



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Management Meet Update@ Dalal & Broacha

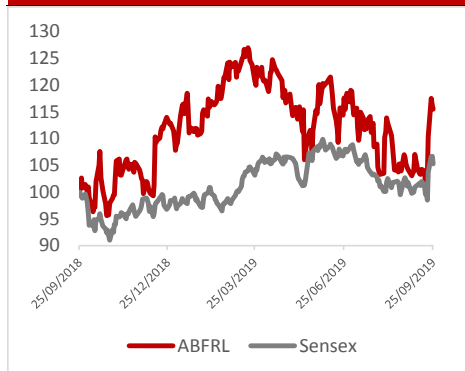
BUY

Current Price	205
52 Week Range	168/237
Target Price	249
Upside	21%

Key Share Data

Market Cap (Rs.bn)	157.79
Market Cap (US\$ mn)	2222.39
No of o/s shares (mn)	771.72
Face Value	10
Monthly Avg. vol(BSEgrew byNSE)	
Nos'000	401.85
BSE Code	535755
NSE Code	ABFRL
Bloomberg	ABFRL:IN

Price performance



% Shareholding	Jun-19	Mar-19
Promoters	59.10	59.24
Public	40.90	40.76
Others	0	0
Total	100.0	100.0

The upcoming festive season seems promising, and no negative surprises are expected. Overall the company maintains double digit growth trajectory to continue.

1. Madura Fashion and Lifestyle (MFL): (60% of revenues)

A) Lifestyle (~85% of MFL): Target gross store openings by FY20 is 400/Q1FY20 store openings stood at 77/Total stores count at 2057/SSG target at ~5-6% for FY20e
 - Louis Phillipe, Van Heusen, Peter England are Rs. 10bn plus brands and Allen Solly soon to follow as it is the fastest growing out of the 4
 - Peter England Red stores seeing good traction in Tier 4 & 5 towns
 - Women Wear contribute ~Rs.2bn i.e. (~5% of lifestyle business), growing at high double digit
 - Advertisement spends in lifestyle business is higher than Pantaloons on account of premium brands to Pantaloons

B) Fast Fashion(~7.5% of MFL): People brand transition in process/ brand to go under Pantaloons as part of own brands/store network of 94 to be converted to Madura lifestyle brand stores as average store size is a right fit for brand stores
 - Forever 21 brand still under rationalization and thus revenues to be subdued in the near term

C) Other Business (7.5% of MFL): Innerwear business continue to be in losses, however with increasing revenues, key metrics are showing improvement.
 - Revenues target of Rs. 3bn by F20e/on track to breakeven by FY22e/pricing is 10% higher to closest competitor.
 -14000 total touch points reached by Q1FY20/Target touch points is 16000 by FY20e/98% sold via hosiery channel
 -women innerwear sold at 20% of current touchpoints, but still in the testing phase

2. Pantaloons: (40% of revenues)

-Target store additions at 65-70/ 6 store additions in Q1FY20, however the company will be more aggressive in the coming quarters
 - Own brands contribution to reach ~65% by FY20e aided by transition of people brand and **push margins higher**/ own brands contribution stood at 61% in FY19, which increased to 64% in Q1FY20.
 - Management maintains **EBITDA margin improvement by 100 bps (FY19 OPM stood at 7.2%)** from FY19.

Financials (Rs. Mn)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY17	66,028.6	9.4%	4,374.9	6.6%	535.0	148.0%	0.7	292.4	6%	8%
FY18	71,720.7	8.6%	4,682.8	6.5%	1,177.9	120.2%	1.5	133.0	11%	8%
FY19*	81,177.2	13.2%	5,540.7	6.8%	3,212.2	172.7%	4.2	49.4	22%	13%
FY20E**	92,690.3	14.2%	6,612.3	7.1%	2,129.3	-33.7%	2.8	74.5	13%	15%
FY21E**	1,05,246.0	13.5%	8,137.9	7.7%	3,696.9	73.6%	4.8	42.9	18%	18%

*- FY19 Profit and ROE high due to Deferred tax benefit of Rs. 1939.6mn

** - Numbers are on basis of Pre IND-AS 116



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Other KTA's

- Onam festival on Y-o-Y basis was better despite floods in southern states as floods situation was worse in the previous year
- No near-term debt reduction as cash flows utilized for recent acquisitions of ethnic brands/Debt/Equity ratio for FY19 stands at 0.8x
- Recent change in Corporate tax will not have a major benefit for the company since its under MAT for next 3 years/ ETR for the company will become 17% from ~20% currently
- With Pan India stores expansion across business verticals & focus on margin improvements, the company has dedicated capex flows of Rs. 500mn towards improved data analytics, better inventory management, and demand forecasting and better logistics.
- Women Ethnic wear (organized) in terms of opportunity size is Rs 225bn and with the recent acquisition of i) Jaypore ii) Shantanu & Nikhil, the company plans to explore this opportunity.
- Company plans to add 4-6 stores in Jaypore in FY20e and through price rationalization, improve revenues and profitability.

Outlook: We believe with continued improvement in EBITDA margins of the Pantaloons business, (company's target of 100bps improvement for the next couple of years) we expect the company's profitability to grow much faster when compared to the revenue growth. The base business i.e. 4 lifestyle brands of Madhura will continue to clock in double digit growth providing business sustenance going forward.

Valuation @ CMP of Rs. 205: on EV/EBITDA basis the stock is trading at 25.2x FY20e & 20x FY21e EBITDA of Rs. 6612.3mn & Rs.8137.9mn respectively. On SOTP based valuation, on EV/EBITDA basis we assign a 22x multiple to FY21e EBITDA of Rs. 6513.69mn of **Madura Lifestyle** and 15x multiple to FY21e EBITDA of Rs. 3541.74mn of **Pantaloons**, arriving at a target price of Rs.249 i.e. upside of 21%. We maintain **BUY**.



Valuation Matrix	
Madura Lifestyle	FY21
Sales	54280.75
EBITDA	6513.69
<i>Margins</i>	12%
EV/EBITDA (x)	22
EV	143301.2
Pantaloons	FY21
Sales	40709.69
EBITDA	3541.74
<i>Margins</i>	9%
EV/EBITDA (x)	15
EV	53126.14
Total EV	196427.33
less: Debt	9482.3
Add: Cash	5308.55
Total	192253.57
Number of shares	773.48
Target Price	249
CMP	205
% Upside	21%

Peers (Lifestyle)	EV/EBITDA
Trent	45.5
Kewal Kiran*	9.32
Raymond*	6.7
Page Industries*	31.5
Average	23
Peers (Pantaloons)	EV/EBITDA
V-Mart	22
Shopper Stop*	8.57
Future Retail*	9.89
Average	13.5
*- Bloomberg Estimates	



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ABFRL Ltd Financial data											
P&L (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	66,028.6	71,720.7	81,177.2	92,690.3	1,05,246.0	Net Profit	535.0	1,177.9	3,212.2	2,129.3	3,696.9
Cost of sales	61,653.7	67,037.9	75,636.5	86,078.0	97,108.1	Add: Dep. & Amort.	2,424.7	2,805.2	2,823.3	3,000.0	3,692.8
Operating Profit	4,374.9	4,682.8	5,540.7	6,612.3	8,137.9	Minority Interest	-	-	-	-	-
Depreciation	2,424.7	2,805.2	2,823.3	3,000.0	3,692.8	Cash profits	2,959.7	3,983.1	6,035.5	5,129.3	7,389.7
PBIT	1,950.2	1,877.6	2,717.4	3,612.3	4,445.1	(Inc)/Dec in					
Other income	381.5	328.1	647.8	651.3	957.2	-Sundry debtors	(1,398.0)	(996.6)	(2,347.5)	1,472.6	(880.9)
Interest	1,796.7	1,716.0	1,874.2	1,698.2	948.2	-Inventories	(207.2)	(2,599.5)	(2,300.8)	8,808.6	(1,360.3)
Profit before tax	535.0	489.7	1,491.0	2,565.4	4,454.1	-Loans/advances	7.1	(3.0)	(9.1)	(7.0)	(7.6)
Exceptional and Extra Ordinary share of profit/loss in JV	-	-	-	-	-	-Current Liab and Provisions	(1,545.4)	8,364.1	11,115.9	(5,245.7)	3,874.1
PBT (Post Extra Ordinary)	535.0	489.7	1,491.0	2,565.4	4,454.1	- Other Assets	(481.3)	(881.6)	(2,729.0)	(964.6)	(1,098.5)
Provision for tax	-	(688.2)	(1,721.2)	436.1	757.2	- Non Current security Deposit	(516.0)	(376.3)	(197.3)	(565.1)	(410.2)
Reported PAT	535.0	1,177.9	3,212.2	2,129.3	3,696.9	Change in working capital	(4,140.8)	3,507.1	3,532.2	3,498.9	116.6
MI	-	-	-	-	-	CF from Oper. activities	(1,181.1)	7,490.2	9,567.7	8,628.2	7,506.3
Adjusted PAT	535.0	1,177.9	3,212.2	2,129.3	3,696.9						
						CF from Inv. activities	(4,055.7)	(4,446.8)	(4,265.7)	(5,200.0)	(3,700.0)
						CF from Fin. activities	5,544.8	(2,562.1)	(5,455.8)	-	(2,500.0)
						Cash generated/(utilised)	308.0	481.3	(153.8)	3,428.2	1,306.3
						Cash at start of the year	(61.4)	246.6	727.9	574.1	4,002.3
						Cash at end of the year	246.6	727.9	574.1	4,002.3	5,308.5
							246.6	727.9	574.1	4,002.3	5,308.5
							(0.0)	(0.0)	(0.0)	0.0	-
Balance Sheet	FY17	FY18	FY19E	FY20E	FY21E	Ratios	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	7,705.3	7,716.9	7,734.8	7,734.8	7,734.8	OPM	6.6	6.5	6.8	7.1	7.7
Reserves	1,876.3	3,214.2	6,554.0	8,683.3	12,380.2	NPM	0.8	1.6	3.9	2.3	3.5
Net worth	9,581.6	10,931.1	14,288.8	16,418.1	20,115.0	Tax rate	-	(140.5)	(115.4)	17.0	17.0
Minority Interest	-	-	-	-	-	Growth Ratios (%)					
Non Current Liabilities	15,198.4	14,697.1	10,126.7	10,311.8	8,010.1	Net Sales	9.4	8.6	13.2	14.2	13.5
						Operating Profit	15.6	7.0	18.3	19.3	23.1
Current Liabilities	25,578.5	31,710.2	41,795.2	36,364.4	40,040.2	PBIT	383.6	(3.7)	44.7	32.9	23.1
						PAT	(148.7)	120.2	172.7	(33.7)	73.6
CAPITAL EMPLOYED	50,358.5	57,338.4	66,210.7	63,094.3	68,165.3	Per Share (Rs.)					
						Net Earnings (EPS)	0.7	1.53	4.2	2.8	4.8
Non Current Assets	29,250.5	30,835.4	32,519.1	35,459.6	36,078.6	Cash Earnings (CPS)	(2.5)	(2.1)	0.5	(1.1)	0.0
Fixed Assets	6,774.6	7,685.9	7,182.7	7,682.7	7,689.9	Dividend	-	-	-	-	-
Non Current Investments	-	42.1	42.1	1,742.1	1,742.1	Book Value	12.4	14.2	18.5	21.2	26.0
Non Current tax assets	177.8	187.5	162.0	162.0	162.0	Free Cash Flow	(6.8)	3.9	6.9	4.4	4.9
Long Term Loans and Advances	34.9	29.0	30.8	32.3	34.0						
Other NON Current Assets	1,528.2	1,091.4	1,159.1	1,333.0	1,532.9	Valuation Ratios					
Goodwill	18,596.0	18,596.0	18,596.0	18,596.0	18,596.0	P/E(x)	295.2	134.3	49.4	74.5	42.9
Deferred Tax Assets	-	688.2	2,633.8	2,633.8	2,633.8	P/B(x)	16.5	14.5	11.1	9.7	7.9
Security Deposits	2,139.0	2,515.3	2,712.6	3,277.7	3,687.9	EV/EBIDTA(x)	40.7	37.4	30.7	25.2	20.0
						Div. Yield(%)	-	-	-	-	-
Current Assets	21,108.0	26,503.0	33,691.6	27,634.6	32,086.7	FCF Yield(%)	(3.3)	1.9	3.3	2.2	2.4
Current investments	-	-	-	-	-						
Inventories	14,312.5	16,912.0	19,212.8	10,404.2	11,764.5	Return Ratios (%)					
Trade Receivables	4,521.8	5,518.4	7,865.9	6,393.3	7,274.2	ROE	6%	11%	22%	13%	18%
Cash and Bank Balances	246.6	727.9	574.1	4,002.3	5,308.5	ROCE	8%	8%	13%	15%	18%
Short Term Loans and Advances	38.0	46.9	54.2	59.6	65.6						
Other Current Assets	1,989.1	3,297.8	5,984.6	6,775.3	7,673.9						
CAPITAL DEPLOYED	50,358.5	57,338.4	66,210.7	63,094.3	68,165.3						



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