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		↔	

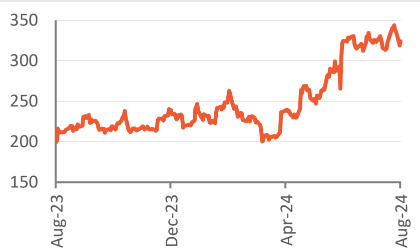
Company details

Market cap:	Rs. 32,876 cr
52-week high/low:	Rs. 349 / 198
NSE volume: (No of shares)	69.9 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	48.8 cr

Shareholding (%)

Promoters	52.0
FII	20.2
DII	14.8
Others	13.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.5	28.1	23.2	62.4
Relative to Sensex	1.1	20.0	13.1	41.9

Sharekhan Research, Bloomberg

Stock Update

Result Update

Aditya Birla Fashion & Retail Ltd

Mixed performance

Consumer Discretionary	Sharekhan code: ABFRL
Reco/View: Buy ↔	CMP: **Rs. 324**
Price Target: **Rs. 385** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Aditya Birla Fashion & Retail Limited (ABFRL) registered mixed performance in Q1FY2025 with revenue growing by 7% y-o-y (2% growth excluding TCNS), while EBITDA margin expanded 131 bps y-o-y to 10.5% (beating estimates), leading to 23% y-o-y EBITDA growth.
- Pantaloons' revenue grew 5% (LFL growth of 2%), while new businesses continued to drive growth in Q1. Management expects H2FY2025 to be better aided by the festive demand.
- Management expects Tasva and TMRW to continue to post losses, while TCNS is expected to become profitable in H2FY2025.
- The stock trades at 22x/17x its FY2025E/FY2026E EV/EBITDA, respectively. We maintain Buy on the stock with a revised SOTP-based PT of Rs. 385.

ABFRL registered a mixed performance in Q1FY2025 amid a sluggish demand environment with organic revenues growing by low single digit while focused cost-control measures aided margin expansion across businesses. Consolidated revenue grew 7.3% y-o-y to Rs. 3,428 crore (2% y-o-y growth excluding TCNS), led by new businesses. Established businesses posted muted performance, with Lifestyle brands' revenue declining by 7% y-o-y and Pantaloons' LFL growth at 2% y-o-y while new businesses reported strong revenue growth (partly backed by inorganic growth), with ethnic business at 2.6x y-o-y (aided by TCNS acquisition) and TMRW doubling y-o-y (organic growth at 47%). Gross margin and EBITDA margin rose by 180 bps and 131 bps y-o-y to 56.6% and 10.5%, respectively, aided by focused cost-control measures and effective markdown management. EBITDA margin came in better than our and average street expectation of 9.4% and 9.1%, respectively. Lifestyle brands' EBITDA margin improved by 50 bps y-o-y to 18.8%, while Pantaloons' EBITDA margin rose by 468 bps y-o-y to 17.6%. EBITDA grew by 22.6% y-o-y to Rs. 358 crore. The company reported an adjusted loss of Rs. 215 crore against a loss of Rs. 162 crore in Q1FY2024.

Key positives

- TMRW registered organic growth of 47% y-o-y.
- Gross/EBITDA margin improved by 180/131 bps y-o-y to 56.6%/10.5%, respectively.
- Pantaloons' EBITDA margin rose 468 bps y-o-y to 17.6%.

Key negatives

- Pantaloons reported 2% LFL.
- Lifestyle brands posted low single-digit negative same store sales growth (SSSG).

Management Commentary

- Premium wear was impacted in Q1 due to fewer wedding dates, while value retail is beginning to witness green shoots. Management expects H2FY2025 to be better, aided by festive demand.
- Management indicated that the merger of TCNS is on track. Measures taken after the acquisition include 1) improving channel/category/store mix, 2) cost optimisation, and 3) inventory correction. Management expects H2 to be better for TCNS, aided by measures taken and as store rationalisation is completed. Management eyes high-teen EBITDA margin in 12-18 months.
- Pantaloons opened one store and closed one store in Q1, keeping the network stable q-o-q at 417 stores. The company has guided for 20-25 Pantaloons stores in FY2025.
- Acquisitions in TMRW are likely to take a pause. The current portfolio has the potential to generate revenue of Rs. 1,000 crore (three major brands together – Rs. 800 crore, remaining brands – Rs. 200 crore). The company will raise capital for TMRW, when the portfolio gets to a reasonable size (likely in late FY2025 or early FY2026).
- Management expects Tasva and TMRW to continue to post losses, while TCNS is expected to become profitable in H2. Overall, the company continues its focus on improving profitability across businesses by undertaking various cost-control measures.
- Net debt stood at Rs. 3,500 at Q1FY2025-end.

Revision in earnings estimates – We have broadly maintained our earnings estimates for FY2025E and FY2026E and will keenly monitor the performance in the quarters ahead.

Our Call

View – Maintain Buy with a revised PT of Rs. 385: ABFRL delivered decent operating performance in a muted demand environment, while higher interest cost and 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 22x/17x its FY2025E/FY2026E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 385.

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	16,220	19,093
EBITDA Margin (%)	12.0	10.4	12.3	13.1
Adjusted PAT	-53	-749	-482	-311
Adjusted EPS (Rs.)	-0.6	-7.3	-4.8	-3.1
P/B (x)	9.2	7.0	7.8	8.4
EV/EBITDA (x)	24.8	29.2	21.7	17.0
RoCE (%)	4.4	0.3	1.1	2.0

Source: Company; Sharekhan estimates

Q1 – Revenue in-line; margin beat estimates

ABFRL's consolidated revenue grew by 7.3% y-o-y to Rs. 3,428 crore mainly driven by newer businesses operating in emerging consumer segments, while consumption slowdown continued to persist. Revenue came largely in line with our and average street expectation of Rs. 3,469 crore and Rs. 3,457 crore, respectively. Lifestyle brands' business declined by 7% y-o-y, other businesses (youth western wear, innerwear & athleisure, and sportswear) grew by 5% y-o-y, Pantaloons grew by 5% y-o-y (LFL growth at 2%), ethnic subsidiaries' business grew by 2.6x y-o-y, aided by the integration of TCNS and TMRW almost doubled y-o-y on account of organic and inorganic growth. Gross margin and EBITDA margin improved by 180 bps and 131 bps y-o-y to 56.6% and 10.5%, respectively, aided by focused cost-control measures. EBITDA margin came in better than our and average street expectation of 9.4% and 9.1%, respectively. Lifestyle brands' EBITDA margin improved by 50 bps y-o-y to 18.8%, while Pantaloons' EBITDA margin rose by 468 bps y-o-y to 17.6%. EBITDA grew by 22.6% y-o-y to Rs. 358 crore. The company reported an adjusted loss of Rs. 215 crore against a loss of Rs. 162 crore in Q1FY2024. We and the street had estimated a loss of Rs. 229 crore and Rs. 215 crore, respectively.

Proposed ABLBL

Lifestyle brands

- Lifestyle brands declined 7% y-o-y to Rs. 1,482 crore as fewer wedding dates led to sluggish demand.
- Channel wise, the wholesale channel declined by 27% y-o-y (due to lower secondary sales), retail channel fell by 9% y-o-y (due to a lean wedding calendar), while other channels grew by 16% y-o-y.
- EBITDA margin rose by 50 bps y-o-y to 18.8%, driven by cost-reduction programme.
- Womenswear and kidswear remained strong and delivered low-single-digit y-o-y growth.
- Opened 35+ new stores this quarter in key markets and exited underperforming markets.
- At Q1FY2024-end, the retail network comprises 2,636 stores across 3.7 million sq. ft.

Other businesses

- Combined revenue of other businesses grew by 4.6% y-o-y to Rs. 317 crore and EBITDA came in at Rs. 4 crore in Q1FY2025 versus a loss of Rs. 31 crore in Q1FY2024.
- In the **youth western wear segment** (American Eagle and Forever 21), American Eagle grew by 35% y-o-y. The brand added four more stores and now has a network of 69 stores, along with being available in over 200 SIS across top departmental stores and MBOs.
- In the **Innerwear and athleisure segment**, innerwear continued to outperform athleisure. E-commerce and retail channels maintained their growth momentum, with retail LFL growth at 3% and e-commerce registering 35% y-o-y growth.
- **Reebok** sales grew with improved profitability. The brand is now available at 170 stores and more than 900 trade outlets and departmental doors. Reebok is ramping up its product innovation engine, with back-to-back new product launches across running and walking shoes.

Proposed ABLBL's performance Rs. crore

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Lifestyle brands	1,482.0	1,594.0	-7.0	1,564.4	-5.3
Other businesses	317.0	303.0	4.6	297.4	6.6
Revenue	**1,799.0**	**1,897.0**	**-5.2**	**1,861.8**	**-3.4**
Lifestyle brands	279.0	292.0	-4.5	305.0	-8.5
Other businesses	4.0	-31.0	-	6.0	-33.3
EBITDA	**283.0**	**261.0**	**8.4**	**311.0**	**-9.0**
EBITDA Margin (%)					
Lifestyle brands	18.8	18.3	51	19.5	-67.0
Other businesses	1.3	-10.2	-	2.0	-76

Source: Company; Sharekhan Research

Proposed demerged ABFRL

Pantaloons

- Revenue grew by 4.8% y-o-y to Rs. 1,101 crore, with LFL growth at 2%.
- The private label portfolio, led by on-trend merchandise and improved design aesthetics, saw its share reach 66% in Q1.
- EBITDA grew by 43% y-o-y to Rs. 194 crore, with EBITDA margin expanding by 468 bps y-o-y to 17.6%, led by effective markdown management and cost-control measures.
- Style Up store expansion continues, encouraged by organic performance. It added three stores in Q1 and Style Up is now present across 30 stores.
- At Q1FY2025-end, Pantaloons' network comprised 417 stores spanning a retail area of 5.7 million sq. ft.

Pantaloons' performance Rs. crore

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Revenue	1,101.0	1,051.0	4.8	895.0	23.0
EBITDA	194.0	136.0	42.6	93.0	-
EBITDA Margin (%)	17.6	12.9	468	10.4	723

Source: Company; Sharekhan Research

Ethnic wear business

- The designer-led ethnic portfolio (Sabyasachi, Shantanu & Nikhil, and House of Masaba) grew by 4% y-o-y despite a weak wedding calendar. Sabyasachi posted another quarter of strong performance with retail LFL growth at 5%. Sales of House of Masaba are up by 75% y-o-y, with beauty brand, Lovechild, at ~6x of last year and fashion growing by 29% y-o-y. Shantanu & Nikhil's pret label, S&N, grew by ~12% y-o-y, driven by distribution expansion. House of Masaba and Shantanu & Nikhil ended Q1 with 16 and 20 stores, respectively.
- TCNS revenue stood at 84% of last year's revenue due to the rationalisation of its distribution network in its endeavour to run a healthy network. Retail LFL came in at 5% with EBITDA margin impacted on account of lower sales and alignment of policies. The total store network is currently at over 500 stores. With an encouraging response towards its newly launched merchandise, the business is consistently treading its track on transformation.
- The men's premium ethnic wear brand, Tasva, saw a tough quarter with significantly lower wedding dates versus last year. Led by its superior product proposition and high-quality store experience, the brand is poised for a strong show in the upcoming wedding and festive season. Tasva is now available at 63 stores (added six stores in Q1) and continues to leverage the wedding ecosystem to enhance its reach among consumers.

- Jaypore revenue grew 12% y-o-y, led by offline expansion. It added two new stores to the network and is now available across 27 stores.

Ethnic business performance Rs. crore

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Revenue	350.0	134.0	-	474.0	-26.2
EBITDA	-54.0	-35.0	54.3	15.0	-
EBITDA Margin (%)	-15.4	-26.1	-	3.2	-

Source: Company; Sharekhan Research; y-o-y performance not comparable due to the consolidation of new subsidiaries

Luxury retail

- Luxury retail, comprising the multi-brand format 'The Collective' and other mono brands delivered another quarter of strong performance with 18% y-o-y revenue growth.
- E-com channel continued its organic growth and registered 31% y-o-y growth.
- The total network, including mono brands, spans across 39 stores.

TMRW

- Grew to ~2x of Q1FY2024 to Rs. 143 crore as the brands continued to benefit from operational and business model enhancements.
- TMRW expanded its portfolio with a minority investment in WROGN.
- Its portfolio now consists of both large prominent category leading brands along with mid-sized emerging brands in high-growth spaces.

TMRW performance Rs. crore

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Revenue	143.0	73.0	95.9	114.0	25.4
EBITDA	-46.0	-34.0	35.3	-50.0	-8.0

Source: Company; Sharekhan Research; y-o-y performance not comparable due to the consolidation of new subsidiaries

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Total revenue	**3,427.8**	**3,196.1**	**7.3**	**3,406.7**	**0.6**
Cost of goods sold	1,489.3	1,446.0	3.0	1,504.8	-1.0
Employee cost	468.8	437.6	7.1	478.0	-1.9
Rent Expenses	231.7	226.8	2.2	246.2	-5.9
Other expenditure	879.6	793.4	10.9	893.9	-1.6
Total expenditure	**3,069.4**	**2,903.7**	**5.7**	**3,123.0**	**-1.7**
EBITDA	**358.4**	**292.3**	**22.6**	**283.7**	**26.3**
Other income	47.8	60.3	-20.7	87.5	-45.3
Interest and other financial cost	219.5	187.3	17.2	235.5	-6.8
Depreciation	435.9	367.0	18.8	455.4	-4.3
PBT	**-249.2**	**-201.7**	**23.6**	**-319.7**	**-22.0**
Tax	-34.6	-39.7	-12.7	-47.8	-27.5
Adjusted PAT	-214.6	-162.0	32.5	-271.9	-21.1
Share in profit/loss of JV	0.3	-0.4	-	-5.6	-
Reported PAT	**-214.9**	**-161.6**	**33.0**	**-266.4**	**-19.3**
EPS (Rs.)	**-2.1**	**-1.7**	**23.8**	**-2.7**	**-21.1**
			bps		**bps**
GPM (%)	56.6	54.8	180	55.8	73
EBITDA margin (%)	10.5	9.1	131	8.3	213
NPM (%)	-6.3	-5.1	-119	-8.0	172
Tax rate (%)	13.9	19.7	-578	14.9	-105

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Total revenue	2,986.0	2,987.2	0.0	2,852.5	4.7
EBITDA	465.8	364.3	27.9	341.7	36.3
Reported PAT	-9.0	-48.6	-81.5	-99.3	-91.0
EPS (Rs.)	-0.1	-0.5	-82.7	-1.0	-91.0
			bps		**bps**
GPM (%)	55.2	53.3	196	54.1	119
EBITDA margin (%)	15.6	12.2	340	12.0	362
NPM (%)	-0.3	-1.6	133	-3.5	318
Tax rate (%)	25.8	25.5	35	23.3	252

Source: Company; Sharekhan Research

Outlook and Valuation

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

In the near term, revenue growth for the branded retail and apparel companies is likely 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 the product portfolio will help branded apparel and retail companies post consistent growth. Better operating leverage, improved efficiencies, and an enhanced mix would help branded apparel and retail companies 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. 385

ABFRL delivered decent operating performance in a muted demand environment, while higher interest cost and 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 22x/17x its FY2025E/FY2026E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 385.

Peer Comparison

Particulars	EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Trent	85.5	63.0	48.2	24.5	35.1	39.4
ABFRL	29.2	21.7	17.0	0.3	1.1	2.0

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 4,190 stores across 37,352 multi-brand outlets with 9,466 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 company's international brand 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 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 Ltd.	3.57
4	Quant Money Managers	3.17
5	SBI Life Insurance Co. Ltd.	2.22
6	Tata Asset Management Ltd.	1.70
7	ICICI Prudential Life Insurance Co. Ltd.	1.56
8	The Vanguard Group Inc.	1.46
9	Aditya Birla Sun Life Asset Management Co. Ltd.	0.89
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

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by BNP PARIBAS

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