

Branded apparels

Outlook CY21: Cautious optimism

Apparel retail companies are likely to see gradual demand recovery in CY21 with concerns around Covid may recede by mid-CY21. After sharp >40% YoY decline in CY20, revenues may inch towards CY19-levels in CY21. Companies have partially resumed purchases for SS'21 collections, given demand optimism seen during recent festive sales. Most companies strengthened their balance sheet in CY20 via equity raise and are likely to resume aggressive expansion in CY21 as the market is still hugely unpenetrated. Online / e-commerce sales seem poised to continue the growth momentum seen in CY20. We remain cautiously optimistic on apparel retail for the coming year. Top picks: Trent, V-Mart, ABFRL.

Top key trends for CY21:

- ▶ **Acceleration in distribution network:** After a halt in CY20, companies are likely to accelerate store additions in CY21 as the market is still hugely unpenetrated. ABFRL may add 300-400 EBOs and 30-40 Pantaloons stores. Trent may add 25-30 Westside stores and 70-80 Zudio stores while V-Mart may add 40-50 stores in CY21.
- ▶ **Footfalls to increase** as concerns around Covid may recede by mid-CY21.
- ▶ **Greater adaptability and acceptability of e-commerce as a channel:** Online / e-commerce sales seem poised to continue the growth momentum seen in CY20, with its share increasing from low-single digit to low-double digit. Accordingly, companies may invest further to strengthen their online capabilities.
- ▶ **Value-fashion retail may gain momentum** as price-conscious consumers from the unorganised sector get first experience of organised retail.
- ▶ **Lifestyle brands seek to make WFH fashionable:** Companies have introduced WFH wear as a new category, which provides all-day clothing for remote working, conference calls /virtual meetings. This may help reduce huge unsold inventories.
- ▶ **Women wear, kids wear, casualwear, athleisure, sportswear are expected to grow faster** than the relatively matured formal menswear market.
- ▶ **Few cost savings** (e.g. winding-up of unprofitable stores, rationalisation of travel, repairs, warehousing and discretionary spends, re-negotiated rents etc) **may be structural** and companies are likely to return to pre-Covid profitability in CY21.
- ▶ **Companies may see working capital release** with sales improving from H2FY21.
- ▶ **Industry consolidation:** Companies with stronger balance sheet may seek opportunity to gain market share.

Valuations summary

Company	Rating	TP (Rs/sh)	P/E (x)		EV/EBITDA (x)		ROCE (%)		RoE(%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
TRENT	BUY	780	65.6	50.5	41.6	33.1	16.3	18.2	19.2	21.0
ABFRL	BUY	197	49.6	34.3	21.1	16.9	8.5	10.4	9.5	11.9
V-MART	BUY	2,500	51.6	40.1	27.7	21.8	16.1	17.7	16.3	17.8
TCNSBR	ADD	430	28.0	22.5	16.2	13.7	14.4	14.7	14.6	14.9
SHOP	BUY	222	85.8	46.6	8.4	7.1	4.6	7.1	4.1	7.2
ARVINDFA	REDUCE	118	NA	NA	11.6	9.6	0.1	2.0	(6.4)	(2.3)
KEKC	ADD	810	14.4	12.4	9.0	7.9	13.8	14.9	15.5	16.7

Source: I-Sec research

Sector update

Top picks

- Trent
- V-Mart
- ABFRL

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CY20 – The year that was

Apparel brands and retail companies were severely impacted in CY20 (especially from Mar'20) post government orders shutdown of malls, shops, etc. and lockdown across India to combat the spread of Covid. The sector has witnessed gradual recovery post relaxation of lockdowns, and sales have recovered to ~70% of pre-Covid levels in offline channels as of now.

EBOs and LFS have broadly witnessed similar sales recovery. While MBO secondary sales are gradually recovering, primary billing is yet to resume. Online sales are growing strongly at >1.5x pre-Covid levels across companies. Most companies expect sales to be flat YoY by Q4FY21. Companies remained focus on strict cost control, reduction in fixed-cost overheads and rental renegotiation in CY20 and are targeting 35-40% costs savings vs likely >40% YoY drop in CY20 sales.

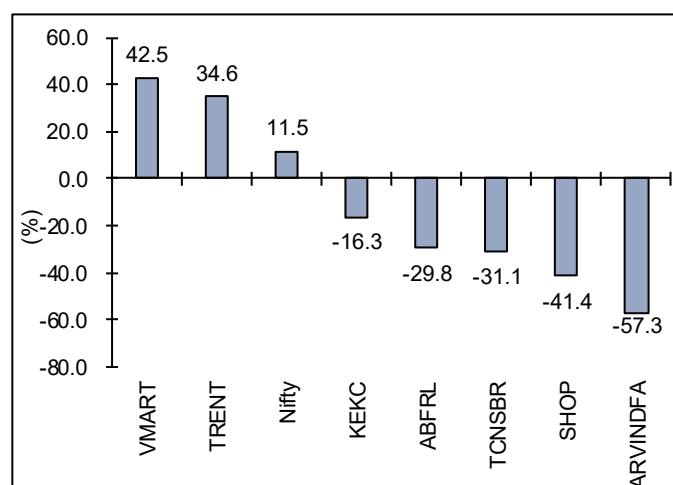
Trent and V-MART delivered positive returns (35% and 43% respectively) given strong business model around value-fashion retailing, overall strong execution along with aggressive store addition plans, higher profitability and better return ratios.

Table 1: Stock performance for CY20

	Prices as on		Absolute return (%)	Relative return (%)	High	Chg (%)	Low	Chg (%)
	15-Dec-20	31-Dec-19						
ABFRL	160	228	-29.8	-41.3	281	-43.0	96	66.8
ARVINDFA	152	355	-57.3	-68.8	401	-62.2	111	36.7
KEKC	837	999	-16.3	-27.8	1,050	-20.3	572	46.3
SHOP	206	352	-41.4	-52.9	423	-51.3	124	66.3
TCNSBR	428	621	-31.1	-42.6	681	-37.1	300	42.7
TRENT	709	527	34.6	23.1	809	-12.3	368	92.8
VMART	2,355	1,653	42.5	31.0	2,545	-7.5	1,294	82.0
Nifty	13,568	12,168	11.5		13,529	0.3	7,610	78.3

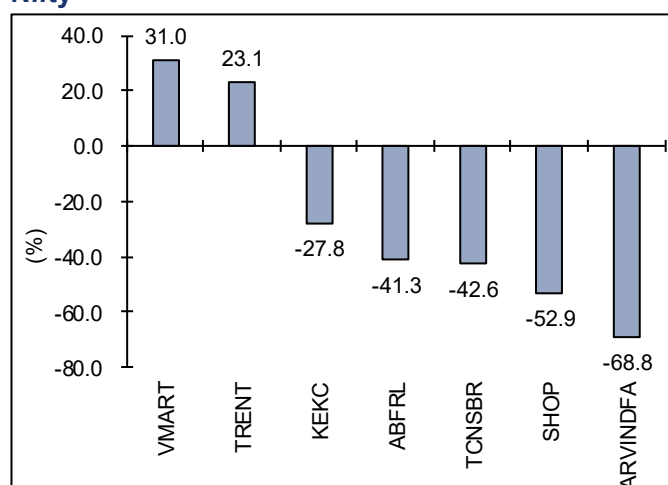
Source: Bloomberg, I-Sec research

Chart 1: Stock performance – absolute returns



Source: Bloomberg, I-Sec research

Chart 2: Stock performance – relative returns to Nifty



Source: Bloomberg, I-Sec research

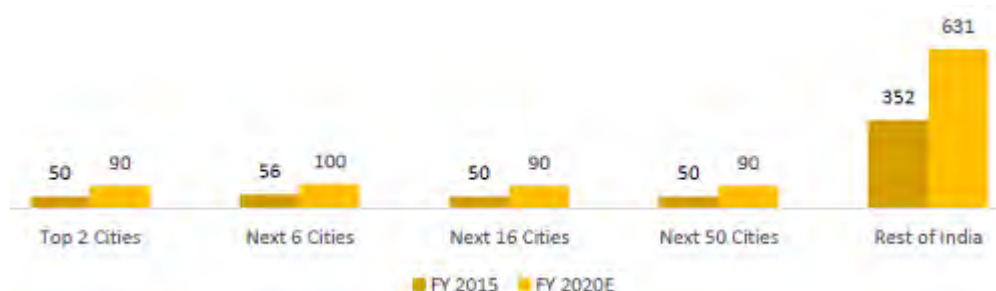
Outlook CY21

Acceleration in distribution network

After a halt in CY20, companies are likely to accelerate store additions in CY21 as the market is still hugely unpenetrated.

The top 24 cities (metro, mini-metro and tier-I) account for 29% of total retail spending, which highlights the strength of the rest of India that has a share of 71%. Major expansion in terms of retail consumer spending is expected to come from tier-II and tier-III cities as consumerism and appetite for organised retail and fashion is perceived to be on the rise in these markets. Retail players with a nationwide presence are expected to benefit significantly from this opportunity.

Chart 3: Overall retail spend across different cities (in US\$bn)



Source: ABFRL rights issue document, I-Sec research

Most companies strengthened their balance sheet in CY20 via equity raise and are likely to resume aggressive expansion in CY21. ABFRL may add 300-400 EBOs and 30-40 Pantaloons stores. Trent may add 25-30 Westside stores and 70-80 Zudio stores while V-Mart may add 40-50 stores in CY21.

Table 1: Improving balance sheet to accelerate growth plans

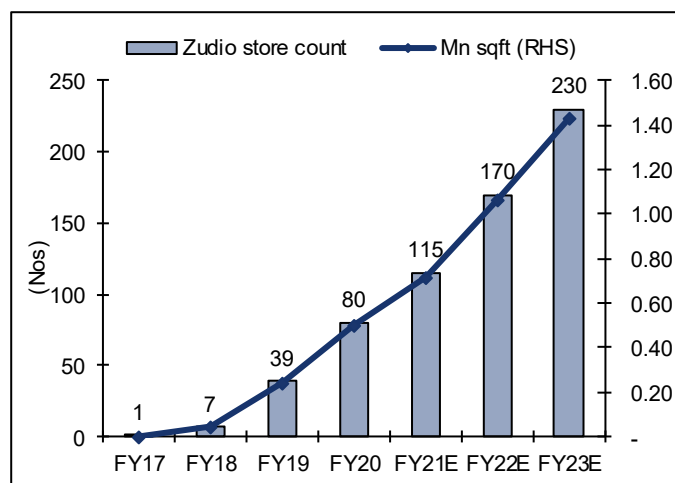
(Rs mn)	FY19	FY20	FY21E	FY22E
ABFRL				
Proceeds from rights issue			7,500	2,500
Stake sale to Flipkart			15,000	
Net debt	18,838	25,085	9,896	7,169
ARVINDFA				
Proceeds from rights issue			4,000	
Flipkart acquired significant minority stake in Flying Machine			2,600	
Net debt	8,121	12,311	9,643	10,057
SHOP				
Proceeds from rights issue			3,000	
Net cash	2,702	432	652	1,107
TRENT				
Proceeds from preferential allotment to promoters		9,500		
Net cash	-3,117	4,838	3,201	2,659
V-MART				
Net cash	769	118	173	155
TCNSBR				
Net cash	1,606	1,711	1,392	1,789
KEKC				
Net cash	1,921	1,839	2,097	2,145

Source: I-Sec research

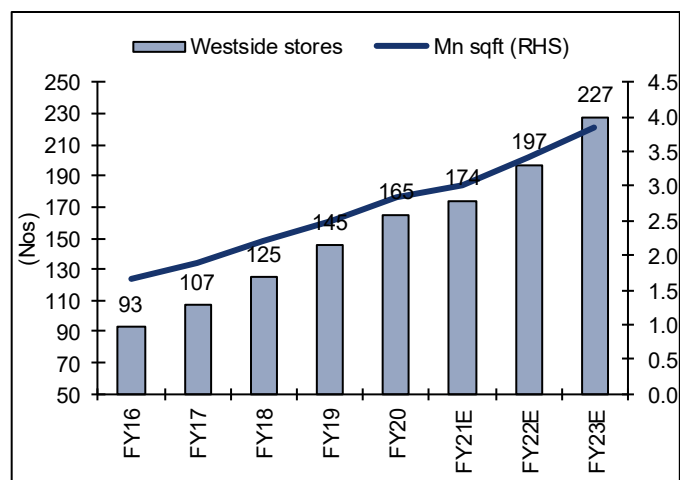
Table 2: ABFRL has India's largest and widest distribution network

	FY17	FY18	FY19	FY20	H1FY21
Total stores (Nos.)	2,261	2,465	2,714	3,041	3,025
MF&L	2,052	2,190	2,406	2,699	2,686
Pantaloons	209	275	308	342	339
Total Area (mn sqft)	6.2	7.0	7.5	8.1	8.1
MF&L	3.0	3.2	3.5	3.7	3.7
Pantaloons	3.2	3.8	4.0	4.4	4.4

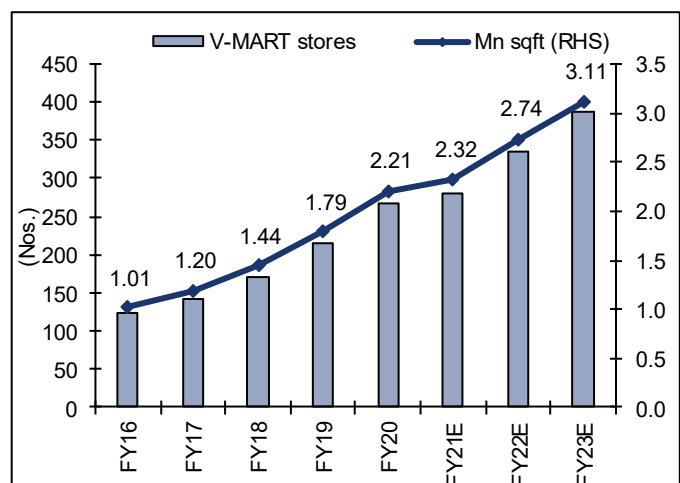
Source: ABFRL, I-Sec research

Chart 5: Zudio likely to add 50 stores p.a. (net) over FY20-FY23E

Source: Trent, I-Sec research

Chart 4: Westside likely to add 21 stores p.a. (net) over FY20-FY23E

Source: Trent, I-Sec research

Chart 6: V-MART likely to add 40 stores p.a. (net) over FY20-FY23E

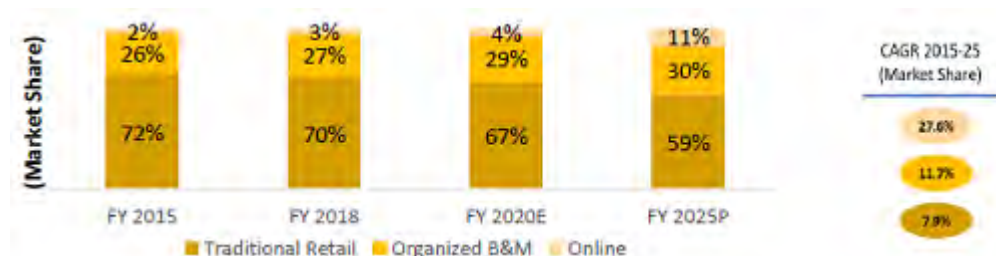
Source: V-MART, I-Sec research

Footfalls to increase as concerns around Covid may recede by mid-CY21, and greater emphases on Work from Home (WFH) may lead to increased footfalls on week days resulting in overall better store productivity.

Greater adaptability and acceptability of e-commerce as a channel

E-commerce – predominantly used as a key liquidation channel – is likely to gain traction for new season / fresh collections too as consumers may still want to avoid crowds. Online / e-commerce sales seem poised to continue the growth momentum seen in CY20, with its share increasing from low-single digit to low-double digit. Accordingly, companies may invest further to strengthen their online capabilities.

Chart 7: Share of online channel likely to increase to 11% by FY25E



Source: ABFRL rights issue document, I-Sec research

Value fashion retail to gain momentum

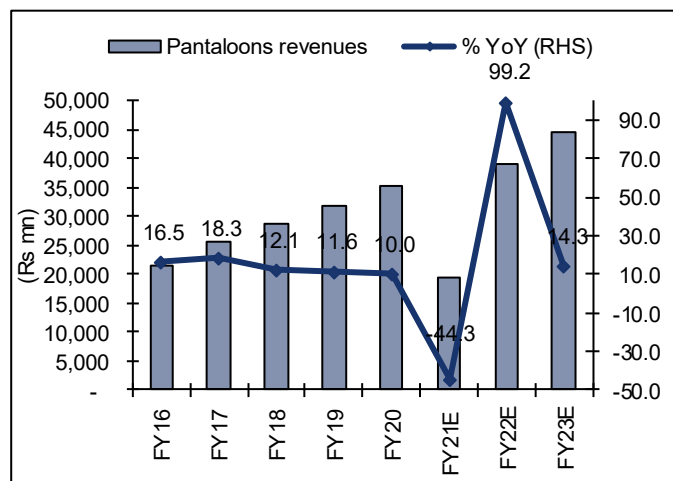
Value-fashion retail may gain momentum given likely near-term slower economic growth and muted consumer sentiment / confidence, and also as price-conscious consumers from the unorganised sector get first experience of organised retail.

Pantaloon's revenues have grown at 13% CAGR over FY16-FY20 mainly led by network expansion. We expect its revenues to grow at 8% CAGR over FY20-FY23E on low-single-digit SSSG and network expansion.

Zudio revenues have grown at 49% CAGR over FY16-FY20 owing to low base and network expansion. We expect its revenues to grow at a strong 45% CAGR over FY20-FY23E on aggressive store additions.

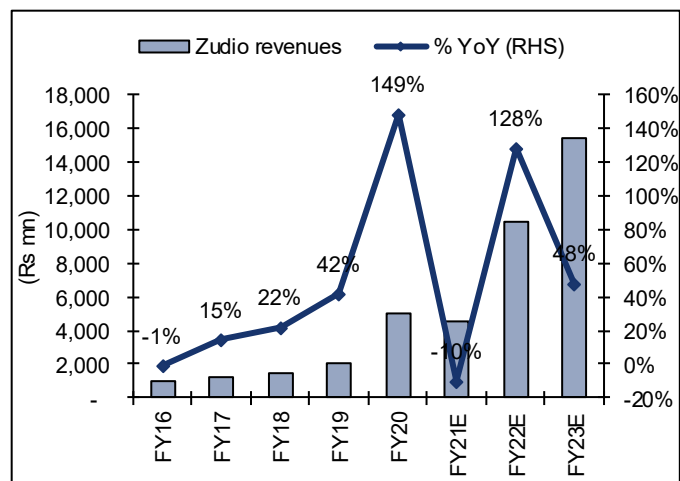
V-MART revenues have grown at 20% CAGR over FY16-FY20 on mid-single digit SSSG and network expansion. We expect its revenues to grow at 9% CAGR over FY20-FY23E on aggressive store additions.

Chart 8: Pantaloon's revenues to grow at 8% CAGR over FY20-FY23E



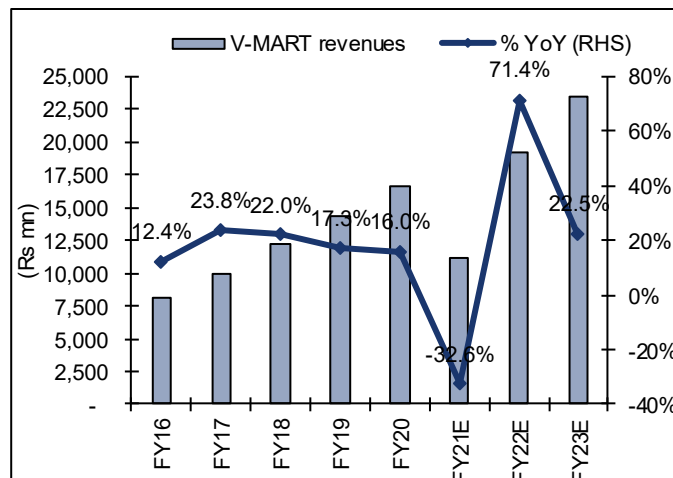
Source: Company data, I-Sec research

Chart 9: Zudio revenues to grow at 32% CAGR over FY20-FY23E on aggressive store expansion



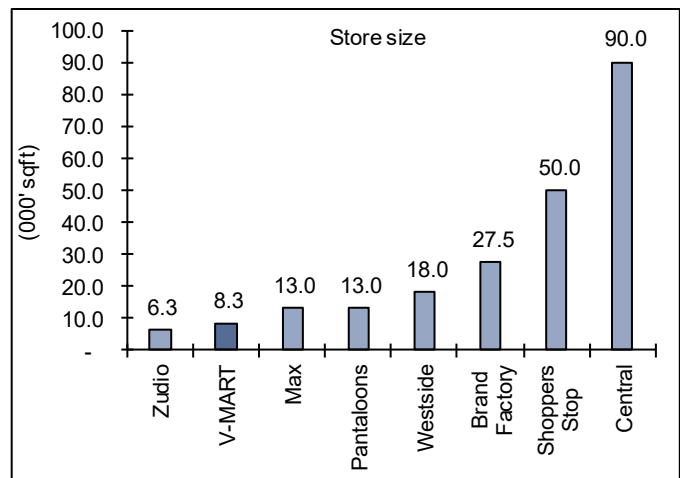
Source: Company data, I-Sec research

Chart 10: V-MART revenues to grow at 9% CAGR mainly led by stores additions



Source: Company data, I-Sec research

Chart 11: Value fashion players operate at relatively smaller store size

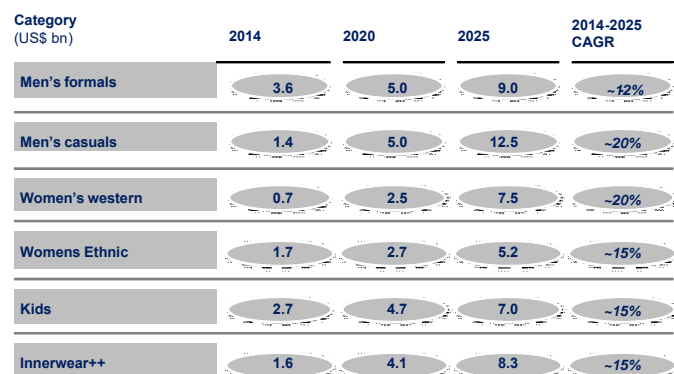


Source: Industry data, I-Sec research

Women wear, kids wear, casualwear, sportswear expected to grow faster

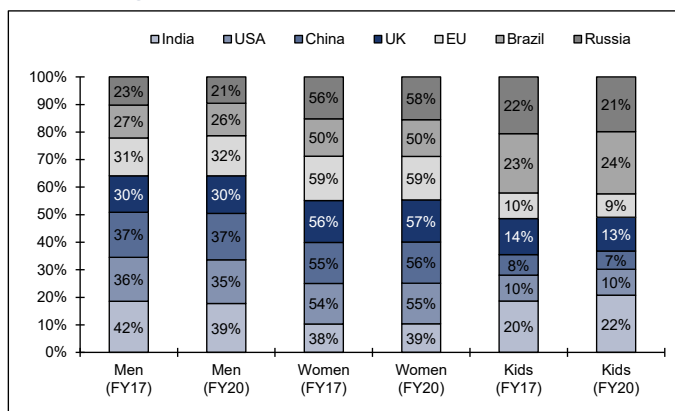
Women wear, kids wear, casualwear, sportswear are expected to grow faster than the relatively matured formal menswear market given the greater emphasis on WFH, rising number of working women, and continuous deviation in consumer choice and preferences.

Chart 12: Growth in women / kids wear segment to outperform menswear in next decade



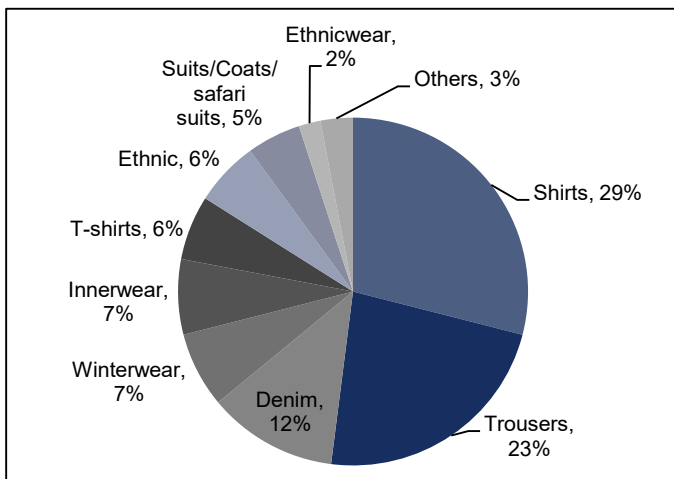
Source: ABFRL, I-Sec research

Chart 13: Share of women and kids wear are increasing in apparel market



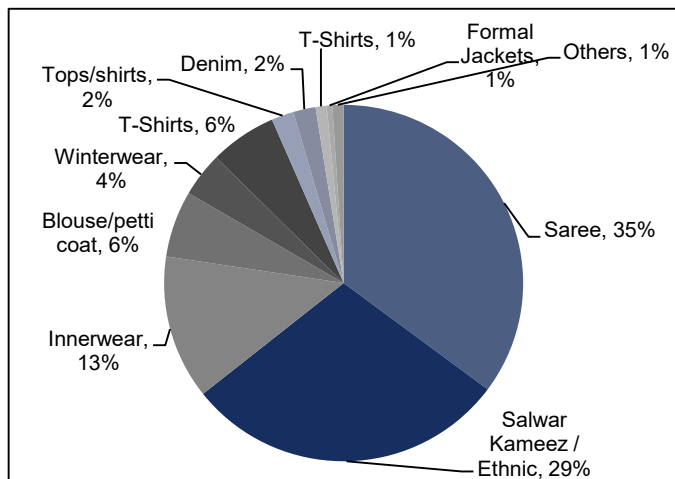
Source: Industry data, I-Sec research

Chart 14: Share of individual categories within menswear



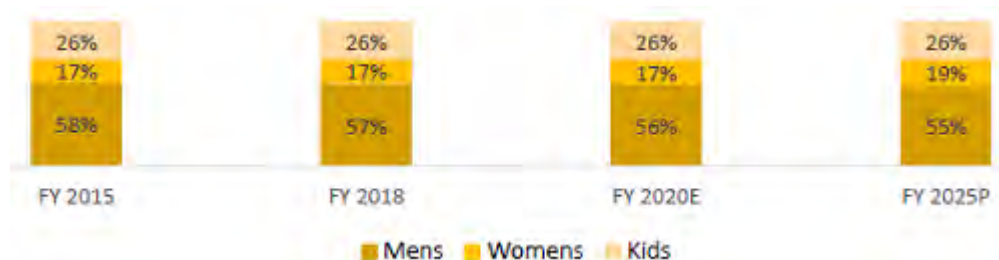
Source: Industry data, I-Sec research

Chart 15: Share of individual categories within women wear



Source: Industry data, I-Sec research

Chart 16: Share of womenswear to increase gradually

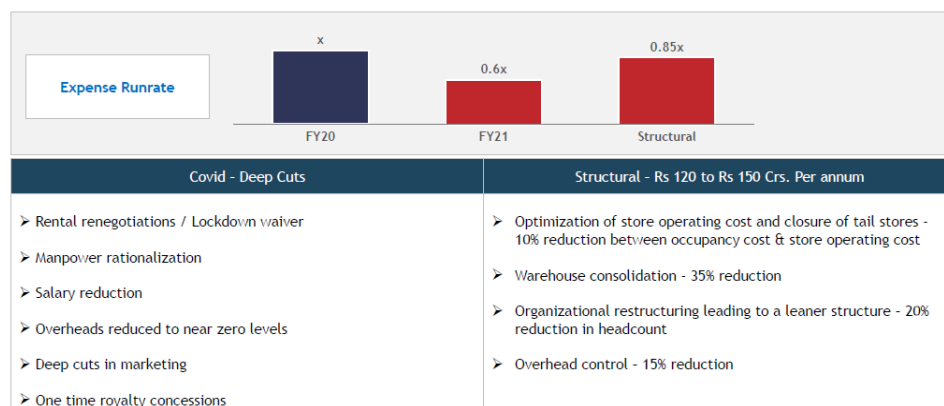


Source: ABFRL rights issue document, I-Sec research

Few cost savings to be structural

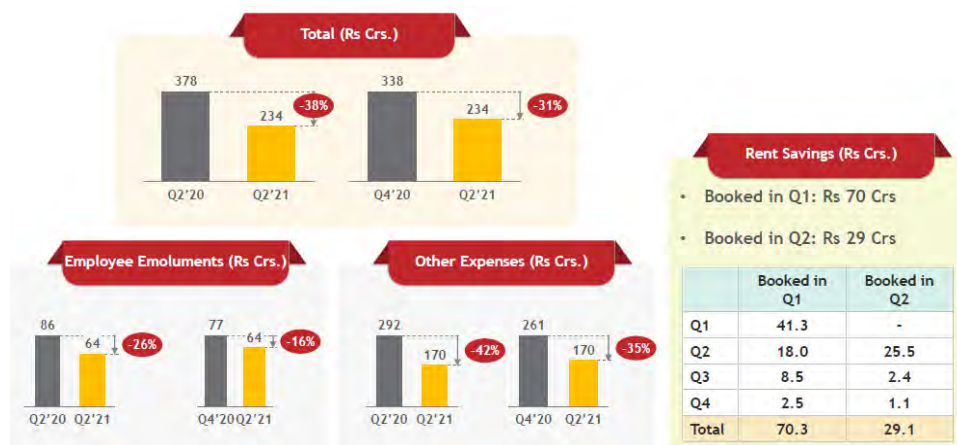
Few cost savings (e.g. winding-up of unprofitable stores, rationalisation of travel, repairs, warehousing costs and discretionary spends, renegotiated rents etc) may be structural and sustain even beyond CY21. Companies may achieve pre-Covid profitability at say-10% lower revenues.

Chart 17: ARVINDFA – Targeting structural cost reduction of Rs1.2bn-1.5bn p.a.



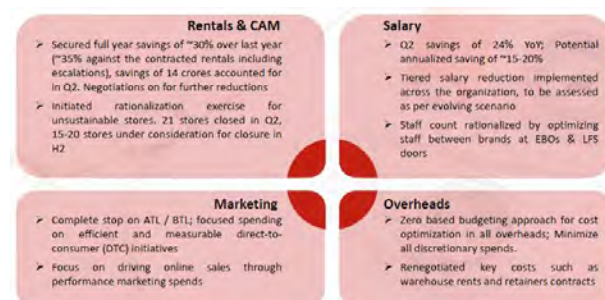
Source: ARVINDFA, I-Sec research

Chart 18: ARVINDFA – Management targeting 35-40% reduction in fixed cost in FY21



Source: ARVINDFA, I-Sec research

Chart 19: Cost controls –planned cost savings across key heads by TCNSBR



Source: TCNS Clothing, I-Sec research

Structural growth drivers to remain intact

India demographics remain favourable to drive growth of the organised retail and apparel segment. With a low median age of 27 (youth giving preference to quality and design), rising middle-class segment and ~50% of population in the working age group together will drive consumption in the organised retail market.

Discretionary spending has high correlation with disposable income. Higher level of urbanisation will lead to consumers trying to upgrade their lifestyles, leading to increased discretionary spending, even in the apparel category.

Chart 20: Indian Fashion Market to grow at 10% CAGR over FY20-FY25E



Source: ABFRL rights issue document, I-Sec research

Chart 21: Penetration of Branded apparel and organised apparel retail



Source: ABFRL rights issue document, I-Sec research

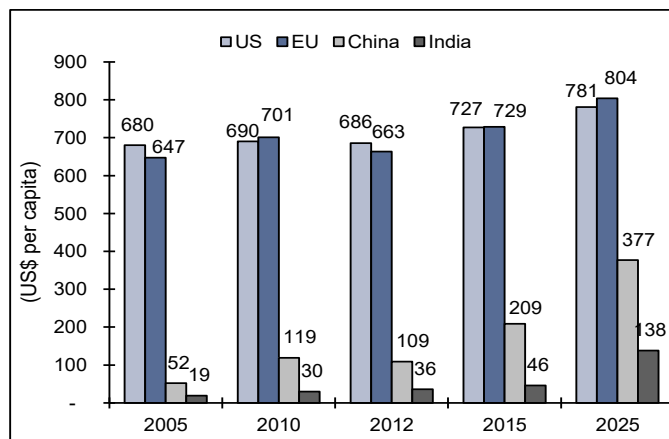
Chart 22: Men's apparel market



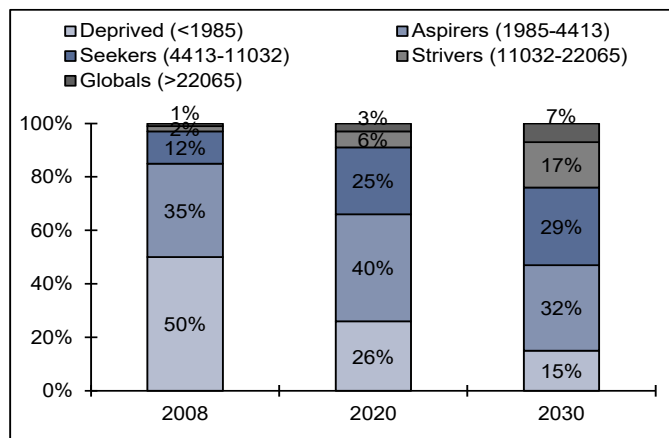
Source: ABFRL rights issue document, I-Sec research

Chart 23: Women's apparel market

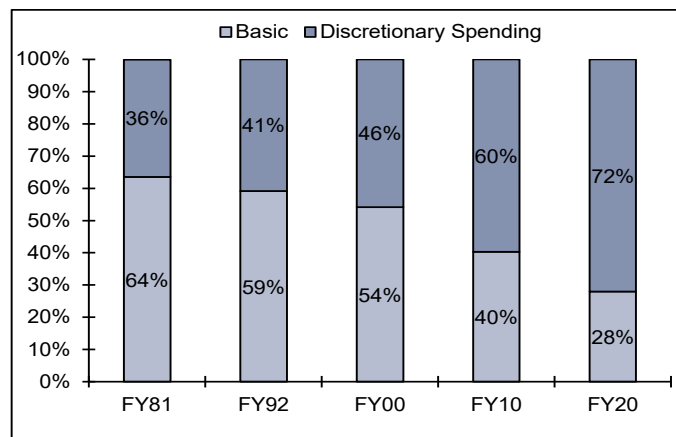
Source: ABFRL rights issue document, I-Sec research

Chart 24: Low per capita consumption of apparels provides huge potential

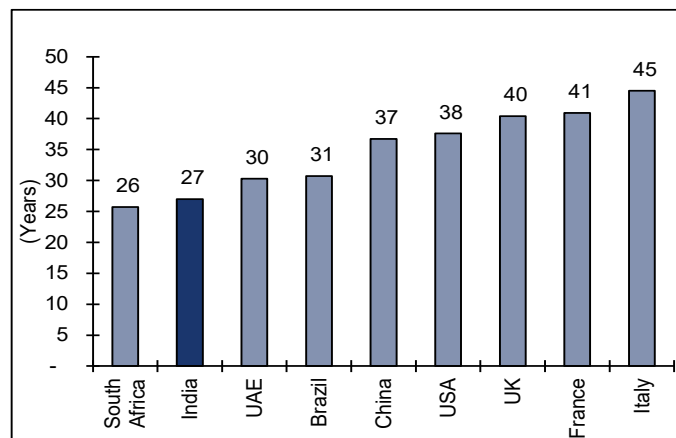
Source: Industry data, I-Sec research

Chart 26: Rise in middle-class segment

Source: ABFRL, I-Sec research

Chart 25: Share of discretionary spending to increase

Source: Industry data, I-Sec research

Chart 27: India – low median age population

Source: ABFRL, I-Sec research

Top picks

Trent (Mcap:US\$3.3bn; TP: Rs780)

- **Targeting >100 store additions p.a. over next few years:** Trent is likely to sustain 8-9% SSSG in Westside whenever normalcy resumes along with accelerated network expansion of >100 stores additions p.a. between Westside and Zudio over the next few years. Trent has already raised Rs9.5bn in FY20 through preferential allotment to accelerate its growth plans. Company has added 11 (eight Zudio, two Westside and one Landmark) in H1FY21 and we expect store additions to accelerate from H2FY21.
- **Scope to improve margins in Westside:** Westside private-label share has consistently increased and has now almost touched 100%. It helps control the value chain, improve margins, reduce working capital, and increase throughput. While gross margin seems peaked-out in Westside, management believes EBITDA margin can improve through better operating leverage and sustaining high single-digit SSSG.
- **Zudio – a big value fashion opportunity:** Zudio emerges as new key growth engine with plans to scale up significantly. It targets youth between 15-25 years with trendy products and sharp price points with entire product offerings at <Rs999 and two-thirds at even <Rs499. The format enjoys high revenue per sqft (>Rs10k) with 35-40% gross margin and is already profitable at store level as infrastructure and backend processes are closely aligned with Westside. We model Zudio revenues to grow at 45% CAGR over FY20-FY23E on a low base.
- **Star Bazaar – losses unlikely to increase:** Trent has not been able to replicate the success of Westside in its hypermarket business under Star Bazaar. The silver lining is that it has shied away from aggressive expansion unlike peers. Rationalisation of Star Bazaar outlets proved to be beneficial and we expect losses to reduce gradually as it attains scale.

Table 3: Segment-wise revenue and EBITDA assumptions

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues					
Westside	22,359	25,972	16,168	32,203	38,467
Landmark	918	734	505	783	822
Zudio	2,040	5,070	4,570	10,436	15,460
Zara- 49% JV	14,319	15,705	9,637	17,716	20,354
THPL- 50% JV	10,005	12,289	11,426	13,449	15,323
EBITDA					
Standalone	2,365	2,882	(490)	4,481	5,824
Zara- 49% JV	1,525	1,783	256	1,967	2,463
THPL- 50% JV	(802)	(973)	(1,030)	(809)	(616)
EBITDA margin (%)					
Standalone	9.3	9.1	(2.3)	10.3	10.6
Zara- 49% JV	10.7	11.4	2.7	11.1	12.1
THPL- 50% JV	(8.0)	(7.9)	(9.0)	(6.0)	(4.0)

Source: I-Sec research

ABFRL (Mcap:US\$1.6bn; TP: Rs197)

- **Largest and widest pan-India distribution network** with ~8.1mn sqft and presence in more than 375 cities and towns as of Sep'20. ABFRL has added over 100 stores (gross) across its businesses in Q2FY21 with plans to add another 150-200 in H2FY21.
- **ABFRL may post ~20% EBITDA CAGR post FY22** as it will likely sustain ~5% SSSG in Lifestyle retail and Pantaloons along with strong network additions. We expect overall EBITDA margin to improve with better margins in Lifestyle brands and Pantaloons and as losses in fast fashion and innerwear reduce with scale.
- **Investor concerns on high leverage being addressed** with capital raising and improving visibility of acceleration in growth. ABFRL will be raising Rs25bn equity by Jul'21 (rights issue and investment by Flipkart by Mar'21), which will bring down net debt below Rs10bn by Jul'21 from Rs31.6bn in Sep'20 and 'net debt to EBITDA' below 1.5x by FY22E.

Table 4: Segment-wise revenue assumptions (pre Ind-AS116)

	FY19	FY20	FY21E	FY22E	FY23E
MF&L	50,315	54,790	32,351	55,238	61,853
- Lifestyle brands	43,040	46,260	27,293	45,853	49,795
- Fast fashion	3,580	2,850	912	2,554	2,834
- Other businesses	3,690	5,680	4,145	6,832	9,223
Pantaloons	31,940	35,140	19,583	39,014	44,603
Less: Inter-segment revenues	1,078	2,050	987	1,791	2,023
Net sales	81,177	87,880	50,947	92,461	1,04,433
% YoY growth					
MF&L	12.6	8.9	(41.0)	70.7	12.0
- Lifestyle brands	11.3	7.5	(41.0)	68.0	8.6
- Fast fashion	(10.1)	(20.4)	(68.0)	180.0	11.0
- Other businesses	80.0	53.9	(27.0)	64.8	35.0
Pantaloons	11.6	10.0	(44.3)	99.2	14.3
Net sales	13.0	8.3	(42.0)	81.5	12.9

Source: ABFRL, I-Sec research

Table 5: Segment-wise EBITDA assumptions (pre Ind-AS 116)

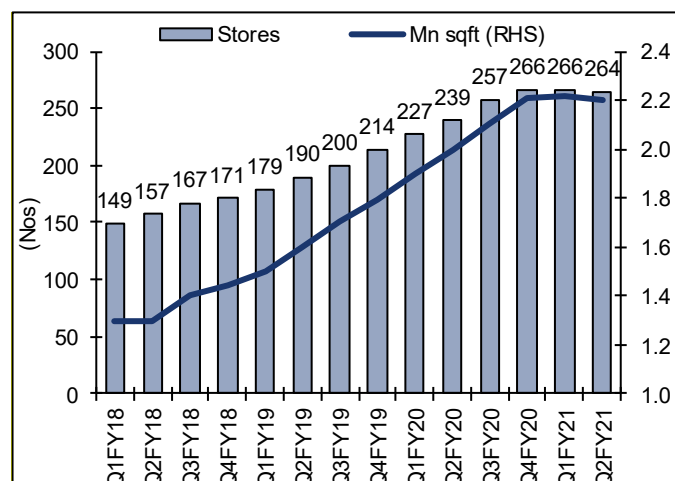
	FY19	FY20	FY21E	FY22E	FY23E
MF&L	4,010	3,240	-2,778	4,437	5,535
- Lifestyle brands	5,190	4,560	-1,365	5,044	5,726
- Fast fashion	-320	-190	-347	-140	-99
- Other businesses	-850	-1,130	-1,067	-467	-92
Pantaloons	2,310	2,220	-1,700	3,050	3,665
Others	-140	-180	179	-225	-276
Total	6,180	5,280	-4,299	7,262	8,924
EBITDA margin (%)					
MF&L	8.0	5.9	(8.6)	8.0	8.9
- Lifestyle brands	12.1	9.9	(5.0)	11.0	11.5
- Fast fashion	(8.9)	(6.7)	(38.0)	(5.5)	(3.5)
- Other businesses	(23.0)	(19.9)	(25.7)	(6.8)	(1.0)
Pantaloons	7.2	6.3	(8.7)	7.8	8.2
Total	7.6	6.0	(8.4)	7.9	8.5

Source: ABFRL, I-Sec research

V-MART (Mcap:US\$590mn; TP: Rs2,500)

- Large opportunities in value fashion segment:** Tier 2-4 markets provide huge opportunities based on demand and under-served appetite for quality products. V-MART, being one of the low-cost value fashion retailers, will be a key beneficiary as it bridges this gap to match consumer aspirations.
- Aggressive store additions to resume from FY22E:** Management usually targets 18-20% area addition annually through cluster-based expansion strategy. Given Covid disruptions, the store addition plans are likely to halt in FY21E (though seven stores were added in Oct'20), but should resume from FY22E. Accordingly, we model an average of 39 store additions annually with area additions at 12% CAGR over FY20-FY23E.
- Margins to remain range-bound, albeit industry leading:** Company's focus is on market share gains by passing the cost benefits over margin expansion. Increasing share of new stores and investment in supply chain (warehouse, omnichannel, etc.) would keep margins range-bound. Nevertheless, margins would remain industry-leading on the back of its low cost structure (low rentals and A&P spends), cluster-based store expansion strategy, better negotiation terms with vendors, and operating leverage.
- Lean balance sheet; return ratios better than peers:** V-MART's entire growth in the past few years has been funded via internal accruals and IPO proceeds. Company is net cash since FY16 and has guided to exit even FY21E with same status. Recently, the Board has passed an enabling resolution to raise up to Rs5bn to explore various growth opportunities. V-MART's industry-leading return ratios (300-500bps higher than peers) are likely to remain steady at 16-17% over FY21E-FY23E.

Chart 28: V-MART has added seven stores taking its total count to 271 stores in Oct'20



Source: V-MART, I-Sec research

Chart 29: 78% of total store presence in non-tier-I cities

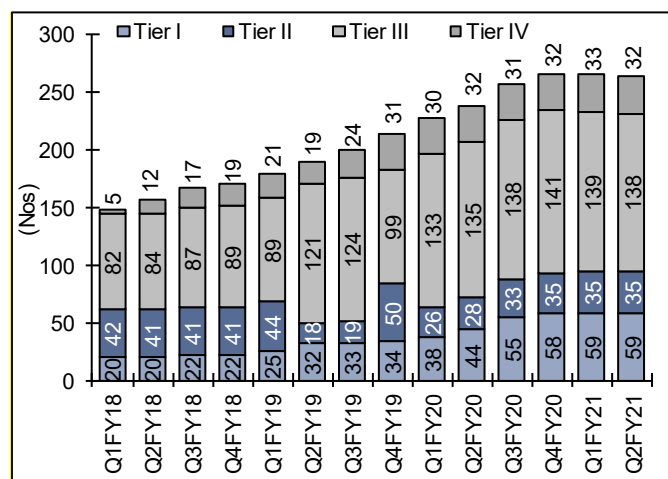


Table 6: Comparative valuations with peers

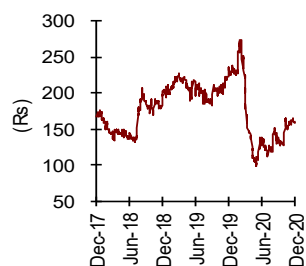
Company	CAGR (FY20-23E) (%)			RoE (%)			RoCE (%)			EV/EBITDA (x)			EV/sales (x)		
	Revenue	EBITDA	PAT	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TRENT	19.9	26.4	29.9	(3.9)	19.2	21.0	(2.0)	16.3	18.2	NA	41.6	33.1	9.0	4.5	3.6
ABFRL	5.9	21.0	92.9	(31.7)	9.5	11.9	(10.0)	8.5	10.4	NA	21.1	16.9	3.1	1.7	1.4
V-MART	12.3	13.3	10.1	2.6	16.3	17.8	2.8	16.1	17.7	81.9	27.7	21.8	3.8	2.2	1.8
TCNSBR	6.4	22.9	24.7	(10.0)	14.6	14.9	(9.8)	14.4	14.7	NA	16.2	13.7	1.2	0.7	0.6
SHOP	2.2	8.8	NA	(48.6)	4.1	7.2	(33.5)	4.6	7.1	NA	8.4	7.1	3.8	2.0	1.7
ARVINDFA	1.4	NA	NA	(63.0)	(6.4)	(2.3)	(19.9)	0.1	2.0	NA	11.6	9.6	1.0	0.5	0.5
KEKC	1.7	2.0	4.2	5.2	15.5	16.7	5.5	13.8	14.9	32.0	9.0	7.9	3.0	1.6	1.4

Company	P / E (x)			P/B (x)			P/CEPS (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TRENT	NA	65.6	50.5	13.5	11.5	9.6	812.0	52.4	41.3	NA	45.7	35.5
ABFRL	NA	49.6	34.3	5.2	4.3	3.9	NA	26.9	21.2	NA	32.5	24.2
V-MART	359.0	51.6	40.1	9.1	7.8	6.6	84.7	34.5	27.4	228.9	37.4	28.9
TCNSBR	NA	28.0	22.5	1.7	1.8	1.9	NA	16.9	12.0	NA	31.2	19.3
SHOP	NA	85.8	46.6	4.2	3.6	3.1	NA	20.5	17.7	NA	18.4	15.2
ARVINDFA	NA	NA	NA	3.0	2.9	2.8	NA	11.1	9.9	NA	34.1	20.9
KEKC	44.1	14.4	12.4	2.3	2.2	2.0	33.7	13.0	11.2	7.8	6.9	6.9

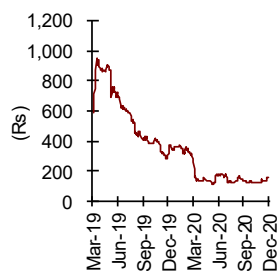
Source: I-Sec research

Price charts

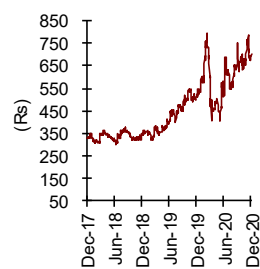
Aditya Birla Fashion



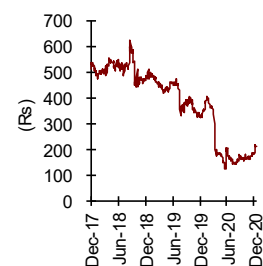
Arvind Fashion



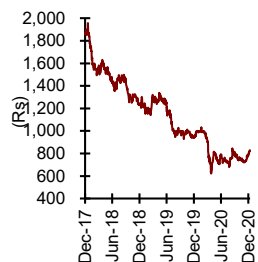
TRENT



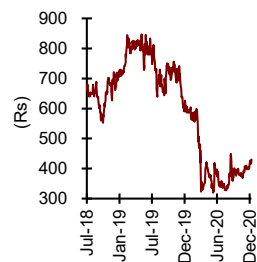
Shopper's Stop



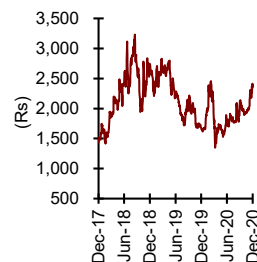
Kewal Kiran Clothing



TCNS Clothing



V-Mart



Source: Bloomberg

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