

# Aditya Birla Fashion and Retail

## Growth gets dearer; Leverage could bite!

ABFRL delivered a reasonable FY20 (pre-COVID). Normalized revenue/EBITDA grew 12/15% to Rs. 90.8/7.1bn resp as both Madura and Pantaloons performed well. Rep. Revenue/Adj. EBITDA, however grew 7.7%/declined 16% YoY to Rs. 87.4/4.7bn resp. as the lockdown disrupted demand in Mar-20. For 4Q, Revenue declined 5% to Rs. 18.2bn (HSIE: Rs. 17.63bn). However, margins disappointed (-3.1% vs HSIE: -1%).

Growth while reasonable, has been dearer with WC Cycle getting elongated to 38 days (FY19: 13 days) and Capex up 1.9x YoY. This in turn, has pushed up Net Debt/Equity to 1.8x (FY19: 1.1x) and this leverage could seriously bite in a tough year wherein demand prediction remains a crystal ball gazing exercise. While Mgt is confident of allaying some of these concerns. (Note: BoD has approved a Rights Issue of Rs. 10bn – primarily to de-lever), we prefer being cautious and would like to see some execution on the deleveraging exercise before being more constructive on the name. Hence, we downgrade ABFRL to an ADD (Earlier BUY) with a DCF-based TP of Rs. 120/sh (earlier Rs. 180/sh) - implying 23x FY22 EV/EBITDA. The TP cut largely tracks EBITDA cuts.

- Lifestyle brands clocks 12% (Pre-COVID) growth, underpinned by Retail:** While Lifestyle brands declined by ~5.3% YoY to Rs 10.7 bn (vs. est. Rs. 10bn). Pre-COVID growth stood at 12%. Revenue decline was cushioned by its Retail channel growth (6.5% YoY). Pain in wholesale channel continues (declined 16.6% YoY) and only got exacerbated by the lockdown. EBITDAM declined 877bp to 6.2% (normalized: 12.7%, HSIE: 7.9%) given 1. the loss in sales in Mar-20. 2. Decline in higher margin channels (MBOs). The format added 127 stores in 4Q (stores: 2,253). Fast fashion continues to lose relevance in portfolio. People brand's migration into Pantaloons is now complete. Other biz grew 42% YoY (normalized growth 48%).
- Pre-COVID print for Pantaloons healthy:** Pantaloons rev declined 1% (SSSG: -11.7%) to Rs. 6.26bn (HSIE: 6.65bn). Revenue/SSSG for Jan+Feb grew at 19/9.5% resp. EBITDAM impact more severe in Pantaloons given higher fixed cost base. EBITDAM stood at -6.1% (-812bp contraction, HSIE: -2.2%). For FY20, the format grew 10% YoY (2.7% SSSG) with an EBITDAM of 6.3%.
- WC cycle worsens, Leverage could bite:** WC Cycle was already elevated given the stress in MBOs, it has only worsened during the ongoing health crisis. WC Cycle nearly tripled to 38 days (FY20). Consequently, Leverage inched up to 1.8x (vs 1.1x in FY19) and could certainly bite in a tough year where significant demand destruction is expected. While BoD has approved a Rs. 10bn Rights Issue (primarily to retire debt), the capital raised could quickly be absorbed in covering 1. Fixed Costs, 2. Further deterioration in WC Cycle, if any. That said, Mgt is expects to get leaner on both counts and expects inventory rationalization to be a big source of cash release in FY21.

### Financial Summary – Standalone

(Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Revenue	18,174	19,153	(5.1)	25,625	(29.1)	81,177	87,425	80,376	94,831
Adj EBITDA	(569)	1,245	(145.7)	2,158	(126.4)	5,541	4,655	3,277	5,394
APAT	(1,286)	2,026	(163.5)	(207)	520.8	3,212	(796)	(760)	435
EPS (Rs)	(1.81)	2.62	(169.2)	(0.43)	320.5	4.2	(1.0)	(1.0)	0.6
P/E (x)						26.7	(107.7)	(112.8)	197.2
EV/EBITDA (x)						18.5	23.5	33.2	20.5
Core RoCE(%)						8.7	(8.6)	1.7	5.4

Source: Company, HSIE Research

## ADD

CMP (as on 27 May 2020)		Rs 108
Target Price		Rs 120
NIFTY		9,315
KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 180	Rs 120
EBITDA %	FY21E	FY22E
	-26.0	-25.8

### KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	774
MCap (Rs bn) / (\$ mn)	84/1,106
6m avg traded value (Rs mn)	204
52 Week high / low	Rs 286/97

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(58.7)	(51.0)	(48.4)
Relative (%)	(38.2)	(28.0)	(28.1)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	59.09	59.07
FIs & Local MFs	21.10	21.35
FPIs	9.36	8.43
Public & Others	10.45	11.15
Pledged Shares	0.0	0.0

Source : BSE

### Jay Gandhi

jay.gandhi@hdfcsec.com  
+91-22-6171-7320

### Rutvi Chokshi

rutvi.chokshi@hdfcsec.com  
+91-22-6171-7356

## Earnings call highlights

### Overall Biz

- The first 11 months of FY20 were going in line with company's plans leading to an almost perfect year. It was only with the advent of COVID-19 that led to an economic standstill negatively impacting 4QFY20's performance characterized by a dramatic slowdown in sales, supply chain disruption, non-absorption of heavy fixed costs and temporary closure of stores.
- **Annual Performance:** Revenues grew ~8% YoY to Rs. 87.4 bn in FY20 and adj. EBITDA de-grew ~16% YoY to Rs. 5.2 bn mainly due to loss in sales courtesy COVID-19 and a one-time cost of Rs. 0.3 bn caused by the transition of People brand to Pantaloons in 4QFY20. Adj. EBITDA margins shrunk by 170 bp to 5.9% in FY20. PBT/PAT was reported at Rs. 0.6/-0.8 bn. Tax used to compute PAT includes a one-time charge of Rs. 1.3 bn due to change over to new corporate income tax rate in Q3 FY20.
- The management also provided normalized numbers removing the impact of COVID-19 after considering actual operational data for months of Jan and Feb, 2020 and with March 2020 estimated as per YTD Feb run rate. Normalized revenues/EBITDA/PBT would have grown at 12% /15%/68% YoY to Rs. 90.8/7.1/2.5 bn in FY20.
- **Quarterly Performance:** Revenues de-grew ~5% YoY to Rs. 18.2 bn and adj. EBITDA/PBT/PAT at Rs. -0.4/-1.7/-1.3 bn in 4QFY20. Loss of revenue/gross profit due to COVID-19 amounted to Rs. 3.4/2 bn. Given the heavy fixed cost structure and a fairly short period to correct, the entire GM loss flowed into EBITDA. Normalized revenues/EBITDA would have grown at 13% /1% YoY to Rs. 21.6/1.5 bn in 4QFY20.
- **Rights Issue:** BoD has approved a resolution to raise Rs. 10 bn by way of Rights Issue. The primary purpose of doing so is to reduce debt. More than half of the funds raised would be used to pay off debts.
- **Goals- FY21:** ABFRL's main goal for FY21 is **conversion & conservation of cash** and strengthening of its balance sheet.
- It plans to bring in a structural change by adopting a leaner cost structure by significantly reducing fixed costs and cutting discretionary spends. Head office expenses such as A&P spends, traveling and communication to be reduced by 50-75%. ABFRL can accommodate a cut in its A&P spends as brands are well positioned and their sales won't be impacted in the short term by doing so. Rent is being negotiated amicably with landlords with whom the company has long standing relationships. Employee expenses are estimated to shrink as the stores will have to operate with 25% lesser employees in order to accommodate social distancing. Factory costs to be brought down by making new products such as masks, PPE, etc. and outsourcing tasks.
- ABFRL to shut its unprofitable and underperforming stores in order to build a healthier store network. Digital channels to be milked.
- ABFRL will reduce its cap-ex by 60-70% in FY21 as compared to its annual average of Rs 3-4 bn. Investment and expansion plans to take a back seat for the time being.
- There exists a high amount of fresh inventory stocked up with ABFRL which is estimated to last till Dec 2021. It plans to convert this inventory into cash as fast as it can and use the cash generated to pay off its working capital loans.

### Segmental Performance

- **Lifestyle Brands:** Revenue/EBITDA grew at 7%/-12% YoY to Rs 46.3/4.6 bn in FY20. EBITDA was impacted due to high fixed cost structure.
- Revenue de-grew 5% YoY to Rs 10.7 bn in 4QFY20 with an LTL growth of -6%. Jan and Feb 2020 were marked by a strong wedding season leading to an LTL growth of 10%. EBITDA at Rs 0.7 bn in 4Q. EBITDA/Normalised EBITDA margins remain healthy at 6.2%/12.7% in 4Q.
- Added 400 new retail stores in FY20 taking the store count to 2,253 covering a space of 2.8 mn. sq. ft.
- Through Peter England small town format, ABFRL managed to recruit new customers from previously unpenetrated towns and established 200 PE Red stores in FY20. Due to COVID-19, ABFRL couldn't add 30 PE Red stores in Q4 as planned. PE Red stores have been successful as they have been profitable franchises, scaling up rapidly and are loved by the consumers in smaller towns.
- Losses incurred due to COVID-19 are ~Rs. 2 bn.
- **Pantaloons:** Revenue/EBITDA grew at 10%/-4% YoY to Rs 35.1/2.2 bn in FY20. Revenue de-grew 1% YoY to Rs 6.3 bn in 4QFY20 with an LTL growth of -12%. Pantaloons exhibited exceptional performance in Jan and Feb 2020 with 19% overall growth in sales with 9.5% LTL. EBITDA at Rs -0.4 bn in 4Q.
- It continues to grow satisfactorily owing to strong brand building, premiumization of its products, expansion of store network and addition of new categories.
- Added 34 new retail stores in FY20 taking the store count to 342 covering a space of 4.4 mn. sq. ft.
- *People* brand's migration into Pantaloons is now complete. (one-time transition cost of Rs. 280mn incurred).
- Losses incurred due to COVID-19 are ~Rs. 0.7 bn.
- **Others:** Revenue grew at 42%/8% YoY to Rs 5.2/1.2 bn in FY20/4QFY20.
- Innerwear segment continues to gain traction growing at ~40% for full year; selling across 20,000 outlets. Athleisure gaining more acceptance as it is easy to wear and wash. Innerwear is still at the stage of infancy posing a long term growth opportunity.
- Ethnic-wear brands: Jaypore and Shantanu & Nikhil are both well positioned to ride on demand for traditional wear. There has been a delay in rolling out stores in 4Q courtesy COVID-19.

### Quarterly standalone Financial Snapshot

Rs. Mn	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	4QFY20E	Variance (%)
Net Revenue	19,153	25,625	18,174	(5.1)	(29.1)	17,627	3.1
Total COGS	8,998	12,301	8,856	(1.6)	(28.0)	8,538	3.7
Gross Profit	10,155	13,323	9,318	(8.2)	(30.1)	9,088	2.5
Gross Profit Margin (%)	53.0	52.0	51.3	(175 bps)	(72 bps)	51.6	(29 bps)
Total Operating expenses	8,910	9,232	7,758	(12.9)	(16.0)	7,211	7.6
Reported EBITDA	1,245	4,091	1,561	25.3	(61.9)	1,877	(16.9)
EBITDA Margin (%)	6.5	16.0	8.6	209 bps	(738 bps)	10.7	(206 bps)
Adj EBITDA	1,245	2,158	(569)	(145.7)	(126.4)	(155)	266.1
Adj EBITDA Margin (%)	6.5	8.4	(3.1)	(963 bps)	(1155 bps)	(0.9)	(225 bps)
Depreciation	729	2,208	2,325	218.8	5.3	2,295	1.3
EBIT	516	1,883	(764)	(248.2)	(140.6)	(418)	83.0
EBIT Margin (%)	2.7	7.3	(4.2)	(690 bps)	(1155 bps)	(2.4)	(184 bps)
Finance cost	453	1,047	1,186	161.9	13.3	1,047	13.3
Other income	242	145	169	(30.4)	16.6	138	22
PBT	305	981	(1,782)	(683.8)	(281.6)	(1,327)	34.3
Exceptional Item	-	-	-	-	-	-	-
Tax Expenses	(1,721)	1,315	(379)	NM	(128.8)	(1,569)	(75.9)
Effective Tax Rate (%)	(564.0)	134.0	21.3	NM	(11274 bps)	118.3	(9701 bps)
Share of associate earnings	-	-	-	-	-	-	-
EO items	-	-	-	-	-	-	-
PAT	2,026	(334)	(1,403)	(169.2)	320.5	242	(678.8)
APAT	453	523	643	42.0	22.9	367	75.4
APAT margin (%)	2.4	2.0	3.5	117 bps	150 bps	2.1	146 bps

Source: Company, HSIE Research

### Segmental Performance

Segmental Performance	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	4QFY20E	Variance (%)
Revenue (Rs. mn)	18,410	25,630	18,170	(1.3)	(29.1)	17,718	2.6
<b>Madura</b>	<b>12,460</b>	<b>15,320</b>	<b>12,290</b>	<b>(1.4)</b>	<b>(19.8)</b>	<b>11,535</b>	<b>6.5</b>
Lifestyle brands	11,320	12,950	10,720	(5.3)	(17.2)	10,042	6.8
Fast Fashion	70	890	410	485.7	(53.9)	179	128.6
Other Biz	1,070	1,480	1,160	8.4	(21.6)	1,313	(11.7)
<b>Pantaloons</b>	<b>6,330</b>	<b>10,830</b>	<b>6,260</b>	<b>(1.1)</b>	<b>(42.2)</b>	<b>6,657</b>	<b>(6.0)</b>
Elimination	(380)	(520)	(380)	NM	NM	(474)	(19.8)
<b>EBITDA (Rs. mn)</b>	<b>1,490</b>	<b>2,250</b>	<b>(421)</b>	<b>(128.2)</b>	<b>(118.7)</b>	<b>(99)</b>	<b>323.5</b>
<b>Madura</b>	<b>1,400</b>	<b>1,130</b>	<b>(1)</b>	<b>(100.0)</b>	<b>(100.1)</b>	<b>18</b>	<b>(103.4)</b>
Lifestyle brands	1,690	1,380	660	(60.9)	(52.2)	796	(17.1)
Fast Fashion	(50)	(40)	(340)	NM	NM	(341)	(0.3)
Other Biz	(240)	(210)	(320)	NM	NM	(437)	(26.6)
<b>Pantaloons</b>	<b>130</b>	<b>1,090</b>	<b>(380)</b>	<b>(392.3)</b>	<b>(134.9)</b>	<b>(145)</b>	<b>161.8</b>
Elimination	(40)	30	(40)	NM	NM	28	(243.1)
<b>EBITDA margin (%)</b>							
<b>Madura</b>	<b>11.2</b>	<b>7.4</b>	<b>(0.0)</b>	<b>(1124 bps)</b>	<b>(738 bps)</b>	<b>0.2</b>	<b>(16 bps)</b>
Lifestyle brands	14.9	10.7	6.2	(877 bps)	(450 bps)	7.9	(177 bps)
Fast Fashion	(71.4)	(4.5)	(83.0)	NM	NM	(190.4)	10739 bps
Other Biz	(22.4)	(14.2)	(27.6)	NM	NM	(33.3)	564 bps
<b>Pantaloons</b>	<b>2.1</b>	<b>10.1</b>	<b>(6.1)</b>	<b>(812 bps)</b>	<b>(1613 bps)</b>	<b>(2.2)</b>	<b>(389 bps)</b>
<b>EBIT (Rs. mn)</b>	<b>751</b>	<b>1,960</b>	<b>(671)</b>				
Madura	994	947	(227)	(122.8)	(124.0)		
Pantaloons	(193)	998	(394)	103.8	(139.5)		
Elimination	(49)	15	(51)	NM	NM		
<b>Operating Expenses (Rs mn) - Pre-INDAS 116</b>							
Employee expenses	2351	2757	2749	16.9	(0.3)	2678	2.6
Rent expenses	2794	3498	3191	14.2	(8.8)	3272	(2.5)
Other expenses	3765	4910	3948	4.8	(19.6)	3294	19.8

Source: Company, HSIE Research, (Note: Opex (Pre-IND-AS) are estimates)

### Other KPIs

	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
<b>Store and Area</b>					
Brand Stores (#)	2406	2656	2,699	12.2	1.6
MBOs (#)	18000	22000	25,000	38.9	13.6
SIS in Dept Stores (#)	5077	6261	6,514	28.3	4.0
Total Retail area (mn sq ft)	7.5	8.1	8	8.0	-
<b>Lifestyle Brands</b>					
Stores (#)	1,980	2,126	2,253	13.8	6.0
Area(mn sq ft)	2.56	2.74	2.83	10.8	3.4
Loyalty base (mn)	15	18	18	22.0	4.0
% revenue from loyal customers	53	46	49	(7.5)	6.5
LTL %	6.0	15.0	-8.0		
<b>Pantaloons</b>					
Stores (#)	308	343	342	11.0	(0.3)
Area(mn sq ft)	4.02	4.36	4	8.6	-
Loyalty base (lakhs)	14.6	17.1	17	15.8	(1.2)
LTL %	-4.4	4.9	(11.7)	165.9	(338.8)

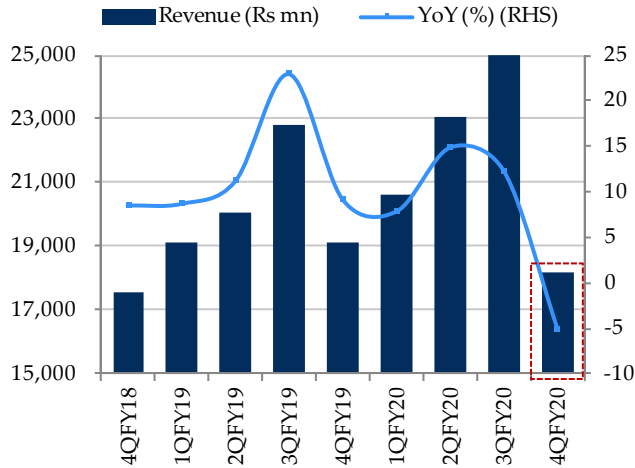
### Estimate Changes

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	87,425	86,984	0.5	80,376	82,450	(2.5)	94,831	100,199	(5.4)
Gross Profit	45,368	45,187	0.4	40,504	41,183	(1.6)	49,211	52,053	(5.5)
Gross Profit Margin (%)	51.9	51.9	(6 bps)	50.4	49.9	44 bps	51.9	51.9	(6 bps)
EBITDA	4,655	5,000	(6.9)	3,277	4,431	(26.0)	5,394	7,270	(25.8)
EBITDA margin (%)	5.3	5.7	(42 bps)	4.1	5.4	(130 bps)	5.7	7.3	(157 bps)

### Assumptions

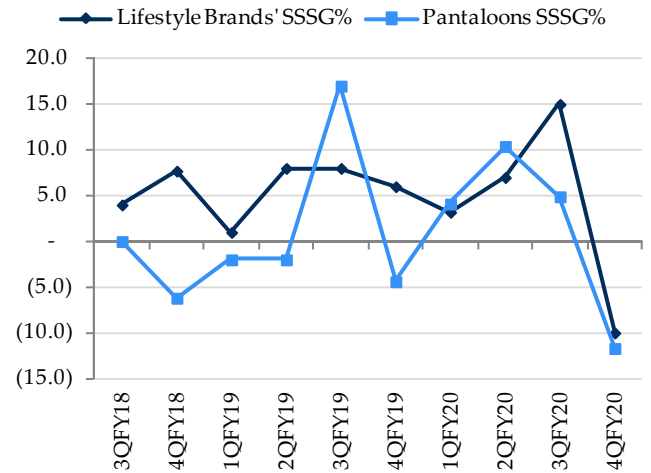
Revenue (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
<b>Madura F&amp;L</b>	<b>39,789</b>	<b>41,143</b>	<b>44,688</b>	<b>50,315</b>	<b>54,340</b>	<b>49,324</b>	<b>58,235</b>
YoY (%)	6.5	3.4	8.6	12.6	8.0	(9.2)	18.1
Lifestyle brands	37,340	36,510	38,660	43,040	46,260	40,085	47,478
Fast Fashion		3,440	3,985	2,850	2,850	1,871	1,594
Other Biz		1,180	2,055	3,680	5,230	7,367	9,162
<b>No. of Stores (#)</b>	<b>1,902</b>	<b>1,935</b>	<b>2,042</b>	<b>2,249</b>	<b>2,562</b>	<b>2,652</b>	<b>2,942</b>
<b>Retail Area (mn. Sq. ft)</b>	<b>2.6</b>	<b>2.7</b>	<b>2.6</b>	<b>2.8</b>	<b>3.2</b>	<b>3.3</b>	<b>3.7</b>
Revenue per sq. ft (Lifestyle) (Rs.)	6,329	6,680	6,593	6,817	7,248	5,563	6,059
SSSG (%)	0.4	(5.7)	9.2	5	4	(18)	12
Expansion-led growth (%)	6.1	5.4	(6.0)	1.8	10.8	(0.5)	3.6
<b>Pantaloons Revenue</b>	<b>21,565</b>	<b>25,523</b>	<b>28,615</b>	<b>31,940</b>	<b>35,140</b>	<b>32,185</b>	<b>37,928</b>
No. of Stores (#)	163	209	275	308	342	352	412
Retail Area (mn. Sq. ft)	2.9	3.2	3.8	4.0	4.4	4.4	5.0
Revenue per sq. ft (Rs.)	8,294	8,405	8,250	8,211	8,388	7,364	8,091
SSSG (%)	2.7	(1.2)	1.2	1.3	4.1	(11.7)	13.3
Expansion-led growth (%)	13.5	19.8	10.7	10.2	5.7	3.7	4.0
<b>Total Revenue (Rs. Mn)</b>	<b>60,346</b>	<b>66,330</b>	<b>71,814</b>	<b>81,177</b>	<b>87,425</b>	<b>80,376</b>	<b>94,831</b>
<b>EBITDA (Rs. Mn)</b>							
<b>Madura F&amp;L</b>	<b>3,651</b>	<b>3,426</b>	<b>3,440</b>	<b>4,020</b>	<b>3,140</b>	<b>2,618</b>	<b>4,312</b>
YoY (%)	(21.1)	(6.2)	0.4	16.9	(21.9)	(16.6)	64.7
Lifestyle brands	3,580	4,220	4,490	5,190	4,560	3,608	4,985
Fast Fashion		(505)	(535)	(320)	(470)	(94)	(32)
Other Biz		(335)	(535)	(850)	(950)	(896)	(641)
<b>Pantaloons</b>	<b>1,009</b>	<b>1,257</b>	<b>1,708</b>	<b>2,310</b>	<b>2,220</b>	<b>1,489</b>	<b>1,968</b>
<b>Total EBITDA</b>	<b>4,398</b>	<b>4,830</b>	<b>5,051</b>	<b>6,190</b>	<b>5,180</b>	<b>3,984</b>	<b>6,092</b>
<b>Gross Profit (Rs. Mn)</b>	<b>32,822</b>	<b>35,942</b>	<b>37,820</b>	<b>41,928</b>	<b>45,368</b>	<b>40,504</b>	<b>49,211</b>
<b>Gross Margin (%)</b>	<b>54.4</b>	<b>54.4</b>	<b>52.7</b>	<b>51.6</b>	<b>51.9</b>	<b>50.4</b>	<b>51.9</b>
<b>EBITDA margin (%)</b>							
<b>Madura F&amp;L</b>	<b>9.2</b>	<b>8.3</b>	<b>7.7</b>	<b>8.0</b>	<b>5.8</b>	<b>5.3</b>	<b>7.4</b>
YoY (%)							
Lifestyle brands	9.6	11.6	11.6	12.1	9.9	9.0	10.5
Fast Fashion		(14.7)	(13.4)	(11.2)	(16.5)	(5.0)	(2.0)
Other Biz		(28.4)	(26.0)	(23.1)	(18.2)	(12.2)	(7.0)
<b>Pantaloons</b>	<b>4.7</b>	<b>4.9</b>	<b>6.0</b>	<b>7.2</b>	<b>6.3</b>	<b>4.6</b>	<b>5.2</b>
<b>Total EBITDA</b>	<b>7.3</b>	<b>7.3</b>	<b>7.0</b>	<b>7.6</b>	<b>5.9</b>	<b>5.0</b>	<b>6.4</b>

**Revenue and growth (Rs. mn, YoY %)**



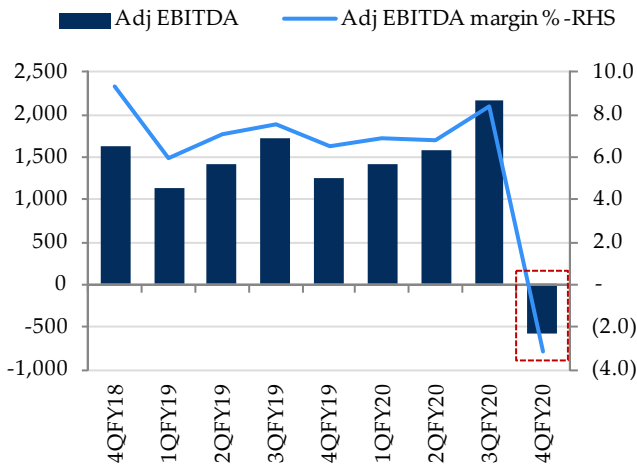
Source: Company, HSIE Research

**SSSG(%)**



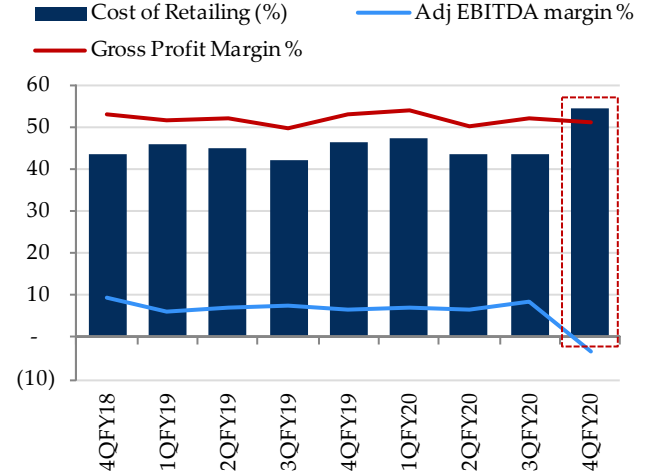
Source: Company, HSIE Research (Note: SSSG of Lifestyle Brands is an estimated figure)

**Adj EBITDA and margin (Rs. mn, %)**



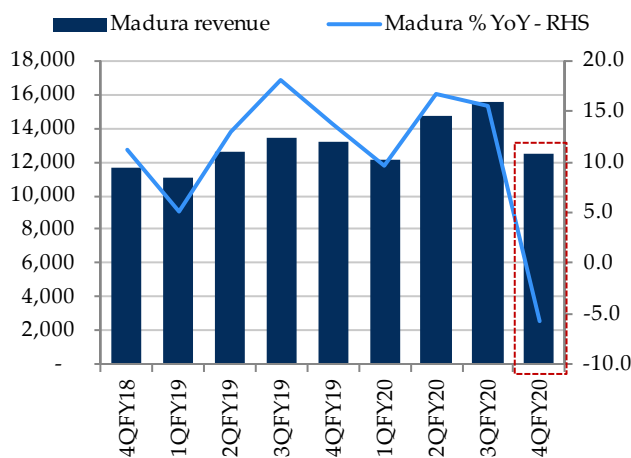
Source: Company, HSIE Research

**Gross profit margin, EBITDA margin, Op-ex margin(%)**



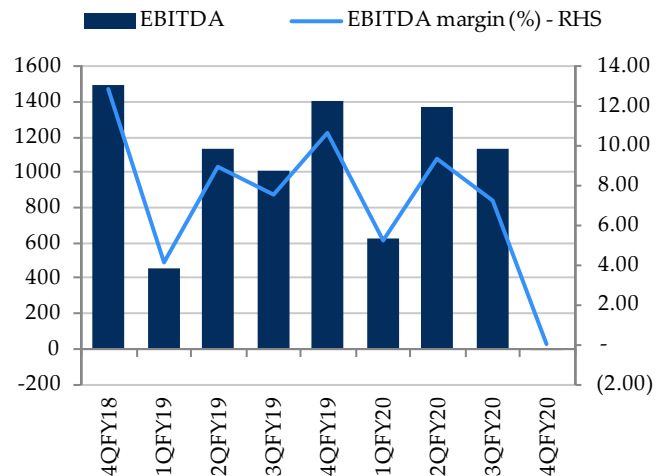
Source: Company, HSIE Research

**Madura's revenue and growth (Rs. mn, YoY %)**



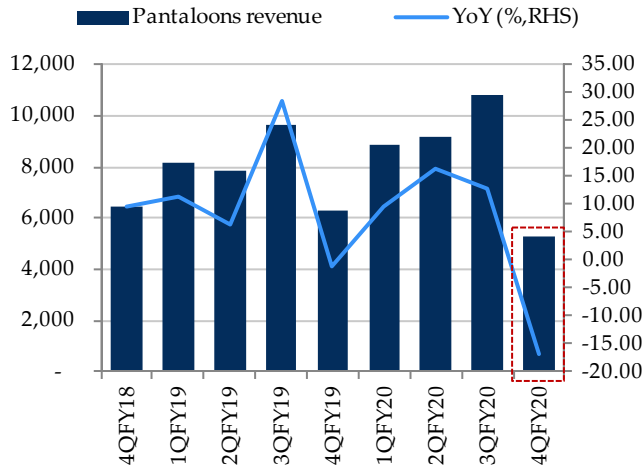
Source: Company, HSIE Research

**Madura's EBITDA and EBITDA margin (Rs. mn,%)**



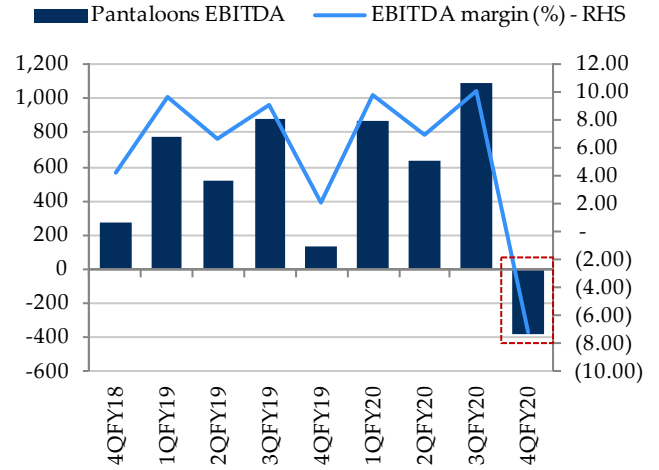
Source: Company, HSIE Research

**Pantaloons' revenue and growth (Rs. mn, YoY %)**



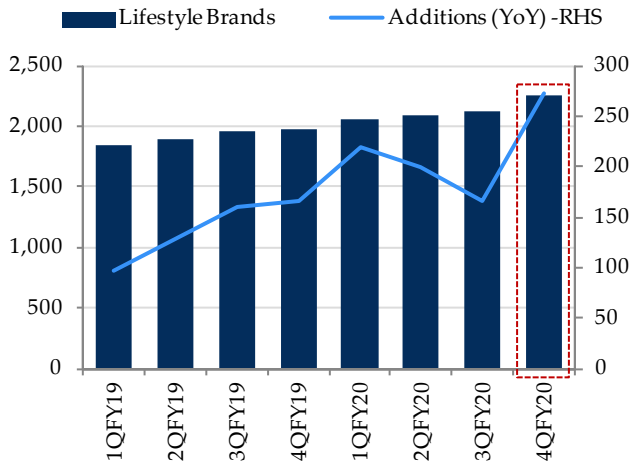
Source: Company, HSIE Research

**Pantaloons' EBITDA and EBITDA margin (Rs. mn,%)**



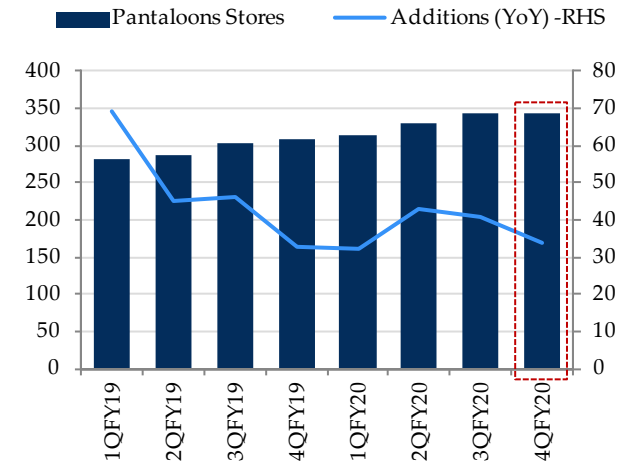
Source: Company, HSIE Research

**Lifestyle Brands' store count at 2,253**



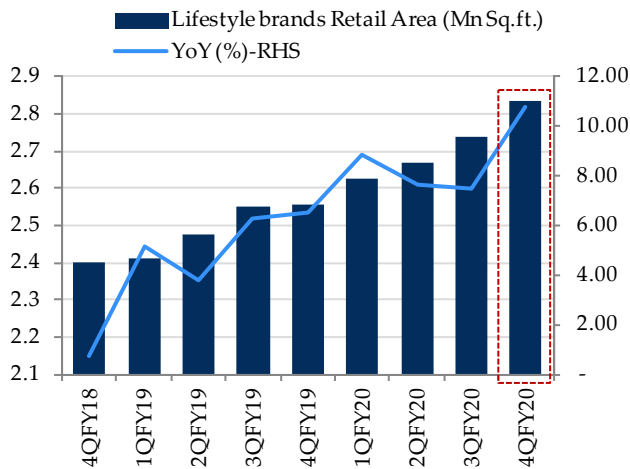
Source: Company, HSIE Research

**Pantaloons' store count at 342**



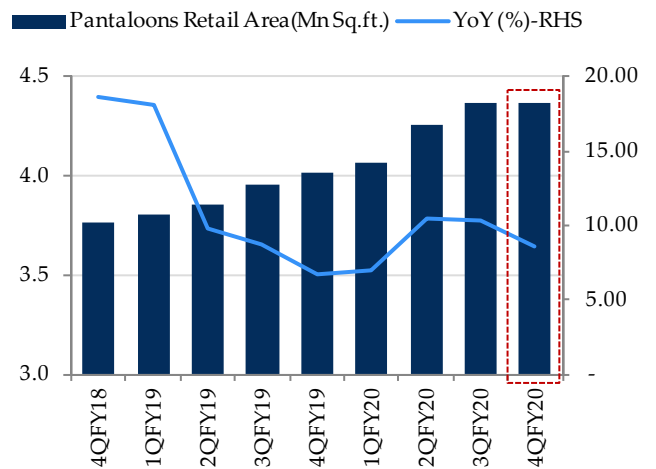
Source: Company, HSIE Research

**Lifestyle brands' retail space at ~2.8 mn. sq. ft.**



Source: Company, HSIE Research

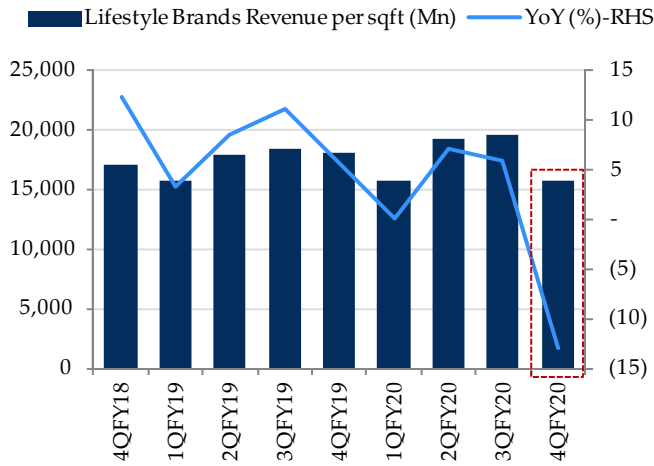
**Pantaloons' retail space at ~4.4 mn. sq. ft.**



Source: Company, HSIE Research

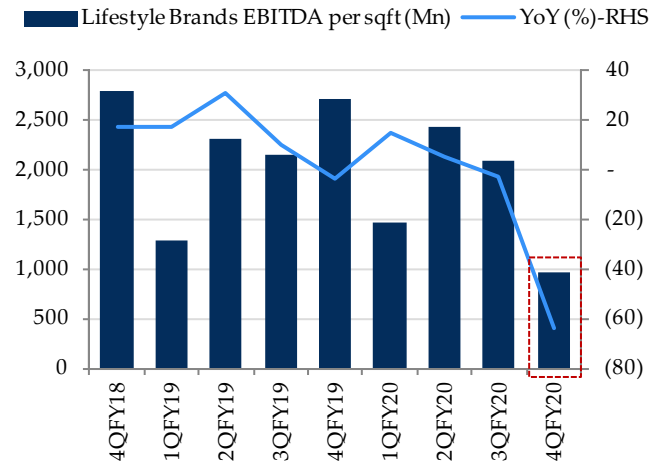


**Lifestyle brands' revenue per sq. ft. at Rs. 15,786**



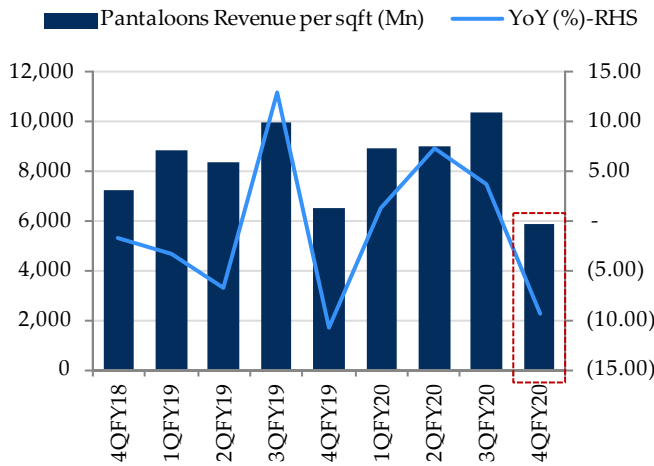
Source: Company, HSIE Research

**Lifestyle brands' EBITDA per sq. ft. at Rs. 972**



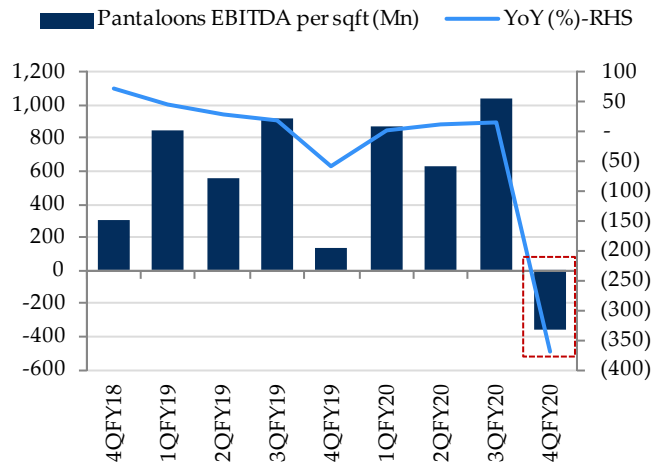
Source: Company, HSIE Research

**Pantaloon's revenue per sq. ft. at Rs. 5,874**



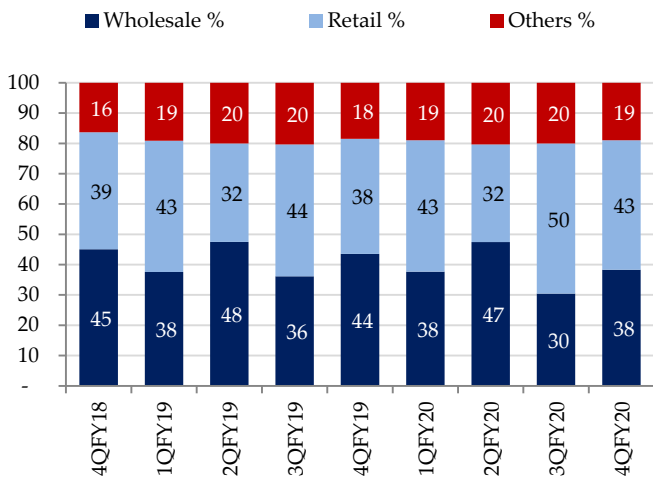
Source: Company, HSIE Research

**Pantaloon's EBITDA per sq. ft. at Rs. -357**



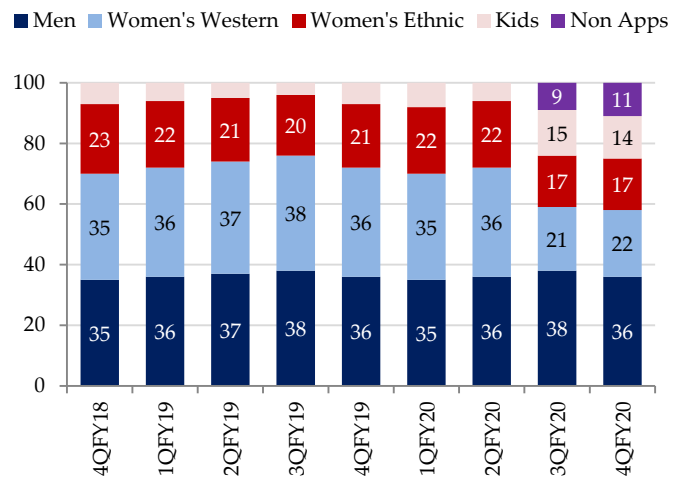
Source: Company, HSIE Research

**Lifestyle brands' channel-wise revenue mix (%)**



Source: Company, HSIE Research

**Pantaloon's category mix (%)**



Source: Company, HSIE Research

Peer Set Comparison

Company	CMP	M cap (Rs bn)	Reco	TP	EPS (Rs)			EV/EBITDA (x)			P/E (x)			Core RoCE(%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Avenue	2,403	1,370	SELL	1,750	21.9	23.0	34.1	74.8	76.8	51.6	109.6	104.3	70.5	19.7	15.5	20.2
<b>ABFRL</b>	<b>108</b>	<b>84</b>	<b>ADD</b>	<b>120</b>	<b>1.9</b>	<b>0.5</b>	<b>1.5</b>	<b>17.7</b>	<b>22.1</b>	<b>14.3</b>	<b>57.4</b>	<b>203.4</b>	<b>74.3</b>	<b>8.0</b>	<b>4.9</b>	<b>6.5</b>
Shoppers Stop	133	27	RED	190	0.5	(6.4)	(0.1)	4.3	7.8	3.9	NM	NM	NM	0.3	(11.5)	(2.7)
V Mart	1,577	29	BUY	2,000	38.4	37.8	57.5	22.6	21.9	15.0	41.1	41.7	27.4	18.0	14.8	19.6
Trent	443	214	ADD	460	4.3	1.4	5.0	25.1	32.3	21.8	102.2	311.9	88.8	11.2	8.3	15.0
TCNS	341	21	RED	390	13.6	11.1	16.6	17.0	21.0	12.7	25.1	30.6	20.5	15.5	11.2	18.1
Titan	849	754	ADD	1,080	16.6	16.2	24.8	33.9	32.9	23.6	51.1	52.4	34.3	18.0	16.2	15.1
Reliance Retail			NR	375	9.8	9.7	12.5	24.5	23.7	18.8	38.2	38.8	30.0	24.3	19.1	20.4

Source: Company, HSIE Research, Note: Reliance Retail- TP, EV/EBITDA and P/E are on Fair Value

## Financials (Pre-IND-AS 116)

### Consolidated Income Statement

Year End (March)	FY15	FY16	FY17	FY18	FY19P	FY20E	FY21E	FY22E
<b>Net Revenues</b>	18,507	60,339	66,029	71,721	81,177	87,425	80,376	94,831
Growth (%)	11.4	226.0	9.4	8.6	13.2	7.7	(8.1)	18.0
Material Expenses	10,006	27,518	30,087	33,901	39,250	42,058	39,872	45,620
Employee Expense	1,837	6,205	7,058	7,723	9,130	10,584	10,529	11,095
Rent Expense	2,825	9,032	10,172	10,429	11,104	12,468	12,458	14,225
Advertisement Expense	730	3,954	2,867	3,380	4,415	4,755	2,009	4,742
Other Expenses	2,382	9,847	11,470	11,605	11,738	12,906	12,230	13,755
<b>EBITDA</b>	727	3,784	4,375	4,683	5,541	4,655	3,277	5,394
EBITDA Growth (%)	117.7	420.5	15.6	7.0	18.3	(16.0)	(29.6)	64.6
EBITDA Margin (%)	3.9	6.3	6.6	6.5	6.8	5.3	4.1	5.7
Depreciation	1,835	3,381	2,425	2,805	2,823	2,488	2,401	2,637
<b>EBIT</b>	(1,108)	403	1,950	1,878	2,717	2,167	876	2,758
Other Income (Including EO Items)	28	264	382	328	648	522	707	697
Interest	1,202	1,765	1,797	1,716	1,874	2,123	2,599	2,874
<b>PBT</b>	(2,281)	(1,097)	535	490	1,491	565	(1,015)	581
Total Tax	-	-	-	(688)	(1,721)	1,361	(256)	146
<b>RPAT</b>	(2,281)	(1,097)	535	1,178	3,212	(796)	(760)	435
Exceptional Gain/(loss)	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	(2,281)	(1,097)	535	1,178	3,212	(796)	(760)	435
APAT Growth (%)	21.5	(51.9)	(148.7)	120.2	172.7	(124.8)	(4.5)	(157.2)
Adjusted EPS (Rs)	(3.0)	(1.4)	0.7	1.5	4.2	(1.0)	(1.0)	0.6
EPS Growth (%)	21.5	(51.9)	(148.7)	120.2	172.7	(124.8)	(4.5)	(157.2)

Source: Company, HSIE Research

### Consolidated Balance Sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19P	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	928	7,688	7,705	7,717	7,735	7,740	7,740	7,740
Reserves	2,523	1,367	1,876	3,214	6,554	6,048	5,289	5,723
<b>Total Shareholders Funds</b>	3,451	9,055	9,582	10,931	14,289	13,788	13,028	13,463
Preference Share Capital	5	5	5	0	-	-	-	-
Long Term Debt	9,375	6,766	12,705	11,879	7,238	8,550	8,550	8,550
Short Term Debt	3,731	11,727	7,736	6,735	9,791	19,213	19,213	19,213
<b>Total Debt</b>	13,106	18,493	20,441	18,614	17,029	27,763	27,763	27,763
Net Deferred Taxes	-	-	-	(688)	(2,634)	(1,950)	(1,950)	(1,950)
Other Non-current Liabilities & Provns	541	1,127	1,418	1,607	1,737	1,221	1,221	1,221
<b>TOTAL SOURCES OF FUNDS</b>	17,103	28,680	31,446	30,464	30,420	40,822	40,062	40,497
<b>APPLICATION OF FUNDS</b>								
Net Block	3,749	5,280	6,275	7,227	6,959	6,943	6,495	7,565
CWIP	38	254	250	459	224	436	436	436
Other Non-current Assets	12,045	17,956	18,606	19,875	19,917	19,583	19,583	19,583
<b>Total Non-current Assets</b>	15,831	23,490	25,131	27,561	27,100	26,963	26,514	27,584
Inventories	4,273	14,105	14,313	16,912	19,213	23,494	23,802	25,484
Debtors	71	3,124	4,522	5,518	7,866	8,402	7,724	8,594
Other Current Assets	1,177	4,913	5,897	5,889	8,782	9,986	9,181	10,832
Cash & Equivalents	72	192	497	770	616	4,351	4,806	3,118
<b>Total Current Assets</b>	5,593	22,335	25,228	29,089	36,477	46,233	45,513	48,029
Creditors	3,114	14,298	14,578	20,093	23,986	22,733	23,102	24,659
Other Current Liabilities & Provns	1,207	2,846	4,335	6,093	9,170	9,640	8,863	10,456
<b>Total Current Liabilities</b>	4,321	17,144	18,913	26,186	33,157	32,373	31,965	35,116
<b>Net Current Assets</b>	1,272	5,191	6,315	2,903	3,321	13,860	13,548	12,913
<b>TOTAL APPLICATION OF FUNDS</b>	17,103	28,680	31,446	30,464	30,420	40,822	40,062	40,497

Source: Company, HSIE Research

### Consolidated Cash Flow

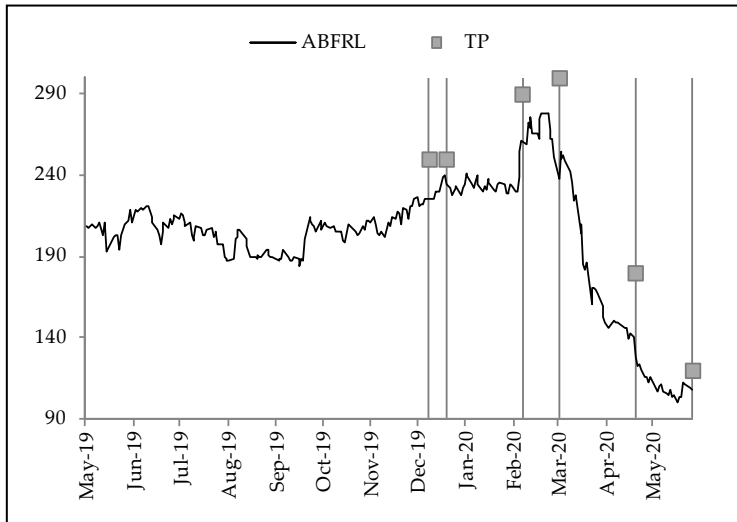
Year ending March	FY15	FY16	FY17	FY18	FY19P	FY20E	FY21E	FY22E
Reported PBT	(2,281)	(1,098)	535	490	149	565	(1,015)	581
Non-operating & EO Items	(3)	(179)	134	237	1,590	(502)	(707)	(697)
Interest Expenses	1,202	1,765	1,761	1,669	1,846	2,123	2,599	2,874
Depreciation	1,835	3,381	2,425	2,805	2,823	2,488	2,401	2,637
Working Capital Change	(1,096)	(741)	(573)	760	(937)	(2,229)	767	(1,053)
Tax Paid	(15)	(19)	(30)	(10)	(196)	(61)	256	(146)
<b>OPERATING CASH FLOW ( a )</b>	<b>(359)</b>	<b>3,109</b>	<b>4,252</b>	<b>5,951</b>	<b>5,276</b>	<b>2,384</b>	<b>4,299</b>	<b>4,195</b>
Capex	(1,163)	(2,076)	(4,499)	(3,271)	(2,792)	(4,668)	(1,953)	(3,706)
Free Cash Flow (FCF)	(1,522)	1,033	(247)	2,680	2,484	(2,283)	2,346	489
Investments	60	-	4	(36)	22	47	-	-
Non-operating Income	15	217	38	55	4	(599)	707	697
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,088)</b>	<b>(1,859)</b>	<b>(4,456)</b>	<b>(3,252)</b>	<b>(2,766)</b>	<b>(5,220)</b>	<b>(1,245)</b>	<b>(3,009)</b>
Debt Issuance/(Repaid)	1,411	(1,313)	498	(2,481)	(2,674)	8,602	(2,599)	(2,874)
FCFE	(111)	(280)	251	199	(189)	6,318	(252)	(2,385)
Share Capital Issuance	-	(16)	11	12	9	72	-	-
Dividend	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	479	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>1,411</b>	<b>(1,330)</b>	<b>509</b>	<b>(2,469)</b>	<b>(2,664)</b>	<b>9,153</b>	<b>(2,599)</b>	<b>(2,874)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(36)</b>	<b>(80)</b>	<b>305</b>	<b>230</b>	<b>(154)</b>	<b>6,318</b>	<b>455</b>	<b>(1,687)</b>
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	72	190	495	726	572	2,651	3,106	1,418

### Key Ratios

	FY15	FY16	FY17	FY18	FY19P	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	45.9	54.4	54.4	52.7	51.6	51.9	50.4	51.9
EBITDA Margin	3.9	6.3	6.6	6.5	6.8	5.3	4.1	5.7
EBIT Margin	(6.0)	0.7	3.0	2.6	3.3	2.5	1.1	2.9
APAT Margin	(12.3)	(1.8)	0.8	1.6	4.0	(0.9)	(0.9)	0.5
RoE	(49.4)	(17.6)	5.7	11.5	25.5	(5.7)	(5.7)	3.3
RoIC (or Core RoCE)	(6.6)	1.8	6.6	6.1	8.7	(8.6)	1.7	5.4
RoCE	(6.4)	2.9	7.8	9.2	15.8	(10.0)	2.8	6.1
<b>EFFICIENCY</b>								(3.26)
Tax Rate (%)	-	-	-	-	-	240.8	25.2	25.2
Fixed Asset Turnover (x)	2.1	9.3	8.3	6.6	6.5	5.8	4.7	4.6
Inventory (days)	84	85	79	86	86	98	108	98
Debtors (days)	1	19	25	28	35	35	35	33
Other Current Assets (days)	23	30	33	30	39	42	42	42
Payables (days)	61	86	81	102	108	95	105	95
Other Current Liab & Provns (days)	24	17	24	31	41	40	40	40
Cash Conversion Cycle (days)	24	30	32	11	12	40	40	38
Net Debt (Rs mn)	13,034	18,301	19,945	17,844	16,412	23,413	22,958	24,645
Net D/E (x)	3.8	2.0	2.1	1.6	1.1	1.7	1.8	1.8
Interest Coverage (x)	(0.9)	0.2	1.1	1.1	1.4	1.0	0.3	1.0
<b>PER SHARE DATA (Rs)</b>								
EPS	(3.0)	(1.4)	0.7	1.5	4.2	(1.0)	(1.0)	0.6
CEPS	16.8	3.0	3.8	5.2	7.8	2.2	2.1	4.0
Book Value	37.2	11.8	12.4	14.2	18.5	17.8	16.8	17.4
<b>VALUATION</b>								
P/E (x)	(76.1)	(158.2)	324.5	72.8	26.7	(107.7)	(112.8)	197.2
P/BV (x)	6.1	19.1	18.1	7.8	6.0	6.2	6.6	6.4
EV/EBITDA (x)	256.8	50.7	44.2	22.1	18.5	23.5	33.2	20.5
EV/Revenues (x)	10.1	3.2	2.9	1.4	1.3	1.3	1.4	1.2
OCF/EV (%)	(0.2)	1.6	2.2	5.7	5.2	2.2	3.9	3.8
FCF/EV (%)	(0.8)	0.5	(0.1)	2.6	2.4	(2.1)	2.2	0.4
FCFE/Mkt Cap (%)	(0.1)	(0.2)	0.1	0.2	(0.2)	7.4	(0.3)	(2.8)

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
9-Dec-19	225	BUY	250
12-Jan-20	233	NEU	250
9-Feb-20	261	NEU	290
2-Mar-20	251	ADD	300
18-Apr-20	142	BUY	180
28-May-20	108	ADD	120

From 2<sup>nd</sup> March 2020, we have moved to new rating system

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)