

Aditya Birla Fashion & Retail (ADIFAS)

₹ 154

Blend of premium, fast fashion brands...

We recently met the management of Aditya Birla Fashion & Retail (ABFRL) to get an insight into its business and future plans. ABFRL is one of India's largest branded apparel companies formed by consolidation of Madura Fashion & Lifestyle (Madura) and Pantaloons. Madura houses a portfolio of India's largest menswear brands like Louis Philippe, Van Heusen, Allen Solly and Peter England. With each brand worth ₹ 1000 crore, Madura's FY16 revenues were at ₹ 4000 crore. The retail space for Madura consists of 1895 exclusive branded outlets (EBOs) across ~2.6 mn sq feet. In addition to the same, brands are available over 7800 multi branded outlets (MBO). Following brand extensions, inventory modifications and acquisition of Forever 21, the management expects Madura to reset its growth path. Pantaloons, fast fashion value retailer continues to focus on women's wear category (42% of the revenues). The key strength of Pantaloons includes its high share of private label (~63%) and well established widespread network of 179 stores entailing coverage over 3 mn sq ft. A loyalty customer base of 6.6 million customers enables Pantaloon to generate healthy like-to-like (LTL) sales growth of 6% and revenues of ₹ 2164 crore for FY16. Post restructuring, the management now has aggressive expansion plans for Pantaloons.

Company on track to revive LTL sales growth of Madura

With the entry of new international brands in India, Madura has been seeing sluggish revenue growth rate in recent times. In addition to that, Madura has refrained from giving away aggressive discounts. However, to sustain stiff competition, the management has chalked out certain strategies- a) leveraging its Van Heusen brand by launching innerwear & Athleisure product categories, b) acquiring online and offline rights of Forever 21 to strengthen its foothold in the women's western wear segment and c) moving from two to four design cycles to improve freshness of stock and reduce inventory days. With above mentioned measures, management expects Madura to revive its LTL sales growth.

Restructuring of Pantaloons to aid operating margins

Since the acquisition in 2013, ABFRL has undertaken various measures to revive Pantaloons- a) setting up a new in-house design studio, recruiting experts for product design, b) aggressively adding new stores, from 65 in FY13 to 179 as on December 31, 2016 and c) optimising the mix of exclusive and external brands to aid margins. Going forward, the management plans to add 50 stores on a yearly basis and continuously strive to increase its share of private label brands.

Exhibit 1: Financial Performance

(₹ Crore)	FY13	FY14	FY15	FY16
Net Sales (₹ crore)	1,285.1	1,661.2	1,850.7	6,060.1
EBITDA (₹ crore)	66.1	33.4	72.7	396.8
Net Profit (₹ crore)	(68.9)	(187.7)	(228.1)	(104.1)
EPS (₹)	(9.9)	(20.2)	(24.5)	(1.4)
Mcap/sales (x)	9.3	7.2	6.4	2.0
Price / Book (x)	15.5	20.6	34.5	12.6
EV/EBITDA (x)	207.9	411.7	189.1	34.6
RoCE (%)	0.5	(4.6)	(6.7)	2.1
RoE (%)	(9.0)	(32.4)	(66.0)	(11.0)
RoIC (%)	5.1	(3.7)	(6.4)	2.9

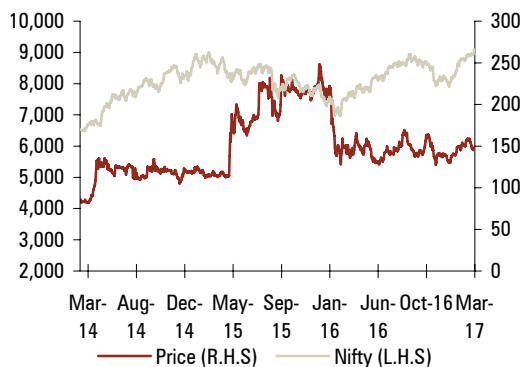
Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

Rating matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials				
(₹ Crore)	FY13	FY14	FY15	FY16
Net Sales	1,285.1	1,661.2	1,850.7	6,060.1
EBITDA	66.1	33.4	72.7	396.8
Net Profit	(68.9)	(187.7)	(228.1)	(104.1)
EPS (₹)	(9.9)	(20.2)	(24.5)	(1.4)

Valuation Summary				
(x)	FY13	FY14	FY15	FY16
Mcap/sales	9.3	7.2	6.4	2.0
EV / EBITDA	207.9	411.7	189.1	34.6
P/BV	15.5	20.6	34.5	12.6
RoNW (%)	(9.0)	(32.4)	(66.0)	(11.0)
RoCE (%)	5.1	(3.7)	(6.4)	2.9

Price movement



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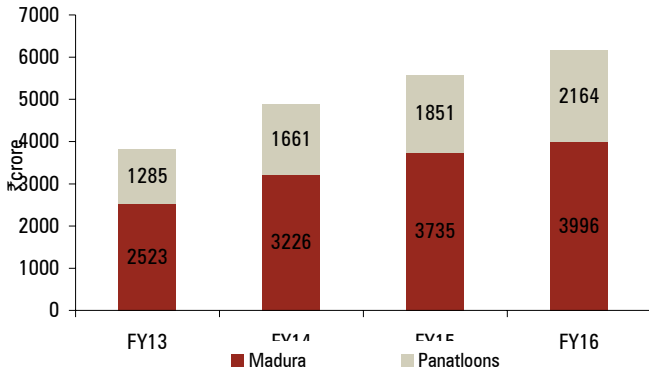
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Management meet highlights:

- The company plans to open 50 Pantaloons stores and 150 Madura stores yearly. Majority of store additions would be through the franchisee route. Under the franchisee models, ABFRL does not need to infuse capital but inventory stays in books of the company
- ABFRL has an in-house designing team for both Pantaloons and Madura. Total 60% of Madura's and 100% of Pantaloons' manufacturing is outsourced
- The company plans to spend on advertisement expenditure ~5% and 3% of revenues for Madura and Pantaloons, respectively
- The company has moved from two to four design cycles in order to improve freshness of the stock and reduce inventory days
- The management indicated at maintaining same store sales growth (SSSG) for Pantaloons of 7-8%
- The company plans to add four to five Ted Baker stores over the next two or three years mainly in large cities
- The company had acquired Forever 21 through a licensing agreement for 30 years. Currently, it has 14 Forever 21 stores. It plans to open up 25-30 stores in the next two years
- The company has launched Innerwear & Athleisure under VH brand in Chennai, Hyderabad and Bengaluru and is available across 400 MBOs
- Pantaloons has forayed into exclusive stores dedicated to woman and kids only. As on December 2016, Pantaloons has 10 woman and five kids store operational
- Currently, Pantaloons generates 63% revenues from private label brands. The management will continue to strive for higher share of private label brands as it aids in margin improvement

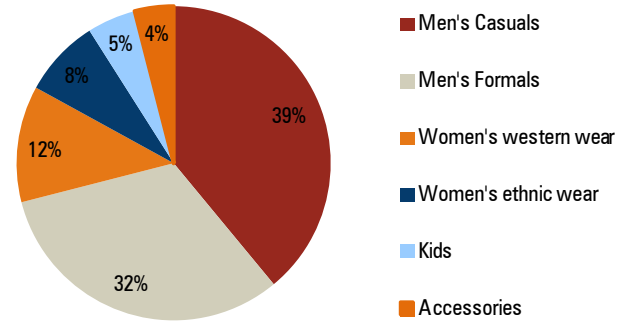
Financials:

Exhibit 2: Revenue mix



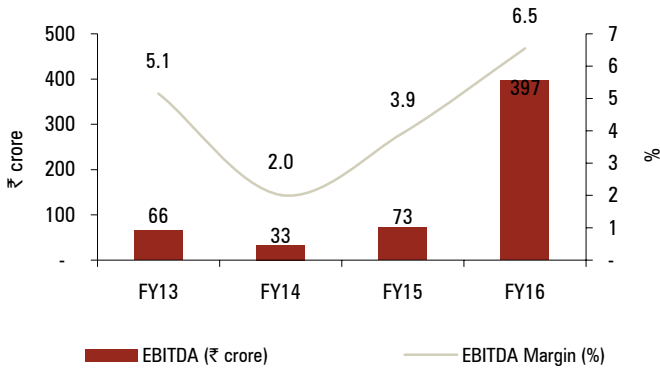
Source: Company, ICICIdirect.com Research

Exhibit 3: ABFRL Portfolio mix...



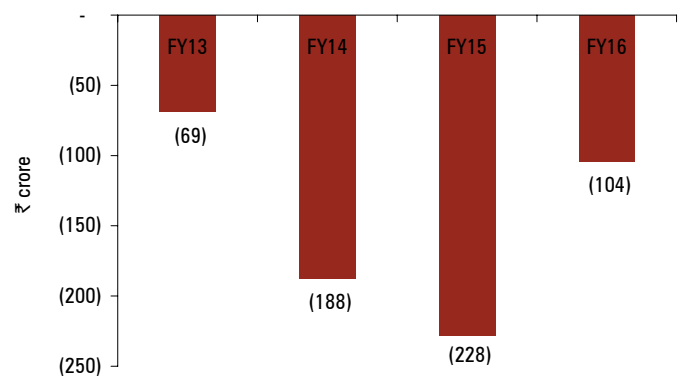
Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

Exhibit 4: EBITDA trend



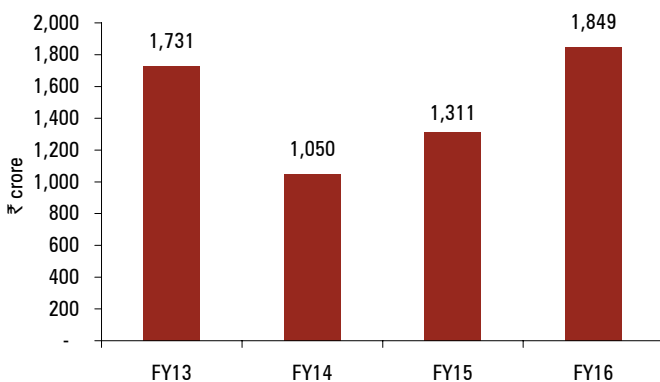
Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

Exhibit 5: PAT trend



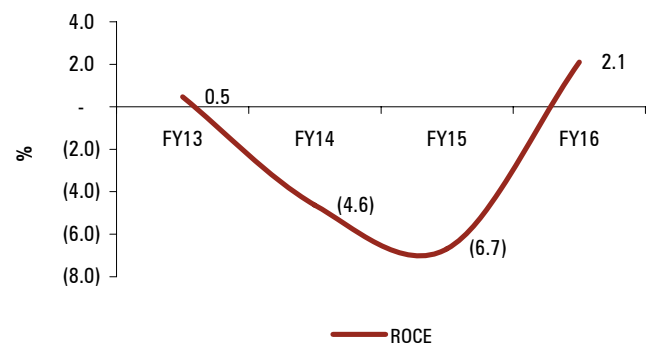
Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

Exhibit 6: Debt trend...



Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

Exhibit 7: Return ratio trend



Source: Company, ICICIdirect.com Research. FY16 includes numbers of Madura Garments

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Sell: -10% or more;



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