



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Head of research: Kunal Bhatia 022 67141442

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## BUY

|                 |        |
|-----------------|--------|
| Current Price   | 165    |
| Target Price    | 187    |
| Upside/Downside | 13%    |
| 52W range       | 96/281 |

## Key Share Data

|                                 |                        |
|---------------------------------|------------------------|
| Market Cap (Rs.bn)              | 127.74                 |
| Market Cap (US\$ mn)            | 1726.21                |
| No of o/s shares (mn)           | 937.62 (full dilution) |
| Face Value                      | 10                     |
| Monthly Avg. vol(BSEgrew byNSE) |                        |
| Nos'000                         | 5283.35                |
| BSE Code                        | 535755                 |
| NSE Code                        | ABFRL                  |
| Bloomberg                       | ABFRL:IN               |

Fund raise worth Rs. 24bn in last six months, addresses crucial issue of mounting debt burden worth Rs. 32.50bn.

*In its most recent board meeting, company has approved issue of equity through preferential basis to Flipkart Investments private limited (FPI) worth Rs. 15bn at Rs. 205 per share (i.e. premium of 27% to CMP) Flipkart will own 7.8% stake post allotment subject to regulatory approvals*

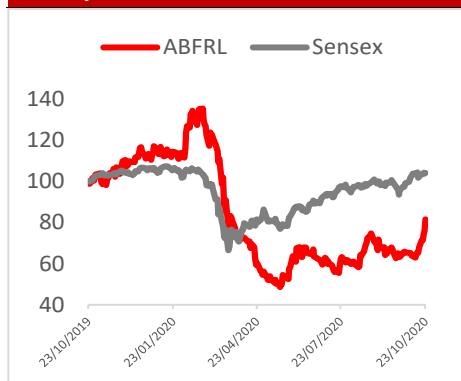
Total Number of shares will increase from 864.44mn to 937.4mn i.e. dilution of 8.4%, Promoter holding post dilution will reduce to 55.13% from 59.79% currently.

**Object of the fund raise is to strengthen its balance sheet, following are the key data points:**

- 1) **Total Net Debt** as of Q1FY21 stood at Rs. 32.50bn.
- 2) **Money raised via rights issue:** at Rs. 9.9bn.
- 3) **Money via Inventory reduction expected:** at Rs. 5bn
- 4) **Money via further fund raise:** Rs. 15bn

*On Q1FY21 conference call, company guided for a debt level of Rs. 20bn by FY21 end, but one can expect a higher amount of debt reduction, which is extremely positive for the company*

## Price performance



Another object of the fund raise is to accelerate its growth trajectory through scale up of existing businesses as well as increase presence in the new high growth categories such as Innerwear, Athleisure, casualwear and ethnic wear. This partnership, will give access to Flipkart and Myntra to the premium international and Indian brands of ABFRL and will help further strengthen ABFRL's omni channel presence.

**Outlook:** We find this move to be extremely positive for ABFRL on several counts, (i) on immediate basis it addresses debt concern and gives the company ability to be near debt free, (ii) company can strengthen its Omni Channel strategy greatly through Flipkart's Pin code reach and (iii) higher focus on high growth adjacent businesses (innerwear, athleisure, ethnic wear) in medium term can reduce dependance on "office wear". We remain positive on the developments and the long-term prospects of the company.

## % Shareholding

|              | Sept-20      | July-20      |
|--------------|--------------|--------------|
| Promoters    | 59.79        | 59.79        |
| Public       | 39.69        | 39.69        |
| Others       | 0.52         | 0.52         |
| <b>Total</b> | <b>100.0</b> | <b>100.0</b> |

**Valuation:** on fully diluted basis (post rights issue+ further fund raise), on EV/EBITDA basis, the stock trades at 10.7x FY22e EBITDA of Rs. 14532.4mn. **we assign a 12x FY22 EV/EBITDA multiple and arrive at a target price of Rs. 187, i.e. upside of 13%. Currently we have maintained the same multiple as given in Q1FY21 result update, and will upgrade post current quarter results and outlook. We remain positive on the stock and thus recommend investors to BUY the stock.**

## 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   | 39.5   | 22%  | 13%   |
| FY20  | 87,425.3  | 7.7%     | 12,253.7 | 14.0% | (1,439.0) | -144.8%  | (1.9) | (88.2) | -13% | 12%   |
| FY21e | 46,397.8  | -46.9%   | 2,723.2  | 5.9%  | (6,141.5) | 326.8%   | (6.6) | (25.0) | -21% | -7%   |
| FY22e | 90,414.5  | 94.9%    | 14,532.4 | 16.1% | 1,492.9   | -124.3%  | 1.6   | 103.0  | 5%   | 12%   |



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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          | (1,439.0)        | (6,141.5)        | 1,492.9          |
| Cost of sales   | 67,037.9        | 75,636.5        | 75,171.6         | 43,674.6          | 75,882.1          | Add: Dep. & Amort.               | 2,805.2          | 2,823.3          | 8,768.2          | 8,272.3          | 9,822.7          |
| <b>Operating Profit</b>                                   | <b>4,682.8</b>  | <b>5,540.7</b>  | <b>12,253.7</b>  | <b>2,723.2</b>    | <b>14,532.4</b>   | Minority Interest                | -                | -                | -                | -                | -                |
| Depreciation  | 2,805.2         | 2,823.3         | 8,768.2          | 8,272.3           | 9,822.7           | <b>Cash profits</b>              | <b>3,983.1</b>   | <b>6,035.5</b>   | <b>7,329.2</b>   | <b>2,130.8</b>   | <b>11,315.6</b>  |
| PBIT  | 1,877.6         | 2,717.4         | 3,485.5          | (5,549.1)         | 4,709.7           | (Inc)/Dec in                     |                  |                  |                  |                  |                  |
| Other income  | 328.1           | 647.8           | 650.9            | 2,097.9           | 1,485.0           | -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         | (90.9)           | (7,477.0)         | 1,995.8           | -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         | (90.9)           | (7,477.0)         | 1,995.8           | - 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)         | 503.0             | - Non Current security Deposit   | (376.3)          | (197.3)          | (277.3)          | 60.0             | (233.9)          |
| <b>Reported PAT</b>                                       | <b>1,177.9</b>  | <b>3,212.2</b>  | <b>(1,439.0)</b> | <b>(6,141.5)</b>  | <b>1,492.9</b>    | Change in working capital        | 3,507.1          | 3,532.2          | (7,898.2)        | (4,630.5)        | (170.3)          |
| MI  | -               | -               | -                | -                 | -                 | <b>CF from Oper. activities</b>  | <b>7,490.2</b>   | <b>9,567.7</b>   | <b>(569.0)</b>   | <b>(2,499.7)</b> | <b>11,145.3</b>  |
| <b>Adjusted PAT</b>                                       | <b>1,177.9</b>  | <b>3,212.2</b>  | <b>(1,439.0)</b> | <b>(6,141.5)</b>  | <b>1,492.9</b>    | <b>CF from Inv. activities</b>   | <b>(4,446.8)</b> | <b>(4,265.7)</b> | <b>(7,009.3)</b> | <b>(6,637.4)</b> | <b>(9,233.3)</b> |
| <b>Balance Sheet</b>                                      | <b>FY18</b>     | <b>FY19</b>     | <b>FY20</b>      | <b>FY21E</b>      | <b>FY22E</b>      | <b>CF from Fin. activities</b>   | <b>(2,562.1)</b> | <b>(5,455.8)</b> | <b>9,654.9</b>   | <b>22,685.4</b>  | <b>(2,738.4)</b> |
| Equity capital  | 7,716.9         | 7,734.8         | 7,739.8          | 9,376.2           | 9,376.2           | <b>Cash generated/(utilised)</b> | <b>481.3</b>     | <b>(153.8)</b>   | <b>2,076.6</b>   | <b>13,548.3</b>  | <b>(826.3)</b>   |
| Reserves  | 3,214.2         | 6,554.0         | 3,119.2          | 20,026.7          | 23,781.2          | Cash at start of the year        | 246.6            | 727.9            | 574.1            | 2,650.7          | 16,199.0         |
| <b>Net worth</b>  | <b>10,931.1</b> | <b>14,288.8</b> | <b>10,859.0</b>  | <b>29,402.9</b>   | <b>33,157.4</b>   | Cash at end of the year          | 727.9            | 574.1            | 2,650.7          | 16,199.0         | 15,372.7         |
| Minority Interest   | -               | -               | -                | -                 | -                 |                                  | 727.9            | 574.1            | 2,650.7          | 16,199.0         | 15,372.7         |
| <b>Non Current Liabilities</b>                            | <b>14,697.1</b> | <b>10,126.7</b> | <b>29,259.3</b>  | <b>30,508.4</b>   | <b>29,343.4</b>   | (0.0)                            | (0.0)            | 0.0              | -                | (0.0)            |                  |
| <b>Current Liabilities</b>                                | <b>31,710.2</b> | <b>41,795.2</b> | <b>56,771.3</b>  | <b>41,651.8</b>   | <b>52,500.5</b>   | <b>Ratios</b>                    | <b>FY18</b>      | <b>FY19</b>      | <b>FY20</b>      | <b>FY21E</b>     | <b>FY22E</b>     |
| <b>CAPITAL EMPLOYED</b>                                   | <b>57,338.4</b> | <b>66,210.7</b> | <b>96,889.6</b>  | <b>1,01,563.1</b> | <b>1,15,001.3</b> | OPM                              | 6.5              | 6.8              | 14.0             | 5.9              | 16.1             |
| <b>Non Current Assets</b>                                 | <b>30,835.4</b> | <b>32,519.1</b> | <b>55,380.7</b>  | <b>55,254.5</b>   | <b>60,025.2</b>   | NPM                              | 1.6              | 3.9              | (1.6)            | (12.7)           | 1.6              |
| Fixed Assets  | 7,685.9         | 7,182.7         | 29,123.5         | 28,940.9          | 33,343.9          | Tax rate                         | (140.5)          | (115.4)          | (1,483.1)        | 17.9             | 25.2             |
| Non Current Investments                                   | 42.1            | 42.1            | 1,700.1          | 1,700.1           | 1,700.1           | <b>Growth Ratios (%)</b>         |                  |                  |                  |                  |                  |
| Non Current tax assets                                    | 187.5           | 162.0           | 222.5            | 222.5             | 222.5             | Net Sales                        | 8.6              | 13.2             | 7.7              | (46.9)           | 94.9             |
| Long Term Loans and Advances                              | 29.0            | 30.8            | 34.3             | 36.0              | 37.8              | Operating Profit                 | 7.0              | 18.3             | 121.2            | (77.8)           | 433.7            |
| Other NON Current Assets                                  | 1,091.4         | 1,159.1         | 764.8            | 879.5             | 1,011.4           | PBIT                             | (3.7)            | 44.7             | 28.3             | (259.2)          | (184.9)          |
| Goodwill  | 18,596.0        | 18,596.0        | 18,596.0         | 18,596.0          | 18,596.0          | PAT                              | 120.2            | 172.7            | (144.8)          | 326.8            | (124.3)          |
| Deferred Tax Assets                                       | 688.2           | 2,633.8         | 1,949.6          | 1,949.6           | 1,949.6           | <b>Per Share (Rs.)</b>           |                  |                  |                  |                  |                  |
| Security Deposits   | 2,515.3         | 2,712.6         | 2,989.9          | 2,929.9           | 3,163.8           | Net Earnings (EPS)               | 1.53             | 4.2              | (1.9)            | (6.6)            | 1.6              |
| <b>Current Assets</b>                                     | <b>26,503.0</b> | <b>33,691.6</b> | <b>41,508.9</b>  | <b>46,308.5</b>   | <b>54,976.1</b>   | Cash Earnings (CPS)              | (2.1)            | 0.5              | (13.2)           | 2.3              | 12.1             |
| <b>Current investments</b>                                | <b>-</b>        | <b>-</b>        | <b>-</b>         | <b>-</b>          | <b>-</b>          | Dividend                         | -                | -                | -                | -                | -                |
| Inventories   | 16,912.0        | 19,212.8        | 23,494.0         | 17,796.4          | 22,294.0          | Book Value                       | 14.2             | 18.5             | 14.0             | 31.4             | 35.4             |
| Trade Receivables   | 5,518.4         | 7,865.9         | 8,401.9          | 4,459.0           | 8,669.9           | Free Cash Flow                   | 3.9              | 6.9              | (9.8)            | (9.7)            | 2.0              |
| Cash and Bank Balances                                    | 727.9           | 574.1           | 2,650.7          | 16,199.0          | 15,372.7          | <b>Valuation Ratios</b>          |                  |                  |                  |                  |                  |
| Short Term Loans and Advances                             | 46.9            | 54.2            | 71.2             | 78.3              | 86.2              | P/E(x)                           | 107.4            | 39.5             | (88.2)           | (25.0)           | 103.0            |
| Other Current Assets                                      | 3,297.8         | 5,984.6         | 6,891.1          | 7,775.8           | 8,553.3           | P/B(x)                           | 11.6             | 8.9              | 11.7             | 5.2              | 4.6              |
|   |                 |                 |                  |                   |                   | EV/EBITDA(x)                     | 30.6             | 25.0             | 12.1             | 58.5             | 10.7             |
|   |                 |                 |                  |                   |                   | Div. Yield(%)                    | -                | -                | -                | -                | -                |
|   |                 |                 |                  |                   |                   | <b>FCF Yield(%)</b>              | <b>2.4</b>       | <b>4.2</b>       | <b>(6.0)</b>     | <b>(5.9)</b>     | <b>1.2</b>       |
|   |                 |                 |                  |                   |                   | <b>Return Ratios (%)</b>         |                  |                  |                  |                  |                  |
|   |                 |                 |                  |                   |                   | ROE                              | 11%              | 22%              | -13%             | -21%             | 5%               |
|   |                 |                 |                  |                   |                   | ROCE                             | 8%               | 13%              | 12%              | -7%              | 12%              |



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