

Aditya Birla Fashion & Retail Ltd. (ABFRL): Q4FY17 Result Update

CMP INR 174

Target INR 225

Robust disclosures enhance confidence

Rating: BUY

Upside: 30%

After 4 consecutive quarters of disappointing results and for the first time after the Pantaloons and Madura merger, ABFRL has delivered a good result. Detailed disclosure gives clarity and enhances belief in the long term prospects of the company as the company has for the first time disclosed the split the business between different business segments classified as: Lifestyle brands (core Madura brands), Value Fashion (Pantaloons), Fast Fashion (Forever 21 and People) and Other business (includes inner wear). This will help track the growth and margins across each segment of the business. ABFRL's 12.5% y-o-y revenue growth was in line with estimates while EBITDA was above expectations led by a robust beat in Madura but a miss in Pantaloons. We continue to believe that with its rich product portfolio, strong distribution reach, clarity of long term strategy, ABFRL is a unique mix of brand and retail, thus is a potential multi-bagger. We re-iterate "BUY" with a price target of Rs INR 225.

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Bloomberg:

ABFRL :IN

52-week range (INR):	186 / 123
Share in issue (cr):	77.2
M cap (INR cr):	13,124
Avg. Daily Vol.	1200
BSE/NSE :('000):	

Detailed disclosure enthuces confidence that Madura is still doing well; sustenance key

Madura sales (ex-Forever 21) at INR 909 cr; grew 4% y-o-y, and was in line with our estimates while EBITDA margins (ex-Forever 21) was ~15% which was way above our estimates. For the last 4 quarters, we were disappointed by the Madura margins as prior to the merger with Pantaloons; Madura was reporting 12% margins which dramatically reduced to sub 10% post the merger. While the company stressed that margins were lower due to investments in Forever 21 and innerwear, the general feeling was that such investments could not result in a 200-400 bps margin fall. As the company has reported a segmental split this quarter, it was heartening to see that ex-Forever 21 and innerwear, Madura margins have come way above the 12% levels. This gives us a lot of confidence that Madura's performance has not deteriorated post the demerger, as widely anticipated. Also if at 0% SSG, Madura has reported 12% plus margins; we believe that if demand picks up, operating leverage would spur margins further. Sustenance of current margins will lead to a re-rating of the stock.

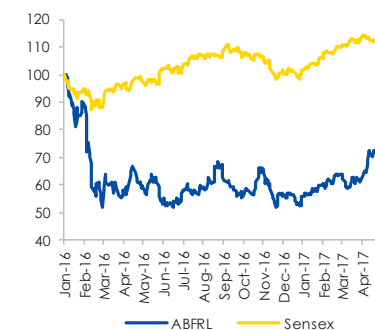
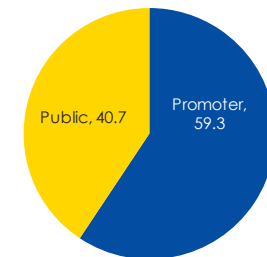
Temporary blip in Pantaloons

Pantaloons sales at INR 586 Cr grew 11% y-o-y; was 9% below our estimates. Pantaloons EBITDA at INR 14 cr was way below our estimate of INR 40 cr. Margins at 2.5% were below our estimate of 6%. While the Pantaloons numbers are weak this quarter, they are expected to improve next year. A structural and directional change to a non EOSS model is underway. This strategic shift will see Pantaloons move to 4 seasons in a year as it pursues its strategy of value fashion all year round. This strategy is important as generating strong volume and SSG growth all year round is most important for a higher fixed asset retail model like Pantaloons. Pantaloons has been aggressive as they have opened 70 stores this year, taking the count to 210 stores which is a 50% expansion in 1 year. Also 28 of these stores are on the franchisee model (14 opened in Q4FY17 itself), which should help boost the RoCE of Pantaloons in the long run and also shows the strength of the brand.

Outlook and Valuations – Positive; Re-iterate BUY

We believe ABFRL is best placed among branded apparel peers to reap significant benefits of the improving macroeconomic milieu due to the sheer quality & size of Madura's 4 brands, presence in fastest growing segments such as value and fast fashion and an unparalleled distribution network. The company's pole position, ability to generate free cash flow, and RoCE expansion from 4% currently to 16% by FY19E will yield target multiple of 3x sales for Madura and 15x EV/EBITDA for Pantaloons, leading to a target price of INR 225 as we rollover to FY19E. We re-iterate our Buy rating.

	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net Sales (INR cr)	1625	1436	13%	1707	-5%	6,633	7,549	8,697
% Growth							14%	15%
EBITDA	114	88	30%	87	31%	438	604	739
Adj PAT	21	-108	NA	-12	NA	54	156	267
% Growth							190%	71%
Dil. EPS (INR)						0.7	2.0	3.5
Diluted P/E (x)						244	84	49
EV/EBITDA (x)						34	25	20
ROCE (%)						7%	11%	15%

Date: 15th May 2017

Q4FY17 Result Highlights

Particulars	Q4 FY17	Q4 FY16	% change	Q3 FY17	% change	FY17	FY16	% change
Income from operations	1625	1436	13%	1707	-5%	6,633	7,549	8,697
Cost of goods sold	732	648	13%	781	-6%	3,018	3,397	3,870
Employee expenses	162	140	16%	184	-12%	663	717	826
Other expenses	617	560	10%	655	-6%	2,514	2,831	3,261
Total operating expenses	1511	1348	12%	1620	-7%	6,195	6,945	7,958
EBITDA	114	88	30%	87	31%	438	604	739
Depreciation and amortization	66	162	-59%	65	2%	242	267	283
EBIT	48	-74	NA	22	NA	196	337	456
Interest expenses	44	43	2%	42	5%	180	180	160
Other income	17	9	89%	8	113%	38	38	38
PBT	21	-108	NA	-12	NA	54	195	334
Provision for tax	0	0	NA	0	NA	0	39	67
Core profit	21	-108	NA	-12	NA	54	156	267
Extraordinary items	0	0	NA	0	NA	0	0	0
Adjusted net profit	21	-108	NA	-12	NA	54	156	267
Equity capital (FV INR 10)						772.0	772.0	772.0
No. of shares (Cr)						77.2	77.2	77.2
Diluted EPS (INR)						0.7	2.0	3.5

Financials

Financial Statements						Balance sheet						Profitability & efficiency ratios					
(INR cr)						(INR cr)											
Year to March (INR Cr)	FY15	FY16	FY17E	FY18E	FY19E	As on 31st March	FY15	FY16	FY17E	FY18E	FY19E	Year to March	FY15	FY16	FY17E	FY18E	FY19E
Net revenue	1,851	6,060	6,633	7,549	8,697	Equity capital	93	769	772	772	772	ROAE (%)	NA	NA	6%	15%	21%
Materials costs	1,000	2,755	3,018	3,397	3,870	Reserves & surplus	252	174	224	380	648	ROACE (%)	NA	3%	7%	11%	15%
Gross profit	850	3,305	3,615	4,152	4,827	Borrowings	1,311	1,858	1,950	1,875	1,600	ROIC (%)	NA	3%	7%	10%	12%
Employee costs	184	597	663	717	826	Other long-term liabilities	61	100	100	100	100	Inventory day	84	84	83	80	76
Other costs	750	2,311	2,514	2,831	3,261	Sources of funds	1,717	2,902	3,047	3,128	3,120	Debtors days	1	24	22	20	22
EBITDA	87	397	438	604	739	Gross Block	909	1,698	2,048	2,398	2,748	Payable days	80	87	84	81	78
Depreciation & Amortization	183	338	242	267	283	Accumulated Depreciation	(516)	(1,126)	(1,369)	(1,636)	(1,919)	Cash conversion cycle (days)	9	16	16	15	16
EBIT	-96	59	196	337	456	CWIP	4	-	-	-	-	Current ratio	1.1	1.2	1.2	1.2	1.2
Other income	3	12	38	38	38	Net Fixed Assets	396	572	679	762	829	Debt/Equity	3.8	2.0	2.0	1.6	1.1
EBIT incl. other income	-93	71	234	375	494	Net intangible assets	1,187	1,775	1,775	1,775	1,775	Core ROACE (%)	NA	7%	17%	26%	32%
Interest expenses	134	175	180	180	160	Investments	-	272	272	272	272						
Profit before tax	-228	-104	54	195	334	Inventories	427	1,388	1,509	1,657	1,800	Operating ratios					
Provision for tax	0	0	0	39	67	Sundry debtors	3	391	400	414	524	Year to March					
Adjusted Profit	-228	-104	54	156	267	Cash and equivalents	7	20	22	4	(144)	Total asset turnover	1.1	2.6	2.2	2.4	2.8
Basic shares outstanding (Cr)	46.4	76.9	77.2	77.2	77.2	Loans and advances	36	200	200	200	200	Fixed asset turnover	2.2	4.6	3.5	3.4	3.4
EPS (INR)	-4.9	-1.4	0.7	2.0	3.5	Total current assets	474	1,999	2,131	2,274	2,380	Equity turnover	4.0	9.4	6.8	7.0	6.8
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0	Sundry creditors and others	406	1,437	1,530	1,675	1,856	Du pont analysis					
Dividend payout (%)	0%	0%	0%	0%	0%	Provisions	16	280	280	280	280	Year to March					
						Total current liabilities & provisions	422	1,717	1,810	1,955	2,136	NP margin (%)	-12.3%	-1.7%	0.8%	2.1%	3.1%
Common size metrics as % of net revenues						Net current assets	52	283	321	319	244	Total assets turnover	1.1	2.6	2.2	2.4	2.8
Year to March	FY15	FY16	FY17E	FY18E	FY19E	Deferred tax assets	-	-	-	-	-	Leverage multiplier	3.7	3.6	3.1	2.9	2.4
COGS	54.1%	45.5%	45.5%	45.0%	44.5%	Other long-term assets	82	-	-	-	-	ROAE (%)	NA	NA	5.5%	14.5%	20.8%
Distribution & Selling Exp	6.3%	0.0%	0.0%	0.0%	0.0%	Uses of funds	1,717	2,902	3,047	3,128	3,120	Valuation parameters					
Employee Exp	9.9%	9.9%	10.0%	9.5%	9.5%	Book value per share (INR)	7.4	12.3	12.9	14.9	18.4	Year to March					
Other Exp	25.0%	27.4%	27.0%	27.5%	27.5%	Free cash flow						Diluted EPS (INR)	-4.9	-1.4	0.7	2.0	3.5
Depreciation	9.9%	5.6%	3.6%	3.5%	3.3%	Year to March	FY15	FY16	FY17E	FY18E	FY19E	Y o Y growth (%)	NA	NA	NA	190.3	71.3
EBITDA margins	4.7%	6.6%	6.6%	8.0%	8.5%	Net profit	-228	-104	54	156	267	Diluted PE (x)	NA	NA	244.0	84.1	49.1
EBIT margins	-5.2%	1.0%	3.0%	4.5%	5.2%	Add : Depreciation	183	338	242	267	283	Price/BV (x)	22.9	13.9	13.2	11.4	9.2
Adj profit margins	-12.3%	-1.7%	0.8%	2.1%	3.1%	Others	118	163	142	142	122	EV/Sales (x)	5.0	2.5	2.2	2.0	1.7
Net profit margins	-12.3%	-1.7%	0.8%	2.1%	3.1%	Gross cash flow	74	397	438	565	672	EV/EBITDA (x)	105.1	37.6	34.1	24.7	20.2
						Changes in WC	-110	-217	-37	-16	-73	Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth ratios (%)						Operating cash flow	-36	180	401	549	599						
Year to March	FY15	FY16	FY17E	FY18E	FY19E	Capex	-116	-300	-350	-350	-350						
Revenues	11.4%	NA	9.5%	13.8%	15.2%	Free cash flow	-152	-120	51	199	249						
EBITDA	NA	NA	10.2%	37.9%	22.4%	Cash flow metrics											
PBT	NA	NA	NA	262.9%	71.3%	Year to March	FY15	FY16	FY17E	FY18E	FY19E						
Adj profit	NA	NA	NA	190.3%	71.3%	Cash flow from operations	-36	180	401	549	599						
Net profit	NA	NA	NA	190.3%	71.3%	Cash Flow from investing activities	-109	-185	-312	-312	-312						
						Cash flow from financing activities	141	299	-89	-255	-435						
						Capex	-116	-785	-350	-350	-350						
						Dividends	-	-	-	-	-						

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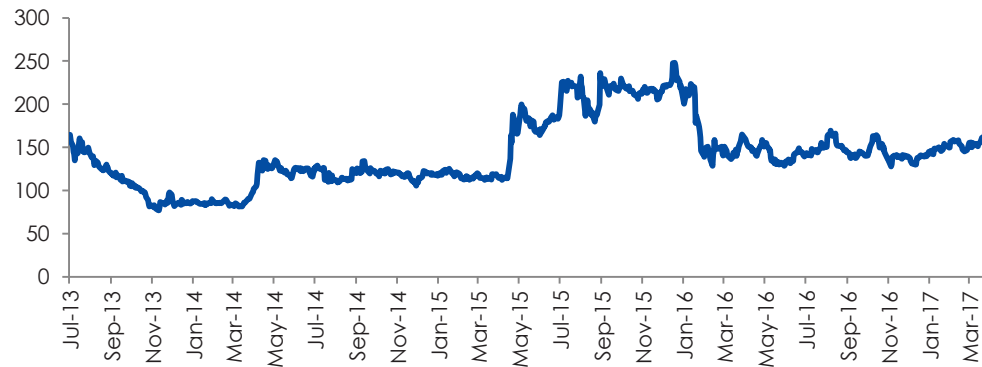
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

ABFRL 5 years price chart



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