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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Aditya Birla Fashion & Retail

31 July 2021

Swift recovery and store additions to drive earnings

RESULT UPDATE

Sector: Retail **Rating:** BUY
CMP: Rs 225 **Target Price:** Rs 270

Stock Info

Sensex/Nifty	52,587/ 15,763
Bloomberg	ABFRL IN
Equity shares (mn)	774.0
52-wk High/Low	Rs 234/ 117
Face value	Rs 10
M-Cap	Rs 191bn/USD 2.5bn
3-m Avg volume	USD 9mn

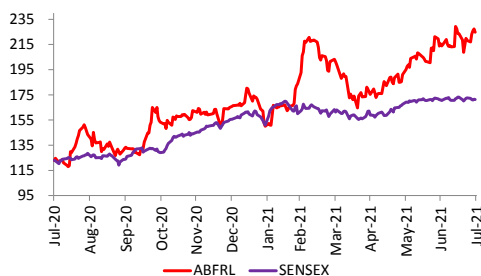
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Sales	52,489	85,662	117,061
PAT	(7,356)	986	3,119
EPS (Rs)	(6.9)	1.1	3.4
PE (x)	(28.0)	208.7	66.0
EV/EBITDA (x)	42.5	18.0	12.8
P/BV (x)	7.7	7.4	6.7
EV/Sales	4.5	2.7	1.9
RoE (%)	(33.3)	3.6	10.6
RoCE (%)	(5.4)	5.9	10.8
NWC (days)	14.2	11.4	21.6
Net gearing (x)	1.1	0.9	0.7

Shareholding Pattern (%)

	Jun 21	Mar 21	Dec 20
Promoter	56.1	56.1	59.8
-Pledged	-	-	-
FII	14.2	14.2	6.3
DII	17.7	17.7	22.1
Others	12.0	12.0	11.8

Stock Performance (1-year)



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Aditya Birla Fashion & Retail (ABFRL)'s revenues grew 151% YoY (above our estimate of 105%) to Rs 8.1bn in 1QFY22. The recovery was swifter compared to the first wave, driven by a higher number of operational days and continued robust growth in the e-commerce channel. Despite the loss of operations for a month in 1QFY22, sales recovered to ~40% of the pre-COVID base of 1QFY20. As of 26th Jul'21, 2,150 stores (~65% of the total retail network) had resumed partial operations. Lifestyle and Pantaloon revenues more than doubled over last year. For Jul'21, Lifestyle sales reached 80-85% (~85% stores are open) of the Jul'19 levels while Pantaloon recovered 75%. 'Others' business grew 155% YoY led by ~2x growth in the innerwear segment. New store additions and category extensions led to a ~13x growth in the ethnic segment. EBITDA loss narrowed to Rs 1.7bn (Rs 3.6bn loss in 1QFY20) on account of lower fixed cost rebates and normalization of employee benefit expenses. Net debt stood at Rs 12bn in 1QFY22. ABFRL is planning a digital transformation through investments in technology; it aims to increase its omni-channel coverage to 2,000 stores from 1,300. The management is confident of a faster recovery driven by the lifting of lockdowns by states (Maharashtra has already eased restrictions), increasing vaccination rates and festive buying.

Factoring the higher sales in 1QFY22, expected strong recovery in 2HFY22 and store additions, we raise our FY22E/FY23E revenue/EBITDA by 2%/2% and 4%/4% respectively. We maintain our BUY rating on the stock with a revised SoTP-based target price of Rs 270 (Rs 260 earlier; implying 79x FY23E PER) based on 13x FY23E EV/EBITDA for Lifestyle brands, 10x for Pantaloon, 3x EV/sales for ethnic wear and 3x for other businesses.

Lifestyle sales grew 2.3x over last year: Lifestyle brands revenue grew 2.3x YoY to Rs 4.4bn (~45% of 1QFY20 sales) driven by the increased focus on casual wear and e-commerce growth. The retail channel achieved 170% YoY (like-to-like 187%) growth over last year revenues while others and wholesale channels were up 109% and 91% YoY, respectively. Others channels growth was driven by a strong e-commerce performance; the wholesale channel should recover significantly by 3QFY22. The small town expansion strategy has augured well for both *Peter England Red (PE Red; 350 stores)* and *Allen Solly (AS) Prime* (17 stores, 45 in the pipeline). The *Lifestyle* brand is witnessing a consistent increase in the share of casual wear – from ~46% in 1QFY21 to ~59% in 1QFY22. ABFRL has started pilot runs to expand new brands in kids wear as it plans to strengthen the portfolio. E-commerce sales grew 3x over last year driven by strong growth in partnered e-commerce portals, and own brand.com which grew 3x on account of a stronger omni-channel play (share in sales has doubled). 45% of revenues came from loyal customers. ABFRL aims to open 400+ (150 *PE Red* stores and 50 *AE Prime* stores) in FY22; 90% franchisee led. We expect distribution expansion, innovative product launches, direct consumer channels (retail, e-commerce) and recovery in the wholesale channel (19% of 1QFY20) to drive growth in the Lifestyle segment.

Pantaloon sales grew 2.7x from last year: Pantaloon revenue grew 2.7x YoY (LTL growth of 156%) to Rs 2.2bn vs. Rs 820mn in 1QFY21. Growth was driven by expansion in the home and sarees categories along with new offerings in loungewear and infant wear. Private label share was 65% vs. 72% in 1QFY21 as the company relied on external brands. In 1QFY22, e-commerce sales grew 3x YoY aided by a stronger assortment (e-commerce only items), new categories and better customer conversions. It continued to enhance omni-channel coverage across its network. "Pantaloon.com" (grew 185% YoY) and the partnered e-commerce businesses (grew 3.2x YoY) saw good traction with strong average

daily volumes and marketing initiatives. Store expansion is on track with 18 stores ready to be opened (deferred due to lockdowns); the total store count was 342 in 1QFY22. We expect store expansion (plans to add 60+ stores in FY22), brand extensions and increased focus on omni-channel to drive near-term growth.

Other businesses – growth driven by innerwear and athleisure: Sales for other businesses grew 155% YoY; recovered to ~59% of 1QFY20 sales. Innerwear and athleisure grew 2x YoY aided by strong traction in athleisure and activewear categories. The men's segment sustained the growth momentum while the women's category is also seeing substantial growth. It continued trade channel expansion, taking the total to 23,000 (28,000 earlier - number different from last quarter due to the change in method of store counting) MBOs and 51 EBOs. EBOs remain a strategic focus area for expansion and brand building. The management aims a turnover of Rs 5bn in the near-term while Rs 10bn in the next 2 years.

Ethnic wear - store/category expansions drive growth: The ethnic wear segment generated sales of Rs 380mn in 1QFY22 (vs. Rs 30mn in 1QFY21) driven by growth in *Jaypore* and *Shantanu & Nikhil*. *Jaypore* grew 2x YoY on account of strong growth in e-commerce sales. The newly launched jewellery and home category grew 2.5x. The company plans to add 10 new stores in FY22. It plans to grow *S&N* by expanding its retail presence. *Sabyasachi* sales grew 4x over last year driven by apparel (grew 3.5x) and jewellery & accessories (grew 5x). It opened its first international outlet in Dubai. The management targets double-digit margins in the next three years in the men's ethnic brands driven by scale and brand equity. Margins in women's ethnic wear will depend on the *Pantaloons* stores performance. The new affordable premium men's ethnic brand (in collaboration with *Tarun Tahiliani*) is slated for launch this festive season (around Oct'21). It plans to open 150 stores in the next five years; also plans to launch own women's premium ethnic brand (Rs 1,500-3,000 price point) in Sep'21; will be initially launched in ~50 *Pantaloons* stores.

Cost-savings limit operating loss: Gross margin expanded 941bps to 50.7% due to lower discounting and better inventory management. EBITDA loss narrowed to Rs 1.7bn (Rs 3.6bn loss in 1QFY20) on account of lower fixed cost rebates and normalization of employee benefit expenses. ABFRL reduced its operating costs by Rs 1.74bn (rent cost: Rs 920mn and other expenses: Rs 820mn) in 1QFY22 vs. 4QFY21. It expects further rental renegotiations for stores, offices & warehouses. *Lifestyle* brands reported an EBITDA loss of Rs 570mn vs. Rs 680mn last year. *Pantaloons* reported an EBITDA loss of Rs 550mn vs. Rs 720mn last year. Other businesses reported an EBITDA loss of Rs 220mn vs. a loss of Rs 370mn. Adjusted PAT loss stood at Rs 3.5bn YoY.

Net debt stood at Rs 12bn: In 4QFY21, net debt reduced to Rs 6.5bn from Rs 25.1bn in FY20 post the fundraising of Rs 15bn from Flipkart Group, Rs 7.5bn from the rights issue and Rs 2.5bn from business operation. In 1QFY22, net debt increased to Rs 12bn on account of net working capital requirements (Rs 2bn) and operating loss during the quarter.

Outlook and valuation: We see multiple growth drivers for the business in the medium to long term, given ABFRL's strong presence and brand equity in segments like men's formals and value fashion. The management expects to grow Madura at an 11% CAGR while Pantaloons at a 15% CAGR during FY20-26E. It also plans to grow the ethnic wear business to Rs 20bn and the innerwear business to Rs 15bn by FY26. With major inorganic investments done, ABFRL will focus on store expansion and the ramp-up of omni-channel. We expect it to grow revenue/EBITDA at a CAGR of 49%/79% (on a low base in FY21) over FY21-23E. We maintain our BUY rating with a revised SoTP-based target price of Rs 270 based on 13x FY23E EV/EBITDA for Lifestyle brands, 10x for Pantaloons, 3x EV/sales for ethnic wear and 3x for other businesses. **Downside risk:** 1) the emergence of a third wave of COVID-19 leading to a slowdown in discretionary demand, impacting same-store-sales growth (SSSG) and 2) slow pace of store additions

Exhibit 1: Digital transformation

Source: Company, Systematix Institutional Research

Exhibit 2: Key changes to estimates

(Rs mn)	New estimates		Old estimates		Variance	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	85,662	117,061	84,240	112,380	2%	4%
EBITDA	12,882	17,721	12,668	17,012	2%	4%
EPS	1.1	3.4	1.1	3.2	2%	5%

Source: Systematix Institutional Research Estimates

Exhibit 3: Quarterly performance

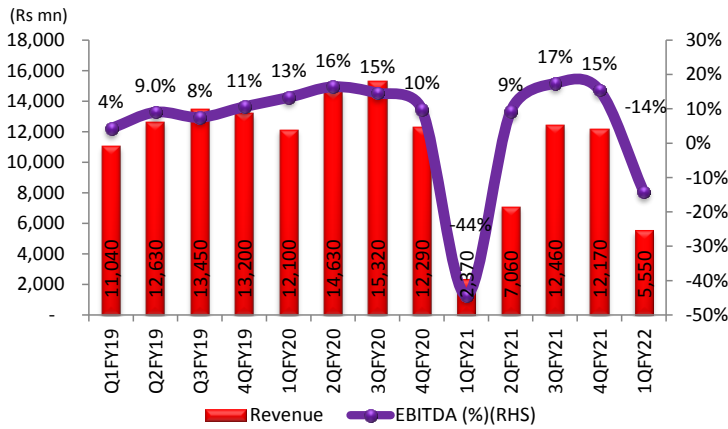
YE March (Rs mn)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
Net sales	8,120	3,230	18,216		
Net Revenues	8,120	3,230	18,216	151.4	(55.4)
RM Costs	(1,260)	1,368	2,112	(192.2)	(159.7)
(% of sales)	(15.5)	42.3	11.6		
Purchase of traded goods	5,260	528	6,337	896.1	(17.0)
(% of sales)	64.8	16.3	34.8		
Employee cost	2,496	2,483	2,412	0.5	3.5
(% of sales)	30.7	76.9	13.2		
Rent	0	282	869	(100.0)	(100.0)
(% of sales)	0.0%	8.7%	4.8%		
Others	3,312	2,175	4,133	52.3	(19.9)
(% of sales)	40.8	67.3	22.7		
EBITDA	(1,687)	(3,604)	2,353	(53.2)	(171.7)
EBITDA margin (%)	(20.8)	(111.6)	12.9		
Other income	243	1,785	177	(86.4)	37.8
PBIDT	(1,444)	(1,819)	2,530	(20.6)	(157.1)
Depreciation	2,378	2,369	2,533	0.4	(6.1)
Interest	852	1,262	1,209	(32.5)	(29.5)
PBT	(4,674)	(5,449)	(1,212)		285.5
Tax	(1,156)	(1,346)	(342)		
ETR (%)	24.7	24.7	28.2		
Adjusted PAT	-3,517.5	-4,103.6	-870.2		304.2
PATAMI margin	(43.3)	(127.0)	(4.8)		
Extraordinary income/ (exp.)	-	-	1,085		
P&L of associates	(4)	-	(3)		
Reported PAT	(3,522)	(4,104)	(1,959)		79.8
No. of shares (mn)	771	771	773		
Adj EPS (Rs)	(4.6)	(5.3)	(1.1)		

Source: Company, Systematix Institutional Research

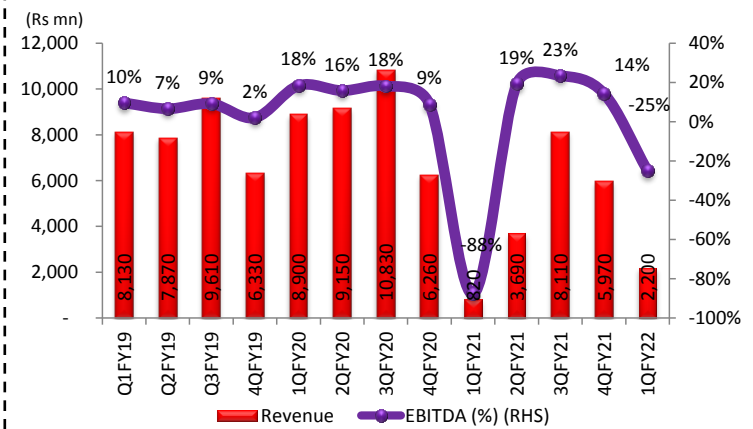
Exhibit 4: Segment-wise quarterly performance

YE March (Rs mn)	1QFY22	1QFY21	1QFY20	vs.FY21	vs.FY20
Segment revenue					
Madura Segment					
Lifestyle Brands	4,350	1,900	10,060	129%	-57%
Other Businesses	1,200	470	2,050	155%	-41%
Total Madura Segment	5,550	2,370	12,110	134%	-54%
Pantaloons	2,200	820	8,900	168%	-75%
Elimination	(10)	10	(340)		
Ethnic Subsidiaries	380	30	-		
Net Sales	8,120	3,230	20,670	151%	-61%
EBITDA margin (%)	1QFY22	1QFY21	1QFY20		
Lifestyle Brands	-13.1%	-35.8%	19.0%		
Other Businesses	-18.3%	-78.7%	-14.1%		
Total Madura	-14.2%	-44.3%	13.4%		
Pantaloons	-25.0%	-87.8%	18.4%		
Ethnic Subsidiaries	-18.4%	-233.3%			
Consol EBITDA margin	-17.7%	-56.7%	15.8%		

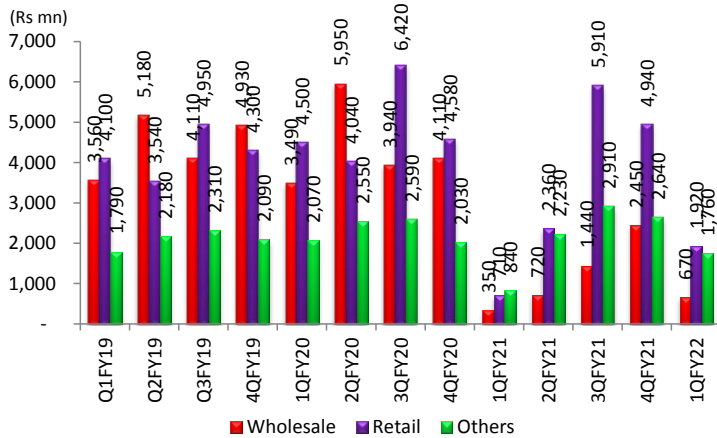
Source: Company, Systematix Institutional Research

Exhibit 5: Madura sales grew 2.3x over last year

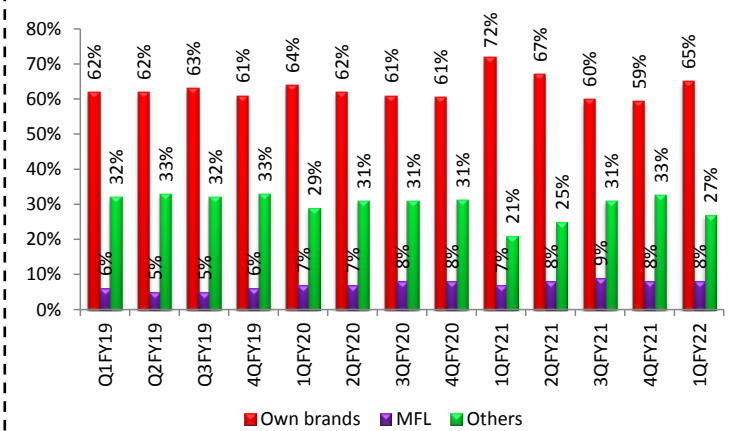
Source: Company, Systematix Institutional Research

Exhibit 6: Pantaloon sales grew 2.7x over last year

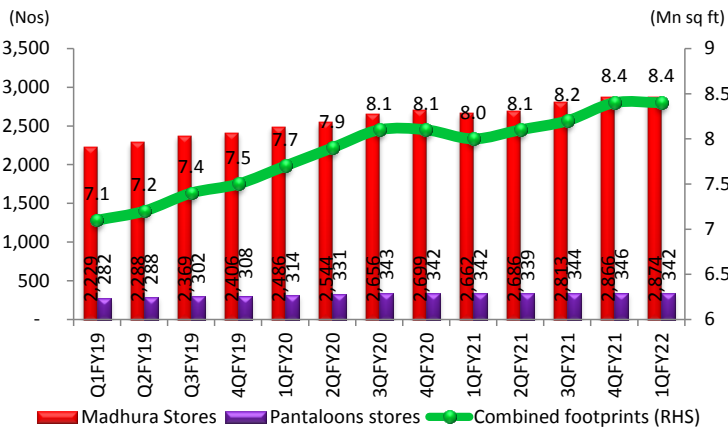
Source: Company, Systematix Institutional Research

Exhibit 7: Strong growth in online platforms

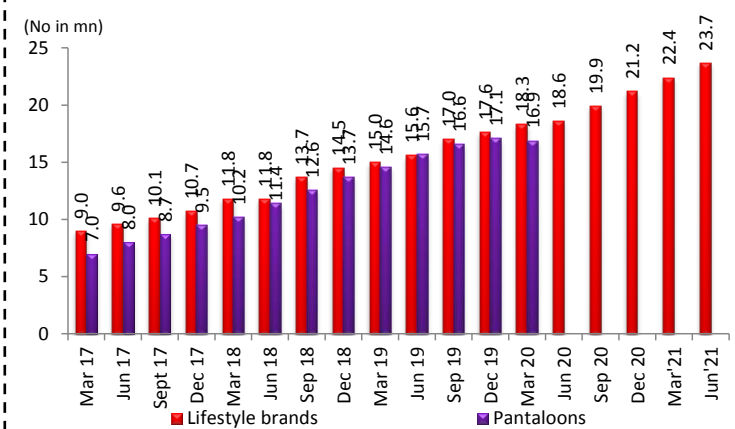
Source: Company, Systematix Institutional Research

Exhibit 8: Share of Pantaloon own brands declined to 65%

Source: Company, Systematix Institutional Research

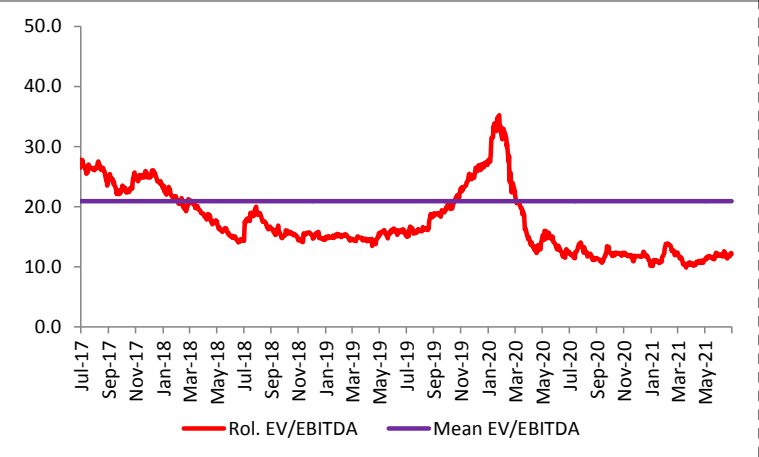
Exhibit 9: Retail area expansion continues in 1QFY22

Source: Company, Systematix Institutional Research

Exhibit 10: Continuous increase in loyalty members

Source: Company, Systematix Institutional Research

Exhibit 11: The stock is trading at 12.1x one-yr fwd EV/EBITDA



Source: Bloomberg, Systematix Institutional Research

Exhibit 12: Valuation Summary

FY23E	EBITDA	Valuation	Multiple (x)	Value
Lifestyle Brands	11,960	EV/EBITDA	13	155,474
Pantaloons	6,785	EV/EBITDA	10	67,845
Ethnic wear (Sales)	5,000	EV/Sales	3	14,000
Innerwear/Others (Sales)	10,660	EV/Sales	3	31,980
Target EV of company				269,299
Net debt				21,972
Target EV of equity				247,327
No. of shares				915
Target price (Rs per share)				270

Source: Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	81,177	87,879	52,489	85,662	117,061
RM costs/inventories	39,250	42,242	25,630	41,142	55,052
Gross Profits	41,928	45,637	26,860	44,520	62,009
Employee costs	9,130	10,681	8,654	10,697	14,032
Rental costs	11,104	4,870	107	2,144	5,740
Other costs	16,153	17,968	12,552	18,797	24,516
Total Expenses	75,637	75,760	46,942	72,780	99,340
EBITDA	5,541	12,118	5,548	12,882	17,721
Depreciation	2,823	8,853	9,628	10,002	11,502
Other income	648	653	734	686	343
EBIT	3,365	3,918	(3,346)	3,566	6,561
Interest cost	1,874	4,250	5,030	2,248	2,392
PBT	1,491	(332)	(8,376)	1,318	4,170
Taxes	218	1,321	(2,100)	332	1,051
Adj. PAT	1,273	(1,653)	(6,276)	986	3,119
Extraordinaries/Deferred tax (1,940)	-	-	1,080	-	-
Reported PAT	3,212	(1,653)	(7,356)	986	3,119
No. of shares (mn)	773	774	915	915	915
Adj. EPS	1.6	(2.1)	(6.9)	1.1	3.4

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	1,491	(332)	(8,376)	1,318	4,170
Add: Depreciation	2,823	8,853	9,628	10,002	11,502
Add: Interest	1,874	4,250	5,030	2,248	2,392
Less: taxes paid	196	65	28	(332)	(1,051)
Add: other adjustments	221	(140)	(3,743)	-	-
Less: WC changes	937	6,126	(8,528)	633	4,247
Total OCF	5,276	6,440	11,038	12,602	12,766
Operating CF w/o WC changes	6,213	12,567	2,510	13,236	17,013
Capital expenditure	(2,867)	(3,184)	(1,613)	(3,250)	(3,250)
Leased asset	-	-	-	-	-
Change in investments	98	(2,328)	(6,964)	-	-
Interest/Dividend received	4	3	24	-	-
Total ICF	(2,766)	(5,509)	(8,552)	(3,250)	(3,250)
Free Cash Flows	2,409	1,894	9,581	9,352	9,516
Share issuances	9	72	22,388	-	-
Payment of lease liability	-	(5,886)	(4,061)	(6,500)	(3,000)
Change in borrowings	(1,576)	10,742	(11,502)	(500)	-
Dividends	-	-	-	-	-
Interest payment	(1,098)	(4,243)	(4,759)	(2,248)	(2,392)
Others	-	479	(4,759)	-	-
Total FCF	(2,664)	1,165	(2,693)	(9,248)	(5,392)
Net change in cash	(154)	2,096	(207)	104	4,124
Opening cash & CE	726	572	2,668	2,461	2,566
Closing cash & CE	572	2,668	2,461	2,566	6,690

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	7,735	7,740	9,151	9,151	9,151
Reserves and surplus	6,554	3,138	17,612	18,598	21,717
Total Equity	14,289	10,878	26,763	27,748	30,867
Total Debt/Lease	17,029	48,706	32,818	28,818	28,818
Other long term liabilities	2,889	2,896	7,020	7,020	7,020
Total sources	34,206	62,480	66,600	63,586	66,705
Net Block/ ROU asset	6,588	28,938	27,537	23,785	18,533
Net deferred tax	2,634	1,950	3,339	3,339	3,339
Other assets	4,065	4,121	4,843	4,843	4,843
Intangibles	19,191	20,938	26,969	26,969	26,969
Investments	42	-	-	-	-
Cash	574	2,669	2,618	2,722	6,846
Inventories	20,446	23,668	18,470	27,394	31,377
Debtors	5,355	8,405	7,305	8,870	10,839
Other Current assets	4,805	6,967	10,634	10,634	10,634
Current Assets	30,606	39,039	36,408	46,898	52,850
Creditors	23,986	22,899	23,734	33,591	35,295
Other Current Liabilities	5,507	12,277	11,380	11,380	11,380
Current Liabilities	29,493	35,176	35,115	44,971	46,675
Net Working Capital	1,113	3,863	1,294	1,927	6,175
Total Uses	34,206	62,480	66,600	63,586	66,705

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Yoy growth in Revenue	13.0	8.3	(40.3)	63	37
Yoy growth in EBITDA	18.3	118.7	(54.2)	132.2	37.6
Yoy growth in Net income	159.9	(229.9)	279.6	(115.7)	216.4
Effective tax rate	14.6	-	-	25.2	25.2
EBITDA margin	6.8	13.8	10.6	15.0	15.1
PAT margin	1.6	(1.9)	(12.0)	1.2	2.7
ROACE	10.4	8.2	(5.4)	5.9	10.8
ROAE	10.1	(13.1)	(33.3)	3.6	10.6
Net debt to equity (x)	1.2	4.2	1.1	0.9	0.7
Inventory days	190	205	263	243	208
Debtor days	24	35	51	38	34
Payable days	223	198	338	298	234
NWC days	8	38	14	11	22

Per share numbers (Rs)

Reported earnings	1.6	(2.1)	(6.9)	1.1	3.4
Dividend	-	-	-	-	-
Free cash	3.1	(5.2)	6.0	3.1	7.1
Book Value	18.5	14.1	29.2	30.3	33.7

Valuations (x)

Price to diluted earnings	54.1	(105.2)	(28.0)	208.7	66.0
EV / EBITDA	34.4	18.2	42.5	18.0	12.8
Price to sales	2.1	2.0	3.9	2.4	1.8

Source: Company, Systematix Institutional Research

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