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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

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Aditya Birla Fashion & Retail

Demerger to separate the cash generating and cash guzzling businesses; re-rating hinges on margin and balance sheet improvement

COMPANY UPDATE

Sector: Retail **Rating:** HOLD

CMP: Rs 240 **Target Price:** Rs 267

Stock Info

Sensex/Nifty	73,649/ 22,336
Bloomberg	ABFRL IN
Equity shares (mn)	949
52-wk High/Low	Rs 266/ 184
Face value	Rs 10
M-Cap	Rs 244bn/USD 2.9bn
3-m Avg volume	USD 12.8mn

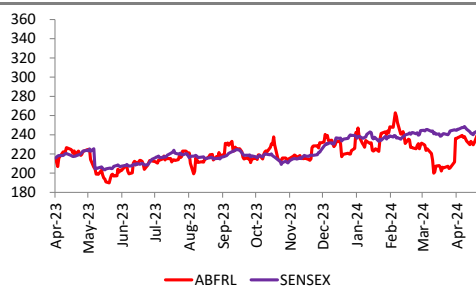
Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	142,081	163,660	192,412
PAT	-6,712	-4,163	-1,332
EPS (Rs)	(6.6)	(4.1)	(1.3)
PE (x)	(36.3)	(58.6)	(183.1)
EV/EBITDA (x)	17.3	14.0	10.8
P/BV (x)	6.5	7.3	7.6
EV/Sales	1.9	1.6	1.4
RoE (%)	(18.9)	(11.8)	(4.1)
RoCE (%)	0.9	2.7	5.7
NWC (days)	59.8	52.8	52.8
Net gearing (x)	0.8	0.7	0.6

Shareholding Pattern (%)

	Mar24	Dec23	Sep23
Promoter	51.9	55.5	55.5
–Pledged	-	-	-
FII	19.5	14.2	14.0
DII	14.8	17.0	17.0
Others	13.8	13.4	13.5

Stock Performance (1-year)



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Aditya Birla Fashion & Retail (ABFRL) board approved the recently announced demerger of Madura Fashion and Lifestyle business into a newly incorporated company named Aditya Birla Lifestyle Brands (ABLBL). After the demerger, ABLBL will house the 4 core brands Van Heusen, Louis Phillippe, Allen Solly and Peter England in addition to American Eagle, Forever 21 and Reebok while ABFRL would continue to run the value retail businesses of Pantaloons & Style Up, luxury brands like The Collective, digital brands under TMRW and the complete ethnic wear portfolio of TCNS and designer brands. Madura Fashion and Lifestyle business has a strong portfolio of apparel brands, follows an asset light franchise-driven business model, generates strong cash flows coupled with high RoCE and should witness a re-rating post demerger while the remaining business can see tepid investor interest for now given an unclear path to profitability, higher capital requirement and therefore lower return ratios and upcoming dilution for existing shareholders. We will ascribe a separate fair value to both businesses post getting a detailed picture of the balance sheet split, but do so see value unlocking especially for ABLBL. The stock is currently trade at 14x and 10.8x FY25E & FY26E EV/ EBITDA. We have a HOLD rating on the stock with a target price of Rs 267, which we will review post announcement of 4Q and FY24 results.

Key takeaways of the investor call – 1) Demerger is driven by management's desire to split the business according to the nature of business – Madura Fashion and Lifestyle is asset-light, mature and easily franchiseable while Pantaloons, ethnic wear and digital businesses need a lot of growth capital to reach maturity; 2) The demerger is expected to be completed within 9-12 months post completion of the ongoing TCNS acquisition (expected in 4-5 months); 3) ABFRL's borrowings estimated of Rs 30 bn as on March 2024 to be split between the two entities with Rs 10 bn to be transferred to ABLBL; and 4) Within 12 months post the completion of demerger, ABFRL plans to raise c. Rs 25 bn equity capital to strengthen its balance sheet and fund the growth of the remaining businesses, with the promoter group intending to participate in the fund raise.

Business bifurcation post demerger

- Aditya Birla Lifestyle Brands will consist of Lifestyle brands such as Louis Phillippe, Van Heusen, Allen Solly & Peter England, Casual wear brands including American Eagle & Forever 21, Sportswear brand Reebok and Innerwear business under Van Heusen brand.
- Aditya Birla Fashion and Retail will be a portfolio of multiple growth platforms including Value retail business under Pantaloons & Style Up, Ethnic portfolio including TCNS brands, Luxury businesses such as The Collective, Galleries Lafayette and select luxury brands and Digital brands of TMRW.

ABLBL to create value in a focused manner

- The ABLBL portfolio has a combined scale of Rs 80 bn on an annualized basis. This business over the years has built a leadership position in its segment and has a proven track record of delivering consistent revenue growth, strong profitability and free cash flow generation along with high ROCE.

- As a separate listed entity, the business will be able to pursue its independent growth and value creation trajectory in a more focused manner.

Post demerger ABFRL to be a portfolio of multiple distinct high growth platforms

- This portfolio within ABFRL currently has a run rate of +Rs70 bn on an annualized basis and is expected to grow rapidly.
- To suitably fund the growth of these businesses and to infuse strength in the balance sheet, ABFRL will raise external equity capital of Rs 25 bn with backing from promoters.
- The Ethnic business is expected to require highest capital allocation followed by Value retail and Luxury. Pantaloons is expected to generate enough growth capital. Company expects the Ethnic business to reach Rs 40-50 bn in next 3 years from current Rs 20 bn. TMRW will have its separate fund raising.

Rationale behind the demerger

- The separate structures would sharpen strategic focus and ensure clear capital allocation.
- The two separately listed entities will allow participation of right set of investors and strategic partners in line with the appropriate risk profiles and will encourage better capital market outcomes.
- Madura part of the business has ability to generate cash and continue its growth trajectory while the remaining businesses in ABFRL need capital to pursue high growth.

Timelines for the demerger

- The proposed demerger will be subject to necessary regulatory approval and may take between 9-12 months for implementation.
- The TCNS scheme, which is already in the NCLT process (expected to be completed in next 4-5 months), will precede the implementation of this demerger scheme.

Future acquisitions

- Company reiterated that it will not add any new businesses in near future.
- The focus will be on scaling existing businesses.

Capital raise

- ABFRL will be raising Rs 25 bn within 12 months from the completion of the demerger.
- This capital raise will fund the growth of the businesses and also strengthen the balance sheet.
- The exact nature of the fund raise is yet to be finalized.

Separate management structure

- The company will figure out a management structure to run the two companies separately.
- Currently all businesses are run like independent entities with independent management structures.

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	81,362	1,24,179	1,42,081	1,63,660	1,92,412
RM costs/inventories	37,202	55,520	63,382	72,844	85,449
Gross Profits	44,161	68,659	78,700	90,816	1,06,963
Employee costs	11,585	15,634	17,887	20,785	23,474
Rental costs	3,932	8,970	9,519	10,147	12,314
Other costs	17,644	29,120	35,503	40,649	46,886
Total Expenses	70,363	1,09,243	1,26,291	1,44,425	1,68,124
EBITDA	10,999	14,936	15,790	19,235	24,288
Depreciation	9,970	12,270	16,691	17,859	19,109
Other income	1,006	1,165	2,000	2,200	2,420
EBIT	2,034	3,831	1,099	3,576	7,599
Interest cost	3,507	4,724	8,904	9,142	9,379
PBT	(1,473)	(893)	(7,805)	(5,566)	(1,780)
Taxes	(266)	(230)	(1,093)	(1,403)	(449)
Adj. PAT	(1,207)	(663)	(6,712)	(4,163)	(1,332)
Extraordinaries/Deferred tax	-	-	-	-	-
Reported PAT	(1,207)	(663)	(6,712)	(4,163)	(1,332)
No. of shares (mn)	938	949	1,015	1,015	1,015
Adj. EPS	(1.3)	(0.7)	(6.6)	(4.1)	(1.3)

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(1,449)	(824)	(7,805)	(5,566)	(1,780)
Add: Depreciation	9,970	12,270	16,691	17,859	19,109
Add: Interest	3,507	4,724	8,904	9,142	9,379
Less: taxes paid	(164)	25	1,093	1,403	449
Add: other adjustments	(2,600)	(714)	-	-	-
Less: WC changes	(241)	9,118	10,748	381	4,138
Total OCF	9,505	6,362	8,135	22,456	23,018
Operating CF w/o WC changes	9,264	15,480	18,883	22,837	27,157
Capital expenditure	(3,480)	(6,813)	(23,800)	(8,000)	(8,000)
Leased asset	-	-	-	-	-
Change in investments	(2,127)	2,839	-	-	-
Interest/Dividend received	92	102	-	-	-
Total ICF	(5,515)	(3,872)	(23,800)	(8,000)	(8,000)
Free Cash Flows	6,026	(451)	(15,665)	14,456	15,018
Share issuances	2,476	38	10,657	-	-
Payment of lease liability	(5,609)	(8,910)	-	-	-
Change in borrowings	960	17,454	18,000	(5,500)	(5,500)
Dividends	-	-	-	-	-
Interest payment	(3,097)	(5,327)	(8,904)	(9,142)	(9,379)
Others	-	-	-	-	-
Total FCF	(5,270)	3,255	19,753	(14,642)	(14,879)
Net change in cash	(1,279)	5,745	4,087	(186)	139
Opening cash & CE	2,461	1,182	6,927	11,014	10,829
Closing cash & CE	1,182	6,927	11,014	10,829	10,968

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	9,383	9,488	10,145	10,145	10,145
Reserves and surplus	18,502	23,972	27,260	23,097	21,765
Total Equity	27,885	33,460	37,405	33,242	31,910
Total Debt	12,323	23,055	41,055	35,555	30,055
Lease liabilities	28,681	42,673	52,673	60,673	68,673
Other long term liabilities	9,756	17,539	17,539	17,539	17,539
Total sources	78,646	1,16,728	1,48,673	1,47,009	1,48,178
Net Block/ ROU asset	32,567	47,783	44,333	37,531	34,422
Net deferred tax	3,805	4,085	4,085	4,085	4,085
Other assets	5,317	9,613	9,613	9,613	9,613
Intangibles	29,032	37,232	52,232	52,232	52,232
Investments	-	-	-	-	-
Cash	1,205	7,011	11,098	10,912	11,051
Inventories	29,296	42,144	50,358	57,876	67,891
Debtors	7,564	8,864	16,349	15,693	18,450
Other Current assets	15,280	13,682	19,240	24,184	24,184
Current Assets	52,140	64,690	85,948	97,754	1,10,525
Creditors	34,106	38,461	43,412	49,893	58,527
Other Current Liabilities	11,314	15,224	15,224	15,224	15,224
Current Liabilities	45,420	53,685	58,636	65,117	73,751
Net Working Capital	6,720	11,005	27,312	32,636	36,775
Total Uses	78,646	1,16,728	1,48,673	1,47,009	1,48,178

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Yoy growth in Revenue	55.0	52.6	14.4	15.2	17.6
Yoy growth in EBITDA	98.3	35.8	5.7	21.8	26.3
Yoy growth in Net income	(81.1)	(49.8)	1,028.7	(38.0)	(68.0)
Effective tax rate	18.3	27.9	14.0	25.2	25.2
EBITDA margin	13.5	12.0	11.1	11.8	12.6
PAT margin	(1.5)	(0.5)	(4.7)	(2.5)	(0.7)
ROACE	3.0	4.4	0.9	2.7	5.7
ROAE	(4.3)	(1.9)	(18.9)	(11.8)	(4.1)
Net debt to equity (x)	0.4	0.5	0.8	0.7	0.6
Inventory days	287	277	290	290	290
Debtor days	34	26	42	35	35
Payable days	335	253	250	250	250
NWC days	12	37	60	53	53
Per share numbers (Rs)					
Reported earnings	(1.3)	(0.7)	(6.6)	(4.1)	(1.3)
Dividend	-	-	-	-	-
Free cash	0.4	(9.9)	(15.4)	14.2	14.8
Book Value	29.7	35.3	36.9	32.8	31.5
Valuations (x)					
Price to diluted earnings	(190.5)	(383.5)	(36.3)	(58.6)	(183.1)
EV / EBITDA	21.5	16.3	17.3	14.0	10.8
Price to sales	2.8	1.8	1.7	1.5	1.3

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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