

CMP: ₹ 311

Target: ₹ 380 (22%)

Target Period: 12 months

BUY

November 29, 2022

## Fortifying D2C presence with its first investments...

**About the stock:** ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloon's forte of largest value fashion retailer. The company has robust distribution network having, 3197 brand stores along with 396 Pantaloon stores

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E.

**Company Event:** ABFRL acquires eight digital first (D2C) apparel and lifestyle brands across categories such as women western wear, casual wear and kids wear

- The acquisition of the D2C brands (through its wholly subsidiary brand, TMRW) is ABFRL's initial step towards building a portfolio of new-age, digital brands across categories in fashion, beauty and lifestyle segments.
- Majority of the brands are at a very nascent stage having revenues in the range of ₹ 15 - ₹ 55 crores. Amongst the eight brands, 'Bewakoof' brand has a sizeable revenue of ₹ 162 crore as on FY22.
- Most of the companies acquired are valued at 0.6-1.5x FY22 market cap/sales. Overall consideration paid is ~ ₹ 290 crore.
- As per the management, with these eight brands on board, TMRW has achieved a revenue run-rate of ₹ 700+ crore and is on a path to cross an annual revenue rate of ₹ 1500+ crore in the next 12 months.
- The D2C investments are expected to moderate margins in the near term as the segment would entail higher investments (opex) in the initial phases in a bid to scale up the brand. Including the latest acquisitions, we expect ABFRL to incur capex worth ₹ 1750 crore over the next two years (FY23-FY24). The aforesaid capex will be funded through recent capital infusion (₹ 2195 crore by GIC) and partly by operating cashflows. We expect company to have a net debt of ₹ 435 crore as on FY23 (H1FY23: ₹ 230 crore).

**What should investors do?** Stock price of ABFRL has appreciated at a CAGR of ~15% over the last five years

- ABFRL has strengthened its B/S through recent equity infusion with net debt declining sharply from ₹ 2500 crore (in FY20) to ~₹ 230 crore. We remain structurally positive and maintain **BUY** rating on the stock

**Target Price and Valuation:** We value ABFRL at ₹ 380 i.e. 2.5x FY24E EV/Sales

**Key triggers for future price performance:**

- Multiple strategic initiatives like entry into footwear by acquiring Reebok's India operations, acquisition of majority stake in Masaba to foray into beauty category, launch of premium menswear ethnic brand Tasva and setting up a separate platform to build a portfolio of D2C brands to add value over the medium to long term

**Alternate Stock Idea:** Apart from ABFRL, in our retail coverage we also like Trent

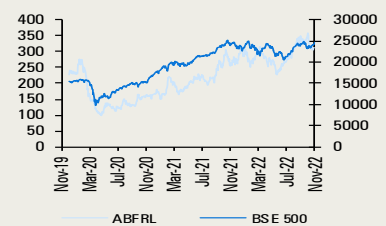
- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a preferred pick. BUY with a TP of ₹ 1730



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	29,498.0
Total Debt (Mar-22) (₹ Crore)	1,232.3
Cash (Mar-22) (₹ Crore)	121.1
EV (₹ Crore)	30,609.2
52 week H/L	359.4 / 221
Equity Capital (₹ Crore)	948.5
Face Value (₹)	10.0

### Price Chart



### Recent event & key risks

- The investment in eight D2C brands would establish a diversified portfolio across several fashion sub-categories.
- With synergistic investments, ABFRL will be able to power multiple brands and will enable the brands to garner larger scale
- Key Risk:** (i) Delay in expansion of store network, (ii) accelerated investments in new initiatives (ethnic/D2C) could lead to higher than expected WC requirements & lower margins.

### Research Analyst

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	8,117.7	8,787.9	5,249.0	8,136.2	4.1%	12,513.9	15,438.2	38%
EBITDA	554.1	1,211.8	554.9	1,099.9		1,850.1	2,233.8	43%
PAT*	321.2	(163.0)	(673.1)	(108.7)		394.7	578.9	
EV/Sales (x)	3.2	3.0	5.7	3.7		2.4	2.0	
EV/EBITDA (x)	46.4	21.9	-	27.5		16.5	13.9	
RoCE (%)	10.7	10.2	(8.9)	5.1		13.6	16.6	
RoE (%)	22.5	-15.3	-25.5	-3.9		7.4	9.7	

**Exhibit 1: Change in estimates**

(₹ Crore)	FY 23E			FY 24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	12,413.9	12,513.9	0.8	14,638.2	15,438.2	5.5	Increase in revenue estimates by ~6% in FY24E as factored in ₹ 800 crore incremental revenue from new ventures
EBITDA	1,861.3	1,850.1	-0.6	2,273.5	2,233.8	-1.7	
EBITDA Margin (%)	15.0	14.8	-21 bps	15.5	14.5	-106 bps	Expect margins to moderate in FY24 owing to higher spends towards newly acquired D2C brands
PAT	403.1	394.7	-2.1	608.6	578.9	-4.9	
EPS (₹)	4.3	4.2	-2.1	6.0	5.7	-4.9	

Source: Company, ICICI Direct Research

**Exhibit 2: Transaction of eight D2C brands acquired**

Company name	Brand	Category	Revenue (₹ crore)	Transaction details	Valuation
Bewakoof Brands	Bewakoof)	Casual & Expressive Wear: India's largest D2C fashion brand in expressive & casual wear for Gen-Z/ Millennials led by various pop culture & fandom trends	FY22: ₹ 162, FY21: ₹ 129, FY20: ₹ 210	Cash Consideration: ₹ 200 crore for 73-80% stake through a combination of primary equity and debt infusion along with secondary stake acquisition	1.5-1.7x EV/Sales
Berylush Designs	Berylush	Women's Western Wear: Style forward, fast fashion brand for Gen-Z women	FY22: ₹ 37, FY21: ₹ 16, FY20: ₹ 4	Cash Consideration: ₹ 27 crore for 51% stake through a combination of primary equity and secondary transaction	1.4x EV/Sales
Omega Design	Natilene & Nauti Nati	Teen's Occasion Wear (Natilene): Western Wear Brand for Teen Girls, Kid's Wear (Nauti Nati): Premier Kid's Occasion Wear Brand for Girls & Boys	FY22: ₹ 15, FY21: ₹ 11, FY20: ₹ 29	Cash Consideration: ₹ 10 crore for 100% stake through BTA	0.7x EV/Sales
Pratyaya E-Commerce	Nobero	Athleisure & Active Wear: Youth focused D2C brand for active consumers	FY22: ₹ 12, FY21: ₹ 19, FY20: ₹ 13	Cash Consideration: ₹ 13 crore for 66% stake through a combination of primary equity and debt infusion	1.6x EV/Sales
Imperial Online Services	Urbano	Casual & Denim Wear: Leading Denim lifestyle brand offering quality and fashion at affordable price points	FY22: ₹ 55, FY21: ₹ 33, FY20: ₹ 29	Cash Consideration: ₹ 18 crore for 55% stake through a combination of primary equity and secondary transaction	0.6x EV/Sales
Awesome Fab Shopping	Veirido & Juneberry	Casual Wear & Fast Fashion (Veirido): Fast Fashion brand in casual wear and streetwear for young men and women; Women's Casual & Western Wear (Juneberry): Emerging fashion forward brand for Women focusing on casual wear occasions	FY22: ₹ 35, FY21: ₹ 31	Cash Consideration: ₹ 21 crore for 55% stake through a combination of primary equity and secondary transaction	1.1x EV/Sales

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E
<b>Gross Revenue</b>	<b>5,249.0</b>	<b>8,136.2</b>	<b>12,513.9</b>	<b>15,438.2</b>
Growth (%)	(40.3)	55.0	53.8	23.4
Cost of Sales	2,563.0	3,720.2	5,739.1	7,091.4
Employee Costs	865.0	1,158.5	1,465.5	1,963.8
Administration & Other Exp	1,266.1	2,157.6	3,459.3	4,149.2
<b>EBITDA</b>	<b>554.9</b>	<b>1,099.9</b>	<b>1,850.1</b>	<b>2,233.8</b>
Growth (%)	(54.2)	98.2	68.2	20.7
Depreciation	963.0	997.0	1,093.0	1,223.2
EBIT	(408.1)	102.9	757.1	1,010.6
Interest	503.0	350.7	364.8	396.8
Other Income	73.0	100.5	120.6	144.7
PBT	(838.1)	(147.3)	512.9	758.5
Growth (%)	-	-	LP	47.9
Tax	(101.5)	(26.6)	128.2	189.6
<b>Reported PAT</b>	<b>(736.6)</b>	<b>(120.7)</b>	<b>384.7</b>	<b>568.9</b>
Minority Interest	(63.5)	(12.0)	(10.0)	(10.0)
<b>Adjusted PAT</b>	<b>(673.1)</b>	<b>(108.7)</b>	<b>394.7</b>	<b>578.9</b>
Growth (%)	-	-	LP	46.7
<b>Reported EPS</b>	<b>(7.2)</b>	<b>(1.2)</b>	<b>4.2</b>	<b>5.7</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E
Profit after Tax	(673.1)	(108.7)	394.7	578.9
Add: Interest Expense	503.0	350.7	364.8	396.8
Add: Depreciation	963.0	997.0	1,093.0	1,223.2
Add: Others	-	-	-	-
Increase/(Decrease) in CL	452.8	1,408.4	1,047.6	1,042.5
(Increase)/Decrease in CA	(18.5)	(1,617.8)	(1,463.7)	(1,193.7)
<b>CF from Operating Activities</b>	<b>1,227.2</b>	<b>1,029.5</b>	<b>1,436.3</b>	<b>2,047.7</b>
(Add) / Dec in Fixed Assets	(162.0)	(315.9)	(700.0)	(750.0)
(Inc)/Dec in Investments	(710.0)	(266.1)	(300.0)	(9.9)
<b>CF from Investing Activities</b>	<b>(872.0)</b>	<b>(582.1)</b>	<b>(1,000.0)</b>	<b>(759.9)</b>
Inc/(Dec) in Loan Funds	(1,646.6)	96.0	(132.3)	(100.0)
Inc/(Dec) in Sh. Cap. & Res.	2,249.2	238.0	768.3	1,426.0
Others	(459.5)	(571.9)	(781.8)	(807.0)
Less: Interest Expense	(503.0)	(350.7)	(364.8)	(396.8)
<b>CF from financing activities</b>	<b>(359.9)</b>	<b>(588.6)</b>	<b>(510.6)</b>	<b>122.2</b>
Change in cash Eq.	(4.6)	(141.2)	(74.3)	1,410.0
Op. Cash and cash Eq.	266.9	262.3	121.1	46.9
Cl. Cash and cash Eq.	262.3	121.1	46.9	1,456.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E
<b>Source of Funds</b>				
Equity Capital	915.1	938.3	948.5	1,014.3
Others	-	-	1,898.8	-
Reserves & Surplus	1,729.0	1,835.0	2,514.0	4,926.9
Shareholder's Fund	2,644.1	2,773.3	5,361.3	5,941.2
Total Loan Funds	1,136.4	1,232.3	1,100.0	1,000.0
Other Non Current Liabilities	2,463.4	2,868.0	2,868.0	2,868.0
Minority Interest	32.8	15.2	15.5	15.8
<b>Source of Funds</b>	<b>6,455.3</b>	<b>7,281.5</b>	<b>9,737.5</b>	<b>10,217.7</b>
<b>Application of Funds</b>				
Gross Block	1,385.8	1,520.6	2,220.6	2,970.6
Less: Acc. Depreciation	(811.1)	(889.4)	(1,200.3)	(1,616.2)
Net Block	574.7	631.2	1,020.3	1,354.4
Capital WIP	37.6	102.6	102.6	102.6
Total Fixed Assets	612.3	733.8	1,122.9	1,457.0
Goodwill	2,696.7	2,903.6	2,903.6	2,903.6
Investments	419.8	686.0	986.0	995.8
Inventories	1,847.0	2,929.6	4,079.9	4,991.0
Debtors	730.5	756.4	1,028.5	1,268.9
Cash	262.3	121.1	46.9	1,456.9
Loan & Advance, Other CA	1,461.8	1,752.9	1,794.2	1,836.5
Total Current assets	4,301.5	5,560.1	6,949.5	9,553.3
Creditors	2,373.4	3,410.4	4,457.0	5,498.5
Provisions & Other CL	1,343.0	1,714.4	1,715.4	1,716.4
Total CL and Provisions	3,716.4	5,124.8	6,172.4	7,214.9
Net Working Capital	585.1	435.3	777.1	2,338.3
Other NCA	2,141.4	2,522.9	3,947.9	2,522.9
<b>Application of Funds</b>	<b>6,455.3</b>	<b>7,281.5</b>	<b>9,737.5</b>	<b>10,217.7</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E
<b>Per share data (₹)</b>				
Book Value	28.2	29.6	56.5	58.6
EPS	(7.2)	(1.2)	4.2	5.7
Cash EPS	3.1	9.5	15.7	17.8
DPS	-	-	-	-
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	10.6	13.5	14.8	14.5
PAT Margin (%)	(12.8)	(1.3)	3.2	3.7
Fixed Asset Turnover (x)	1.4	2.0	1.9	2.2
Inventory Turnover (Days)	128.4	131.4	119.0	118.0
Debtor (Days)	50.8	33.9	30.0	30.0
Current Liabilities (Days)	165.0	153.0	130.0	130.0
<b>Return Ratios (%)</b>				
RoE	(25.5)	(3.9)	7.4	9.7
RoCE	(8.9)	5.1	13.6	16.6
RoIC	(31.0)	6.3	27.7	31.3
<b>Valuation Ratios (x)</b>				
P/E	-	-	74.7	54.5
Price to Book Value	11.0	10.5	5.5	5.3
EV/EBITDA	-	27.5	16.5	13.9
EV/Sales	5.7	3.7	2.4	2.0
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.4	0.4	0.2	0.2
Interest Coverage (x)	-	0.3	2.1	2.5
Debt to EBITDA (x)	2.0	1.1	0.6	0.4
Current Ratio	1.1	1.1	1.1	1.1
Quick ratio	0.6	0.5	0.5	0.4

Source: Company, ICICI Direct Research

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