

Cautiously optimistic

4 June 2024

ABFRL reported Q4 saw a beat on the bottomline primarily due to margin expansion in the lifestyle brands segment on account of lower discounts, strong cost reduction and focus on profitable channels

- Revenue (standalone) grew by 8% YoY to Rs 28525mn while revenue de-grew 19% on a QoQ basis
- Gross Margins were @ 54.06% as against 53.56% YoY and 54.43% QoQ
- EBIDTA margins stood at 11.98% as against 8.5% YoY driven by Lifestyle brands
- Loss for Q4FY24 at Rs 993mn vs loss of 1281mn/+451mn in Q4FY23/Q3FY24.

Outlook:

- Overall demand remained sluggish due to lower weddings in January & February along with delayed winters.
- The company is confident of doubling of revenue in next 3-4 years for the Reebok brand
- The company is focused on improving the profitability in Pantaloons with rationalization of network, markdown management and closing down of non performing stores.
- Merger with TCNS will complete within the next 3months and the demerger should be completed by end of Q3FY25 or start of Q4FY25.
- The management has indicated that the losses has bottomed out in the emerging businesses.
- Store expansion target:** 25 to 30 store opening of Pantaloons in FY25 and a more measured approach towards other brands
- Net debt target:** Post de-merger the debt in ALBL will be ~600 to 700crs (FY24- 911crs), while the company expects to be net debt free in ABFRL post equity infusion.

Financial Summary

| Y/E Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E |
|--------------------------|---------|---------|---------|---------|
| Net sales | 124,179 | 139,959 | 163,197 | 184,543 |
| EBIDTA | 14,936 | 14,526 | 16,427 | 19,509 |
| EPS (Rs) (post dilution) | (0.63) | (7.25) | (7.56) | (6.98) |
| P/E (x) | (380) | (36) | (35) | (38) |
| P/B (x) | 6.8 | 6.6 | 8.2 | 10.5 |
| EV/EBITDA (x) | 18.5 | 21.0 | 18.8 | 16.0 |
| D/E | 0.5 | 0.7 | 1.0 | 1.3 |
| RoCE (%) | 8.6 | 5.7 | 0.7 | 2.5 |
| RoE (%) | 1.2 | (3.7) | (16.3) | (17.7) |

*Post IND-AS 116

Source: Dalal & Broach Research

| Rating | TP (Rs) | Up/Dn (%) |
|------------|------------|-----------|
| BUY | 315 | 19 |

Market data

| | | |
|----------------------|-----------|-----------------|
| Current price | Rs | 265 |
| Market Cap (Rs.Bn) | (Rs Bn) | 269 |
| Market Cap (US\$ Mn) | (US\$ Mn) | 3,240 |
| Face Value | Rs | 10 |
| 52 Weeks High/Low | Rs | 304.45 / 192.95 |
| Average Daily Volume | ('000) | 4,152 |
| BSE Code | | 535,755 |
| Bloomberg | | ABFRL.IN |

Source: Bloomberg

One Year Performance



Source: Bloomberg

| % Shareholding | Mar-24 | Dec-23 |
|----------------|------------|------------|
| Promoters | 51 | 51 |
| Public | 48 | 48 |
| Others | 1 | 1 |
| Total | 100 | 100 |

Source: BSE

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Segmental & Concall KTA's

Segmental

| Particulars Rs Mns | Q4FY24 | Q4FY23 | YoY |
|---|--------|--------|------|
| A. Aditya Birla Lifestyle Brands Limited | | | |
| 1. Lifestyle Brands | 15,640 | 15,350 | 2% |
| 2. Other Brands | 2,970 | 2,730 | 9% |
| B. Proposed Demerged Entity (ABFRL) | | | |
| 1. Pantaloons | 8,950 | 8,110 | 10% |
| 2. Ethnic (incl TCNS) | 4,740 | 1,740 | 172% |
| 3. TMRW | 1,140 | 540 | 111% |
| 4. Others | 1,240 | 1,090 | 14% |
| EBITDA Margins | | | |
| A. Aditya Birla Lifestyle Brands Limited | | | |
| 1. Lifestyle Brands | 16.70% | 11.0% | |
| 2. Other Brands | 19.5% | 14.7% | |
| 2. Other Brands | 2.1% | -9.5% | |
| B. Proposed Demerged Entity (ABFRL) | | | |
| 1. Pantaloons | 4.1% | 3.5% | |
| 1. Pantaloons | 10.4% | 7.7% | |
| 2. Ethnic | 3.1% | 1.9% | |
| 3. TMRW | -43.6% | -52.1% | |
| 4. Others | 6.7% | 2.7% | |

A. Aditya Birla Lifestyle Brands Limited (ABLBL)

1. Lifestyle Brands

- Deliberate effort to choose profitability over discounts resulting in lower discounts by 470bps vs Q4FY23. Looking at the market conditions management might reconsider reversal of the same
- Highest ever EBITDA with FY24 EBITDA margins at 19.6% vs 16.6% in FY23. Margin expansion was due to focus on premiumization, lower discounts, strong cost reduction and focus on high profitable channels.
- Wholesale business was down by 12% YoY and retail business grew 2% YoY, while wholesale still remains the focus area

2. Other business

I. Youth Western Wear

- **American Eagle** grew by 27% YoY || Highest annual revenue and EBITDA || 65 stores across 30+cities
- Forever 21: Facing headwinds in a competitive environment

II. Sportswear and Innerwear

- **Reebok** crossed 450crs revenue in FY24|| Positive EBITDA in first year of operations|| Available at 160+stores
- **Innerwear** revenue flat in Q4|| Retail L2L growth @5% in Q4|| E-com up 47% YoY||Available at +35000 outlets|| Added 3000 touchpoints|| Athleisure is facing pressure while Innerwear is growing in double digit

B. Proposed Demerged ABFRL

I. Pantaloons

- Retail LTL @1% for Q3FY24
- 33 stores closed in Q4 to improve the quality of network
- FY24: 29 stores opened and 43 closed
- Target to add net 25 to 30 stores in FY25

II. Ethnic Brands

- JAYPORE: Retail revenue +5% in FY24, added 8 new stores in FY24 (Total - 25 stores)
- Shantanu & Nikhil: Sales +21% in FY24 || Pret Label "S&N" recorded 16% LTL growth || Added 7 stores in FY24, ending the year at 21 stores
- Sabyasachi: Revenue +56% || FY24 sales up by 42% vs LY|| Jewellery to be the fastest growing segment
- TASVA: Grew 100% in FY24|| crossed 100crs of sales in FY24||Total stores - 57
- TCNS: 15% reduction in overall network|| EBITDA margins impacted due to lower sales and alignment of policies
- MASABA: Sales grew by 40% YoY|| Beauty segment grew 4x of LY|| Added 7 stores in FY24 (Total - 15)

III. Super Premium Brands (The Collective)

- Highest ever yearly sales (18% growth in FY24)
- 11% LTL growth
- E-com crossed 100crs in FY24
- Total stores at 39

IV. TMRW

- In FY24, revenue quadruples vs FY23

Quarterly Performance Analysis (standalone)

| Particulars Rs Mns (Standalone) | Q4FY24 | Q4FY23 | YOY | Q3FY24 | QoQ |
|--------------------------------------|----------------|----------------|------|---------------|------|
| Revenue from Operations | 28,525 | 26,513 | 8% | 35,162 | -19% |
| Other Income | 685 | 330 | 108% | 425 | 61% |
| Total Income | 29,210 | 26,843 | 9% | 35,587 | -18% |
| COGS | 13,104 | 12,313 | 6% | 16,025 | -18% |
| <i>% of sales</i> | 45.94% | 46.44% | | 45.57% | |
| GROSS MARGINS | 54.06% | 53.56% | | 54.43% | |
| Employee Benefit Expense | 3,388 | 3,433 | -1% | 3,457 | -2% |
| <i>% of sales</i> | 11.88% | 12.95% | | 9.83% | |
| Other Expenses | 6,305 | 6,410 | -2% | 7,236 | -13% |
| <i>% of sales</i> | 22.10% | 24.18% | | 20.58% | |
| Rent | 2,311 | 2,103 | 10% | 2,757 | -16% |
| <i>% of sales</i> | 8.10% | 7.93% | | 7.84% | |
| EBITDA excluding other income | 3,417 | 2,253 | 52% | 5,687 | -40% |
| EBIDTA MARGINS | 11.98% | 8.50% | | 16.17% | |
| EBITDA including other income | 4,102 | 2,583 | 59% | 6,112 | -33% |
| EBIDTA Margins | 14.04% | 9.62% | | 17.17% | |
| Depreciation | 3,495 | 3,098 | 13% | 3,479 | 0% |
| EBIT | 607 | (515) | | 2,633 | |
| Finance costs | 1,902 | 1,235 | 54% | 2,026 | -6% |
| PBT reported | (1,294) | (1,750) | | 607 | |
| Adjusted PAT | (993) | (1,281) | | 451 | |
| NPM | -3.40% | -4.77% | | 1.27% | |
| Basic EPS | (1.02) | (1.33) | | 0.47 | |

Source: Dalal & Broacha Research, Company

Valuation & Outlook

| Valuations - SOTP | |
|--|----------------|
| Particulars (Rs. Bn) | |
| Aditya Birla Lifestyle (ALBL) | |
| Lifestyle Business | FY26 |
| Sales | 81,528 |
| EBITDA | 15,490 |
| Margins | 19.0% |
| EV/EBITDA (x) | 18 |
| EV | 278,827 |
| Reebok + Innerwear + Athleisure Business | |
| Sales | 16,745 |
| EV/Sales (x) | 1 |
| EV | 16,745 |
| Aditya Birla Fashion Lifestyle (ABFRL) Demerged | |
| Pantaloon's | FY26 |
| Sales | 51,010 |
| EBITDA | 7,652 |
| Margins | 15.0% |
| EV/EBITDA (x) | 12 |
| EV | 91,818 |
| Ethnic wear | |
| Sales | 19,851 |
| EV/Sales (x) | 1 |
| EV | 19,851 |
| TMRW | |
| Sales | 8,252 |
| EV/Sales (x) | 1 |
| EV | 8,252 |
| Others | |
| Sales | 7,156 |
| EV/Sales (x) | 1 |
| EV | 7,156 |
| Total EV | 422,650 |
| Debt + Lease Liability | 104,041 |
| Cash | 1,279 |
| Equity Value | 319,888 |
| No of shares | 1,015 |
| Per share | 315 |
| CMP | 268 |
| Upside (%) | 18% |

Valuation:

The company is strategically navigating towards attaining balance between achieving profitability and fostering growth. By judiciously moderating its pace of store expansion and implementing a variety of cost-saving measures, the organization has begun to see tangible results in the recently concluded quarter.

However, despite these near-term headwinds, the long-term outlook for the company remains optimistic. With a clear vision and a commitment to strategic planning, the company is well-positioned to navigate through temporary obstacles and realize its growth potential in the future. The proposed demerger is likely to be completed by end of Q3FY25.

Going forward we will closely monitor the company's ability to sustain its performance improvements and effectively manage and reduce its debt levels. In light of this we roll over our estimates to FY26 arriving at a **Target price of Rs 315 and maintain our BUY stance.**

Financials

| Profit and Loss (Rs. Mn) | FY23 | FY24 | FY25E | FY26E |
|----------------------------|---------------|----------------|----------------|----------------|
| Net Sales | 124,179 | 139,959 | 163,197 | 184,543 |
| Cost of sales | 109,243 | 125,433 | 146,769 | 165,034 |
| Operating Profit | 14,936 | 14,526 | 16,427 | 19,509 |
| Depreciation | 12,270 | 16,552 | 18,291 | 20,120 |
| PBIT | 2,666 | (2,026) | (1,864) | (611) |
| Other income | 1,165 | 2,376 | 2,376 | 2,376 |
| Interest | 4,724 | 8,766 | 9,135 | 9,721 |
| Profit before tax | (893) | (8,417) | (8,623) | (7,957) |
| Exceptional and Extra Or | - | - | - | - |
| share of profit/loss in JV | - | - | - | - |
| PBT (Post Extra Ordinary) | (893) | (8,417) | (8,623) | (7,957) |
| Provision for tax | (230) | (931) | (948) | (875) |
| Reported PAT | (663) | (7,486) | (7,674) | (7,081) |
| MI | - | - | - | - |
| Adjusted PAT | (595) | (7,358) | (7,674) | (7,081) |

Source: Dalal & Broacha Research, Company

| Balance Sheet | FY23 | FY24 | FY25E | FY26E |
|--------------------------------|----------------|----------------|----------------|----------------|
| Equity capital | 9,488 | 10,150 | 10,150 | 10,150 |
| Reserves | 23,945 | 30,188 | 22,514 | 15,432 |
| Net worth | 33,433 | 40,338 | 32,664 | 25,582 |
| Minority Interest | 27 | 6,872 | 6,872 | 6,872 |
| Non Current Liabilities | 65,422 | 90,886 | 95,798 | 103,796 |
| Current Liabilities | 71,531 | 86,015 | 96,752 | 106,483 |
| CAPITAL EMPLOYED | 170,413 | 224,111 | 225,213 | 235,861 |
| Non Current Assets | 98,712 | 137,189 | 140,909 | 145,682 |
| Fixed Assets | 62,334 | 88,366 | 90,904 | 94,518 |
| Non Current Investments | 842 | 1,041 | 1,041 | 1,041 |
| Non Current tax assets | 64 | 259 | 298 | 334 |
| Long Term Loans and Adv | 12 | 5 | 5 | 6 |
| Other NON Current Asset: | 3,736 | 3,938 | 4,332 | 4,765 |
| Goodwill | 23,297 | 32,010 | 32,010 | 32,010 |
| Deferred Tax Assets | 4,085 | 6,572 | 6,572 | 6,572 |
| Security Deposits | 4,343 | 4,997 | 5,747 | 6,437 |
| Current Assets | 71,701 | 86,922 | 91,177 | 97,052 |
| Current investments | 1,824 | 8,807 | 8,807 | 6,307 |
| Inventories | 42,144 | 45,053 | 51,418 | 55,616 |
| Trade Receivables | 8,864 | 12,788 | 13,413 | 15,168 |
| Cash and Bank Balances | 7,011 | 4,624 | 419 | 1,279 |
| Short Term Loans and Adv | 100 | 106 | 106 | 106 |
| Other Current Assets | 11,757 | 15,544 | 17,013 | 18,576 |

| Ratios | FY23 | FY24 | FY25E | FY26E |
|--------------------------|----------------|---------------|---------------|---------------|
| OPM | 12 | 10.4 | 10.1 | 10.6 |
| NPM | (0) | (5.2) | (4.6) | (3.8) |
| Tax rate | 26 | 11.1 | 11.0 | 11.0 |
| Growth Ratios (%) | | | | |
| Net Sales | 59 | 12.7 | 16.6 | 13.1 |
| Operating Profit | 38 | (2.7) | 13.1 | 18.8 |
| PBIT | 101 | (176.0) | (8.0) | (67.2) |
| PAT | (26) | 1,137.3 | 4.3 | (7.7) |
| Per Share (Rs.) | | | | |
| Net Earnings (EPS) | (1) | (7.2) | (7.6) | (7.0) |
| Cash Earnings (CPS) | 12 | 9.1 | 10.5 | 12.8 |
| Dividend | - | - | - | - |
| Book Value | 35 | 39.7 | 32.2 | 25.2 |
| Free Cash Flow | (12) | (110.3) | (28.4) | (24.3) |
| Valuation Ratios | | | | |
| P/E(x) | (379.7) | (36.4) | (34.9) | (37.8) |
| P/B(x) | 6.8 | 6.6 | 8.2 | 10.5 |
| EV/EBIDTA(x) | 18.5 | 21.0 | 18.8 | 16.0 |
| Div. Yield(%) | - | - | - | - |
| FCF Yield(%) | (5.1) | (41.8) | (10.8) | (9.2) |
| Return Ratios (%) | | | | |
| ROE | 1% | -4% | -16% | -18% |
| ROCE | 9% | 6% | 1% | 3% |

Source: Dalal & Broacha Research, Company

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