Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

| 3R MATRIX | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | ✓ | | |

\+ Positive = Neutral – Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

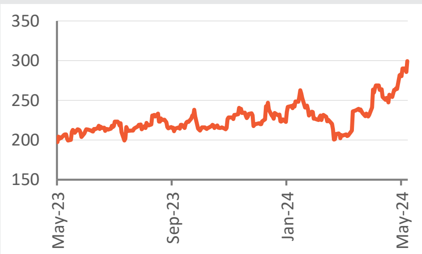
**Company details**

| | |
|---|---|
| Market cap: | Rs. 30,384 cr |
| 52-week high/low: | Rs. 301 / 193 |
| NSE volume: (No of shares) | 60.5 lakh |
| BSE code: | 535755 |
| NSE code: | ABFRL |
| Free float: (No of shares) | 48.9 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 51.9 |
| FII | 19.8 |
| DII | 15.1 |
| Others | 13.3 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 11.3 | 32.9 | 32.4 | 51.9 |
| Relative to Sensex | 11.6 | 30.2 | 21.0 | 33.3 |

*Sharekhan Research, Bloomberg*

# Aditya Birla Fashion & Retail Ltd

## Good Q4; better prospects ahead

| Consumer Discretionary | | Sharekhan code: ABFRL | | |
|---|---|---|---|---|
| Reco/View: **Buy** | ↔ | CMP: **Rs. 299** | Price Target: **Rs. 400** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade


**Summary**

- Aditya Birla Fashion & Retail Limited (ABFRL) registered good performance in Q4FY2024 with revenue growing by 18% y-o-y, while EBIDTA margin expanded 163bps y-o-y to 8.3%, leading to 47% y-o-y growth in EBIDTA.
- Pantaloons' revenue grew 12% (LFL growth of 1%), new businesses such as ethnic wear and TMRW registered strong growth of 51% and 2.1x y-o-y, respectively.
- Net debt at FY2024-end is at ~Rs. 2,900 crore. By FY2025-end, management expects net debt for ABLBL to be at Rs. 600-700 crore and the demerged ABFRL entity to have negligible debt or to be net-debt positive (post fundraising).
- The stock trades at 21x/16x its FY2025E/FY2026E EV/EBITDA. We maintain Buy on the stock with a revised PT of Rs. 400.


**ABFRL registered good operating performance in Q4FY2024 amid a sluggish demand environment with focused cost-control measures aiding margin expansion across businesses. Consolidated revenue grew 18.3% y-o-y to Rs. 3,407 crore, led by store additions and new businesses. Established businesses posted muted performance with Lifestyle brands' revenue growing by 2% y-o-y and Pantaloons' LFL growth at 1% y-o-y, while new businesses reported strong revenue growth (partly backed by inorganic growth) with Reebok growing by 29% y-o-y, ethnic business at 2.7x y-o-y (aided by TCNS acquisition), and TMRW at 2.1x y-o-y. Gross margin stood flat y-o-y at 55.8%, while EBITDA margin rose by 163bps y-o-y to 8.3% aided by focused cost-control measures. Lifestyle brands' and Pantaloons' EBITDA margin improved by 480bps and 270bps y-o-y to 19.5% and 10.4%, respectively. The company reported adjusted loss of Rs. 272 crore against a loss of Rs. 197 crore in Q4FY2023 due to rise in interest cost and depreciation. In FY2024, revenue grew by 12.7% y-o-y to Rs. 13,996 crore, EBITDA margin fell by 165 bps y-o-y to 10.4%, and loss widened to Rs. 736 crore against a loss of Rs. 60 crore in FY2023.**

**Key positives**

- Reebok grew by 29% y-o-y; the brand crossed Rs. 450 crore revenue in FY2024 and delivered positive EBITDA in its first full year of operations.
- Ethnic business (excluding TCNS) grew 51% y-o-y with Sabyasachi, Jaypore, and House of Masaba growing by 56%, 18%, and 86% y-o-y, respectively.
- TMRW grew by 2.7x y-o-y on the back of organic and inorganic growth.
- Lifestyle brands' EBITDA margin improved by 480bps y-o-y; Pantaloons' EBITDA margin rose 270bps y-o-y.

**Key negatives**

- Pantaloons reported 1% LFL.
- Inner wear and athleisure segment stood flat y-o-y due to a sustained decline in the athleisure category.
- Interest expenses rose by 66% y-o-y to Rs. 236 crore due to increased debt.

**Management Commentary**

- January and February were affected by delayed winter and lower weddings. Overall, market conditions remained largely unchanged q-o-q impacted by lower discretionary spending.
- Financials of FY2024 include TCNS consolidation of six months with revenue of Rs. 490 crore, EBITDA loss of Rs. 41 crore, and reported loss of Rs. 115 crore. Management has guided that it will take another three months to merge TCNS with ABFRL.
- The demerger is likely to be completed by the end of Q3 or early Q4FY2025. ABFLR is expected to start with debt of ~Rs. 1,950 crore. Post the demerger, ABFRL will raise Rs. 2,500 crore to strengthen the balance sheet.
- The ethnic portfolio is at an annual run rate of ~Rs. 2,000 crore. The company looks to double Tasva's revenue in the short term and plans to add 30 stores (focus on COCO stores) in FY2025.
- In FY2024, the company opened 29 Pantaloons stores and closed 43 stores to rationalise the network. Going ahead, the company plans to add 25-30 stores in FY2025.
- Improving profitability would be a key focus especially for stable businesses, while management expects losses in new businesses to have bottomed out and, thus, is eyeing profitability in new businesses to improve in the coming quarters.
- By FY2025-end, management expects net debt for Aditya Birla Lifestyle Brands Limited (ABLBL) to be at Rs. 600-700 crore and the demerged ABFRL entity is expected to have negligible debt or net-debt positive (post fundraising).

**Revision in earnings estimates –** We have fine-tuned our earnings estimates for FY2025E and FY2026E as operating performance was largely in line with expectations. We will keenly monitor the performance in the quarters ahead.

**Our Call**

**View – Maintain Buy with a revised PT of Rs. 400:** ABFRL's FY2024 performance was impacted by a muted demand environment, which moderated revenue growth, while higher interest cost and increased depreciation hit profitability. We believe the vertical demerger of MFL into a separate entity is the right strategy to simplify the company's structure. Separating entities under the revamped organisational structure with an appropriate capital allocation plan can create value for shareholders in the long run. The stock is trading at 21x/16x its FY2025E/FY2026E EV/EBITDA, which is at a stark discount to its closest peers such as Trent. With its focus on enhancing shareholders' value through the restructuring strategy, risk-reward remains favourable at current valuations. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 400.

**Key Risks**

Any sustained slowdown in recovery due to weak demand in the branded apparel space in the coming quarters would act as a risk to our estimates in the near term.

**Valuation (Consolidated)** Rs cr

| Particulars | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Revenue | 12,418 | 13,996 | 16,394 | 19,272 |
| EBITDA Margin (%) | 12.0 | 10.4 | 12.1 | 13.0 |
| Adjusted PAT | -53 | -749 | -486 | -305 |
| Adjusted EPS (Rs.) | -0.6 | -7.3 | -4.8 | -3.0 |
| P/B (x) | 8.5 | 6.4 | 7.2 | 7.7 |
| EV/EBITDA (x) | 23.2 | 27.5 | 20.5 | 16.0 |
| RoCE (%) | 4.4 | 0.3 | 1.1 | 2.1 |

*Source: Company; Sharekhan estimates*

**Good Q4 - Largely in-line performance with improvement in profitability of key businesses**

ABFRL's consolidated revenue grew by 18.3% y-o-y to Rs. 3,407 crore mainly driven by store additions and new businesses in the portfolio, while consumption slowdown continued to persist. Revenue came largely in line with our and average street expectation of Rs. 3,369-3,379 crore. Lifestyle brands' business grew by 2% y-o-y, Pantaloons grew by 10% y-o-y (LFL growth at 1%), ethnic subsidiaries business grew by 2.7x y-o-y aided by the integration of TCNS (grew by 51% excluding TCNS), and TMRW grew by 2.1x y-o-y on account of organic and inorganic growth. In Q4FY2024, Reebok grew by 29% y-o-y and super-premium brands grew by 16% y-o-y. In the ethnic portfolio, Sabyasachi grew by 56% y-o-y, House of Masaba rose by 86% y-o-y, and Jaypore increased by 18% y-o-y. Gross margin stood flat y-o-y at 55.8%, while EBITDA margin rose by 163bps y-o-y to 8.3%, aided by focused cost-control measures. EBITDA margin came in slightly lower than our and average street expectation of 9.1% and 8.7%, respectively. Lifestyle brands' EBITDA margin improved by 480bps y-o-y to 19.5%, while Pantaloons' EBITDA margin rose by 270bps y-o-y to 10.4%. EBITDA grew by 47.1% y-o-y to Rs. 284 crore. Interest cost increased by 65.6% y-o-y due to higher borrowings compared to last year mainly for TCNS's acquisition. The company reported an adjusted loss of Rs. 272 crore against loss of Rs. 197 crore in Q4FY2023. We and the street had estimated a loss of Rs. 260-267 crore. In FY2024, revenue grew by 12.7% y-o-y to Rs. 13,996 crore (mainly due to TCNS's consolidation), EBITDA margin fell by 165bps y-o-y to 10.4% (impacted due to losses in TCNS post-acquisition and investments in TMRW and ethnic businesses), and the company posted a loss of Rs. 736 crore against a loss of Rs. 60 crore in FY2023.

**Business performance of proposed ABLBL**

**Lifestyle brands: Muted revenue growth; sharp margin expansion**

- Lifestyle brands grew 1.9% y-o-y to Rs. 1,564 crore in Q4FY2024 impacted by continued slowdown in discretionary consumption and stood flat y-o-y in FY2024 at Rs. 6,560 crore on a high base of ~53% y-o-y growth in FY2023.
- Channel wise, the wholesale channel declined by 12% y-o-y, retail channel grew by 2% y-o-y, and other channels grew by 13% y-o-y in Q4FY2024.
- EBITDA margin rose by 480bps y-o-y to 19.5% in Q4FY2024 and by 300bps y-o-y to 19.6% in FY2024, led by gross margin improvement, premiumisation, better markdown management, strong cost-reduction initiatives, and focus on growing high profitable channels.
- Discount control measures continued strongly, with Q4 discount lower by 470bps y-o-y and FY2024 full-year discount lower by ~200bps y-o-y.
- Each of the brands continues to build on their premiumisation agenda, upgrading products, driving innovation, and introducing new high-quality products and categories.
- At FY2024-end, the retail network comprises 2,679 stores across 3.7 million sq. ft.

**Other businesses: Mixed performance across segments; distribution expansion continues**

- Combined revenue of other businesses grew by 8.9% y-o-y to Rs. 297 crore and EBITDA came in at Rs. 6 crore versus a loss of Rs. 26 crore in Q4FY2023.
- In the **youth western wear segment** (American Eagle and Forever 21), American Eagle grew by 27% y-o-y in Q4FY2024 and by 36% y-o-y in FY2024, aided by strong distribution expansion. The brand added six more stores in Q4FY2024 and now has a network of 65 stores across >30 cities, along with being available across over 120 departmental doors. Forever 21 continued to face headwinds in a challenging competitive environment and is pursuing a profitable asset-light growth model.

- **Innerwear and athleisure segment** stood flat y-o-y in Q4, due to a sustained decline in the athleisure category, while the innerwear category grew 12% y-o-y. In Q4FY2024, retail LFL growth came in at 5% and e-com grew by 47% y-o-y. The business added ~700 trade counters in Q4FY204 to exit with ~35,000 trade outlets.
- **Reebok** grew 29% y-o-y in Q4FY2024. The brand crossed Rs. 450 crore revenue in FY2024 and delivered positive EBITDA in its first full year of operations. The brand continued to expand its distribution network and is present across >160 stores and >900 MBOs and departmental stores at FY2024-end.

**Proposed ABLBL's performance** **Rs. crore**

| Particulars | Q4FY24 | Q4FY23 | y-o-y (%) |
|---|---|---|---|
| Lifestyle brands | 1,564.4 | 1,535.0 | 1.9 |
| Other businesses | 297.4 | 273.0 | 8.9 |
| **Revenue** | **1,861.8** | **1,808.0** | **3.0** |
| Lifestyle brands | 305.0 | 225.0 | 35.6 |
| Other businesses | 6.0 | -26.0 | - |
| **EBITDA** | **311.0** | **199.0** | **56.3** |
| **EBITDA Margin (%)** | | | |
| Lifestyle brands | 19.5 | 14.7 | 484 |
| Other businesses | 2.0 | -9.5 | - |

*Source: Company; Sharekhan Research*

## De-merged ABFRL

### Pantaloons: LFL revenue growth at 1%; EBITDA margin expanded by 275bps y-o-y

- Revenue grew by 10.4% y-o-y to Rs. 895 crore, with LFL growth lower at 1% in Q4FY2024. For FY2024, revenue grew by 5% y-o-y to Rs. 4,328 crore in a weak market.
- Private label sales grew by 6% y-o-y in FY2024 with the mix expanding by 140bps, driven by improvement in design aesthetics of private label products along with portfolio expansion through the addition of new labels and categories.
- EBITDA grew by 50% y-o-y to Rs. 93 crore, with EBITDA margin expanding by 275bps y-o-y to 10.4%, led by effective cost-control measures.
- The business decided to rationalise its store network and closed 33 stores in Q4 to enhance the long-term strength of its distribution model, taking the network to 417 stores at FY2024-end spanning a retail area of 5.7 million sq. ft.

**Pantaloons' performance** **Rs. crore**

| Particulars | Q4FY24 | Q4FY23 | y-o-y (%) |
|---|---|---|---|
| Revenue | 895.0 | 811.0 | 10.4 |
| EBITDA | 93.0 | 62.0 | 50.0 |
| EBITDA Margin (%) | 10.4 | 7.6 | 275 |

*Source: Company; Sharekhan Research*

### Ethnic wear business: Revenue growth (excluding TCNS) at 51%

- Excluding the TCNS portfolio, revenue grew 51% y-o-y, driven by higher same-store sales, network expansion, and category extensions.
- Sabyasachi grew 56% y-o-y in Q4 and by 42% y-o-y in FY2024, led by the jewellery segment, which grew by over 2x y-o-y in FY2024. The brand recorded the second consecutive quarter of sales crossing Rs. 150 crore.

- Shantanu & Nikhil grew by 6% y-o-y in Q4FY2024, with its Pret label, S&N, growing by 25% y-o-y. The brand continued to expand via franchisee partnerships and added seven new stores in FY2024, taking the total network to 21 stores at FY2024-end.
- House of Masaba recorded 86% y-o-y revenue growth in Q4, as the beauty business grew to ~3.5x of Q4FY2023. At FY2024-end, the brand is available across 15 stores (added seven stores during the year).
- The men's premium ethnic wear brand, TASVA doubled its revenue y-o-y and crossed the Rs. 100 crore mark in FY2024 by leveraging the learnings from last year to refine its growth strategy. The brand re-oriented its store expansion strategy and has a network of 57 stores at FY2024-end.
- Jaypore grew 18% y-o-y in Q4FY2024 and by 5% y-o-y in FY2024 as the brand expanded its network to 25 stores (added eight stores in FY2024). The brand is revamping its online backend for better customer engagement.
- TCNS reported revenue of Rs. 211 crore in Q4FY2024, reporting a y-o-y decline of 21% due to rationalisation of its distribution (~15% y-o-y reduction in the overall network), with a clear focus on growing in profitable channels only. EBITDA margin was impacted by negative operating leverage and alignment of policies.

**Ethnic business performance** Rs. crore

| Particulars | Q4FY24 | Q4FY23 | y-o-y (%) |
|---|---|---|---|
| Revenues | 474.0 | 174.0 | 172.4 |
| EBITDA | 15.0 | 3.0 | - |
| EBITDA Margin (%) | 3.2 | 1.7 | 144 |

*Source: Company; Sharekhan Research; performance not comparable due to consolidation of new subsidiaries.*

### Super-premium brands: Revenue growth at 16% y-o-y; network expansion continued

- The segment delivered y-o-y revenue growth of 16% in Q4 and 18% in FY2024, with LFL growth at 11% in FY2024, despite muted demand.
- The segment has consistently sustained its profitable growth trajectory.
- E-commerce channel for the business surpassed Rs. 100 crore in FY2024, continuing its strong organic growth.
- The total network, including Mono brands, spans 39 stores at FY2024-end.

### TMRW: Growth driven by both organic and inorganic portfolio

- Revenue grew 2.1x of Q4FY2023 as it integrated the newly acquired brand – The India Garage Company.
- Organic growth was driven by continuing investment in brand-building initiatives, expanding product portfolio, and launching new categories.

## Key conference call highlights

- **Demand remained muted:** Market conditions remained largely unchanged q-o-q, impacted by lower discretionary spending. January and February were affected by the delay in winter season and lesser number of weddings.
- **Demerger to be completed in H2FY2024:** Management indicated that the demerger is likely to be completed by the end of Q3 or early Q4FY2025. ABFLR is expected to start with a debt of ~Rs. 1,950 crore. Post the demerger, ABFRL will raise Rs. 2,500 crore to strengthen its balance sheet.

- **TCNS merger to take three months:** Financials of FY2024 include TCNS consolidation of six months with a revenue of Rs. 490 crore, EBITDA loss of Rs. 41 crore, and reported loss of Rs. 115 crore. Management has guided that it will take another three months to merge TCNS with ABFRL.
- **Eyeing strong growth in Reebok:** Management stated that Reebok is on track to double its revenue in the next 3-4 years.
- **Ethnic portfolio scaling up:** Ethnic portfolio is at an annual run rate of ~Rs. 2,000 crore. The company looks to double Tasva's revenue in the short term and plans to add 30 stores (focus on COCO stores) in FY2025. Now the portfolio is well settled and losses in most businesses have bottomed out. Thus, the company expects profitability to improve hereon.
- **Planning to add 25-30 Pantaloons stores in FY2025:** For FY2024, the company opened 29 Pantaloons stores and closed 43 stores to rationalise the network. Going ahead, the company plans to add 25-30 stores in FY2025.
- **Accelerated expansion in Style-up in H2FY2025:** Style-up (ABFRL's value brand) currently has a network of 25-28 stores across 8-10 cities. Management is eyeing for an accelerated expansion in H2FY2025, as the company is getting comfortable with the operations.
- **Margins to improve going ahead:** Focused cost-control measures such as rationalisation of network, lower discounting, and choosing profitable channels aided in margin expansion across businesses in FY2024. Going ahead, improving profitability would be the key focus, especially for stable businesses, while management expects losses in new businesses to have bottomed out and, thus, is eyeing profitability in new businesses to improve in the coming quarters.
- **Rise in depreciation due to multiple factors:** In FY2024, depreciation increased by 35% y-o-y mainly due to TCNS consolidation, amortisation of the newly acquired brand in TMRW (The India Garage Company), and accelerated depreciation due to store closures.
- **Debt to be lower by FY2025-end:** By FY2025-end, management expects net debt for ABLBL to be at Rs. 600-700 crore and the demerged ABFRL entity to have negligible debt or net-debt positive (post fundraising).
- **Capex:** For FY2025, management has guided for a capex of Rs. 600-650 crore for both companies together.

**Results (Consolidated)** Rs cr

| Particulars | Q4FY24 | Q4FY23 | Y-o-Y (%) | Q3FY24 | Q-o-Q (%) |
|---|---|---|---|---|---|
| **Total revenue** | **3,406.7** | **2,879.7** | **18.3** | **4,166.7** | **-18.2** |
| Cost of goods sold | 1,504.8 | 1,273.8 | 18.1 | 1,812.7 | -17.0 |
| Employee cost | 478.0 | 414.0 | 15.5 | 487.6 | -2.0 |
| Rent Expenses | 246.2 | 214.7 | 14.7 | 287.7 | -14.4 |
| Other expenditure | 893.9 | 784.4 | 14.0 | 1,025.5 | -12.8 |
| **Total expenditure** | **3,123.0** | **2,686.9** | **16.2** | **3,613.4** | **-13.6** |
| **EBITDA** | **283.7** | **192.8** | **47.1** | **553.3** | **-48.7** |
| Other income | 87.5 | 36.4 | - | 44.1 | 98.6 |
| Interest & other financial cost | 235.5 | 142.2 | 65.6 | 245.4 | -4.0 |
| Depreciation | 455.4 | 348.5 | 30.7 | 444.1 | 2.6 |
| **PBT** | **-319.7** | **-261.5** | **22.3** | **-92.2** | **-** |
| Tax | -47.8 | -64.6 | -26.0 | 22.7 | - |
| Adjusted PAT | -271.9 | -196.9 | 38.1 | -114.9 | - |
| Share in Profit/Loss of JV | -5.6 | -2.4 | - | -7.3 | -22.9 |
| **Reported PAT** | **-266.4** | **-194.5** | **36.9** | **-107.6** | **-** |
| **EPS (Rs.)** | **-2.7** | **-2.1** | **29.1** | **-1.2** | **-** |
| | | | **BPS** | | **BPS** |
| GPM (%) | 55.8 | 55.8 | 6 | 56.5 | -67 |
| EBITDA margin (%) | 8.3 | 6.7 | 163 | 13.3 | -495 |
| NPM (%) | -8.0 | -6.8 | -115 | -2.8 | -523 |
| Tax rate (%) | 14.9 | 24.7 | -976 | -24.6 | - |

*Source: Company; Sharekhan Research*

**Results (Standalone)** Rs cr

| Particulars | Q4FY24 | Q4FY23 | Y-o-Y (%) | Q3FY24 | Q-o-Q (%) |
|---|---|---|---|---|---|
| Total revenue | 2,852.5 | 2,651.3 | 7.6 | 3,516.2 | -18.9 |
| EBITDA | 341.7 | 225.3 | 51.7 | 568.7 | -39.9 |
| Reported PAT | -99.3 | -128.5 | -22.7 | 45.0 | - |
| EPS (Rs.) | -1.0 | -1.4 | -27.8 | 0.5 | - |
| | | | **BPS** | | **BPS** |
| GPM (%) | 54.1 | 53.6 | 50 | 54.4 | -37 |
| EBITDA margin (%) | 12.0 | 8.5 | 348 | 16.2 | -419 |
| NPM (%) | -3.5 | -4.8 | 137 | 1.3 | -476 |
| Tax rate (%) | 23.3 | 26.7 | -345 | 25.8 | -247 |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### ■ Sector Outlook – Near-term outlook bleak; long-term growth prospects intact

Muted demand is likely to persist in Q4, with a gradual recovery expected from FY2025. In the near term, revenue growth for branded retail and apparel companies is expected to be largely driven by store expansion, steady demand for premium products, and better consumer sentiments in urban markets/metros. In the medium to long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. Better operating leverage, improved efficiencies, and improved mix would help branded apparel and retail companies to post higher margins in the coming years.

### ■ Company Outlook – Near-team environment weak; demerger to simplify structure

Management expects demand to remain soft in the near term, which will impact operating performance. The medium-long term prospects of the company are intact, aided by the company's focus on leveraging its strong brand portfolio, evolving the product profile in line with changing consumer preferences, and expanding its reach. The demerger of MFL into a separate entity will result in better and efficient control and management for independent businesses, operational rationalisation, organisational efficiency, and optimum utilisation of various resources. This will also aid in improving the growth prospects of both businesses in the long run. We expect the company's revenue and EBITDA to register a 17% and 31% CAGR, respectively, over FY2024-FY2026E.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 400

ABFRL's FY2024 performance was impacted by a muted demand environment, which moderated revenue growth, while higher interest cost and increased depreciation hit profitability. We believe the vertical demerger of MFL into a separate entity is the right strategy to simplify the company's structure. Separating entities under the revamped organisational structure with an appropriate capital allocation plan can create value for shareholders in the long run. The stock is trading at 21x/16x its FY2025E/FY2026E EV/EBITDA, which is at a stark discount to its closest peers such as Trent. With its focus on enhancing shareholders' value through the restructuring strategy, risk-reward remains favourable at current valuations. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 400.

**Peer Comparison**

| Particulars | EV/EBITDA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|
| | FY24 | FY25E | FY26E | FY24 | FY25E | FY26E |
| Trent | 72.8 | 53.7 | 41.1 | 24.5 | 36.7 | 38.7 |
| ABFRL | 27.5 | 20.5 | 16.0 | 0.3 | 1.1 | 2.1 |

*Source: Company, Sharekhan estimates*

## About company

ABFRL is India's largest pure-play fashion and retail entity with a combined retail footprint of 11.9 million sq. ft., which includes 4,644 stores across 37,205 multi-brand outlets with 9,563 points of sales in department stores across India. The company has leading brands under its umbrella, such as Louis Philippe, Van Heusen, Allen Solly, Peter England, and Pantaloons. The international brands portfolio includes – The Collective, Simon Carter, and select brands such as Ralph Lauren, Hackett London, Ted Baker, Fred Perry, Forever 21, American Eagle, Reebok, and Galeries Lafayette. ABFRL's foray into the branded ethnic wear business includes Jaypore, Tasva, and Marigold Lane and strategic partnerships with designers Shantanu & Nikhil, Tarun Tahiliani, House of Masaba, and Sabyasachi. In addition, to cater to the needs of digitally native consumers, ABFRL is also building a portfolio of digital-first brands under its technology-led 'House of D2C Brands' venture, TMRW. In September 2023, ABFRL acquired a majority stake in TCNS Clothing Co, thus acquiring brands like W, Aurelia, Wishful, Elleven, and Folksong.

## Investment theme

ABFRL is one of the largest players in the branded apparel and retail space. The company has built an agile supply chain model to deliver continuous fresh fashion throughout the year with its 12-season model, which will aid in reducing working capital in the coming years. The company has entered into strategic partnerships with designers such as Shantanu & Nikhil, Tarun Tahiliani, Sabyasachi, and House of Masaba, to tap the ethnic and wedding segments, which has a large unorganised presence. Going ahead, the company's growth would be driven by capex across brands, marketing expenses incurred on brands, IT and digital enhancement, and strengthening the overall digital play through organic and inorganic routes.

## Key Risks

- Any slowdown in the discretionary demand environment would impact same-store sales growth (SSSG), thus affecting revenue growth.
- Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Kumar Mangalam Birla | Chairman |
| Ashish Dikshit | Managing Director |
| Jagdish Bajaj | Chief Financial Officer |
| Anil Malik | Company Secretary and Compliance Officer |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | CALADIUM INVESTMENT PTE LTD | 7.49 |
| 2 | Flipkart Inv. Pvt. Ltd. | 7.21 |
| 3 | Nippon Life India Asset Management Company | 3.89 |
| 4 | SBI Life Insurance Co. Ltd. | 2.05 |
| 5 | Tata AMC | 1.75 |
| 6 | ICICI Prudential Life Insurance Co. | 1.57 |
| 7 | Vanguard Group Inc. | 1.47 |
| 8 | Aditya Birla AMC | 1.19 |
| 9 | UTI AMC | 0.67 |
| 10 | Blackrock Inc. | 0.66 |

*Source: Bloomberg*

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

Sharekhan
by BNP PARIBAS

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