

### Results were below estimates due to subdued discretionary demand especially in the value segment

- Revenue (standalone) grew by 8% YoY to Rs 29872mn aided by 5% growth in lifestyle business. Revenue on a QoQ basis was up by 13%.
- Gross Margins were @ 53.29% as against 54.86% YoY and 53.56% QoQ
- EBIDTA margins stood at 12.2% as against 17.1% YoY mainly impacted due to operating deleverage mainly in the Pantaloon segment
- EBITDA margin in Madhura Lifestyle was their highest in Q1 post covid but Pantaloon margins were a miss due to operating deleverage (-780 bps YoY)
- PBT for Q1FY24 reported a loss of Rs 652mn vs 1632mn/-1750mn in Q1FY23/Q4FY23
- Loss for Q1FY24 at Rs 486mn vs profit of 1237mn/-1281mn in Q1FY24/Q4FY23.

#### Outlook:

- Management has stated that the demand will pick up during festive and wedding season hence H2 will show a meaningful growth
- Cautious outlook on Pantaloon margin improvement, till demand picks up meaningfully.
- Current Net Debt at Rs 2100 crs, if TCNS acquisition goes as per plans debt would be to the tune of Rs 2800 crs.

#### Financial Summary

Y/E Mar (Rs mn)	FY21*	FY22*	FY23*	FY24E*	FY25E*
Net sales	51,811	78,242	117,369	132,623	153,129
EBIDTA	5,943	10,795	15,948	17,783	22,844
EPS (Rs) (post dilution)	(7.10)	(0.86)	1.40	(1.08)	0.82
P/E (x)	(27)	(221)	136	(176)	232
P/B (x)	6	6	5	3	3
EV/EBITDA (x)	35	20	14	14	11
D/E	0.4	0.4	0.5	0.3	0.2
RoCE (%)	(7)	6	10	7	12
RoE (%)	(24)	(3)	3	(2)	1

\*- Post IND-AS 116

Source: Dalal & Broacha Research, Company

	TP (Rs)	Up/Dn (%)
<b>NEUTRAL</b>	<b>238</b>	<b>13</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>210</b>
Market Cap (Rs.Bn)	(Rs Bn)	199
Market Cap (US\$ Mn)	(US\$ Mn)	2,406
Face Value	Rs	10
52 Weeks High/Low	Rs	359.5 / 184.4
Average Daily Volume	('000)	1,911
BSE Code		535755
Bloomberg		ABFRLIN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	55	55
Public	44	44
Others	1	1
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Kunal Bhatia**  
(022) 67141442  
[kunal.bhatia@dalal-broacha.com](mailto:kunal.bhatia@dalal-broacha.com)

**Harsh Shah**  
+91 22 6714 1496  
[harsh.shah@dalal-broacha.com](mailto:harsh.shah@dalal-broacha.com)

## Segmental & Concall KTA's

Particulars Rs Mns	Q1 FY24	Q1 FY23	YoY	Q4FY23	QoQ
<b>A. Madhura Segment Total</b>	20,120	18,020	12%	19,270	4%
1. Madhura LifeStyle	15,940	15,200	5%	15,350	4%
2. Other Madhura which includes innerwear and Reebok	4,180	2,820	48%	3,920	7%
<b>B. Pantaloon</b>	10,300	10,270	0%	7,980	29%
Less Eliminations:	(550)	(550)		(740)	
<b>Total</b>	29,870	27,740	8%	26,510	13%
<b>EBIDTA Margins</b>					
A. Madhura Segment Total	-0.3%	1.3%		10.1%	
1. Madhura LifeStyle	18.3%	17.5%		14.7%	
2. Other Madhura which includes innerwear & Reebok	-1.7%	8.2%		-7.7%	
<b>B. Pantaloon</b>	13.4%	21.2%		8.9%	
<b>Madhura LifeStyle Mix</b>					
Wholesale	3,760	3,150	19%	3,310	14%
Retail	8,090	7,930	2%	8,090	0%
Others	3,070	4,120	-25%	3,950	-22%

### A. TOTAL MADHURA SEGMENT

#### 1. Madhura Lifestyle Brands KTA's

- Slowdown in discretionary demand witnessed
- EBITDA margins saw an improvement due to cost reduction efforts taken consciously in other expenses
- LTL @ -3% for Q1FY24 vs Q1FY23 in Retail business
- Wholesale business grew by 20% in Q1FY24 and retail business grew 2% YoY
- Stores @2643 (-7 QoQ)
- Women's wear Annual run rate crosses 400crs( Vanheusen and Allen Solly)
- Focus is to build non-apparel as a growth lever

#### 2. Other Madhura business which includes innerwear

- The entire load of profitability is on Collective since Innerwear will not be profitable till it reaches a scale of 750-800 crs topline, Reebok will not be profitable till end of FY24 & Forever21 is facing competition from value segment
- Revenue growth subdued due to headwinds in athleisure category
- Retail LTL @ 3%
- Innerwear category grew 13% YoY
- Network: 32700 MBO's
- E-comm revenue @ 1.4x of LY

- **Reebok** grew 43% over LY, retail network posted 25% growth with LTL @ 11% || 10 stores launched || 15 to 20 stores to be opened every quarter
- **American Eagle** grew by 49% YoY and LTL 3%|| 3 stores added || total 40 EBO's
- **The Collective and other super-premium brands** revenue growth of 16% YoY || Retail LTL growth of 16% YoY || 16 MBO's and 18 single brand EBO's

## B. PANTALOON

- Discretionary consumption slowdown in Tier 2 and 3 was high
- Sequential margin improvement should be seen as gross margins likely to improve as yarn prices have reduced
- The business segment has high fixed cost therefore to see a substantial improvement in margins will require higher scale of operations.
- Retail LTL @-8 % for Q1FY24 reflecting subdued demand
- Pvt label share at 65% in Q1
- 3 stores added in Q1
- Target to add net 30 to 40 stores in FY24

## C. Ethnic Subsidiaries

- JAYPORE: Retail revenue +53% YoY, added 2 new stores @ 20 stores
- Shantanu & Nikhil: Sales +20% YoY || added 2 new stores at 16 stores
- Sabyasachi: Revenue +18% || Jewellery business grew 33%
- TASVA: opened 7 stores in Q1FY24 (58 in total), 2 stores added through partnered model. 40 stores to be added in FY24

## D. MASABA

- +32% revenue over LY
- Added 3 new stores , Total at 11
- Retail business grew 31% YoY

## E. D2C brands subsidiary in the making

- +34% growth QoQ
- TMRW losses for FY24 to be 80-100 crs

## Quarterly Performance Analysis (standalone)

### Exhibit 1

Particulars Rs Mns (Standalone)	Q1FY24	Q1FY23	YOY	Q4FY23	QoQ
<b>Revenue from Operations</b>	29,872	27,740	8%	26,513	13%
Other Income	585	287	104%	330	77%
<b>Total Income</b>	<b>30,456</b>	<b>28,027</b>	<b>9%</b>	<b>26,843</b>	<b>13%</b>
<b>COGS</b>	13,954	12,522	11%	12,313	13%
<i>% of sales</i>	<i>46.71%</i>	<i>45.14%</i>		<i>46.44%</i>	
<b>GROSS MARGINS</b>	<b>53.29%</b>	<b>54.86%</b>		<b>53.56%</b>	
Employee Benefit Expense	3,514	3,021	16%	3,433	2%
<i>% of sales</i>	<i>11.76%</i>	<i>10.89%</i>		<i>12.95%</i>	
Other Expenses	6,532	5,381	21%	6,410	2%
<i>% of sales</i>	<i>21.87%</i>	<i>19.40%</i>		<i>24.18%</i>	
Rent	2,229	2,065	8%	2,103	6%
<i>% of sales</i>	<i>7.46%</i>	<i>7.44%</i>		<i>7.93%</i>	
<b>EBITDA excluding other income</b>	<b>3,643</b>	<b>4,751</b>	<b>-23%</b>	<b>2,253</b>	<b>62%</b>
<b>EBITDA MARGINS</b>	<b>12.20%</b>	<b>17.13%</b>		<b>8.50%</b>	
<b>EBITDA including other income</b>	<b>4,228</b>	<b>5,038</b>	<b>-16%</b>	<b>2,583</b>	<b>64%</b>
<b>EBITDA Margins</b>	<b>13.88%</b>	<b>17.97%</b>		<b>9.62%</b>	
Depreciation	3,233	2,518	28%	3,098	4%
EBIT	995	2,520		(515)	
Finance costs	1,647	888	86%	1,235	33%
<b>PBT reported</b>	<b>(652)</b>	<b>1,632</b>		<b>(1,750)</b>	
<b>Adjusted PAT</b>	(486)	1,236		(1,281)	
<b>NPM</b>	<b>-1.60%</b>	<b>4.41%</b>		<b>-4.77%</b>	
Equity	9488	9384		9488	
Face Value	10	10		10	
Number of Shares	949	938		949	
<b>Basic EPS</b>	<b>-1.47</b>	<b>1.32</b>		<b>-1.33</b>	

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

Particulars (Rs. Bn)	FY25
<b>Lifestyle Business</b>	
Sales	82,471
EBITDA	15,137
Margins	18.4%
EV/EBITDA (x)	13
EV	196,778
<b>Pantaloons</b>	
Sales	49,535
EBITDA	7,678
Margins	15.5%
EV/EBITDA (x)	10
EV	76,779
<b>Other Business</b>	
Sales	21,123
EV/Sales (x)	1
EV	21,123
<b>Ethnic wear</b>	
Sales	11,952
EV/Sales (x)	1
EV	11,952
<b>Total EV</b>	
Total EV	306,631
Debt + Lease Liability	68,597
Cash	3,479
Equity Value	241,513
No of shares (fully diluted)	1,015
<b>Per share</b>	<b>238</b>
<b>CMP</b>	<b>208</b>
<b>Upside (%)</b>	<b>14%</b>

*(TCNS acquisition not considered)*

### Valuation:

The long-term vision of the company with a target to reach Rs50bn in Ethnic wear through various acquisitions, TCNS being a recent one, is ambitious and big.

However TCNS acquisition comes with a possible additional Debt burden in the range of Rs 7-8bn (over and above the additional money coming in from GIC); which will keep Debt/EBITDA position remaining elevated at 3x.

Additionally post open offer, TCNS will be merged in ABFRL which would lead to equity dilution to the extent of 5%.

Post this announcement on 05-May-2023, the stock has seen ~15% correction and is trading almost at 52-week -low(it has come back to where it was in FY21)

There are near term overhangs in the nature of slowdown in discretionary demand and the additional debt burden due to the TCNS acquisition, we expect the stock to be range bound atleast in the short term although the long term story is promising. H2FY24 should see an uptick due to festive and wedding season.

**We have reworked our estimates and cut FY24/25 EBITDA by 12%/3% respectively. We change our recommendation from BUY to NEUTRAL with a revised target price of Rs 238 on SOTP basis.**

## Financial

Profit and Loss (Rs. Mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	51,811	78,242	117,369	132,623	153,129
Cost of sales	45,868	67,447	101,421	114,839	130,284
<b>Operating Profit</b>	<b>5,943</b>	<b>10,795</b>	<b>15,948</b>	<b>17,783</b>	<b>22,844</b>
Depreciation	9,450	9,469	11,145	13,974	16,065
PBIT	(3,507)	1,326	4,803	3,810	6,779
Other income	726	941	1,102	1,377	1,356
Interest	4,984	3,402	4,242	6,650	7,024
Profit before tax	(7,764)	(1,135)	1,663	(1,464)	1,111
Exceptional and Extra Ordinary share of profit/loss in JV	-	-	-	-	-
PBT ( Post Extra Ordinary)	(7,764)	(1,135)	1,663	(1,464)	1,111
Provision for tax	(1,268)	(328)	337	(369)	280
<b>Reported PAT</b>	<b>(6,496)</b>	<b>(807)</b>	<b>1,325</b>	<b>(1,095)</b>	<b>831</b>
MI	-	-	-	-	-
<b>Adjusted PAT</b>	<b>(6,496)</b>	<b>(807)</b>	<b>1,325</b>	<b>(1,095)</b>	<b>831</b>

Source: Dalal & Broacha Research, Company

Balance Sheet	FY21	FY22	FY23	FY24E	FY25E
Equity capital	9,151	9,383	9,488	10,146	10,146
Reserves	17,695	19,439	28,381	45,628	46,460
<b>Net worth</b>	<b>26,846</b>	<b>28,821</b>	<b>37,869</b>	<b>55,774</b>	<b>56,605</b>
<b>Minority Interest</b>	-	-	-	-	-
<b>Non Current Liabilites</b>	29,642	31,203	51,431	57,583	64,708
<b>Current Liabilites</b>	39,914	55,990	65,433	60,769	67,770
<b>CAPITAL EMPLOYED</b>	<b>96,402</b>	<b>116,014</b>	<b>154,732</b>	<b>174,127</b>	<b>189,084</b>
<b>Non Current Assets</b>	60,904	65,844	90,356	100,659	109,822
Fixed Assets	26,814	29,529	45,311	54,994	63,474
Non Current Investments	6,895	8,351	14,011	14,011	14,011
Non Current tax assets	<b>216</b>	<b>204</b>	<b>21</b>	<b>21</b>	<b>21</b>
Long Term Loans and Advances	26	36	12	12	13
Other NON Current Assets	2,108	2,521	5,238	5,762	6,105
Goodwill	18,596	18,596	18,596	18,596	18,596
Deferred Tax Assets	3,212	3,531	3,166	3,166	3,166
Security Deposits	3,037	3,076	4,001	4,097	4,437
<b>Current Assets</b>	35,497	50,170	64,377	73,468	79,262
<b>Current investments</b>	2,995	5,374	1,500	1,500	1,500
Inventories	17,429	27,292	37,640	42,512	49,085
Trade Receivables	5,999	7,544	8,351	10,901	12,586
Cash and Bank Balances	1,645	1,079	6,430	7,055	3,479
Short Term Loans and Advances	65	68	263	290	319
Other Current Assets	7,364	8,811	10,192	11,211	12,293

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Profit	(6,496)	(807)	1,325	(1,095)	831
Add: Dep. & Amort.	9,450	9,469	11,145	13,974	16,065
Minority Interest	-	-	-	-	-
<b>Cash profits</b>	<b>2,954</b>	<b>8,661</b>	<b>12,470</b>	<b>12,879</b>	<b>16,897</b>
<b>(Inc)/Dec in</b>					
-Sundry debtors	2,403	(1,545)	(807)	(2,550)	(1,685)
-Inventories	6,065	(9,863)	(10,348)	(4,872)	(6,573)
-Loans/advances	15	(14)	(170)	(27)	(30)
'-Current Liab and Provisions	(3,208)	14,439	11,117	(1,828)	5,632
'- Other Assets	(1,809)	(1,849)	(3,914)	(1,543)	(1,425)
'- Non Current security Deposit	(48)	(38)	(925)	(96)	(340)
Change in working capital	3,418	1,130	(5,048)	(10,915)	(4,421)
<b>CF from Oper. activities</b>	<b>6,372</b>	<b>9,791</b>	<b>7,422</b>	<b>1,964</b>	<b>12,476</b>
<b>CF from Inv. activities</b>	<b>(17,411)</b>	<b>(14,034)</b>	<b>(18,019)</b>	<b>(14,089)</b>	<b>(16,052)</b>
<b>CF from Fin. activities</b>	<b>10,034</b>	<b>3,677</b>	<b>15,948</b>	<b>12,750</b>	<b>-</b>
<b>Cash generated/(utilised)</b>	<b>(1,005)</b>	<b>(566)</b>	<b>5,351</b>	<b>625</b>	<b>(3,576)</b>
Cash at start of the year	2,651	1,645	1,079	6,430	7,055
Cash at end of the year	1,645	1,079	6,430	7,055	3,479
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	11	14	14	13	15
NPM	(12)	(1)	1	(1)	1
Tax rate	16	29	20	25	25
<b>Growth Ratios (%)</b>					
Net Sales	(41)	51	50	13	15
Operating Profit	(51)	82	48	12	28
PBIT	(201)	(138)	262	(21)	78
PAT	351	(88)	(264)	(183)	(176)
<b>Per Share (Rs.)</b>					
Net Earnings (EPS)	(7)	(1)	1	(1)	1
Cash Earnings (CPS)	3	9	13	13	17
Dividend	-	-	-	-	-
Book Value	29	31	40	55	56
Free Cash Flow	(12)	(5)	(11)	(12)	(4)
<b>Valuation Ratios</b>					
<b>P/E(x)</b>	<b>(26.8)</b>	<b>(220.9)</b>	<b>136.0</b>	<b>(176.1)</b>	<b>231.9</b>
P/B(x)	6.5	6.2	4.8	3.5	3.4
EV/EBIDTA(x)	34.9	20.0	14.5	13.8	11.3
Div. Yield(%)	-	-	-	-	-
<b>FCF Yield(%)</b>	<b>(6.3)</b>	<b>(2.4)</b>	<b>(5.9)</b>	<b>(6.3)</b>	<b>(1.9)</b>
<b>Return Ratios (%)</b>					
ROE	-24%	-3%	3%	-2%	1%
ROCE	-7%	6%	10%	7%	12%

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.  
Tel: 91-22- 2282 2992, 2287 6173 | E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)