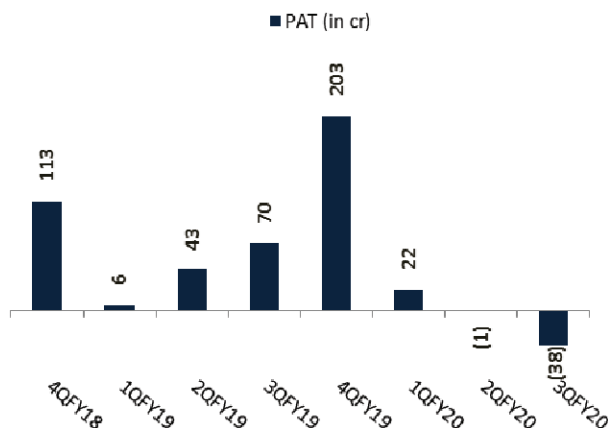
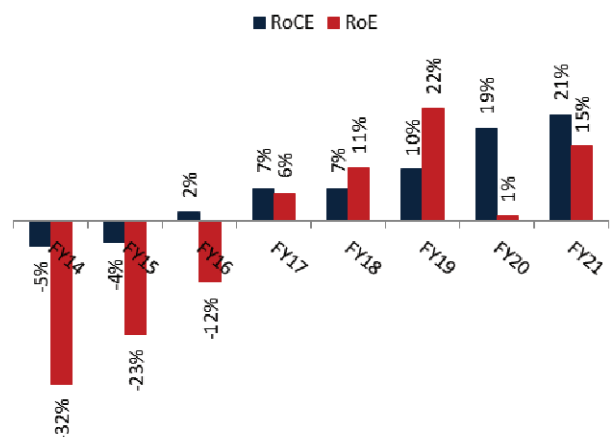


Exhibit: Return Ratios

Return ratio's are expected to improve as profitability improves going ahead.



Financial Details

Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	93	769	771	772	773	773	773
Reserves	921	137	188	321	655	618	863
Networth	1,014	905	958	1,093	1,429	1,391	1,637
Minority Interest							
Debt	1,648	1,476	2,032	1,758	1,198	1,501	1,501
Other Non Cur Liab	127	121	249	282	289	2,678	3,191
Total Capital Employed	2,662	2,382	2,990	2,851	2,627	2,892	3,137
Net Fixed Assets (incl CWIP)	689	553	652	769	718	3,058	3,436
Non Cur Investments	1,795	1,795	1,860	1,860	1,860	1,954	1,954
Other Non Cur Asst	233	279	388	455	674	603	603
Non Curr Assets	2,717	2,627	2,900	3,084	3,252	5,615	5,992
Inventory	-	1,411	1,431	1,691	1,921	2,144	2,296
Debtors	409	312	452	552	787	873	924
Cash & Bank	27	19	50	73	57	72	259
Other Curr Assets	1,311	213	203	334	604	677	760
Curr Assets	1,746	1,955	2,136	2,650	3,369	3,766	4,239
Creditors	1,241	1,430	1,458	2,009	2,399	2,493	2,576
Provisions (both)	-	-	86	71	87	98	110
Other Curr Liab	433	649	253	520	1,219	1,220	1,217
Curr Liabilities	1,675	2,079	1,797	2,601	3,705	3,811	3,903
Net Curr Assets	72	(124)	339	50	(336)	(45)	337
Total Assets	4,463	4,582	5,036	5,734	6,621	9,381	10,232

Income Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,851	6,035	6,633	7,181	8,118	9,101	10,220
Change (%)	0	2	0	0	0	0	0
Other Income	3	26	38	33	65	63	63
EBITDA	73	378	437	468	554	1,412	1,699
Change (%)	118%	421%	16%	7%	18%	155%	20%
Margin (%)	4%	6%	7%	7%	7%	16%	17%
Depr & Amor.	183	338	242	281	282	876	1,029
EBIT	(111)	40	195	188	272	536	670
Int. & other fin. Cost	120	176	180	172	187	405	405
EBT	(228)	(110)	53	49	149	194	328
Exp Item	-	-	-	-	-	-	-
Tax	-	-	-	(69)	(172)	182	83
share of profit/(loss) of associates	-	-	-	-	-	-	-
Minority Int & P/L share of Ass.	-	-	-	-	-	(2)	-
Reported PAT	(228)	(110)	53	118	321	13	245
Adjusted PAT	(228)	(110)	53	118	321	12	245
Change (%)	22%	-52%	-149%	120%	173%	-96%	1717%
Margin(%)	-12%	-2%	1%	2%	4%	0%	2%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	-4%	2%	7%	7%	10%	19%	21%
ROCE	-23%	-12%	6%	11%	22%	1%	15%
Asset Turnover	0.7	2.6	2.6	2.7	3.1	1.8	1.9
Debtor Days	81	19	25	28	35	35	33
Inv Days	-	85	79	86	86	86	82
Payable Days	245	86	80	102	108	100	92
Int Coverage	(0.9)	0.2	1.1	1.1	1.4	1.3	1.7
P/E	(4.6)	(90.9)	221.5	98.6	53.2	1,542	84.9
Price / Book Value	1.0	11.0	12.4	10.6	12.0	15.0	12.7
EV/EBITDA	28	28	30	27	32	15	13
FCF per Share	-	-	-	-	-	-	-

Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	(228)	(110)	54	49	149	194	328
(inc)/Dec in Working Capital	(110)	(74)	(57)	76	(94)	(276)	(195)
Non Cash Op Exp	185	342	260	310	310	876	1,029
Int Paid (+)	120	176	180	172	187	405	405
Tax Paid	(2)	(2)	(3)	(1)	(20)	(182)	(83)
others	(2)	-	(0)	(1)	(2)	-	-
CF from Op. Activities	(36)	311	425	595	528	1,017	1,484
(inc)/Dec in FA & CWIP	(785)	(208)	(274)	(327)	(279)	(400)	(375)
Free Cashflow	(820)	103	151	268	248	617	1,109
(Pur)/Sale of Inv	674	-	0	(4)	2	-	-
others	2	22	(172)	6	0	(200)	-
CF from Inv. Activities	(109)	(186)	(446)	(325)	(277)	(600)	(375)
inc/(dec) in NW	-	(2)	1	1	1	(0)	-
inc/(dec) in Debt	260	51	195	(183)	(158)	500	-
Int. Paid	-	-	-	-	-	-	-
Div Paid (inc tax)	-	-	-	-	-	-	-
others	-	-	-	-	-	-	-
CF from Fin. Activities	141	(133)	51	(247)	(266)	(405)	(1,055)
Inc(Dec) in Cash	(4)	(8)	30	23	(15)	12	54
Add: Opening Balance	11	27	19	50	73	57	72
Closing Balance	7	19	50	73	57	70	127

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