

CMP: ₹ 250

Target: ₹ 340 (36%)

Target Period: 12 months

February 8, 2023

BUY

Growth trajectory sustains; margins under pressure

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 a robust distribution network having, 3442 brand stores along with 406 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
- It has enhanced focus on ethnic wear (through its recent acquisitions)

Q3FY23 Results: ABFRL reported healthy revenue growth but aggressive spends on marketing expenses and new initiatives continued to weigh to profitability. Registered 20% YoY growth with sales growing 39% of pre-Covid levels

- Revenue grew impressively by 20% YoY (I-direct estimate: 14%) to ₹ 3588.8 crore (three-year CAGR: 12%)
- Gross margins remained flattish YoY at 54.6% owing to better product mix and control on higher discounts (except Pantaloon segment). However, other expenses grew sharply by 55% YoY to ₹ 830.2 crore. Subsequently, EBITDA margins were at 12.1% (I-direct estimate: 14.1%, Q3FY22: 19.1%)
- Lower than anticipated EBITDA resulted in PAT coming in at ₹ 11.2 crore

What should investors do? ABFRL's stock price has appreciated at ~10% CAGR in the last five years. However, the price in the last few months has been under pressure owing to concerns related to capital deployment and increased cash burn over new initiatives (D2C brands & Tasva). We believe its legacy business (Lifestyle + Pantaloon=₹ 11000 crore) continues to be on a strong footing with healthy margins, cashflows to sustain its long term growth requirements. Newer segments (~₹ 2000 crore revenues) could, however, entail higher investments initially to scale up the brand prominence.

- ABFRL has strengthened its balance sheet through recent equity infusion with net debt declining sharply from ₹ 2500 crore (in FY20) to ~₹ 340 crore. We remain structurally positive and maintain **BUY** rating on the stock

Target Price and Valuation: We value ABFRL at ₹ 340 i.e. 2.2x 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 medium to long term
- Maintaining b/s strength coupled with aggressive expansion would be the focus of ABFRL, going forward (debt/EBITDA: 1-2x)

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

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



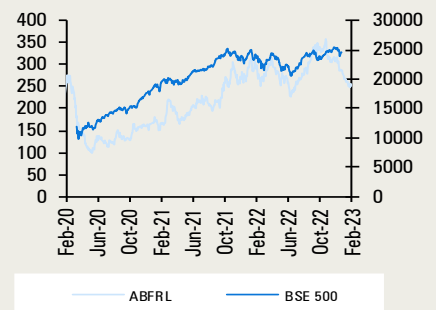
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	23,712.3
Total Debt (Mar-22) (₹ Crore)	1,232.3
Cash (Mar-22) (₹ Crore)	121.1
EV (₹ Crore)	24,823.5
52 week H/L	359.4 / 221
Equity Capital (₹ Crore)	948.5
Face Value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	56.1	56.1	56.1	56.1	55.5
FII	13.5	13.2	13.2	14.1	14.6
DII	19.2	19.9	20.0	19.4	19.1
Others	11.2	10.8	10.7	10.4	10.9

Price Chart



Key risks

- Higher investments in new initiatives (ethnic, innerwear) could lower margins
- Delay in expansion of store network.

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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%	12,645.6	15,379.0	37%
EBITDA	554.1	1,211.8	554.9	1,099.9		1,721.9	2,191.7	41%
PAT*	321.2	(163.0)	(673.1)	(108.7)		234.5	532.3	
EV/Sales (x)	2.6	2.5	4.6	3.0		2.0	1.6	
EV/EBITDA (x)	37.9	18.0	-	22.3		14.4	11.4	
RoCE (%)	10.7	10.2	(8.9)	5.1		10.9	16.5	
RoE (%)	22.5	-15.3	-25.5	-3.9		4.5	9.3	

Key takeaways of recent quarter & conference call highlights

Lifestyle brands:

- Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) continued their strong growth momentum with revenues increasing 18% YoY to ₹ 1873 crore (three year CAGR: 10%). Retail (54% of sales) has been the fastest growing channel owing to aggressive store additions (added 40 stores in Q3FY23 taking the total store count to 2600+) and decent same stores sales growth (5%). On a high base, revenue from e-commerce grew 19% YoY. Occasion and work wear witnessed healthy growth. Continued to strengthened its presence in Tier III/IV cities through small town format stores (550+ stores). EBITDA margins declined 480 bps YoY to 17% mainly owing to significant spends on marketing related expenses. Furthermore, change in channel mix (as wholesale channel is still below pre-Covid levels) has led to margins being lower than pre-Covid levels. We expect ABFRL to continue its accelerated store expansion strategy especially in Tier III/IV cities and build in 600 new stores (~90% franchise led) during FY23-24

Pantaloons:

- Growth trajectory for Pantaloons division was subdued with revenue increasing 9% YoY to ₹ 1159.0 crore (I-direct estimate: ₹ 1158.8 crore). Pantaloons mainly caters to value segment, which has been under pressure owing to inflationary scenario. Store addition trajectory continued to remain healthy with addition of 10 new stores in Q3FY22 (406 stores, 5.4 million sq ft). As on YTD FY23, the company has added 30 stores and may fall short of its guidance of opening 70 Pantaloons stores in FY23E. EBITDA margins also were soft during the quarter with contraction of 580 bps YoY to 14.5%. The management indicated the company generates decent operating cash flow to fund its capex requirements. On a favourable base, we expect revenue to grow at CAGR of 41% in FY22-24E. The company would continue to strive for increasing the share of private labels, which would enable to improve profitability over the longer term.

Other segments

- Other business (which included fast fashion, innerwear and super premium brands) grew 26% YoY to ₹ 363 crore. The segment also includes revenue from Rebook worth ₹ 44 crore (integrated in Q3FY23). Innerwear & athleisure segment reported modest sales growth of 10% YoY owing to slowdown in athleisure wear post two years of accelerated growth during Covid times. It continues to expand its distribution reach with addition of ~600 new touchpoints taking the total count to 31000+ MBOs. The innerwear segment is well on track to achieve ₹ 500 crore annual sales in FY23 with an aim to reach ₹ 1000+ crore in the next two to three years. Super premium brands segment (that includes The Collective) continues to be the fastest growing business for ABFRL as sales grew more than 43% YoY growth with 24% LTL growth

Ethnic wear:

- In the ethnic space, all the business combined recorded its highest ever quarter revenue of ₹ 189 crore (up 66% YoY). It has seven brands catering to different price point and segments with 60+ stores. Brand Sabyasachi crossed ₹ 100 crore quarterly mark with YoY revenue growth of 23%. Continued with aggressive store expansion plan for its newly launched 'Tasva' brand with opening of 11 stores (32 stores). The company expects to scale up the brand to ₹ 200 crore by FY24E, however, would require higher investments in the initial phase to scale up the brand reach. Brand Shantanu & Nikhil recorded their highest quarterly revenue (43% YoY growth) and added 15 new stores
- On the balance sheet front, net debt increased to ₹ 340 crore against ₹ 243 crore. ABFRL during the quarter had acquired eight digital first (D2C) apparel

and lifestyle brands already integrated six) for overall consideration of ₹ 290 crore. Including the latest acquisitions, we expect ABFRL to incur capex worth ₹ 1750 crore over the next two years (FY23-24). The aforesaid capex will be funded through recent capital infusion (₹ 2195 crore by GIC) and partly by operating cashflows. Hence, we do not expect gross debt levels to increase in the medium term. ABFRL with strong bouquet of brands is well placed to accelerate the pace of store addition and revenue growth. We reiterate our BUY rating with a target price of ₹ 330 (2.2x EV/sales FY24E, earlier TP: ₹ 380).

Q3FY23 conference call highlights:

- The company continued its revenue growth momentum driven by aggressive network expansion and enhancement in portfolio offerings. ABFRL delivered double digit revenue growth for the fifth consecutive quarter. The company registered its highest ever quarterly revenues with 20% YoY growth (39% growth over pre Covid). In lifestyle brands the discounting was at a controlled level but ABFRL had to resort to additional discounting in Pantaloons in Q3FY23. The same is expected to continue in Q4FY23 to spur demand, which has been impacted due to high inflation
- The management highlighted that premium products were growing at a faster clip with urban region stores performing well. Pantaloon's revenue growth has been lower owing to the value segment customer being significantly impacted by the higher inflation and appear to have curtailed discretionary purchases. The management highlighted that Pantaloons could have grown faster. However, the management was not just chasing revenue growth and wanted to maintain a profitable growth for the division
- On the demand front, the management indicated that the January 2023 performance was in line with the 9MFY23 performance. The company expects to continue the momentum driven by wedding season
- The company continued aggressive network expansion. Branded business network added 245 stores including newly integrated Reebok stores. Ethnic business added 15 new stores while network of small-town format within Lifestyle brands is 550 stores currently. Further Pantaloons added 10 new stores to the network
- The company accelerated its marketing investments during the quarter and it increased by 2.3x YoY with the company resorting to TV and digital campaign launches, celebrity endorsement and use of digital influencers. New businesses saw one-time marketing investments while Lifestyle Brands were also significantly higher than normal average. After October 2022, the company curtailed advertisement spend on Pantaloons due to subdued demand scenario. Q3FY23 saw significantly higher advertisement expense. However, over the longer term the company would continue to keep advertisement expense in the range of 3.5-4%
- On the profitability outlook, the management indicated that both lifestyle brands and Pantaloons could continue to deliver EBITDA margins in the range of 17-19%. Among new businesses, the ethnic business would be break even to positive. Tasva brand will take time to become profitable and the recently acquired D2C brands business would take two to three years to become profitable as the brands achieve reasonable scale
- The ethnic business registered strong revenue growth of 66% YoY. The Tasva brand added 11 new stores and currently has 32. On Tasva store expansion the management indicated that initially it would continue to open company owned and company operated stores (COCO), then move to company owned franchise operated (COFO) and franchise owned franchise operated (FOFO) as the consumers and franchisee become familiar with the brand.

- The performance of Reebok was impacted in Q3FY23 owing to one-time transition impact. Revenue for the Q3FY23 was ₹ 34 crore with and EBITDA loss of ₹ 13 crore. The management is hopeful of turnaround in operating performance over the next nine to 12 months. ABFRL has an aspiration of double digit EBITDA margin target over the next two to three years. The company is looking to revamp old stores which require refurbishment

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	3588.8	3413.1	2987.0	20.1	3074.61	16.7	On the base of Q3FY20, recovery rate stood at ~139% of pre-covid levels.
Raw Material Expense	1,628.4	1,559.8	1,352.9	20.4	1,380.3	18.0	Gross margins remained flattish YoY at 54.6% owing to better product mix and control on higher discounts
Employee Expenses	423.0	395.9	315.5	34.0	379.0	11.6	
Rent	271.6	221.8	202.5		201.8	34.6	
Other Expenses	830.2	754.3	534.1	55.4	716.8	15.8	other expenses grew sharply by 55% YoY to ₹ 830.2 crore mainly owing to 2.5x higher advertising spends across segments. Also higher investments in new initiatives such as Ethnic (Tasva) and D2C brands have impacted profitability.
EBITDA	435.6	481.2	582.0	-25.2	396.7	9.8	
EBITDA Margin (%)	12.1	14.1	19.5	-735 bps	12.9	-76 bps	Higher than expected marketing spends impacted EBITDA margins
Depreciation	317.5	293.6	250.9	26.6	290.7	9.2	
Interest	132.1	101.5	88.4	49.4	103.6	27.6	
Other Income	26.9	22.7	24.3	10.8	22.0	22.4	
PBT before Exceptional item	12.9	108.8	267.0	-95.2	24.5	-47.3	
Share of JV	4.5	0.0	2.4		-0.7		
PBT	17.4	108.8	264.6		23.8		
Tax Outgo	6.2	27.4	72.7		-5.6		
PAT	11.2	81.4	196.7	-94.3	29.4	-61.9	

Source: Company, ICICI Direct Research

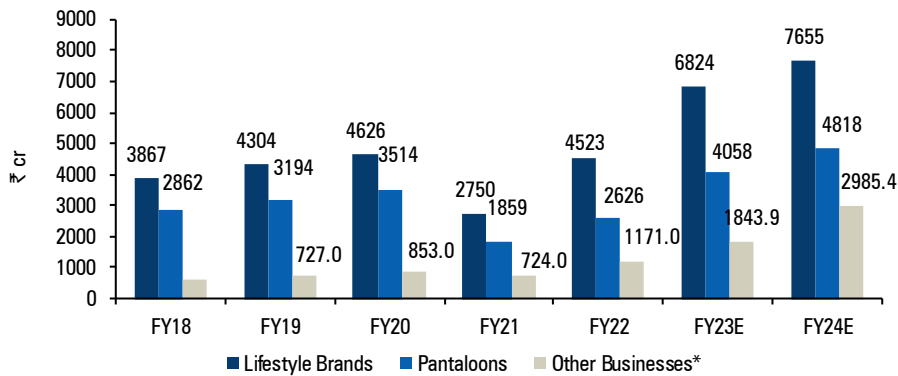
Exhibit 2: Change in estimates

(₹ Crore)	FY 23E			FY 24E		
	Old	New	% Change	Old	New	% Change
Revenue	12,513.9	12,645.6	1.1	15,438.2	15,379.0	-0.4
EBITDA	1,850.1	1,721.9	-6.9	2,233.8	2,191.7	-1.9
EBITDA Margin (%)	14.8	13.6	-117 bps	14.5	14.3	-22 bps
PAT	394.7	234.5	-40.6	578.9	532.3	-8.0
EPS (₹)	4.2	2.5	-41.1	5.7	5.2	-7.9

Source: Company, ICICI Direct Research

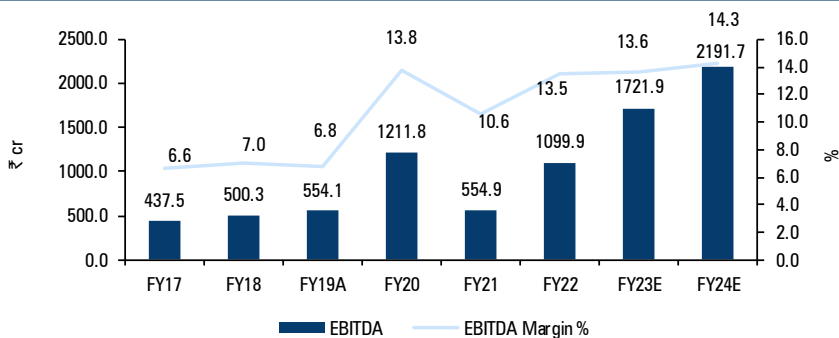
Financial story in charts

Exhibit 3: Revenue growth trend



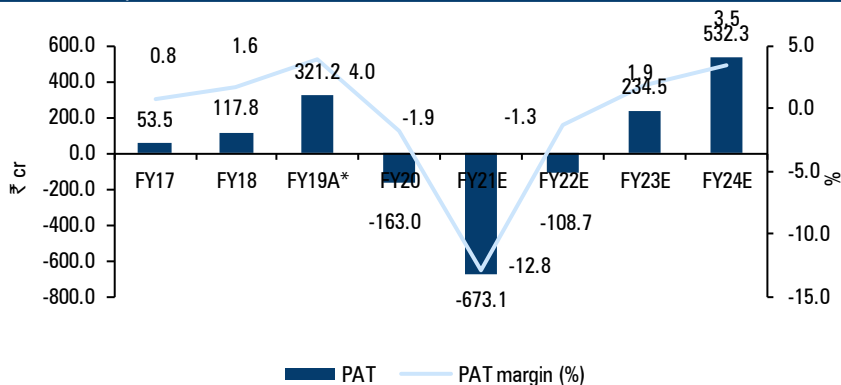
Source: Company, ICICI Direct Research. Other business includes ethnic segment, Reebok revenues and D2C brands

Exhibit 4: EBITDA and EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax assets worth ₹ 193 crore

Exhibit 6: Valuation

Target EV/Sales multiple	2.2
2024E Sales	15,379.0
2023E EV	33,833.7
2023E Debt	1,000.0
2023E Cash	1,379.5
2023E Market Cap.	34,213.2
No. of shares	101.4
Target Price	340
CMP	250.0
Upside/(Downside)	36

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E	
Gross Revenue	5,249.0	8,136.2	12,645.6	15,379.0	
Growth (%)	(40.3)	55.0	55.4	21.6	
Cost of Sales	2,563.0	3,720.2	5,801.4	7,063.5	
Employee Costs	865.0	1,158.5	1,506.8	1,838.3	
Administration & Other Exp	1,266.1	2,157.6	3,615.5	4,285.4	
EBITDA	554.9	1,099.9	1,721.9	2,191.7	
Growth (%)	(54.2)	98.2	56.5	27.3	
Depreciation	963.0	997.0	1,143.5	1,223.2	
EBIT	(408.1)	102.9	578.5	968.5	
Interest	503.0	350.7	399.8	416.8	
Other Income	73.0	100.5	120.6	144.7	
PBT	(838.1)	(147.3)	299.3	696.4	
Growth (%)	-	-	LP	132.7	
Tax	(101.5)	(26.6)	74.8	174.1	
Reported PAT	(736.6)	(120.7)	224.5	522.3	
Minority Interest	(63.5)	(12.0)	(10.0)	(10.0)	
Adjusted PAT	(673.1)	(108.7)	234.5	532.3	
Growth (%)	-	-	LP	127.0	
Reported EPS	(7.2)	(1.2)	2.5	5.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E	
Profit after Tax	(673.1)	(108.7)	234.5	532.3	
Add: Interest Expense	503.0	350.7	399.8	416.8	
Add: Depreciation	963.0	997.0	1,143.5	1,223.2	
Add: Others	-	-	-	-	
Increase/(Decrease) in CL	452.8	1,408.4	1,094.5	974.5	
(Increase)/Decrease in CA	(18.5)	(1,617.8)	(1,378.9)	(1,128.2)	
CF from Operating Activities	1,227.2	1,029.5	1,493.3	2,018.7	
(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)	
CF from Investing Activities	(872.0)	(582.1)	(1,000.0)	(759.9)	
Inc/(Dec) in Loan Funds	(1,646.6)	96.0	(32.3)	(200.0)	
Inc/(Dec) in Sh. Cap. & Res.	2,249.2	238.0	768.3	1,426.0	
Others	(459.5)	(571.9)	(832.3)	(807.0)	
Less: Interest Expense	(503.0)	(350.7)	(399.8)	(416.8)	
CF from financing activities	(359.9)	(588.6)	(496.0)	2.2	
Change in cash Eq.	(4.6)	(141.2)	(2.7)	1,261.1	
Op. Cash and cash Eq.	266.9	262.3	121.1	118.4	
Cl. Cash and cash Eq.	262.3	121.1	118.4	1,379.5	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY 21	FY 22	FY 23E	FY 24E	
Source of Funds					
Equity Capital	915.1	938.3	948.5	1,014.3	
Others	-	-	1,898.8	-	
Reserves & Surplus	1,729.0	1,835.0	2,353.8	4,720.1	
Shareholder's Fund	2,644.1	2,773.3	5,201.1	5,734.4	
Total Loan Funds	1,136.4	1,232.3	1,200.0	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	
Source of Funds	6,455.3	7,281.5	9,677.3	10,010.9	
Application of Funds					
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	3,984.2	4,845.4	
Debtors	730.5	756.4	1,039.4	1,264.0	
Cash	262.3	121.1	118.4	1,379.5	
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	6,936.2	9,325.4	
Creditors	2,373.4	3,410.4	4,503.9	5,477.4	
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	6,219.3	7,193.8	
Net Working Capital	585.1	435.3	716.9	2,131.6	
Other NCA	2,141.4	2,522.9	3,947.9	2,522.9	
Application of Funds	6,455.3	7,281.5	9,677.3	10,010.9	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		FY 21	FY 22	FY 23E	FY 24E
(Year-end March)					
Per share data (₹)					
Book Value	28.2	29.6	54.8	56.5	
EPS	(7.2)	(1.2)	2.5	5.2	
Cash EPS	3.1	9.5	14.5	17.3	
DPS	-	-	-	-	
Profitability & Operating Ratios					
EBITDA Margin (%)	10.6	13.5	13.6	14.3	
PAT Margin (%)	(12.8)	(1.3)	1.9	3.5	
Fixed Asset Turnover (x)	1.4	2.0	2.0	2.3	
Inventory Turnover (Days)	128.4	131.4	115.0	115.0	
Debtor (Days)	50.8	33.9	30.0	30.0	
Current Liabilities (Days)	165.0	153.0	130.0	130.0	
Return Ratios (%)					
RoE	(25.5)	(3.9)	4.5	9.3	
RoCE	(8.9)	5.1	10.9	16.5	
RoIC	(31.0)	6.3	22.2	31.2	
Valuation Ratios (x)					
P/E	-	-	101.1	47.6	
Price to Book Value	8.9	8.5	4.6	4.4	
EV/EBITDA	-	22.3	14.4	11.4	
EV/Sales	4.6	3.0	2.0	1.6	
Leverage & Solvency Ratios					
Debt to equity (x)	0.4	0.4	0.2	0.2	
Interest Coverage (x)	-	0.3	1.4	2.3	
Debt to EBITDA (x)	2.0	1.1	0.7	0.5	
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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