

ABFRL's board has approved the demerger of its Madura business into a new entity – ABLBL, upon the requisite regulatory approvals over the next 9-12 months. In our view, this move should unlock value through better capital allocation and improved investor interest for the two businesses individually. Post de-merger, ABFRL plans to raise Rs25bn in the remnant entity, to support growth/debt reduction, while new entity ABLBL should generate healthy cash flows. Debt allocation of Rs10bn to ABLBL (33% of overall debt) is in line with its asset mix and regulatory conditions. ABLBL has a strong track-record of delivering low-teens earnings CAGR along with a healthy return profile of 25-30%, and the demerger has potential to drive a ~15% re-rating. But remaining businesses (Value Retail + Ethnic + D2C + Luxury) will need investments in the near term. We remain conservative and retain REDUCE on ABFRL; we will watch for margin gains in the remnant entity before turning constructive on the stock.

Aditya Birla Fashion & Retail: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,362	124,179	142,136	180,044	215,597
EBITDA	10,999	14,936	15,280	21,760	28,077
Adj. PAT	(1,087)	(360)	(6,059)	(4,724)	(2,407)
Adj. EPS (Rs)	(1.2)	(0.4)	(5.6)	(4.4)	(2.2)
EBITDA margin (%)	13.5	12.0	10.8	12.1	13.0
EBITDA growth (%)	98.3	35.8	2.3	42.4	29.0
Adj. EPS growth (%)	0.0	0.0	0.0	0.0	0.0
RoE (%)	(4.0)	(1.2)	(16.0)	(11.9)	(6.6)
RoIC (%)	3.1	5.8	(2.0)	1.8	6.0
P/E (x)	(207.8)	(634.5)	(42.6)	(54.7)	(107.3)
EV/EBITDA (x)	21.0	16.2	18.8	13.3	10.3
P/B (x)	8.1	6.8	6.1	6.9	7.4
FCFF yield (%)	3.6	(2.4)	(6.1)	4.6	6.5

Source: Company, Emkay Research

ABLBL: Improved capital allocation/investor interest offer re-rating potential

Madura Fashion and Lifestyle (ARR: Rs80bn), comprising lifestyle brands, casual wear brands, sportswear, and innerwear business, will be transferred to the newly de-merged entity – Aditya Birla Lifestyle Brands (ABLBL). ABLBL's portfolio has potential to deliver mid-teens EBITDA CAGR in the medium term, with a healthy ROCE profile of 25-30%. It generates ~70% value for our overall SOTP, at 22x FY26E EBITDA. We believe this business has scope for a re-rating, with improved capital allocation and investor interest. Good growth businesses similar to ABLBL trade at ~30x EBITDA vs. 22x that we assign to ABLBL in the overall SOTP; this provides a potential re-rating of ~20% in ABLBL or ~15% in overall SOTP.

Post-demerger ABFRL: Capital infusion to fund growth; focus on consolidation

The value retail, ethnic wear portfolio and other luxury/digital brands will be retained by the existing ABFRL (ARR: Rs70bn). It is likely to raise growth capital of Rs25bn for infusing strength into the balance sheet to take care of growth prospects. Pantaloons currently contributes almost the entire value for this segment, at ~30% to the overall SOTP, as we largely value the Ethnic and D2C business at cost. After a series of acquisitions, ABFRL's focus is on consolidation and driving more value in the existing business segments.

Analyst Call KTAs: 1) Promoters remain committed to participate in the Rs25bn equity raise, and funds are likely to be used for growth/debt repayment. Preference for growth-related allocation will be in this order: Ethnic-wear, Value Retail and, then, Luxury. 2) The TCNS merger is a pre-condition to this scheme, and Management expects the merger process to close within the next 4 months. The current demerger is expected to be completed within 9-12 months. 3) All segments are run by separate CEOs and Management is likely to analyze & announce an appropriate management structure for the two entities in the next 6-12 months. 4) ABLBL, with its better return profile, is likely to eliminate debt over the next 2/3 years. 5) The post-demerger ABFRL debt of Rs20bn includes Rs15bn of long-term debt, with the balance being short-term debt.

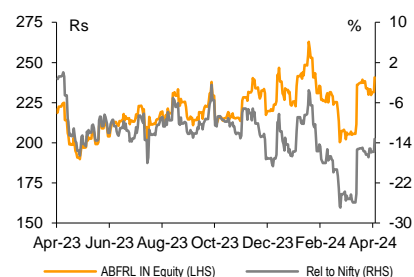
Target Price – 12M	Mar-25
Change in TP (%)	NA
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(4.5)
CMP (22-Apr-24) (Rs)	240.8

Stock Data	Ticker
52-week High (Rs)	266
52-week Low (Rs)	184
Shares outstanding (mn)	1,015.0
Market-cap (Rs bn)	244
Market-cap (USD mn)	2,931
Net-debt, FY24E (Rs mn)	28,996
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	1,566.1
ADTV-3M (USD mn)	18.8
Free float (%)	35.0
Nifty-50	22,336
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	51.9
FPIs/MFs (%)	19.3/15.1

Price Performance

(%)	1M	3M	12M
Absolute	17.2	6.6	9.7
Rel. to Nifty	16.0	3.0	(13.5)

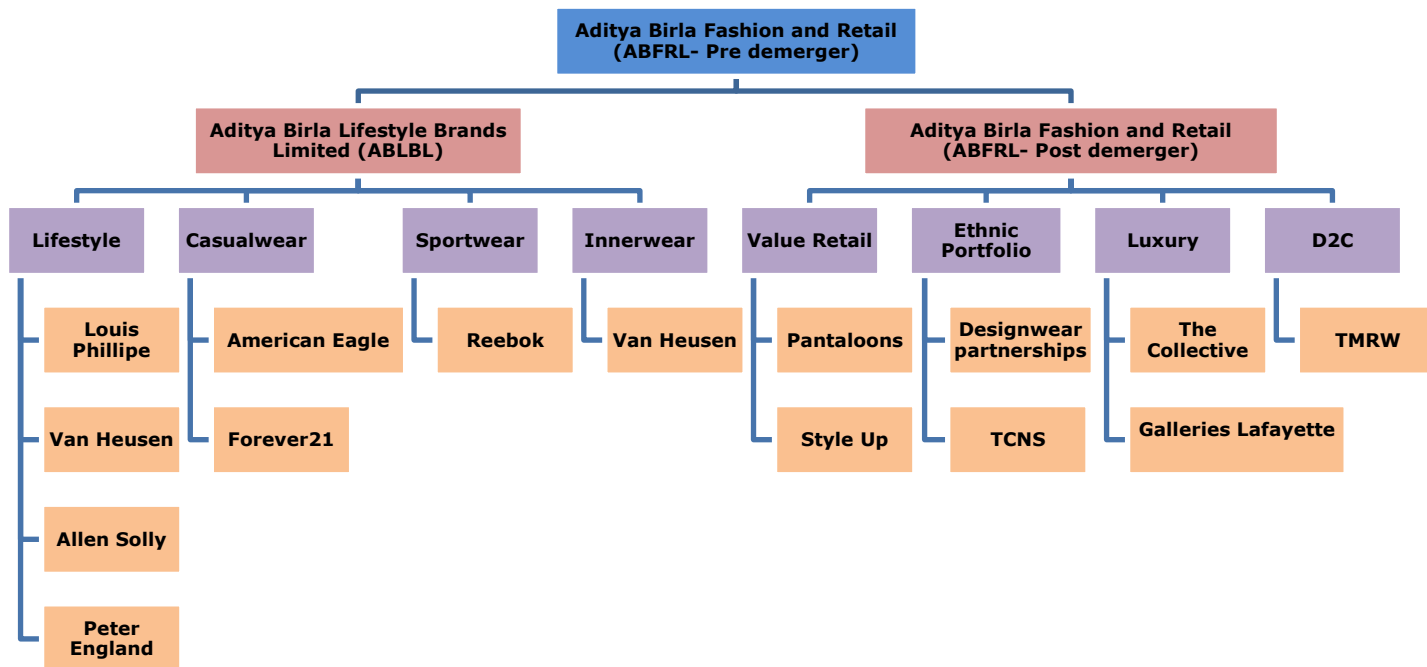
1-Year share price trend (Rs)



Devanshu Bansal
devanshu.bansal@emkayglobal.com
+91 22 6612 1385

Vishal Panjwani
vishal.panjwani@emkayglobal.com
+91 22 6624 2431

Exhibit 1: ABFRL’s brand portfolio structure post proposed demerger



Source: Emkay Research

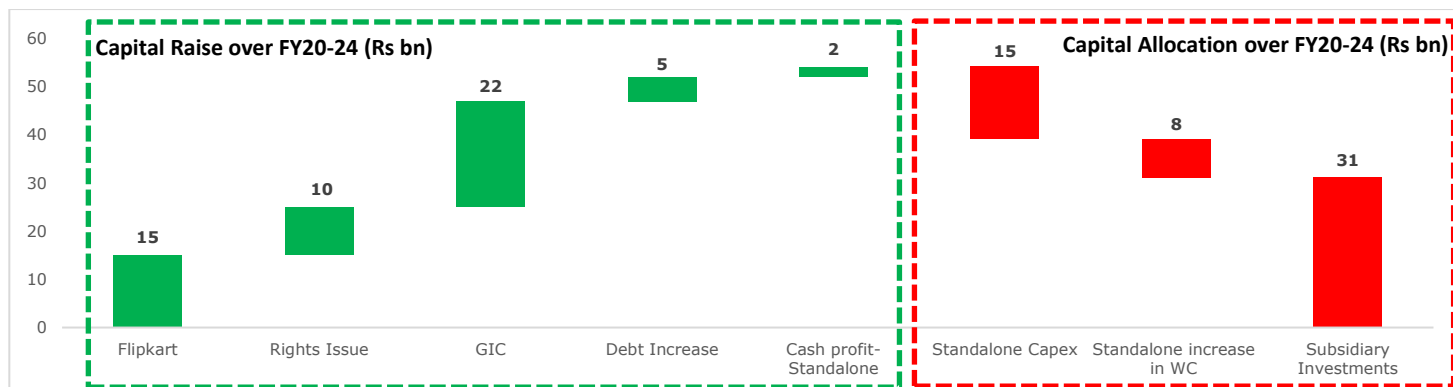
Exhibit 2: Key financial expectations for ABLBL (new entity) and ABFRL (post-demerger)

ABLBL - New Entity (Rs bn)	FY20N	FY24E	FY26E	CAGR (%)	
				FY20-24E	FY24-26E
Revenue	53	81	110	11.4	16.2
EBITDA (Pre-IndAS)	4.5	6.6	9.1	10.0	17.7
EBITDA margin (%)	8.5	8.1	8.3		
Capital Employed	17	23	28		
Goodwill	7	7	7		
RoCE (excl. Goodwill, %)	46	43	44		
ROCE (incl. Goodwill, %)	27	29	33		

ABFRL (post-demerger)	FY20N	FY24E	FY26E	CAGR (%)	
				FY20-24E	FY24-26E
Revenue	40	65	112	12.8	30.7
EBITDA (Pre-IndAS)	2.7	-3.1	1.0		
EBITDA margin (%)	6.6	-4.8	0.9		
Capital Employed	21	48	36		
Goodwill	12	27	27		
RoCE (excl. Goodwill, %)	29	-15	10		
ROCE (incl. Goodwill, %)	13	-7	3		

Source: Company (Analyst Day PPT- FY20N numbers), Emkay Research (Pre-IndAS EBITDA numvers; ROCE has been calculated by dividing EBITDA with Capital Employed)

Exhibit 3: Capital raise and allocation by ABFRL over FY20-24; major allocation remains towards inorganic acquisitions (subsidiary investments)



Source: Company, Emkay Research

Exhibit 4: Peer Comparison

Companies	Price (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV / EBITDA (x)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,603	3,199	Buy	4,350	40.4	52.9	66.7	89.1	68.1	54.0	58.6	45.0	36.5
Page Industries	35,500	396	Reduce	36,300	527.9	609.4	725.5	67.2	58.3	48.9	42.9	37.7	32.1
Jubilant FoodWorks	440	290	Sell	420	4.3	5.3	6.7	101.3	83.0	65.4	25.5	22.2	19.0
Devyani International	163	197	Reduce	165	0.7	1.5	2.3	246.1	107.4	70.2	30.9	23.7	18.5
ABFRL	242	246	Reduce	230	-5.6	-4.4	-2.2	NA	NA	NA	17.5	12.3	9.5
Westlife Foodworld	816	127	Buy	900	4.4	4.9	10.0	183.9	166.9	81.8	33.8	30.1	22.5
Sapphire Foods	1,474	94	Buy	1,700	8.7	19.2	28.6	169.2	76.9	51.5	19.6	15.2	11.9
Go Fashion	1,143	62	Buy	1,350	15.2	19.4	27.0	75.4	59.0	42.4	25.1	20.5	15.7
Ethos	2,398	59	Buy	2,950	34.6	41.4	52.7	69.4	58.0	45.5	35.9	26.9	20.1
Senco Gold	980	76	Buy	1,100	23.1	29.2	36.9	42.5	33.6	26.6	21.8	17.6	14.2
Varun Beverages	1,433	1,862	Add	1,500	15.8	20.4	26.8	90.6	70.2	53.4	52.7	41.8	33.7
Aditya Vision	3,300	42	Buy	5,150	66.6	93.2	133.7	49.5	35.4	24.7	26.4	19.8	14.8

Source: Company, Emkay Research; *Post-IndAS116 EBITDA

Aditya Birla Fashion & Retail: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,362	124,179	142,136	180,044	215,597
Revenue growth (%)	55.0	52.6	14.5	26.7	19.7
EBITDA	10,999	14,936	15,280	21,760	28,077
EBITDA growth (%)	98.3	35.8	2.3	42.4	29.0
Depreciation & Amortization	9,970	12,270	16,486	20,405	23,541
EBIT	1,029	2,666	(1,206)	1,355	4,536
EBIT growth (%)	0.0	159.1	(145.2)	0.0	234.9
Other operating income	0	0	0	0	0
Other income	1,006	1,165	1,900	2,090	2,299
Financial expense	3,507	4,724	8,904	10,486	10,989
PBT	(1,473)	(893)	(8,211)	(7,042)	(4,153)
Extraordinary items	0	0	0	0	0
Taxes	(266)	(230)	(1,043)	(1,408)	(1,047)
Minority interest	96	235	1,009	750	500
Income from JV/Associates	23	68	100	160	200
Reported PAT	(1,087)	(360)	(6,059)	(4,724)	(2,407)
PAT growth (%)	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	(1,087)	(360)	(6,059)	(4,724)	(2,407)
Diluted EPS (Rs)	(1.2)	(0.4)	(5.6)	(4.4)	(2.2)
Diluted EPS growth (%)	0.0	0.0	0.0	0.0	0.0
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	13.5	12.0	10.8	12.1	13.0
EBIT margin (%)	1.3	2.1	(0.8)	0.8	2.1
Effective tax rate (%)	18.0	25.7	12.7	20.0	25.2
NOPLAT (pre-IndAS)	843	1,980	(1,053)	1,084	3,393
Shares outstanding (mn)	938.3	948.8	1,072.6	1,072.6	1,072.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(1,473)	(893)	(8,211)	(7,042)	(4,153)
Others (non-cash items)	9,970	12,270	16,486	20,405	23,541
Taxes paid	(179)	113	(622)	473	10
Change in NWC	544	(2,426)	(11,125)	(1,124)	(1,434)
Operating cash flow	11,365	12,623	3,533	21,109	26,653
Capital expenditure	(3,509)	(18,094)	(20,400)	(8,270)	(8,700)
Acquisition of business	(23)	(100)	0	0	0
Interest & dividend income	1,006	1,165	1,900	2,090	2,299
Investing cash flow	(5,165)	(12,773)	(18,500)	(6,180)	(6,401)
Equity raised/(repaid)	2,618	3,004	14,830	0	0
Debt raised/(repaid)	960	10,732	9,895	0	(395)
Payment of lease liabilities	(7,979)	(10,088)	(12,094)	(14,957)	(17,993)
Interest paid	(1,364)	(1,695)	(3,209)	(3,295)	(2,620)
Dividend paid (incl tax)	0	0	0	0	0
Others	(1,846)	4,003	665	525	400
Financing cash flow	(7,612)	5,955	10,087	(17,727)	(20,608)
Net chg in Cash	(1,412)	5,805	(4,881)	(2,798)	(356)
OCF	11,365	12,623	3,533	21,109	26,653
Adj. OCF (w/o NWC chg.)	10,820	15,049	14,658	22,233	28,087
FCFF	7,855	(5,471)	(16,867)	12,839	17,953
FCFE	5,354	(9,030)	(23,872)	4,442	9,263
OCF/EBITDA (%)	103.3	84.5	23.1	97.0	94.9
FCFE/PAT (%)	(492.4)	2,508.5	394.0	(94.0)	(384.9)
FCFF/NOPLAT (%)	931.5	(276.3)	1,601.5	1,184.8	529.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,383	9,488	10,726	10,726	10,726
Reserves & Surplus	18,350	23,945	31,478	26,755	24,348
Net worth	27,733	33,433	42,204	37,480	35,073
Minority interests	152	27	(1,082)	(1,992)	(2,692)
Deferred tax liability (net)	(4,033)	(4,149)	(5,814)	(6,749)	(7,786)
Total debt	12,323	23,055	32,950	32,950	32,555
Total liabilities & equity	36,176	52,366	68,258	61,689	57,150
Net tangible fixed assets	6,312	10,091	13,314	15,179	16,988
Net intangible assets	6,940	13,935	14,413	14,895	15,376
Net ROU assets	(3,452)	(6,439)	(11,994)	(19,235)	(27,142)
Capital WIP	1,026	1,457	1,457	1,457	1,457
Goodwill	19,973	23,297	34,797	34,797	34,797
Investments [JV/Associates]	778	878	878	878	878
Cash & equivalents	7,287	8,835	3,954	1,156	800
Current assets (ex-cash)	50,363	68,440	83,696	99,755	116,719
Current Liab. & Prov.	53,057	68,707	72,839	87,774	103,303
NWC (ex-cash)	(2,694)	(268)	10,857	11,982	13,416
Total assets	36,176	52,366	68,258	61,689	57,150
Net debt	5,037	14,220	28,996	31,794	31,755
Capital employed	36,176	52,366	68,258	61,689	57,150
Invested capital	27,085	41,196	61,969	58,198	54,015
BVPS (Rs)	29.6	35.2	39.3	34.9	32.7
Net Debt/Equity (x)	0.2	0.4	0.7	0.8	0.9
Net Debt/EBITDA (x)	0.5	1.0	1.9	1.5	1.1
Interest coverage (x)	1.7	1.2	12.8	3.0	1.6
RoCE (%)	5.8	8.7	1.1	5.3	11.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(207.8)	(634.5)	(42.6)	(54.7)	(107.3)
P/CE(x)	24.3	18.3	23.6	15.7	11.7
P/B (x)	8.1	6.8	6.1	6.9	7.4
EV/Sales (x)	2.8	2.0	2.0	1.6	1.3
EV/EBITDA (x)	21.0	16.2	18.8	13.3	10.3
EV/EBIT(x)	214.4	87.1	(228.3)	205.4	61.3
EV/IC (x)	8.1	5.6	4.4	4.8	5.1
FCFF yield (%)	3.6	(2.4)	(6.1)	4.6	6.5
FCFE yield (%)	2.5	(4.1)	(9.7)	1.8	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(1.3)	(0.3)	(4.3)	(2.6)	(1.1)
Total asset turnover (x)	2.3	2.8	2.4	2.8	3.6
Assets/Equity (x)	1.3	1.4	1.6	1.6	1.6
RoE (%)	(4.0)	(1.2)	(16.0)	(11.9)	(6.6)
DuPont-RoIC					
NOPLAT margin (%)	1.0	1.6	(0.7)	0.6	1.6
IC turnover (x)	3.0	3.6	2.8	3.0	3.8
RoIC (%)	3.1	5.8	(2.0)	1.8	6.0
Operating metrics					
Core NWC days	(59.5)	(42.1)	(32.6)	(28.8)	(30.2)
Total NWC days	(12.1)	(0.8)	27.9	24.3	22.7
Fixed asset turnover	2.1	2.7	2.3	2.6	3.1
Opex-to-revenue (%)	40.8	43.3	44.5	44.7	44.2

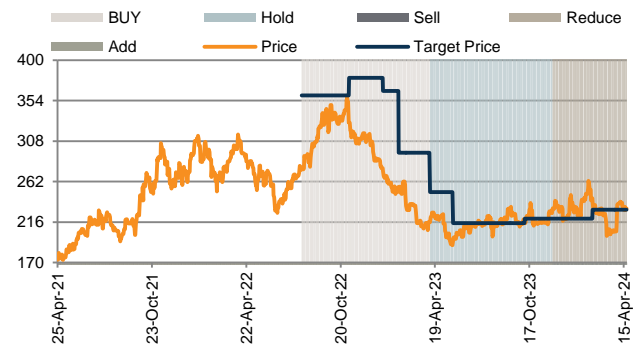
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Apr-24	237	230	Reduce	Devanshu Bansal
15-Feb-24	239	230	Reduce	Devanshu Bansal
10-Jan-24	227	220	Reduce	Devanshu Bansal
30-Nov-23	232	220	Reduce	Devanshu Bansal
11-Nov-23	217	220	Hold	Devanshu Bansal
08-Oct-23	219	220	Hold	Devanshu Bansal
06-Aug-23	210	215	Hold	Devanshu Bansal
10-Jul-23	215	215	Hold	Devanshu Bansal
23-May-23	195	215	Hold	Devanshu Bansal
07-May-23	214	250	Hold	Devanshu Bansal
09-Apr-23	216	250	Hold	Devanshu Bansal
23-Feb-23	231	295	Buy	Devanshu Bansal
08-Feb-23	250	295	Buy	Devanshu Bansal
09-Jan-23	274	365	Buy	Devanshu Bansal
05-Nov-22	329	380	Buy	Devanshu Bansal
06-Aug-22	278	360	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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**SESHADRI
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Digitally signed by SESHADRI KUMAR SEN
DN: c=IN, o=Personal,
pseudonym=133422712594461905DSVUy8k0um4ET,
2.5.4.20=1217a0ac22644d6a490a50ef35978ca2bcf94
e39f48b678bafcf129f6e1ced7, postalCode=400011,
st=Maharashtra,
serialNumber=07837cb61a11364e9d2229a78d0af55d
5d599551e83b08ee76a110dbb491f06e,
cn=SESHADRI KUMAR SEN
Date: 2024.04.23 00:24:58 +05'30'

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