



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Head of research: Kunal Bhatia 022 67141442

Associate: Suraj Nandu 022 67141438

Quarterly Update @ Dalal & Broacha

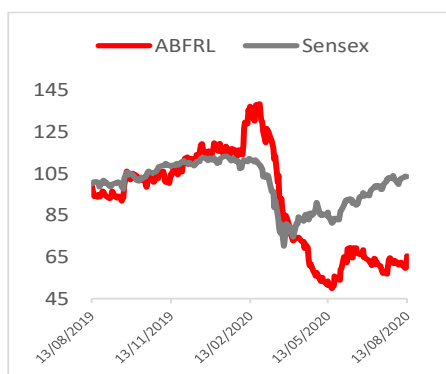
BUY

Current Price	130
Target Price	176
Upside/Downside	35%
52W range	96/281

Key Share Data

Market Cap (Rs.bn)	100.53
Market Cap (US\$ mn)	1340.4
No of o/s shares (mn)	864.45 (post rights)
Face Value	10
Monthly Avg. vol(BSEgrew byNSE)	
Nos'000	1627.96
BSE Code	535755
NSE Code	ABFRL
Bloomberg	ABFRL:IN

Price performance



% Shareholding	July-20	June-20
Promoters	59.79	59.07
Public	39.69	40.36
Others	0.52	0.58
Total	100.0	100.0

All Numbers are on Post Ind-AS 116 basis and thus are comparable on a YOY basis Results below estimates; however, management has given strong commentary, "Structural shifts countering pandemic impact in Q1; poised to emerge amongst strongest of the pack"

Standalone Financials

Revenue de grew by 84.5% yoy to Rs. 3199.60mn

RM as a % of sales stands at 58.6% v/s 45.9% YoY and 48.7% QoQ

Rent (variable portion): down 77% YoY to Rs. 279.5mn and down 73% QoQ/as a % of sales it stood at 8.7% v/s 5.9% YoY and 5.8% QoQ

Other Expenses reduced by 48.8% YoY to Rs. 2152.4mn & 44.9% QoQ/as a % of sales it stood at 67.3% v/s 20.4% YoY and 21.7% QoQ

Employee Costs reduced by 7.5% YoY to Rs. 24070mn (**cost reduction benefits will accrue in coming quarters**)

EBITDA loss: of Rs. 3513.2mn v/s profit of Rs. 3140.6mn YoY

Depreciation grew by 17.1% YoY to Rs. 2334mn

Finance Costs grew by 34% YoY to Rs. 1252.8mn

Other Income (Excluding rental concessions): stood at Rs. 190.1mn v/s Rs. 175.1mn YoY (**Rental Concession of Rs. 1575.3mn inclusive of Rs. 652.3mn for future quarters**)

Loss before tax of Rs. 5334.6mn as against profit of Rs. 351.4mn

Loss After Tax at Rs. 3999.1mn v/s profit of Rs.161.30n (**Tax: benefit of Rs. 1335.5mn in the current quarter**)

SEGMENTS:

1. Madura Fashion & Lifestyle (MFL): 74% of Sales / Sales de grew by 80% YoY to Rs. 2370mn.

A. Lifestyle Business: Sales de grew by 81% to Rs. 1900mn; closed 31 stores QoQ, total area 2.81mn sq ft);

EBITDA loss of Rs. 670mn as against profit of Rs. 1910mn YoY

C. Other Businesses (Forever 21, super premium brands & innerwear): sales de-grew by 77% yoy to Rs. 470mn

EBITDA: loss of Rs. 370mn v/s loss of Rs. 290mn

2. Pantaloons: 26% of Sales

Sales de grew by 91% yoy to Rs.820mn

Store total: 342; zero store openings in the quarter; total area 4.36mn sq ft);

EBITDA loss of Rs. 720mn v/s profit of Rs. 1640mn

Financials (Rs. Mn)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY19	81,177.2	13.2%	5,540.7	6.8%	3,212.2	172.7%	4.2	31.3	22%	13%
FY20	87,425.3	7.7%	12,253.7	14.0%	(1,568.3)	-148.8%	(2.0)	(64.2)	-14%	12%
FY21e	46,397.8	-46.9%	2,597.1	5.6%	(6,278.0)	300.3%	(7.3)	(17.9)	-44%	-10%
FY22e	90,414.5	94.9%	14,150.3	15.7%	393.2	-106.3%	0.5	285.8	2%	12%

EBITDA numbers are Post IND-AS 116



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Conference call key takeaways

General key takeaways

- 1) **Revenue recoveries, YoY:** April:0%, May: 8%, June: 26%. July & August are better than June 2020. Company expects business normalization (i.e. YoY growth) in Q4FY21.
- 2) **store re-openings:** 80% as of June 2020, 90% YTD/balance 10% will open in the next 2 weeks
- 3) **Inventory:** levels same as Q4FY20 i.e. Rs. 23.49bn and will bring down inventory by Rs. 4-5bn. Company had fresh inventory in stores before Covid-19 which would be utilised for next 4-5 months and procurement of new products, primarily Winter wear will be done towards end of this period
- 4) **Debt Position:** on net basis, stands at Rs. 32.50bn currently (**which is also the peak level of debt**), company will bring it down to Rs. 20bn by FY21 end through funds from the recently completed rights issue, reduction in inventory as mentioned above and reduction in short term debt of Rs. 5bn.
- 5) **Gross Margins:** were negatively impacted due to lower sales compared to production levels. This is a short-term disruption and will return to normal as and when sales normalize
- 6) **E-Commerce & Omni Channel:** multiple initiatives taken, such as revamping brand websites to ramp up own E-Comm sales, WhatsApp commerce, online order and deliveries from store model and video call sales.

Cost saving initiatives

- 1) **Rent:** largely converted from fixed to revenue share contracts for FY21e. Post normalisation contracts will revert to original terms & conditions. Concession received this quarter are ones which have a written agreement between both parties. There are many more contract negotiations still on-going. Total rent expenses for FY20 (pre-INDAS 116) stood at Rs. 12.46bn
- 2) **Employee Costs:** (i) reduction in salary across mid and senior management, (ii) hiring freeze. Cost reductions had started in June 2020, and savings will start accruing in future quarters
- 3) **Other Expenses:** sharp cut in discretionary costs such as advertisement, and travel. These costs will continue to be low throughout the year
- 4) **Capex:** guidance of 60-70% reduction (mentioned in Q4FY20) is maintained. In normal scenario, company's annual capex would be Rs. 3.5-4bn.

Madura Fashion & lifestyle

- 1) **Lifestyle Business**
 - **Store count, reopening:** closed 31 stores this quarter, total count stands at 2222 with a retail area of 2.81mn sq.ft/ 81% of stores have re-opened as at end Q1FY21
 - **Recoveries & LTL comparison:** reached 30% of pre Covid run rate by June 2020. Operational stores in LTL comparison achieved over 50% of pre Covid levels in June 2020
 - **New Launches:** immediately launched and sold ~ 5mn branded masks. Company also a launched new WFH collection



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- **Consumer trend:** witnessed relatively good sales of formal wear as consumer with knowledge of their own fitting and sizes bought them (mainly existing customers)
 - **E-Commerce:** witnessed 1.6x growth in value terms in June 2020 YoY. Channel contribution increased from 6% to 22% this quarter, management expects contribution to be in mid-teens this year.
- 2) **Other Businesses (Forever 21, Innerwear & Super luxury brands)**
- Innearwear & Athleisure: witnessed fastest growth across categories at 83% of pre-covid levels. E-Commerce sales jumped 3x YoY. Athleisure mix grew by 30%

Pantaloons

- **Revenues:** were more negatively impacted comparatively due to its larger store size and government regulations. Approximately 75% of stores have resumed partial operations as at Q11FY21. Total store count stands at 342, with a retail area of 4.36mn sq.ft
- **Consumer trends:** witnessed high demand for casual wear due to lockdowns and WFH culture. Kids wear witnessed a huge surge in demand and was also the main reason for increase private brand share (72% v/s 64% YoY)
- **New launches:** in the past 2 quarters witnessed strong demand such as for casual wear and sarees
- **E-Commerce:** currently contributed below 6% to revenues and witnessed 4.2x in average daily volumes led by own website pantaloons.com and 3rd party players.

Outlook & Valuation: We like management's current approach towards stringent cost controls, and strengthening their balance sheet through rights issue and debt repayments ((Current Net Debt: Rs. 32.50bn (**peak level of debt as per management**), FY20: Rs. 27.76bn, Company target for FY21e: ~Rs. 2bn)). Even though short-term headwinds may continue, we believe most of the Covid impact has been recorded in Q1 itself and future quarters will witness higher amount of recoveries. **Company's re-iteration in the Brick & Mortar style of business, their continuing stance of aggressively opening stores (post normalization) coupled with higher focus on Omni Channel and E-Commerce paints a positive future. We remain positive on the company's long-term business prospects.**

Valuation: The stock trades at 9.2x EV/EBITDA on an EBITDA of Rs. 14150.3mn. **We value the company on EV/EBITDA basis, assigning a 12x multiple FY22e EBITDA and arrive at a target price of Rs. 176 (Rs. 141 earlier) i.e. upside of 35%. We maintain BUY on the stock.**



Quarterly Snapshot

Particulars	Post IND-AS 116		growth
	Q1FY20	Q1FY21	
Revenue	20654.6	3199.60	-84.5%
Other Income	175.1	1765.4	908.2%
Total	20829.7	4965	-76.2%
Total RM cost	9483	1873.90	-80.2%
Gross Profit	11171.6	1325.7	-88.1%
Employee Benefit expense	2601.3	2407.00	-7.5%
Rent	1222.6	279.50	-77.1%
Other expenses	4207.1	2152.4	-48.8%
Total	17514	6712.8	-61.7%
Operating profit	3140.6	-3513.2	-211.9%
Depreciation	2022.4	2334	15.4%
EBIT	1293.3	-4081.8	-415.6%
Finance costs	941.9	1252.8	33.0%
PBT	351.4	-5334.6	-1618.1%
Less: taxes	135.8	-1335.5	
PAT	215.6	-3999.1	-1954.9%
EPS	0.28	-5.17	-1954.9%
% of sales			
RM	45.9%	58.6%	
GPM	54.1%	41.4%	
Rent	5.9%	8.7%	
Other expenses	20.4%	67.3%	
tax rate (on PBT)	38.6%	25.0%	
OPM	15.2%	-109.8%	



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ABFRL Ltd Financial data											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	71,720.7	81,177.2	87,425.3	46,397.8	90,414.5	Net Profit	1,177.9	3,212.2	(1,568.3)	(6,278.0)	393.2
Cost of sales	67,037.9	75,636.5	75,171.6	43,800.7	76,264.2	Add: Dep. & Amort.	2,805.2	2,823.3	8,768.2	8,272.3	9,822.7
Operating Profit	4,682.8	5,540.7	12,253.7	2,597.1	14,150.3	Minority Interest	-	-	-	-	-
Depreciation	2,805.2	2,823.3	8,768.2	8,272.3	9,822.7	Cash profits	3,983.1	6,035.5	7,199.9	1,994.3	10,215.9
PBIT	1,877.6	2,717.4	3,485.5	(5,675.2)	4,327.6	(Inc)/Dec in					
Other income	328.1	647.8	521.6	2,087.4	396.8	-Sundry debtors	(996.6)	(2,347.5)	(536.0)	3,942.9	(4,210.9)
Interest	1,716.0	1,874.2	4,227.3	4,025.7	4,198.8	-Inventories	(2,599.5)	(2,300.8)	(4,281.2)	5,697.6	(4,497.6)
Profit before tax	489.7	1,491.0	(220.2)	(7,613.5)	525.6	-Loans/advances	(3.0)	(9.1)	(20.5)	(8.8)	(9.6)
Exceptional and Extra Ordinary share of profit/loss in JV	-	-	-	-	-	-Current Liab and Provisions	8,364.1	11,115.9	(2,210.5)	(13,322.7)	9,691.2
PBT (Post Extra Ordinary)	489.7	1,491.0	(220.2)	(7,613.5)	525.6	- Other Assets	(881.6)	(2,729.0)	(572.7)	(999.4)	(909.5)
Provision for tax	(688.2)	(1,721.2)	1,348.1	(1,335.5)	132.5	- Non Current security Deposit	(376.3)	(197.3)	(277.3)	60.0	(233.9)
Reported PAT	1,177.9	3,212.2	(1,568.3)	(6,278.0)	393.2	Change in working capital	3,507.1	3,532.2	(7,898.2)	(4,630.5)	(170.3)
MI	-	-	-	-	-	CF from Oper. activities	7,490.2	9,567.7	(698.3)	(2,636.2)	10,045.6
Adjusted PAT	1,177.9	3,212.2	(1,568.3)	(6,278.0)	393.2	CF from Inv. activities	(4,446.8)	(4,265.7)	(7,009.3)	(6,833.6)	(9,270.7)
						CF from Fin. activities	(2,562.1)	(5,455.8)	9,784.2	7,556.1	2,261.6
						Cash generated/(utilised)	481.3	(153.8)	2,076.6	(1,913.7)	3,036.5
						Cash at start of the year	246.6	727.9	574.1	2,650.7	737.0
						Cash at end of the year	727.9	574.1	2,650.7	737.0	3,773.6
							727.9	574.1	2,650.7	737.0	3,773.6
							(0.0)	(0.0)	0.0	0.0	(0.0)
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	7,716.9	7,734.8	7,739.8	8,644.5	8,644.5	OPM	6.5	6.8	14.0	5.6	15.7
Reserves	3,214.2	6,554.0	3,119.2	5,492.6	8,147.4	NPM	1.6	3.9	(1.8)	(12.9)	0.4
Net worth	10,931.1	14,288.8	10,859.0	14,137.1	16,791.9	Tax rate	(140.5)	(115.4)	(612.2)	17.5	25.2
Minority Interest	-	-	-	-	-	Growth Ratios (%)					
Non Current Liabilities	14,697.1	10,126.7	29,259.3	30,508.4	34,343.4	Net Sales	8.6	13.2	7.7	(46.9)	94.9
Current Liabilities	31,710.2	41,795.2	56,771.3	41,651.8	52,500.5	Operating Profit	7.0	18.3	121.2	(78.8)	444.9
						PBIT	(3.7)	44.7	28.3	(262.8)	(176.3)
						PAT	120.2	172.7	(148.8)	300.3	(106.3)
CAPITAL EMPLOYED	57,338.4	66,210.7	96,889.6	86,297.3	1,03,635.8	Per Share (Rs.)					
Non Current Assets	30,835.4	32,519.1	55,380.7	55,450.8	60,258.9	Net Earnings (EPS)	1.53	4.2	(2.0)	(7.3)	0.5
Fixed Assets	7,685.9	7,182.7	29,123.5	29,137.1	33,577.6	Cash Earnings (CPS)	(2.1)	0.5	(13.4)	2.3	11.8
Non Current Investments	42.1	42.1	1,700.1	1,700.1	1,700.1	Dividend	-	-	-	-	-
Non Current tax assets	187.5	162.0	222.5	222.5	222.5	Book Value	14.2	18.5	14.0	16.4	19.4
Long Term Loans and Advances	29.0	30.8	34.3	36.0	37.8	Free Cash Flow	3.9	6.9	(10.0)	(11.0)	0.9
Other NON Current Assets	1,091.4	1,159.1	764.8	879.5	1,011.4	Valuation Ratios					
Goodwill	18,596.0	18,596.0	18,596.0	18,596.0	18,596.0	P/E(x)	85.2	31.3	(64.2)	(17.9)	285.8
Deferred Tax Assets	688.2	2,633.8	1,949.6	1,949.6	1,949.6	P/B(x)	9.2	7.0	9.3	7.9	6.7
Security Deposits	2,515.3	2,712.6	2,989.9	2,929.9	3,163.8	EV/EBITDA(x)	25.0	20.2	9.9	51.3	9.2
Current Assets	26,503.0	33,691.6	41,508.9	30,846.5	43,376.9	Div. Yield(%)	-	-	-	-	-
Current investments	-	-	-	-	-	FCF Yield(%)	3.0	5.3	(7.7)	(8.4)	0.7
Inventories	16,912.0	19,212.8	23,494.0	17,796.4	22,294.0	Return Ratios (%)					
Trade Receivables	5,518.4	7,865.9	8,401.9	4,459.0	8,669.9	ROE	11%	22%	-14%	-44%	2%
Cash and Bank Balances	727.9	574.1	2,650.7	737.0	3,773.6	ROCE	8%	13%	12%	-10%	12%
Short Term Loans and Advances	46.9	54.2	71.2	78.3	86.2						
Other Current Assets	3,297.8	5,984.6	6,891.1	7,775.8	8,553.3						
CAPITAL DEPLOYED	57,338.4	66,210.7	96,889.6	86,297.3	1,03,635.8						



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babladalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com