

Accelerated store addition plan in place...

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 with 2874 brand stores along with 342 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)

Q1FY22 Results: Covid induced lockdowns significantly disrupted the performance for ABFRL in Q1FY22. Green-shoots are visible with ~75% recovery rate in July.

- Revenue de-grew 55% QoQ to ₹ 812.0 crore (up 151% YoY). On the base of Q1FY20, recovery rate was at ~40% of pre-Covid levels
- Higher-than-expected employee & other expenses resulted in PBT losses coming in ahead of our estimates
- PBT losses were at ₹ 467 crore vs. ₹ 121 crore in Q4FY21 and ₹ 545 crore in Q1FY21. Finance cost declined sharply by 32% owing to a substantial decline in debt levels

What should investors do? The stock price has underperformed the broader indices over the last five years with returns of ~58%.

- ABFRL has strengthened its b/s through recent equity infusion with net debt declining sharply from ₹ 2500 crore to ₹ 530 crore as on FY20. We remain structurally positive and maintain our **BUY** rating on the stock

Target Price and Valuation: We value ABFRL at ₹ 265 i.e. 2.5x FY23E EV/Sales

Key triggers for future price performance:

- ABFRL has aggressive store addition plans for FY22E with 60+ Pantaloon stores and 400+ (franchisee) lifestyle brand stores
- To penetrate further in small towns through Peter England Red stores and Allen Solly Prime Stores (~200 stores in FY22E)
- Strengthening omni-channel strategy with enabling 2000+ stores omni enabled from current 1300 stores. Also, launching new Pantaloon website in Q3FY22 and multi-branded app in Q4FY22
- 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, Star, Zara) and proven business model position Trent as a preferred pick
- BUY with a target price of ₹ 1,060



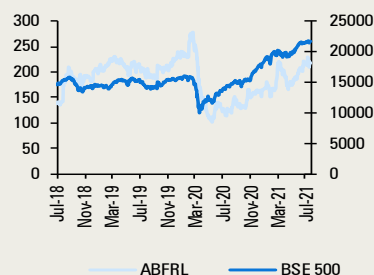
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	19,055.0
Total Debt (Mar-21) (₹ Crore)	1,136.4
Cash (Mar-21) (₹ Crore)	262.3
EV (₹ Crore)	19,929.1
52 week H/L	234 / 117
Equity Capital (₹ Crore)	937.6
Face Value (₹)	10.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	59.8	55.1	55.1	56.1	56.1
FII	6.3	13.6	13.9	14.0	13.9
DII	21.7	18.6	19.5	17.5	16.6
Others	12.2	12.7	11.5	12.4	13.3

Price Chart



Recent event & key risks

- To launch ethnic wear brands
- Key Risk:** (i) Extended lockdown can lower sales (ii) Delay in expansion of store network.

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Key Financial Summary

Financials	FY19	FY20	FY21E	4 year CAGR (FY16-FY20)	FY22E	FY23E	2 year CAGR (FY21-FY23E)
Net Sales	8,117.7	8,787.9	5,249.0	10.0%	7,882.6	10,210.5	39%
EBITDA	554.1	1,211.8	555.0		976.2	1,648.6	72%
PAT*	321.2	(163.0)	(673.0)		(82.8)	317.7	
EV/Sales (x)	2.3	2.3	4.2		2.8	2.1	
EV/EBITDA (x)	34.2	16.4	-		22.4	13.2	
RoCE (%)	10.7	10.2	(8.9)		3.2	17.8	
RoE (%)	22.5	-15.3	-25.5		-2.9	10.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- **Lifestyle brands:** Revenue from Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) grew 2.3x YoY to ₹ 435 crore (45% of pre-Covid levels). Aligning with the current demand scenario, ABFRL has strengthened its casual wear portfolio with the segment now contributing 59% (vs. 46% last year). E-commerce channels continued to outperform with 3x growth YoY. Retail distribution channel also witnessed strong recovery but wholesale channel is expected to revive by Q3FY22. The company continues to penetrate tier III/IV cities through its new formats Peter England Red stores (~350 stores) and Allen Solly Prime Stores (17 stores). ABFRL has aggressive store addition plans for FY22E with expected opening of 400+ stores in FY22E (of which 150 will be PE Red & 50 AS Prime). With gradual relaxations from the second half of June, the division has witnessed ~85% recovery rate in July
- **Pantaloons:** Revenue from Pantaloons division grew 2.7x YoY to ₹ 220 crore (25% of pre-Covid levels). The division was severely impacted and took longer to recover owing to higher presence in malls and larger format store sizes. E-commerce continued to scale up aggressively with 3x growth and own website registering 185% growth (new merchandise designed specifically for e-com). During the quarter, ABFRL rationalised four Pantaloons stores. However, the expansion agenda is well on track with expected addition of 60 stores during the year (18 stores already in the pipeline that were deferred due to lockdowns). The Pantaloons division has witnessed 70% recovery rate in July
- **Other segments:** Revenue from other business (that includes innerwear & athleisure) de-grew 44%QoQ to ₹ 120 crore. Strong growth momentum continued in the innerwear & athleisure segment despite disruptions in Q1FY22 (revenue 2x YoY and ahead of pre-Covid levels). It continued its distribution expansion with 23000+ trade outlets and 51 exclusive branded outlets (to reach 100 by FY22E)
- **Ethnic wear:** Revenue from the ethnic wear segment was at ₹ 38.0 crore with EBITDA loss of ₹ 7 crore. The company expects to add 25+ stores in FY22E. During the upcoming festive season, ABFRL is planning to launch a new men's premium ethnic wear brand in collaboration with Tarun Tahiliani with opening of 10-12 stores. In addition to the same, it is also launching an ethnic wear brand for womenswear, which will be launched in ~40-50 Pantaloons stores
- During the quarter, net debt was higher at ₹ 1200 crore owing to losses in Q1FY22 and increase in working capital by ₹ 200 crore. However, with higher cashflows from July onwards and with last tranche of right issues to be received (~₹ 250 crore), the net debt figure is expected to reduce in Q2FY22. **We believe ABFRL with lighter balance sheet and 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 ₹ 265 (2.5x EV/sales FY23E)**

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	812.0	629.5	323.0	151.4	1821.58	-55.4	On the base of Q1FY20, recovery rate stood at ~40% of pre-covid levels.
Raw Material Expense	399.9	309.7	189.6	111.0	844.8	-52.7	Gross margins declined by declined by 370 bps QoQ to 49.6% on account of unabsorbed manufacturing overheads.
Employee Expenses	249.6	207.7	248.3	0.5	241.2	3.5	
Rent	0.0	56.0	28.2	-100.0	86.9	-100.0	
Other Expenses	331.2	270.7	217.5	52.3	413.3	-19.9	Company managed to rationalised fixed cost overheads by ~ ₹ 174 crore on a QoQ basis.
EBITDA	-168.7	-214.6	-360.4	NM	235.3	PL	
EBITDA Margin (%)	-20.8	-34.1	-111.6	NM	12.9	NM	
Depreciation	237.8	237.1	236.9	0.4	253.3	-6.1	
Interest	85.2	86.1	126.2	-32.5	120.9	-29.5	
Other Income	24.3	132.4	178.5	-86.4	17.7	37.8	
PBT before Exceptional item	-467.4	-405.4	-544.9	NM	-121.2	NM	
Share of JV	-0.4	0.0	0.0		-0.3		
PBT	-467.8	-405.4	-544.9		-121.6		
Tax Outgo	-115.6	0.0	-134.6		74.3		
PAT	-352.2	-405.4	-410.4	NM	-195.9	NM	

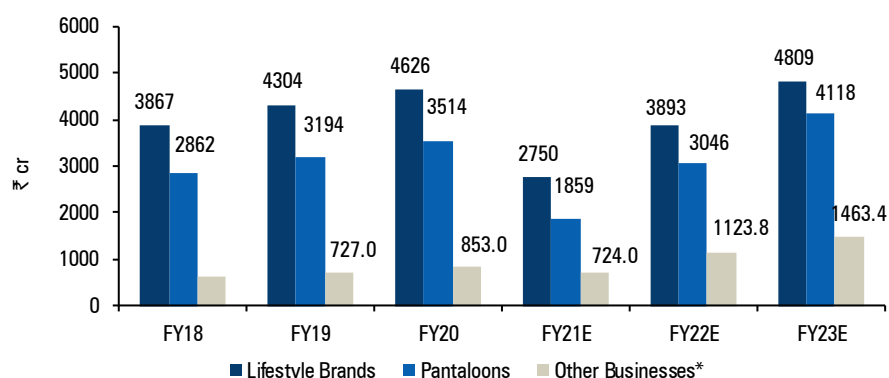
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

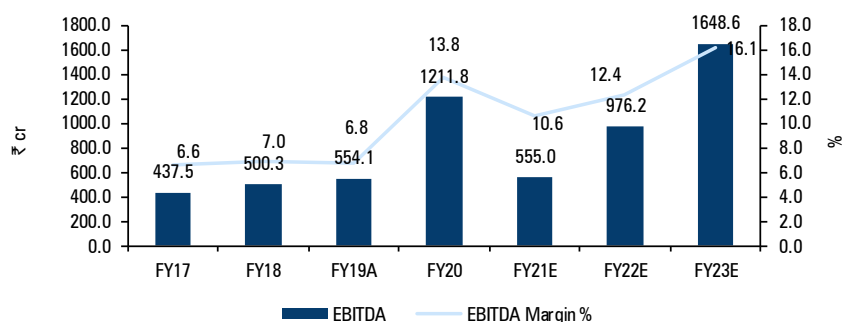
(₹ Crore)	FY 21E	FY 22E			FY 23E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	5,249.0	7,951.2	7,882.6	-0.9	10,243.6	10,210.5	-0.3
EBITDA	555.0	978.9	976.2	-0.3	1,661.3	1,648.6	-0.8
EBITDA Margin (%)	10.6	12.3	12.4	7 bps	16.2	16.1	-7 bps
PAT	-673.0	-54.5	-82.8	NM	365.0	317.7	-13.0
EPS (₹)	-7.2	-0.6	-0.9	NM	3.9	3.4	-13.1

Source: Company, ICICI Direct Research

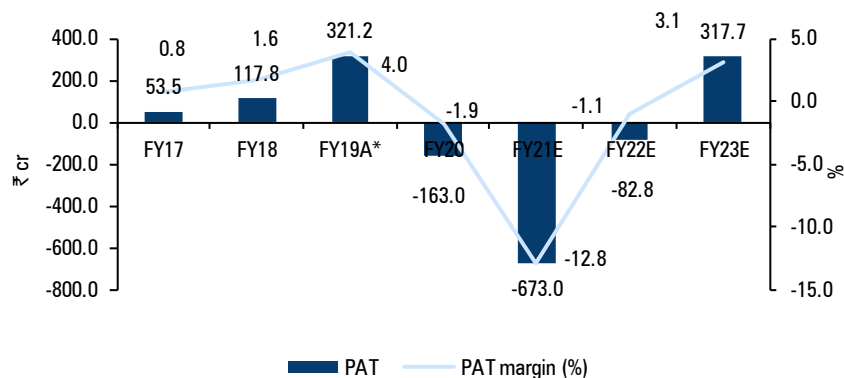
Financial story in charts

Exhibit 3: Revenue growth trend


Source: Company, ICICI Direct Research. Other business includes ethnic segment

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	2.5
2023E Sales	10,210.5
2023E EV	25,526.2
2023E Debt	900.0
2023E Cash	122.4
2023E Market Cap.	24,748.6
No. of shares	93.8
Target Price	265
CMP	224.0
Upside/(Downside)	18

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E	
Gross Revenue	8,787.9	5,249.0	7,882.6	10,210.5	
Growth (%)	8.3	(40.3)	50.2	29.5	
Cost of Sales	4,224.2	2,563.0	3,775.5	4,843.5	
Employee Costs	1,080.5	865.0	1,032.1	1,155.9	
Administration & Other Exp	2,271.4	1,266.0	2,098.8	2,562.4	
EBITDA	1,211.8	555.0	976.2	1,648.6	
Growth (%)	118.7	PL	LP	68.9	
Depreciation	885.3	963.0	952.7	1,023.5	
EBIT	326.5	(408.0)	23.5	625.1	
Interest	424.7	503.0	255.8	305.1	
Other Income	65.3	73.0	94.9	90.2	
PBT	(32.9)	(838.0)	(137.4)	410.2	
Growth (%)	(122.1)	PL	LP	(398.5)	
Tax	132.1	(101.5)	(34.6)	102.6	
Reported PAT	(165.0)	(736.5)	(102.8)	307.7	
Minority Interest	(2.0)	(63.5)	(20.0)	(10.0)	
Adjusted PAT	(163.0)	(673.0)	(82.8)	317.7	
Growth (%)		PL	LP	(483.5)	
Reported EPS	(2.1)	(7.2)	(0.9)	3.4	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E	
Profit after Tax	(163.0)	(673.0)	(82.8)	317.7	
Add: Interest Expense	424.7	503.0	255.8	305.1	
Add: Depreciation	885.3	963.0	952.7	1,023.5	
Add: Others	-	-	-	-	
Increase/(Decrease) in CL	(52.0)	452.8	3.1	282.9	
(Increase)/Decrease in CA	(514.9)	(18.5)	(178.1)	(531.1)	
CF from Operating Activities	580.1	1,227.3	950.7	1,398.0	
(Add) / Dec in Fixed Assets	(318.4)	(162.0)	(450.0)	(450.0)	
(Inc)/Dec in Investments	(136.3)	(710.0)	219.8	120.0	
CF from Investing Activities	(454.7)	(872.0)	(230.2)	(330.0)	
Inc/(Dec) in Loan Funds	1,080.1	(1,646.6)	(236.4)	-	
Inc/(Dec) in Sh. Cap. & Res.	7.7	2,249.1	248.8	-	
Others	(578.7)	(459.5)	(673.9)	(706.0)	
Less: Interest Expense	(424.7)	(503.0)	(255.8)	(305.1)	
CF from financing activities	84.4	(360.0)	(917.2)	(1,011.1)	
Change in cash Eq.	209.8	(4.6)	(196.7)	56.9	
Op. Cash and cash Eq.	57.1	266.9	262.3	65.5	
Cl. Cash and cash Eq.	266.9	262.3	65.5	122.4	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E	
Source of Funds					
Equity Capital	774.0	915.1	937.6	937.6	
Reserves & Surplus	293.9	1,729.0	1,872.4	2,190.1	
Shareholder's Fund	1,067.9	2,644.1	2,810.0	3,127.7	
Total Loan Funds	2,783.0	1,136.4	900.0	900.0	
Other Non Current Liabilities	2,501.8	2,463.4	2,463.4	2,463.4	
Minority Interest	27.2	32.8	33.4	34.1	
Source of Funds	6,501.9	6,455.3	6,385.6	6,703.9	
Application of Funds					
Gross Block	1,340.1	1,536.9	1,986.9	2,436.9	
Less: Acc. Depreciation	(697.2)	(962.2)	(1,240.4)	(1,557.2)	
Net Block	642.9	574.7	746.5	879.7	
Capital WIP	44.1	37.6	37.6	37.6	
Total Fixed Assets	687.0	612.3	784.1	917.3	
Goodwill	2,093.8	2,696.7	2,696.7	2,696.7	
Investments	14.2	419.8	200.0	80.0	
Inventories	2,366.8	1,847.0	1,965.2	2,377.8	
Debtors	840.5	730.5	755.9	839.2	
Cash	266.9	262.3	65.5	122.4	
Loan & Advance, Other CA	1,289.6	1,461.8	1,496.2	1,531.5	
Total Current assets	4,763.7	4,301.5	4,282.8	4,870.9	
Creditors	2,289.9	2,373.4	2,375.6	2,657.5	
Provisions & Other CL	973.7	1,343.0	1,343.9	1,344.8	
Total CL and Provisions	3,263.6	3,716.4	3,719.5	4,002.4	
Net Working Capital	1,500.1	585.1	563.4	868.5	
Other NCA	2,206.9	2,141.4	2,141.4	2,141.4	
Application of Funds	6,501.9	6,455.3	6,385.6	6,703.9	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY 20A	FY 21E	FY 22E	FY 23E	
Per share data (₹)					
Book Value	13.8	28.2	30.0	33.4	
EPS	(2.1)	(7.2)	(0.9)	3.4	
Cash EPS	9.3	3.1	9.3	14.3	
DPS	-	-	-	-	
Profitability & Operating Ratios					
EBITDA Margin (%)	13.8	10.6	12.4	16.1	
PAT Margin (%)	(1.9)	(12.8)	(1.1)	3.1	
Fixed Asset Turnover (x)	2.3	1.4	2.1	2.5	
Inventory Turnover (Days)	98.3	128.4	91.0	85.0	
Debtor (Days)	34.9	52.0	35.0	30.0	
Current Liabilities (Days)	95.1	137.0	110.0	95.0	
Return Ratios (%)					
RoE	(15.3)	(25.5)	(2.9)	10.2	
RoCE	10.2	(8.9)	3.2	17.8	
RoIC	17.3	(31.0)	1.6	36.6	
Valuation Ratios (x)					
P/E	-	-	-	66.1	
Price to Book Value	16.2	7.9	7.5	6.7	
EV/EBITDA	16.4	-	22.4	13.2	
EV/Sales	2.3	4.2	2.8	2.1	
Leverage & Solvency Ratios					
Debt to equity (x)	2.6	0.4	0.3	0.3	
Interest Coverage (x)	0.8	-	0.1	2.0	
Debt to EBITDA (x)	2.3	2.0	0.9	0.5	
Current Ratio	1.4	1.1	1.1	1.2	
Quick ratio	0.7	0.6	0.6	0.6	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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