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		↔	

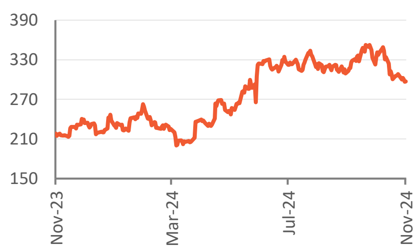
Company details

Market cap:	Rs. 31,894 cr
52-week high/low:	Rs. 365 / 198
NSE volume: (No of shares)	57.0 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	51.4 cr

Shareholding (%)

Promoters	52.0
FII	20.2
DII	14.8
Others	13.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.9	-6.0	17.6	36.2
Relative to Sensex	-8.3	-6.7	9.4	13.9

Sharekhan Research, Bloomberg

Stock Update

Result Update

Aditya Birla Fashion & Retail Ltd

Muted Q2

Consumer Discretionary	Sharekhan code: ABFRL

Reco/View: Buy	↔	CMP: Rs. 298	Price Target: Rs. 385	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Aditya Birla Fashion & Retail Limited's (ABFRL's) Q2FY2025 numbers were muted with revenues rising 13% y-o-y (LFL growth of key brands remained muted), while EBITDA margin stood flat y-o-y at 9.9% and adjusted loss widened y-o-y to Rs. 230 crore.
- Management expects H2FY2025 to be better, aided by festive and wedding demand. Focus will stay on improved profitability across the established and new businesses.
- At H1FY2025-end, net debt stood at Rs. 3,759 crore. With pick up in retail sales in H2, management expects net debt to reduce by Rs. 400-500 crore in H2.
- Stock trades at 22x/18x/15x its FY25E/FY26E/FY27E EV/EBITDA, respectively. We maintain Buy with an unchanged SOTP-based PT of Rs. 385.

ABFRL registered muted performance in Q2FY2025 amid weak demand environment with established brands registering low single-digit LFL growth, EBITDA margin flat y-o-y and adjusted loss widening y-o-y. Consolidated revenue growth of 12.9% y-o-y to Rs. 3,644 crore was mainly driven by newer businesses operating in emerging consumer segments (TCNS revenue grew by 2.2x y-o-y and TMRW revenue more than doubled y-o-y), while Lifestyle Brands and Pantaloons reported muted retail LFL growth of 3.4% and 1.3% respectively. Gross margin improved by 308 bps y-o-y to Rs. 56.5%, while EBITDA margin stood flat y-o-y at 9.9%. Lifestyle brands' EBITDA margin declined by 291 bps y-o-y to 18.5%, while Pantaloons' EBITDA margin rose by 563 bps y-o-y to 15%. EBITDA grew by 11.8% y-o-y to Rs. 361.3 crore. ABFRL reported adjusted loss of Rs. 230 crore against a loss of Rs. 200 crore in Q2FY2024. In H1FY2025, consolidated revenues grew by 10.1% y-o-y to Rs. 7,071 crore, EBITDA margin rose by 58 bps y-o-y to 10.2% and adjusted loss came in at Rs. 445 crore against loss of Rs. 362 crore in H1FY2024.

Key positives

- Consolidated gross margin rose by 308 bps y-o-y to Rs. 56.5%.
- Pantaloons' EBITDA margin rose 563 bps y-o-y to 15%.
- House of Masaba posted 123% y-o-y revenue growth led by strong growth in beauty segment.
- TCNS posted positive EBITDA in Q2.
- Men's premium ethnic wear brand TASVA reported 79% y-o-y revenue growth with retail LTL growth at ~26%.

Key negatives

- Pantaloons reported 1.3% y-o-y LFL growth.
- Lifestyle brands' EBITDA margin declined by 291 bps y-o-y to 18.4%.
- Net debt rose ~Rs. 260 crore q-o-q to Rs. 3,759 crore.

Management Commentary

- Demand remained subdued in Q2 due to inflationary pressure, inauspicious periods and extreme weather, which impacted footfalls. However, green shoots were visible owing to early festive season and higher wedding dates. Management expects H2FY2025 to be better, aided by festive and wedding demand.
- For Pantaloons, smaller markets continue to underperform which is impacting performance. Focus will be on expanding in metros and T-1 towns. ABFRL plans to open 20-25 Pantaloons stores in FY2025, which are likely to be bigger stores with urban centric focus. Management indicated that Pantaloons is a free cash flow generating business.
- In Lifestyle brands, the base quarter had one-off gains, which led to margin decline in Q2. ABFRL would be careful about small town expansion, however, urban and middle-India expansion would continue. It eyes a 10-12% revenue CAGR from a long term perspective.
- ABFRL plans to accelerate store expansion of Reebok in H2. For Reebok, focus is on brand building initiatives, footprint expansion and throughput improvement.
- LFL growth (excluding TCNS and Tarun Tahiliani couture) for ethnic portfolio was at 10% in Q2. Management expects momentum to continue in H2 driven by strong wedding season.
- The last step in TCNS acquisition has been successfully completed and TCNS has been fully amalgamated with ABFRL from September 1, 2024. Management expects Q3 to be breakeven quarter and profitability to improve in coming quarters.
- TMRW delivered organic growth of 30%+ in Q2. The business scaling up very fast and is clocking close to Rs. 1,000 crore revenue run rate. Management guided that many brands are profitable at brand level.
- Net debt stood at Rs. 3,759 at Q2FY2025-end. With a pick-up in retail sales in H2, management expects net debt to reduce by Rs. 400-500 crore in H2.

Revision in earnings estimates – We have fine-tuned our earnings estimates for FY2025 and FY2026 to factor in muted performance in H1FY2025. We have introduced FY2027 estimates through this note.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 385: ABFRL delivered muted operating performance in Q2FY2025 amid subdued demand, 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/18x/15x its FY25E/FY26E/FY27E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged 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	FY27E
Revenue	12,418	13,996	16,008	18,709	21,323
EBITDA Margin (%)	12.0	10.4	12.1	12.6	13.0
Adjusted PAT	-53	-749	-503	-438	-333
Adjusted EPS (Rs.)	-0.6	-6.9	-4.7	-4.1	-3.1
P/B (x)	8.5	6.4	7.5	8.3	9.1
EV/EBITDA (x)	23.2	27.4	21.7	17.6	14.6
RoCE (%)	4.4	0.3	0.9	0.8	1.6

Source: Company; Sharekhan estimates

Muted Q2

ABFRL's consolidated revenues grew by 12.9% y-o-y to Rs. 3,644 crore mainly driven by newer businesses operating in emerging consumer segments, while consumption slowdown continued to persist impacting established brands. Revenues came largely in line with our and average street expectation of Rs. 3,638 crore and Rs. 3,644 crore, respectively. Lifestyle brands' revenue grew by 3% y-o-y (LFL growth at 3.4%), other businesses (youth western wear, innerwear & athleisure, and sportswear) grew by 7% y-o-y, Pantaloons grew by 3% y-o-y (LFL growth at 1.3%), ethnic subsidiaries' business grew by 2.2x y-o-y, aided by inclusion of TCNS and Tarun Tahiliani couture into the portfolio and TMRW more than doubled y-o-y on account of organic and inorganic growth. Gross margin improved by 308 bps y-o-y to Rs. 56.5%, while EBITDA margin stood flat y-o-y at 9.9%. EBITDA margin came in line with our and average street expectation of 9.8% and 10%, respectively. EBITDA grew by 11.8% y-o-y to Rs. 361.3 crore. The company reported adjusted loss of Rs. 230 crore against a loss of Rs. 200 crore in Q2FY2024 due to higher depreciation/amortization for brand and retail assets due to inclusion of TCNS and increased interest costs on higher borrowings. We and the street had estimated a loss of Rs. 239 crore and Rs. 213 crore, respectively. Considering exceptional item of Rs. 98.33 crore for provision for impairment of goodwill due to restructuring and gain of Rs. 121.44 crore on account of remeasurement of equity interest in subsidiary, reported loss came in at Rs. 215 crore. In H1FY2025, consolidated revenue grew by 10.1% y-o-y to Rs. 7,071 crore, EBITDA margin rose by 58 bps y-o-y to 10.2% and adjusted loss came in at Rs. 445 crore against loss of Rs. 362 crore in H1FY2024.

<u>Proposed ABLBL</u>

Lifestyle brands

- Lifestyle brands revenues grew by 3.1% y-o-y to Rs. 1,636 crore, with retail LTL growth at 3.4%, driven by well-rounded improvements across products (casualisation, younger fashion) and enhancement of instore experience.
- Channel-wise, wholesale channel declined by 11% y-o-y (due to lower secondary sales), retail channel grew by 3% y-o-y, while other channels grew by 18% y-o-y (E-commerce channel grew by over 20%).
- EBITDA margins declined by 291 bps y-o-y to 18.4%.
- Opened 29 new stores this quarter in key markets and exited underperforming markets.
- At Q2FY2024-end, the retail network comprises 2,569 stores across 3.6 million sq. ft.

Other businesses

- Combined revenue of other businesses grew by 6.9% y-o-y to Rs. 339 crore and EBITDA came in at Rs. 1 crore in Q2FY2025 versus a loss of Rs. 28 crore in Q2FY2024.
- In the **youth western wear segment**, American Eagle grew by 31% y-o-y.
- In the **Innerwear and athleisure segment**, athleisure posted first quarter of growth after sustained degrowth for past few quarters. E-commerce and retail channels maintained strong momentum, with retail LTL growth at 3% and e-commerce growing by 24% y-o-y and improved profitability. Added over 800 outlets in H1FY2025, bringing the total to over 35,800 outlets.
- **Reebok** posted retail LTL growth of ~10%. The brand is now available at 169 stores and over 900 point of sale across trade outlets.

Proposed ABLBL's performance Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Lifestyle brands	1,636.0	1,586.5	3.1	1,482.0	10.4
Other businesses	339.0	317.0	6.9	317.0	6.9
Revenues	**1,975.0**	**1,903.5**	**3.8**	**1,799.0**	**9.8**
Lifestyle brands	302.0	339.0	-10.9	279.0	8.2
Other businesses	1.0	-28.0	-	4.0	-75.0
EBITDA	**303.0**	**311.0**	**-2.6**	**283.0**	**7.1**
EBITDA Margin (%)					
Lifestyle brands	18.5	21.4	-291	18.8	-37
Other businesses	0.3	-8.8	913	1.3	-97

Source: Company; Sharekhan Research

Proposed demerged ABFRL

Pantaloons

- Revenues grew by 3.1% y-o-y to Rs. 1,101 crore, with retail LFL growth at 1.3%.
- EBITDA grew by 65.3% y-o-y to Rs. 162 crore, with EBITDA margin expanding by 563 bps y-o-y to 15%, led by superior merchandising, better markdown management and cost-control measures.
- Style Up delivered encouraging performance driven by renewed product direction and continuous process improvements. It added 5 stores in Q2, taking the total count to 35 stores.
- At Q2FY2025-end, Pantaloons' network comprised 417 stores spanning a retail area of 5.75 million sq. ft.

Pantaloons' performance Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenues	1,082.0	1,049.0	3.1	1,102.0	-1.8
EBITDA	162.0	98.0	65.3	194.0	-16.5
EBITDA Margin (%)	15.0	9.3	563	17.6	-263

Source: Company; Sharekhan Research

Ethnic wear

- The designer-led ethnic portfolio grew by 32% y-o-y led by addition of Goodview Fashion Private Limited (Tarun Tahiliani couture). House of Masaba recorded 123% y-o-y revenue growth as the beauty business grew to ~10x of last year driven by robust distribution expansion and strong organic sales via its website.
- Within premium ethnic wear brands, TCNS reported revenue growth of ~13% y-o-y to Rs. 254 crore led by steady improvements in store throughput and a positive response to its newly launched merchandise. The brand registered third consecutive quarter of positive LTL, with retail LTL growth at ~3% in Q2. The brand posted positive EBITDA in Q2.
- Men's premium ethnic wear brand TASVA reported 79% y-o-y revenue growth with retail LTL growth at ~26% on the back of strong wedding and festive demand, driven by its strong product offerings and differentiated instore experience.
- Brand Jaypore's revenue grew 15% y-o-y led by ~6% LTL growth and distribution expansion.

Ethnic business performance Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenues	454.0	144.0	215.3	350.0	29.7
EBITDA	-14.0	-18.0	-	-54.0	-

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

Luxury retail

- Luxury retail, comprising multi-brand format 'The Collective' and other mono brands maintained profitable growth, with a 9% y-o-y revenue growth.
- E-commerce channel led by thecollective.in posted 24% y-o-y growth
- The total network, including mono brands, spans across 40 stores.

TMRW

- Revenues grew to 2.1x of Q2FY2024 to Rs. 175 crore driven by its strategic playbook of building digital-first brand portfolio.
- Its portfolio consists of both prominent large brands with high consumer recall and high potential small/mid-sized emerging brands.

TMRW performance Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenues	175.0	85.0	105.9	143.0	22.4
EBITDA	-38.0	-39.0	-2.6	-46.0	-17.4

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Total revenue	**3,643.9**	**3,226.4**	**12.9**	**3,427.8**	**6.3**
Cost of goods sold	1,586.2	1,503.7	5.5	1,489.3	6.5
Employee cost	518.9	423.1	22.6	468.8	10.7
Rent Expenses	212.5	209.9	1.2	231.7	-8.3
Other expenditure	965.0	766.4	25.9	879.6	9.7
Total expenditure	**3,282.5**	**2,903.1**	**13.1**	**3,069.4**	**6.9**
EBITDA	**361.3**	**323.3**	**11.8**	**358.4**	**0.8**
Other income	51.6	45.7	12.7	47.8	7.8
Interest & other financial cost	250.0	208.4	20.0	219.5	13.9
Depreciation	461.0	388.8	18.6	435.9	5.7
PBT	**-298.2**	**-228.1**	**30.7**	**-249.2**	**19.6**
Tax	-68.2	-28.2	-	-34.6	96.9
Adjusted PAT	**-230.0**	**-199.9**	**15.0**	**-214.6**	**7.2**
Share in Profit /loss of JV	3.2	0.5	-	0.3	-
Exceptional item	-18.5	0.0	-	0.0	-
Reported PAT	**-214.7**	**-200.3**	**7.2**	**-214.9**	**-0.1**
EPS (Rs)	**-2.1**	**-2.1**	**1.9**	**-2.1**	**1.5**
			bps		**bps**
GPM (%)	56.5	53.4	308	56.6	-8
EBITDA margin (%)	9.9	10.0	-11	10.5	-54
NPM (%)	-6.3	-6.2	-12	-6.3	-5
Tax rate (%)	22.9	12.4	-	13.9	897

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 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 15% and 24% CAGR, respectively, over FY2024-FY2027E.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 385

ABFRL delivered muted operating performance in Q2FY2025 amid subdued demand, 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/18x/15x its FY25E/FY26E/FY27E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged SOTP-based price target (PT) of Rs. 385.

Peer Comparison

Particulars	EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Trent	98.5	66.2	49.6	24.5	38.4	43.2
ABFRL	27.4	21.7	17.6	0.3	0.9	0.8

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 4,538 stores across 37,952 multi-brand outlets with 9,047 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 (Old data)

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.