

CMP: ₹ 200

Target: ₹ 215 (8%)

Target Period: 12 months

HOLD

May 25, 2023

## Investments in new businesses bloating debt...

**About the stock:** ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloons' forte of largest value fashion retailer. The company has a robust distribution network having 3442 brand stores along with 406 Pantaloons 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)

**Q4FY23 Results:** ABFRL reported a moderation in revenue growth with disappointing margin delivery on account of higher investment in marketing and brand building to scale up new businesses that negatively impacted the profitability.

- Revenue grew 26% YoY (I-direct estimate: 25%) aided by a favourable base and foray into newer segments to ₹ 2879.7 crore
- Gross margins remained flattish YoY at 55.7%. However, owing to negative operating leverage, initial operating losses in TMRW and new ethnic businesses, EBITDA margins contacted significantly by 960 bps YoY slipping to single digit of 6.7% (I-direct estimate: 9.0%) (I-direct estimate: 14.1%, Q3FY22: 19.1%)
- Net losses bloated materially to ₹ 194 crore in Q4FY23 (I-direct estimate: ₹ 116 core) vs. net profit of ₹ 31.9 crore

**What should investors do?** ABFRL's focus on enhancing presence across categories and filling white spaces in its portfolio has led the company to invest in new business (Innerwear, Tasva & D2C brands) that have a low profitability profile in its initial growth period. Further, ABFRL is investing in marketing to establish the brands in the new businesses, which is impacting its EBITDA margin profile. Lower than expected sales growth has led to inventory build-up and bloating of net debt to ~₹ 1400 crore in FY23 (FY22: ₹ 504 crore), which is expected to increase further due to recently announced acquisition of TCNS Clothing (not factored in our estimates as we await more information on the same). We believe the recent capital allocation decisions on new businesses acquired/to be acquired will pressurise profitability in the near to medium term. Hence, we downgrade the stock from BUY to **HOLD**.

**Target Price and Valuation:** We value ABFRL at ₹ 215 i.e. 1.5x FY24E EV/sales.

### Key triggers for future price performance:

- Improvement in the profitability metrics of new business acquired would be the key monitorable
- Pursuit of aggressive revenue growth has led to bloating of debt. Going ahead, focus should be on reduction in debt on a sustainable basis and strengthening of b/s

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

- We have BUY rating with target price of ₹ 1730



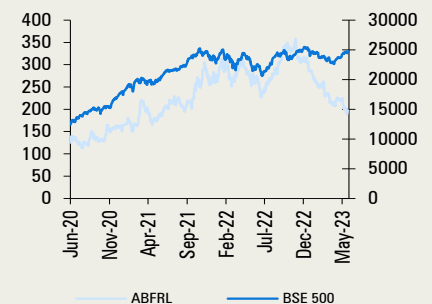
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	18,969.8
Total Debt (Mar-23) (₹ Crore)	2,305.5
Cash (Mar-23) (₹ Crore)	701.0
EV (₹ Crore)	20,574.3
52 week H/L	359.4 / 184
Equity Capital (₹ Crore)	948.5
Face Value (₹)	10.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	56.1	56.1	56.1	55.5	55.5
FII	13.2	13.2	14.1	14.6	14.4
DII	19.9	20.0	19.4	19.1	18.8
Others	10.8	10.7	10.4	10.9	11.3

### 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)	FY23	FY24E
Net Sales	8,117.7	8,787.9	5,249.0	8,136.2	4.1%	12,417.9	14,930.2
EBITDA	554.1	1,211.8	554.9	1,099.9		1,493.6	1,971.7
PAT*	321.2	(163.0)	(673.1)	(108.7)		(36.0)	260.3
EV/Sales (x)	2.1	2.0	3.7	2.4		1.7	1.4
EV/EBITDA (x)	30.9	14.8	-	18.1		13.8	10.5
RoCE (%)	10.7	10.2	(8.9)	5.1		6.8	11.6
RoE (%)	22.5	-15.3	-25.5	-3.9		-1.1	5.2

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Lifestyle brands:

- Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) continued their growth momentum with revenues increasing 14% YoY to ₹ 1535 crore (three-year CAGR: 15%). Retail (46% of sales) has been the fastest growing channel owing to aggressive store additions (added 49 stores in Q4FY23 taking the total store count to 2650+). 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 860 bps YoY to 14.7% mainly owing to negative operating leverage due to sluggish sales. Furthermore, a change in channel mix (as wholesale channel is still below pre-Covid levels) has led to margins being lower than pre-Covid levels

### Pantaloons:

- Growth trajectory for the Pantaloons division was subdued with revenue increasing 18% YoY to ₹ 798 crore (I-direct estimate: ₹ 790 crore). Pantaloons mainly caters to value segment, which has been under pressure owing to inflationary scenario. Store addition trajectory was stronger during the quarter with addition of 25 new stores in Q4FY23 (431 stores, 5.7 million sq ft). For FY23, the company has added 54 stores, which is lower than the earlier guided 70 store openings for FY23. EBITDA margins were also soft during the quarter with contraction of 320 bps YoY to 8.9%. The management indicated the company generates decent operating cash flow to fund its capex requirements. The company would continue to strive to increase the share of private labels, which would enable it to improve profitability over the longer term

### Other segments

- Other business (which included fast fashion, innerwear and super premium brands) grew 81% YoY to ₹ 392 crore. Innerwear & athleisure segment posted ~10% revenue growth YoY in Q4FY23 despite the continued slowdown in the outerwear segment. It continues to expand its distribution reach with addition of ~900+ new touchpoints taking the total count to 32000+ MBOs. The innerwear and activewear segment registered revenue growth of 50% YoY in FY23 to ~ ₹ 550 crore 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 45% YoY with 31% LTL growth

### Ethnic wear:

In ethnic space, all business combined grew 72% YoY in Q4FY23 through strategic market development and accelerated new store openings. It has seven brands catering to different price point and segments with 60+ stores. Brand Sabyasachi revenues grew by 42% YoY in Q4FY23. The company continued with aggressive store expansion plan for its newly launched 'Tasva' brand with opening of 19 stores (51 stores as of March 2023). The company expects to scale up the brand to ₹ 200 crore by FY24E but would require higher investments in the initial phase to scale up the brand reach. For brand Shantanu & Nikhil, revenues in FY23 grew 53% YoY. It is currently available in 15 stores.

**Q4FY23 conference call highlights:**

- On the demand front, the management highlighted that demand had witnessed sluggishness post the festive season in November 2022. The same continued during Q4FY23. The management indicated a sudden slowdown in discretionary demand, particularly in the value & masstige segment
- The increase in marketing spends (~1.5x of last year) and continued investments in TMRW also impacted profitability in the quarter
- On the debt front, the management said debt had increased to ₹ 1400 crore on account of sluggishness of sales, which led to build up of inventory and the same was funded through debt. Further investment in ethnic business subsidiary also led to an increase in debt levels. The management highlighted that debt levels could further increase in FY24 owing to recently announced acquisition of TCNS Clothing
- The company continued aggressive network expansion. Branded business network added 104 stores. Ethnic business added 25 new stores. Further Pantaloons added 25 new stores to the network. The management has lowered its earlier store addition guidance for Pantaloon from 60 stores annually to 40-50 stores. The company is confident of the growth potential of Pantaloon format over the longer term but is currently moderating the new store opening for Pantaloons in smaller towns and will evaluate the recovery and accelerate the store addition accordingly
- The company accelerated its marketing investments during the quarter and it increased by 1.5x YoY with the company resorting to TV and digital campaign launches, celebrity endorsement and use of digital influencers. Q4FY23 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 stable EBITDA margins in the range of 16-17%. 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 84% YoY in FY23 to ₹ 574 crore. The Tasva brand added 19 new stores and currently has 51 stores. 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. Four stores have been opened through asset light franchisee model
- The company successfully completed integration of Reebok into ABFRL in H2FY23. The company is working to rapidly expand the brand accessibility. Reebok is currently available at 126 exclusive brand outlets and the management is scaling up presence in departmental store & trade network. On the product assortment front, the company is planning to enhance focus on running, lifestyle & active sports and has also introduced new sports categories shoes for cricket, tennis & badminton

**Exhibit 1: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	2879.7	2853.1	2282.8	26.1	3588.8	-19.8	Lifestyle brands revenues grew by 14% YoY to ₹1535 crore while Pantaloons registered a revenue growth of 18% to ₹ 790 crore in Q4FY23
Raw Material Expense	1,273.8	1,249.7	1,010.9	26.0	1,628.4	-21.8	Gross margins remained flattish YoY at 55.7%
Employee Expenses	414.1	370.9	306.8	34.9	423.0	-2.1	
Rent	214.7	205.4	140.3		271.6	-21.0	
Other Expenses	784.4	770.3	451.7	73.6	830.2	-5.5	
EBITDA	192.8	256.8	373.0	-48.3	435.6	-55.7	
EBITDA Margin (%)	6.7	9.0	16.3	-964 bps	12.1	-544 bps	Higher than expected marketing spends impacted EBITDA margins
Depreciation	348.5	311.2	266.8	30.6	317.5	9.7	
Interest	142.2	129.5	89.5	59.0	132.1	7.6	
Other Income	36.4	27.7	26.7	36.2	26.9	35.2	
PBT before Exceptional item	-261.5	-156.2	43.5	PL	12.9	PL	
Share of JV	2.4	0.0	1.1		4.5		
PBT	-259.2	-156.2	42.3	PL	17.4	PL	
Tax Outgo	-64.6	-39.4	12.7		6.2		
PAT	-194.5	-116.8	31.9	PL	11.2	PL	

Source: Company, ICICI Direct Research

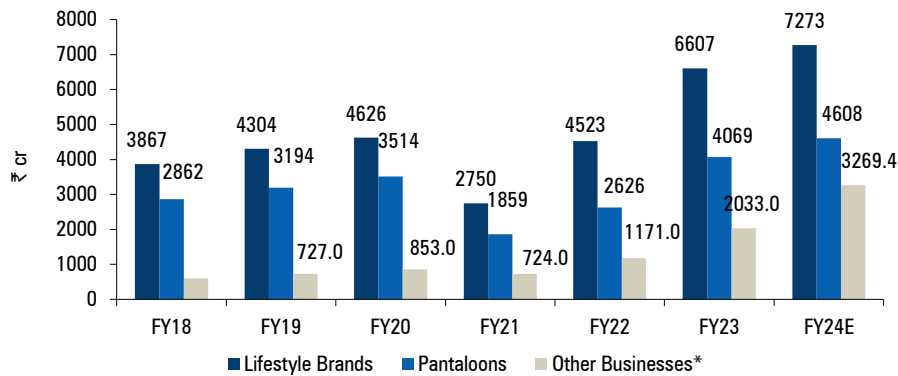
**Exhibit 2: Change in estimates**

(₹ Crore)	FY 23E		FY 24E		
	Actual		Old	New	% Change
Revenue	12,417.9		15,379.0	14,930.2	-2.9
EBITDA	1,493.6		2,191.7	1,971.7	-10.0
EBITDA Margin (%)	12.0		14.3	13.2	-104 bps
PAT	-36.0		532.3	260.3	-51.1
EPS (₹)	-0.4		5.4	2.6	-52.5

Source: Company, ICICI Direct Research

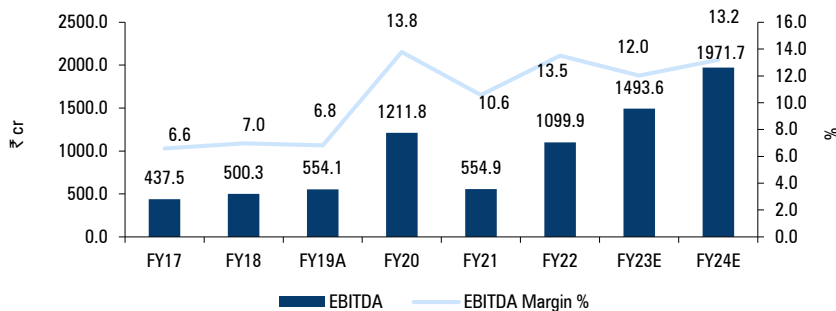
## Financial story in charts

Exhibit 3: Revenue growth trend



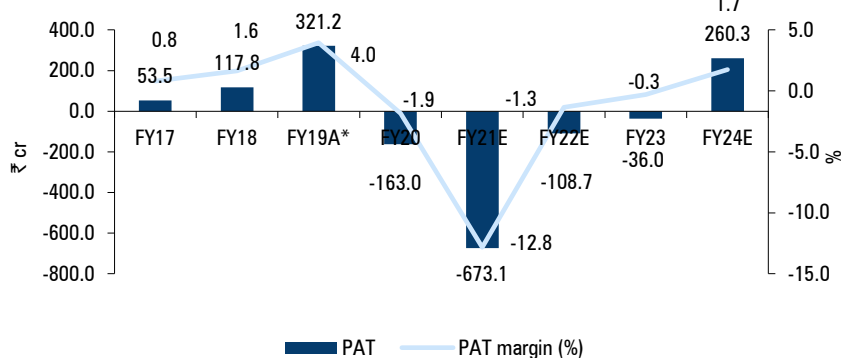
Source: Company, ICICI Direct Research. Other business includes ethnic segment, Reebok revenues and D2C brands

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

<b>Target EV/Sales multiple</b>	<b>1.5</b>
2024E Sales	14,930.2
2023E EV	22,395.3
2023E Debt	1,800.0
2023E Cash	1,309.3
2023E Market Cap.	21,904.6
No. of shares	101.4
<b>Target Price</b>	<b>215</b>
	,
CMP	200.0
Upside/(Downside)	7

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY23	FY 24E
<b>Gross Revenue</b>	<b>5,249.0</b>	<b>8,136.2</b>	<b>12,417.9</b>	<b>14,930.2</b>
Growth (%)	(40.3)	55.0	52.6	20.2
Cost of Sales	2,563.0	3,720.2	5,552.0	6,643.1
Employee Costs	865.0	1,158.5	1,563.4	1,838.3
Administration & Other Exp	1,266.1	2,157.6	3,809.0	4,477.0
<b>EBITDA</b>	<b>554.9</b>	<b>1,099.9</b>	<b>1,493.6</b>	<b>1,971.7</b>
Growth (%)	(54.2)	98.2	35.8	32.0
Depreciation	963.0	997.0	1,227.0	1,319.9
EBIT	(408.1)	102.9	266.6	651.8
Interest	503.0	350.7	472.4	478.7
Other Income	73.0	100.5	116.5	139.8
PBT	(838.1)	(147.3)	(89.3)	312.8
Growth (%)	-	-	-	LP
Tax	(101.5)	(26.6)	(23.0)	62.6
<b>Reported PAT</b>	<b>(736.6)</b>	<b>(120.7)</b>	<b>(66.3)</b>	<b>250.3</b>
Minority Interest	(63.5)	(12.0)	(30.3)	(10.0)
<b>Adjusted PAT</b>	<b>(673.1)</b>	<b>(108.7)</b>	<b>(36.0)</b>	<b>260.3</b>
Growth (%)	-	-	-	LP
<b>Reported EPS</b>	<b>(7.2)</b>	<b>(1.2)</b>	<b>(0.4)</b>	<b>2.6</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY23	FY 24E
Profit after Tax	(673.1)	(108.7)	(36.0)	260.3
Add: Interest Expense	503.0	350.7	472.4	478.7
Add: Depreciation	963.0	997.0	1,227.0	1,319.9
Add: Others	-	-	-	-
Increase/(Decrease) in CL	452.8	1,408.4	1,134.3	859.1
(Increase)/Decrease in CA	(18.5)	(1,617.8)	(2,071.6)	(1,093.0)
<b>CF from Operating Activities</b>	<b>1,227.2</b>	<b>1,029.5</b>	<b>726.0</b>	<b>1,825.0</b>
(Add) / Dec in Fixed Assets	(162.0)	(315.9)	(910.1)	(750.0)
(Inc)/Dec in Investments	(710.0)	(266.1)	415.7	(2.7)
<b>CF from Investing Activities</b>	<b>(872.0)</b>	<b>(582.1)</b>	<b>(494.4)</b>	<b>(752.7)</b>
Inc/(Dec) in Loan Funds	(1,646.6)	96.0	1,073.2	(505.5)
Inc/(Dec) in Sh. Cap. & Res.	2,249.2	238.0	606.0	1,426.0
Others	(459.5)	(571.9)	(858.5)	(905.8)
Less: Interest Expense	(503.0)	(350.7)	(472.4)	(478.7)
<b>CF from financing activities</b>	<b>(359.9)</b>	<b>(588.6)</b>	<b>348.3</b>	<b>(464.0)</b>
Change in cash Eq.	(4.6)	(141.2)	579.9	608.3
Op. Cash and cash Eq.	266.9	262.3	121.1	701.0
Cl. Cash and cash Eq.	262.3	121.1	701.1	1,309.3

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY 21	FY 22	FY23	FY 24E
<b>Source of Funds</b>				
Equity Capital	915.1	938.3	948.5	1,014.3
Others	-	-	473.8	-
Reserves & Surplus	1,729.0	1,835.0	1,921.0	4,015.3
Shareholder's Fund	2,644.1	2,773.3	3,343.3	5,029.5
Total Loan Funds	1,136.4	1,232.3	2,305.5	1,800.0
Other Non Current Liabilities	2,463.4	2,868.0	4,267.3	4,267.3
Minority Interest	32.8	15.2	2.7	2.8
<b>Source of Funds</b>	<b>6,455.3</b>	<b>7,281.5</b>	<b>10,382.2</b>	<b>11,563.0</b>
<b>Application of Funds</b>				
Gross Block	1,385.8	1,520.6	2,207.6	2,957.6
Less: Acc. Depreciation	(811.1)	(889.4)	(1,198.5)	(1,612.5)
Net Block	574.7	631.2	1,009.1	1,345.1
Capital WIP	37.6	102.6	145.7	145.7
Total Fixed Assets	612.3	733.8	1,154.8	1,490.8
Goodwill	2,696.7	2,903.6	3,781.2	3,781.2
Investments	419.8	686.0	270.2	272.9
Inventories	1,847.0	2,929.6	4,214.4	4,908.6
Debtors	730.5	756.4	886.4	1,227.1
Cash	262.3	121.1	701.0	1,309.3
Loan & Advance, Other CA	1,461.8	1,752.9	2,409.7	2,467.9
Total Current assets	4,301.5	5,560.1	8,211.6	9,912.9
Creditors	2,373.4	3,410.4	3,846.1	4,704.0
Provisions & Other CL	1,343.0	1,714.4	2,813.0	2,814.2
Total CL and Provisions	3,716.4	5,124.8	6,659.1	7,518.2
Net Working Capital	585.1	435.3	1,552.5	2,394.7
Other NCA	2,141.4	2,522.9	3,623.4	3,623.4
<b>Application of Funds</b>	<b>6,455.3</b>	<b>7,281.5</b>	<b>10,382.2</b>	<b>11,563.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY 21	FY 22	FY23	FY 24E
<b>Per share data (₹)</b>				
Book Value	28.2	29.6	35.2	49.6
EPS	(7.2)	(1.2)	(0.4)	2.6
Cash EPS	3.1	9.5	12.6	15.6
DPS	-	-	-	-
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	10.6	13.5	12.0	13.2
PAT Margin (%)	(12.8)	(1.3)	(0.3)	1.7
Fixed Asset Turnover (x)	1.4	2.0	2.2	2.2
Inventory Turnover (Days)	128.4	131.4	123.9	120.0
Debtor (Days)	50.8	33.9	26.1	30.0
Current Liabilities (Days)	165.0	153.0	113.0	115.0
Return Ratios (%)				
RoE	(25.5)	(3.9)	(1.1)	5.2
RoCE	(8.9)	5.1	6.8	11.6
RoIC	(31.0)	6.3	12.5	24.1
<b>Valuation Ratios (x)</b>				
P/E	-	-	-	77.9
Price to Book Value	7.1	6.8	5.7	4.0
EV/EBITDA	-	18.1	13.8	10.5
EV/Sales	3.7	2.4	1.7	1.4
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.4	0.4	0.7	0.4
Interest Coverage (x)	-	0.3	0.6	1.4
Debt to EBITDA (x)	2.0	1.1	1.5	0.9
Current Ratio	1.1	1.1	1.1	1.1
Quick ratio	0.6	0.5	0.5	0.5

Source: Company, ICICI Direct Research

## RATING RATIONALE

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

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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## ANALYST CERTIFICATION

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