



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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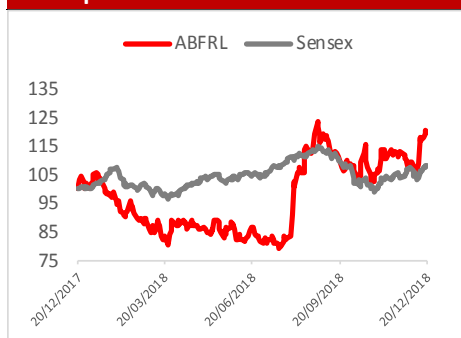
ACCUMULATE

Current Price	207
52 Week Range	132/216

Key Share Data

Market Cap (Rs.bn)	156.47
Market Cap (US\$ mn)	2235.28
No of o/s shares (mn)	771.72
Face Value	10
Monthly Avg. vol(BSE+NSE) Nos'000	1166
BSE Code	535755
NSE Code	ABFRL
Bloomberg	ABFRL:IN

Price performance



Industry Overview: Indian Apparel Industry to reach \$65bn by 2021, growing at 9% CAGR while organized branded apparel expected to grow at 21% till 2021.

We met with ABFRL and the main key take-ways were a) 4 brands under Madura Lifestyle to double in the next 4 years. b) Pantaloons is currently EBIT positive, margins to escalate by 200 bps, focus remains on becoming PAT positive. On an overall basis the company is PAT positive since FY17.

c) Store opening plans remain aggressive with 300-350 gross additions across Madura and 60-70 stores in Pantaloons. d) Topline to grow in double digits; reduction in debt to 2x EBITDA in FY20 from 3.8x in FY18 will improve return ratios. Due to the current developments and a large available opportunity for growth we remain positive on the business going forward and thus advise investors to **ACCUMULATE** the stock.

A) MADURA BUSINESS: (~60% of revenues, @ Rs. 23.67bn as of H1FY19) includes 1) Lifestyle, 2) Fast Fashion and 3) Others' Businesses.

A1) Lifestyle: (~52% of revenues at Rs. 20.35bn as of H1FY19, 1897 stores, 2.48mn sq.Ft/ FY18 @ Rs.38.66bn, 1813 stores, 2.4 mn sq.ft), consists of Louis Phillipe, Van Heusen, Peter England (+Rs10bn, each) and Allen Solly (~Rs. 7.5-8bn). Louis Phillipe is largest brand in India by Value and Peter England largest by Volume. This business achieved highest EBITDA margin of 12.9% in Q2FY19, and 10.7% in H1FY19. Management is confident of maintaining double digit margin going forward.

Wholesale: Retail: Others stands at 47.5% :32.5% :20%, all 3 channels to grow in double digit.

No royalty is paid to any of the brands as they own it in India. Sales return in-case of franchised stores in very low single digits and inventory is either on Consignment or Buy and Sell model.

Store expansion: targeting gross additions of 300-350 stores in FY19 and FY20 each, across Madura. Majorly through Franchisee route, thus remaining Asset light.

A2) Others Business: (4% of revenues, amounting to Rs. ~1.55bn as of H1FY19) includes Innerwear business and international luxury brands such as Polo Ralph Lauren, Ted Baker, Simon Carter, Hackett, the Collective and American Eagle. Currently the focus is on Innerwear business whose estimated market size is at Rs. 550bn giving it a huge opportunity to grow/currently has ~10000 point of sales, aims to reach 25000 in next 2 years (v/s Jockey 50000)/contributed Rs.1bn to total revenues in FY18, **expected to double at Rs.2bn+ in FY19**/management has guided to reach **Rs.5bn by FY21 but has indicated of achieving the target earlier.**

B) PANTALOONS BUSINESS: (~40% of revenues, amounting to Rs.16bn, 288 Stores, 3.85mn sq.Ft EBITDA margin at 8.1% as of H1FY19, FY18 @ Rs.28.61bn, 275 stores, 3.75mn sq. Ft). FY19 store addition target is 50, while going forward it will be between 60-70. Franchised stores to remain around 17-20% going forward. **Just the new store opening would lead double digit growth and the management envisages scope of reaching 1000 stores in few years.** SSG to remain subdued on account of higher share of older large sized stores, older stores more profitable mainly due to low rental costs. New stores achieve cash breakeven in 4-5 months of store opening/ have expanded into Tier 3 cities and towns. EBITDA margins are expected to improve to 10% gradually.

Valuation: At CMP of Rs. 207, as per Bloomberg estimates, the company trades at 42.7x its FY21E EPS of Rs. 4.84. We recommend investors to **ACCUMULATE**.

% Shareholding	Sept-18	June-18
Promoters	59.24	59.24
Public	40.76	40.76
Others	0	0
Total	100.0	100.0

Financials (Rs. Mn)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY16	60,339.2	226.0%	3,784.2	6.3%	(1,097.5)	-52.0%	(1.4)			3%
FY17	66,028.6	9.4%	4,374.9	6.6%	535.0	-148.7%	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%

Note: in the Financial year 16, as per scheme of arrangement consolidation of the retail business under Aditya Birla Nuvo and Madura Fashions Ltd occurred due to which in the result there is a big jump in the financials.



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