

BSE Code: 535755

NSE Code: ABFRL

Reuters Code: -

Bloomberg Code: ABFRL:IN

Long term growth story to unfold

Aditya Birla Fashion & Retail Ltd (ABFRL) (erstwhile Pantaloons Fashion & Retail) is India's leading fashion lifestyle entity. It includes endearing brands and retail businesses of Madura Fashion & Lifestyle (Madura) and Pantaloons, respectively. ABFRL has the largest retail footprint of 5.4 million square feet. Further, it owns a network of over 2,100 exclusive brand stores.

Investment Rationale

🌀 **ABFRL is well poised to exploit the growth opportunity:** With rising disposable income & shift in consumer preference towards branded apparels, it is projected that the modern apparel retail is expected to reach USD 37 bn in the next five years from about USD 16 bn currently. According to industry estimates, the overall apparel market is expected to grow at a steady pace to reach USD 100 billion by 2020 from around USD 60 billion currently. As, ABFRL's owns right mix of brands that straddle across price point and categories, we believe it is well poised to exploit the strong growth opportunity.

🌀 **Brands play:** Madura has a strong presence in the branded apparels space with an impressive bouquet of reputed fashion brands in its kitty viz; Louis Philippe, Van Heusen, Allen Solly, Peter England. The brands are widely available at different price points and have created a sharp and distinct positioning. Further, it is the owner/perpetual licensor of these reputed brands. Madura has undertaken an aggressive stores addition (more than 400) in the last two years and is planning to add ~100 EBOs each in FY17E and FY18E. We believe steady store expansion plans would drive revenue and margins going ahead. Thus, we expect Madura' revenue to grow at ~11% CAGR over FY15-18E with EBITDA margin increasing to 10% in FY18.

🌀 **Pantaloons acquisition – a strategic fit:** Madura is predominantly in the menswear category with small presence in the womenswear and kidswear segments. With Pantaloons acquisition, the company has been able to plug this gap as it has a strong bouquet of brands across womenswear (42% of revenue) and kidswear (11%). Thus, it is a strategic fit in the portfolio and would fortify the overall group's position in the brands and retail business. Further, Pantaloons' unique business model of 'Design to Retail' and higher mix of private label brands will lead to better gross margin profile. Post the acquisition of Pantaloons, the company has adopted a strategy of rapid stores addition (more than 50) and refurbishing its existing stores with an objective of improving customer footfalls. Further, ABFRL plans to add ~30-35 stores each in FY17E and FY18E. Thus, we expect Pantaloons' revenue to grow at a CAGR of ~27% over FY15-18E with EBITDA margin growing to 5.5% in FY18E.

Valuation: With strong growth in Madura and Pantaloons, we expect overall revenue to increase to Rs. 8,697 crore in FY18E. Further, margins are expected to accentuate to 7.6% in FY18E driven by the synergy benefits coupled with capital efficiencies arising from the consolidation. We expect ROE to improve to 16.5% in FY18E; ROCE is projected to increase to 12.6% in FY18E. We initiate coverage on the stock with a BUY rating with a target price of Rs. 165 (based on DCF), assuming cost of equity of 13.5% and terminal growth rate of 5%, implies a potential upside of ~20% over the next 1 year.

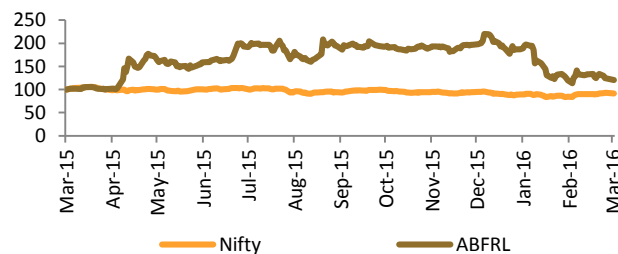
Market Data

Rating	BUY
CMP (Rs.)	138
Target (Rs.)	165
Potential Upside	20%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	263.4/107.3
Adj. all time High (Rs.)	263.4
Decline from 52WH (%)	47.6
Rise from 52WL (%)	28.6
Beta	1.2
Mkt. Cap (Rs.Cr)	10,787

Fiscal Year Ended

Y/E	FY15	FY16E	FY17E	FY18E
Revenue (Rs.Cr)	1,851	6,189	7,335	8,697
Adj. Net profit (Rs.Cr)	(228)	13	101	191
Adj. EPS (Rs.)	(24.5)	0.2	1.3	2.4
Adj. P/E (x)	(4.7)	854.7	107.1	56.4
P/BV (x)	3.1	11.2	10.2	8.6
ROE (%)	(49.3)	1.3	10.0	16.5

One year Price Chart



Shareholding Pattern

	Dec-15	Sep-15	Chg.
Promoters (%)	72.6	72.6	0.0
Public (%)	27.4	27.4	0.0
Others (%)	-	-	-

ABFRL hosts India's largest fashion network with more than 6,000 points of sale across ~200 cities and towns (including about 2,000 exclusive ABFRL brand outlets).

Aditya Birla Fashion and Retail Ltd: Business overview

Aditya Birla Fashion and Retail Ltd. (ABFRL) is India's leading Fashion Lifestyle entity. ABFRL hosts India's largest fashion network with more than 6,000 points of sale across ~200 cities and towns (including about 2,000 exclusive ABFRL brand outlets). ABFRL boasts of creating more than 20,000 new designs every year.

The company's umbrella includes; Madura Fashion & Lifestyle and Pantaloon's. Madura Fashion & Lifestyle is engaged in retailing of apparel brands. It owns several reputed brands under its portfolio including top four fashion brands of India - Louis Philippe, Van Heusen, Allen Solly, and Peter England — each of which clocked revenues of around Rs. 1,000 crore during FY15.

Pantaloon's Fashion & Retail Ltd is among the top 3 large format fashion retailers and the largest branded womenswear retailer in India.

Healthy mix of exclusive brands as well as external brands

	Pantaloon's			
	Own & in-Licensed brands	New Own / in-Licensed brands	Madura brands	External brands
Men	BARE, BARE, IN, RIG, QILE, LONDAID, FACTOR	BYFORD, ALTO MODA, SF, indus route, alto MODA, Candie's, SF, IZABEL, alto MODA, Jamipi	PETER ENGLAND, PETER ENGLAND, VAN HEUSEN, ULP, Louis Philippe, Allen Solly, VAN HEUSEN	JOHN MILLER, celio, spykar, Lee Cooper, Levi's
Women-Western	honey, BARE, annabelle, RIG, QILE	alto MODA, Candie's, SF, IZABEL, alto MODA, Jamipi	Allen Solly, VAN HEUSEN	JEALOUS 21, JOSE AND, KURBAUS
Women-Ethnic	rang manch, TISSIAA, Akkret	alto MODA, Jamipi		BIBA, global desi, W
Kids	chalk, BARE, Akkret	Chirgie & Pie, POPPERS	Allen Solly Junior	Barbie, Gini & Jony

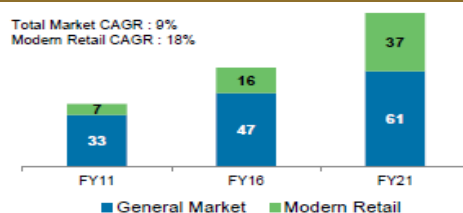
Source: Company

Well placed to ride on strong growth opportunities in textiles and apparel industry

With rising disposable income & shift in consumer preference towards branded apparels, it is projected that the modern apparel retail is expected to reach USD 37 bn in the next five years from about USD 16 bn currently. Further, increasing share of women wear coupled with increasing affinity towards brands and growing penetration of modern retail, provide compelling opportunity for the domestic apparel industry. According to industry estimates, the overall apparel market is expected to grow at a steady pace to reach USD 100 billion by 2020 from around USD 60 billion currently. As, ABFRL's owns right mix of brands that straddle across price pyramid and categories, we believe it is well poised to exploit the strong growth opportunity.

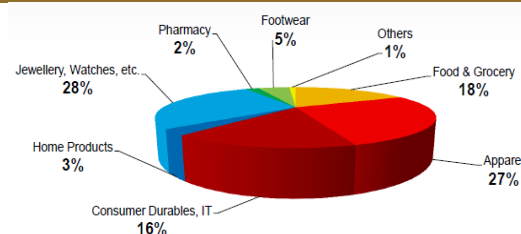
According to industry estimates, the overall apparel market is expected to grow at a steady pace to reach USD 100 billion by 2020 from around USD 60 billion.

Apparel market size and growth in India (USD bn)



Source: Company

Apparel - Largest share in Organized Retail



The consolidation offers a superior mix of product across menswear and womenswear given Madura Fashion & Lifestyle (MFL) dominance in menswear and Pantaloons leadership position in womenswear.

ABFRL has the largest retail footprint of 5.4 mn sq ft with a network of over 2,100 exclusive brand stores.

Strong bouquet of leading fashion brands and retail formats

In a bid to capitalise on its huge market presence and to exploit emerging opportunities in the rapidly growing branded apparel space, Aditya Birla Group has decided to merge Madura with Pantaloons. In FY16, the branded apparel businesses of group holding company Aditya Birla Nuvo (ABNL) - Madura Fashion division and Madura Lifestyle division (ABNL's 100% subsidiary Madura Garments Lifestyle Retail Co. Ltd) was consolidated with ABNL's subsidiary - Pantaloons Fashion and Retail (PFRL). The consolidation has helped to create India's largest pure play fashion and lifestyle company with a strong bouquet of leading fashion brands and retail formats. Besides, it has enabled the company to tap operational synergies on various fronts such as sourcing, real estate and technology platforms. The consolidation offers a superior mix of product across menswear and womenswear given Madura Fashion & Lifestyle (Madura) dominance in menswear (India's no. 1 player) and Pantaloons leadership position in womenswear (India's #1 Womenswear Retailer). The combined entity will house India's leading fashion brands under its kitty as Madura has a rich bouquet of brands such as Louis Philippe, Van Heusen, Allen Solly and Peter England. Likewise, Pantaloons hosts a strong portfolio of exclusive private brands. We believe the consolidation provides the company with a competitive edge and will also aid in negotiating retail space and help in inventory management.

Winning Combination of Brands & Retail

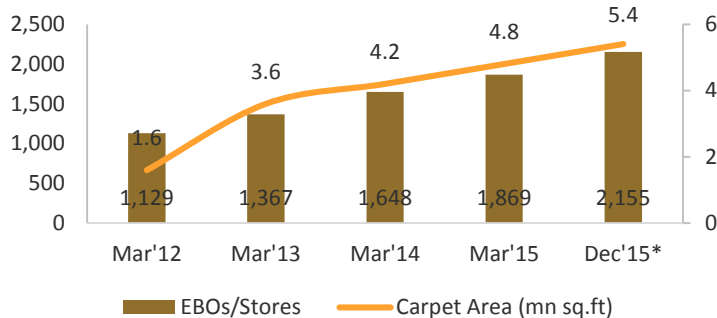
	
<ul style="list-style-type: none"> • Powerhouse of India's leading fashion brands: Louis Philippe, Van Heusen, Allen Solly, Peter England • Extensive reach through multi-channel distribution network: 2,004 Retail stores & 7,000+ additional points of sale • Established global supply chain • Strong in-house design & product development capabilities • Track record of robust financial performance 	<ul style="list-style-type: none"> • One of India's largest big-box fashion retailer • Unique business model: Design to Retail • Strong portfolio of exclusive private brands: ~56% of Revenue • Wide reach: 68 cities & 151 stores • Rich portfolio spanning mens, womens western, womens ethnic and kids • One of the largest loyalty programs: ~ 4.7 Mn members
India's #1 Menswear Player	India's #1 Womenswear Retailer

Source: Company

ABFRL: Widest distribution network in the fashion space

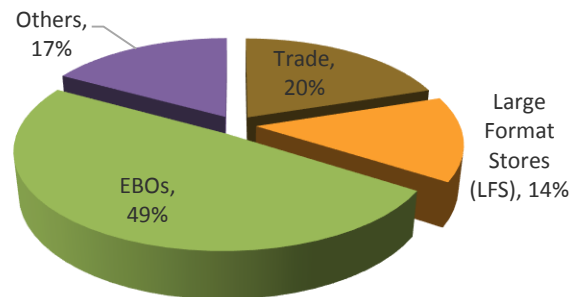
ABFRL has a strong distribution network with the expanse of its brand scape spread across the retail, departmental stores, multi-brand outlets (MBOs) and other channels. ABFRL (combined entity – Pantaloons and Madura) has the largest retail footprint of 5.4 million square feet (mn sq ft). It owns a network of over 2,100 exclusive brand stores. It has a pan India reach with presence in more than 375 cities and towns. While Madura currently generates ~60% of its revenue from MBOs and department stores (~4000 MBOs and ~3000 shop-in-shops), the exclusive brand outlets (EBOs) accounts for the rest. As on 31st Dec, 2015, the brands store network of Madura was spread across 1,842 EBOs and 162 value stores. Similarly, the store network of Pantaloons was spread across 123 stores and 28 factory outlets. This multi-channel distribution strategy facilitates Madura to enhance its reach. While Madura is planning to add ~100 EBOs each in FY17E and FY18E, ABFRL plans to add ~30-35 each Pantaloons stores in FY17E and FY18E. The aggressive stores expansion (~500) over the last two years has put some pressure on the margin. However, we believe with steady network expansion going forward coupled with greater number of mature stores in the overall count would aid in margin expansion.

Brand stores network



* Includes 162 value stores of Madura division which are not included upto Mar'15

Channel mix (Q3FY16)



Source: Company, In-house research

Madura Fashion & Lifestyle brands are largely inclined towards branded menswear segment

Madura has an established presence in the formal menswear segment. With the acquisition of Madura Garments from the erstwhile Coats Viyella Plc—Europe's largest clothing supplier — in December 1999, Madura has created a formidable presence in the readymade menswear garments in India. The acquisition has led the company to become the owner/perpetual licensor of reputed menswear brands like Louis Philippe, Van Heusen, Allen Solly, and Peter England. Further, it is looking to introduce more brands to augment its portfolio. This strategy puts the company at a distinct advantage among its peers. Currently, Madura has 1,842 EBOs with retail area of 2.8 mn sq ft.

Madura's brands are widely available at different price points and have created a sharp and distinct positioning. Starting with its People brand, which is present at the lower end of the pyramid, Peter England is positioned as the sub-premium brand targeting value customers. While Louis Philippe and Van Heusen are premium brands in the formal segment, Allen Solly is more of a casual wear in the premium category. This unique brand positioning across the value chain has enabled the company in targeting abroad spectrum of customers. We believe steady store expansion plans coupled with scalability of its existing brands would drive revenue and margins going ahead. Thus, we expect Madura' revenue to grow at a CAGR of ~11% over FY15-18E with EBITDA margin growing to 10% in FY18E.

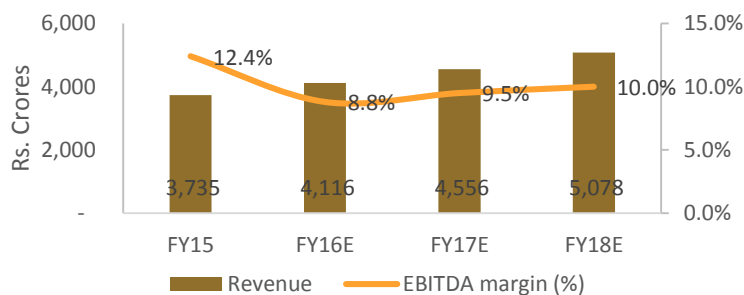
Madura has a well balanced portfolio of brands which are available across price points.

Brand positioning at Madura



Source: Company, In house research

Madura's revenue to grow at a CAGR of ~11% over FY15-18E



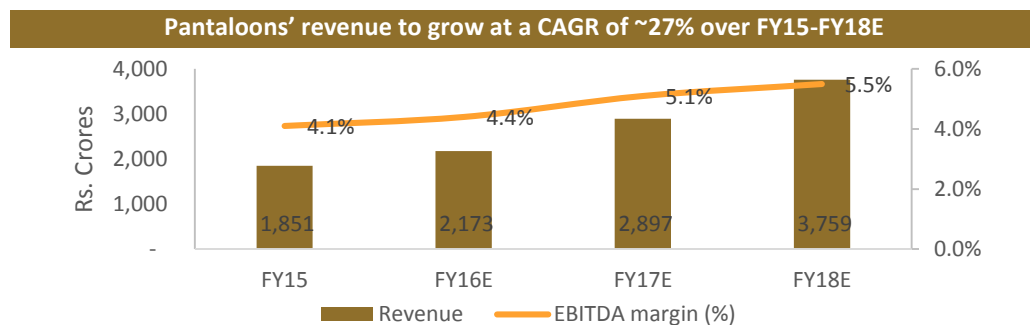
With Pantaloon's acquisition, the company has been able to plug the gap as it has a strong bouquet of brands across womenswear (42% of revenue) and kidswear (11%).

Pantaloon's; a strategic fit

Pantaloon's is one of India's largest big box fashion retailer with 151 stores (123 stores + 28 Factory Outlets) spread across 68 cities. Currently, Pantaloon's has 2.5 mn sq ft of retail space under operation. It also has one of the largest loyalty base of ~4.7 mn members who contribute significant ~60% of Pantaloon's sales. Madura is predominantly in the menswear category with little presence in the womenswear and kidswear segments. With the Pantaloon's acquisition, the company has been able to plug this gap as Pantaloon's has a strong bouquet of brands across womenswear (42% of revenue) and kidswear (11%). Thus, it is a strategic fit in the portfolio and would fortify the overall group's position in the brands and retail business.

The exclusive menswear brands include Lombard, Rig, Bare, SF Jeans, Byford, F Factor, JM Sport, among others. The women's section houses the private labels such as Bare, Rig, Annabelle, Honey, and Ajile in western wear and RangManch, Trishaa & Akkriti in ethnic wear. The kidswear section includes private label brands like Bare and exclusive brands like Chalk, etc. To augment its offerings further in kidswear and womenswear it has developed/licensed 10 new brands in the last two years.

In terms of profitability, womenswear business is more profitable than any other business as ~45% of Pantaloon's rupee gross margins was contributed by women's wear segment. Further, Pantaloon's unique business model of 'Design to Retail' and higher mix of private label brands lead to better gross margins. Thus, we expect Pantaloon's revenue to grow at a CAGR of ~27% over FY15-18E and the EBITDA margin to grow to 5.5% in FY18E from 4.1% in FY15.



Source: Company, In-house research

Focused towards margin expansion at Pantaloon's

Post the acquisition of Pantaloon's, the company has undertaken various initiatives such as increasing the stores count (from 65 to 123 currently), refurbishing and renovating existing stores, overhauling existing product line (launch of new brands to fill gaps) and creating new vendor network, etc. All these initiatives have started bearing fruit as Pantaloon's has delivered an unprecedented more than 3% improvement in gross margins to 44.9% in FY15 from 41.5% in FY14. Besides, the contribution from the non-apparel business has reduced from 14% in FY15 to 10% in Q3FY16. Going forward, the management will only focus on product categories which are strategic fit to its overall portfolio in the non-apparel business. We believe the company's sharp focus on its core brands and the fast-growing women's segment would lead to margin expansion.

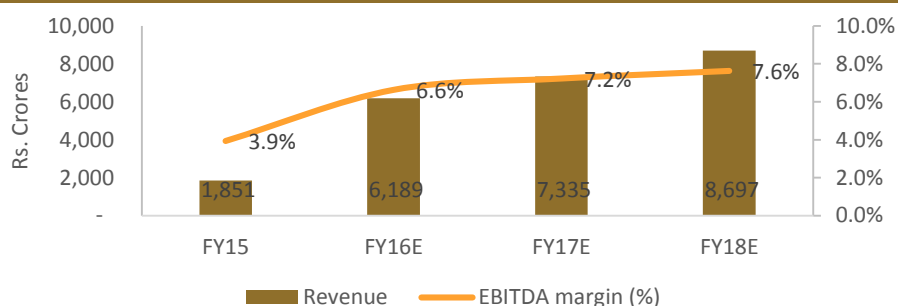
Brands extension and category expansion reinforce core positioning

Leveraging Madura's brand strength in the menswear segment, it has successfully diversified into womenswear and kidswear segment through its Allen Solly and Van Heusen brands. After establishing its dominance in the womenswear ethnic space, Pantaloon's has recently diversified into the menswear ethnic brand with the launch of "indus route". Further, to grab additional market share, Madura in the past has expanded its offerings with product extensions. For example; Madura has launched luggage bags under its menswear brand - Peter England. It has also extended its offerings to footwear and other accessories like tie, wallet, belt, etc under its Louis Philippe brand. Besides, it has introduced shoes, casual hand bags, etc under its premium casual wear brand Allen Solly. Moreover, category expansion and brands extension lead to better margins and footfalls.

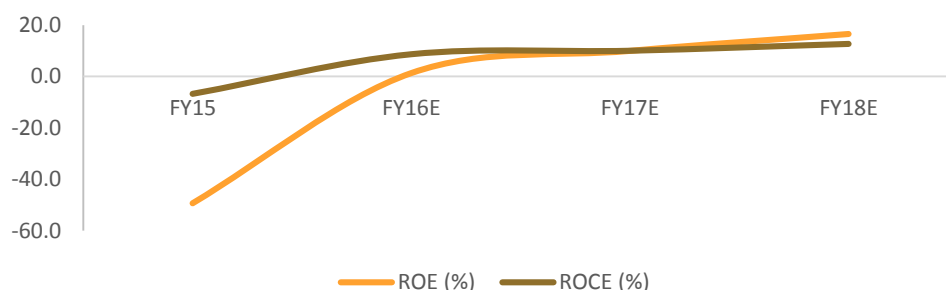
Synergy benefits and scalability to drive margins

Overall revenue is expected to increase to Rs. 8,697 crore in FY18E driven by strong growth in Madura and Pantaloon's. Overall EBITDA margin is expected to rise to 7.6% in FY18E led by benefits of synergy and scalability. We believe the synergy benefits coupled with capital efficiencies arising from the consolidation and better margins would lead to an improvement in ROCE going forward. We expect ROE to improve to 16.5% in FY18E; ROCE is projected to increase to 12.6% in FY18E. We value the overall business based on DCF assuming cost of equity of 13.5% and terminal growth rate of 5%.

Financial performance trend



Return ratios to stay elevated



Source: Company, In-house research

Key risks:

- Slowdown in discretionary spending could hamper growth prospects.
- Lower than expected margin expansion in Pantaloon's.

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY15	FY16E	FY17E	FY18E
Total operating Income	1,851	6,189	7,335	8,697
Raw Material cost	1,000	2,872	3,433	4,079
Employee cost	184	650	770	913
Other operating expenses	594	2,258	2,602	3,042
EBITDA	73	410	530	663
Depreciation	183	239	272	316
EBIT	(111)	171	258	347
Interest cost	120	170	170	170
Other Income	3	12	13	15
Profit before tax	(228)	13	101	191
Tax	-	-	-	-
Profit after tax	(228)	13	101	191
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	(228)	13	101	191
E/o income / (Expense)	-	-	-	-
Reported PAT	(228)	13	101	191

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY15	FY16E	FY17E	FY18E
Paid up capital	93	782	782	782
Reserves and Surplus	252	180	280	471
Net worth	346	961	1,062	1,253
Minority Interest	-	-	-	-
Total Debt	1,236	1,704	1,704	1,704
Other non-current liabilities	61	267	281	295
Total liabilities	1,642	2,933	3,047	3,252
Net fixed assets	411	806	835	919
Capital WIP	4	-	-	-
Goodwill	1,168	1,775	1,775	1,775
Investments	-	-	-	-
Total Net Current Assets	(23)	181	249	352
-Net CA	(30)	162	193	241
-Cash	7	19	56	111
Deferred tax assets (Net)	-	-	-	-
Other non-current assets	82	171	188	207
Total Assets	1,642	2,933	3,047	3,252

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY15	FY16E	FY17E	FY18E
Pre tax profit	(228)	13	101	191
Depreciation	183	239	272	316
Chg in Working Capital	(110)	(10)	(35)	(53)
Others	120	158	157	156
Tax paid	(2)	-	-	-
Cash flow from operating activities	(36)	400	495	610
Capital expenditure	(116)	(230)	(300)	(400)
Chg in investments	8	-	-	-
Other investing cashflow	0	12	13	15
Cash flow from investing activities	(109)	(218)	(287)	(385)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	260	-	-	-
Dividend paid	-	-	-	-
Other financing activities	(119)	(170)	(170)	(170)
Cash flow from financing activities	141	(170)	(170)	(170)
Net chg in cash	(4)	11	38	54

Key Ratios (Consolidated)

Y/E	FY15	FY16E	FY17E	FY18E
Valuation(x)				
P/E	(4.7)	854.7	107.1	56.4
EV/EBITDA	31.7	30.4	23.5	18.7
EV/Net Sales	1.2	2.0	1.7	1.4
P/B	3.1	11.2	10.2	8.6
Per share data (Rs.)				
EPS	(24.5)	0.2	1.3	2.4
DPS	0.0	0.0	0.0	0.0
BVPS	37.0	12.3	13.6	16.0
Growth (%)				
Net Sales	11.4	234.4	18.5	18.6
EBITDA	117.7	463.7	29.3	25.1
Net profit	21.5	(105.5)	697.9	89.9
Operating Ratios				
EBITDA Margin (%)	3.9	6.6	7.2	7.6
EBIT Margin (%)	(6.0)	2.8	3.5	4.0
PAT Margin (%)	(12.3)	0.2	1.4	2.2
Return Ratios (%)				
RoE	(49.3)	1.3	10.0	16.5
RoCE	(6.8)	8.6	10.0	12.6
Turnover Ratios (x)				
Net Sales/GFA	2.1	4.0	3.2	3.3
Sales/Total Assets	0.9	1.9	1.6	1.7
Sales/Working Capital	(26.7)	93.8	41.3	40.1
Liquidity and Solvency Ratios (x)				
Current Ratio	1.0	1.1	1.1	1.2
Interest Coverage	(0.9)	1.0	1.5	2.0
Debt/Equity	3.6	1.8	1.6	1.4

Note: Madura's financial included from FY16E onwards.

FY16E ROE is calculated based on year-end shareholders equity.

FY16E EPS, BVPS, EV is calculated based on year-end shares.

FY16E figures are based on pro-forma financials of Madura Fashion & Retail and Pantaloons.

Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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