

Cautiously Optimistic



Performance was impacted majorly due to overall slowness in discretionary demand and shift in the festival season to Q3.

- Revenue (standalone) grew by 1% YoY to Rs 29953mn while revenue on a QoQ basis was flattish
- Gross Margins were @ 51.94% as against 53.97% YoY and 53.29% QoQ
- EBIDTA margins stood at 12.73% as against 15.02% YoY mainly impacted due to lower gross margins
- PBT for Q1FY24 reported a loss of Rs 1008mn vs profit of 1051mn/-652mn in Q2FY23/Q1FY24
- Loss for Q2FY24 at Rs 749mn vs profit of 801mn/-486mn in Q2FY23/Q2FY24.

Outlook:

- Overall Outlook: Management remains Cautiously Optimistic, Onam, Pujó and initial festive demand FLAT to negative. Wedding is expected to do well forms a quarter of Life-style brand. LFL on an overall basis was flat
- Premium has outpaced Mass segment. Stress continues in lower segment however lower in Top-End
- Ethnic wear to do extremely well in Q3, indications upto date suggest pressure on the value segment which could change post festivals
- Store expansion target: on track except the athleisure and innerwear segment where the demand is under pressure
TCNS Merger: to be completed within 6-9 months
- Net debt target: of Rs 2800 crs by end of March'24 post proceeds from GIC

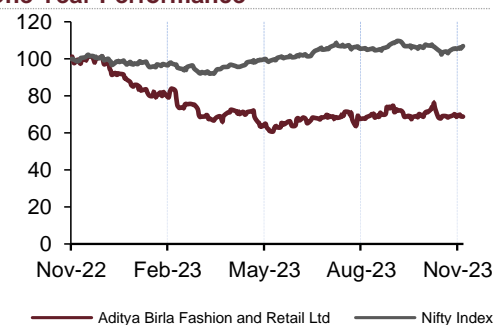
Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	225	4

Market data

Current price	Rs	215
Market Cap (Rs.Bn)	(Rs Bn)	204
Market Cap (US\$ Mn)	(US\$ Mn)	2,451
Face Value	Rs	10
52 Weeks High/Low	Rs	320.05 / 184.4
Average Daily Volume	('000)	3,520
BSE Code		535755
Bloomberg		ABFRL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	55.45	55.47
Public	44.05	44.02
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	51,811	78,242	117,369	126,073	147,248
EBIDTA	5,943	10,795	15,948	16,432	21,729
EPS (Rs) (post dilution)	(7.10)	(0.86)	1.40	(2.04)	0.06
P/E (x)	(31)	(252)	155	(106)	3,878
P/B (x)	7.4	7.1	5.4	4.0	4.0
EV/EBITDA (x)	39.0	22.3	16.1	16.6	13.1
D/E	0.4	0.4	0.5	0.3	0.3
RoCE (%)	(7.3)	5.5	10.2	5.6	10.3
RoE (%)	(24.2)	(2.8)	3.5	(3.8)	0.1

^aPost IND-AS 116

Source: Company, Dalal & Broacha Research

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Segmental & Concall KTA's

Segmental					
Particulars Rs Mns	Q2FY24	Q2FY23	YoY	Q1 FY24	QoQ
A. Madhura Segment Total	20,440	19,870	3%	20,120	2%
1. Madhura LifeStyle	15,860	16,800	-6%	15,940	-1%
2. Other Madhura which includes innerwear and Reebok	4,580	3,070	49%	4,180	10%
B. Pantaloon	10,210	10,940	-7%	10,300	-1%
Less Eliminations:	(710)	(1,280)		(550)	
Total	29,940	29,530	1%	29,870	0%
EBIDTA Margins					
A. Madhura Segment Total	16.54%	14.7%		14.2%	
1. Madhura LifeStyle	21.4%	17.0%		18.3%	
2. Other Madhura which includes innerwear & Reebok	-0.2%	2.0%		-1.7%	
B. Pantaloon	10.1%	16.1%		13.4%	
Madhura LifeStyle Mix					
Wholesale	4610	4,620	0%	3,760	23%
Retail	7030	7,340	-4%	8,090	-13%
Others	4220	4,850	-13%	3,070	37%

A. TOTAL MADHURA SEGMENT

1. Madhura Lifestyle Brands KTA's

- Revenue was impacted due to wedding season getting shifted coupled with slowdown in discretionary demand
- EBITDA margins expanded by 430bps due to gross margins improvement
- LTL @ -12% for Q2FY24 vs Q2FY23 in Retail business
- Wholesale business was flattish YoY and retail business degrew 4% YoY
- Stores @2660(+17 QoQ)
- LP forayed into premium sneakers range

Direct to consumer channels in Q2 impacted mainly due to shift of festive and fewer wedding dates

2. Other Madhura business which includes innerwear

- Revenue declined 10% in athleisure segment
- Retail LTL @ 6%
- Innerwear category remained flattish
- Network: 33600 MBO's
- E-comm revenue grew 18% YoY in H1
- Reebok** grew 77% over LY || 15 stores launched || 153 stores total || On track to cross 400 crs this fiscal at positive EBITDA margin
- American Eagle** grew by 37% YoY || 3 stores added || total 43 EBO's

- **The Collective and other super-premium brands** revenue growth of 26% YoY || Retail LTL growth of 11% YoY || Collective witnessed 30% growth YoY

B. PANTALOON

- Value fashion and lower tier markets remain subdued
- Performance impacted further due to shift in festive seasons
- Margins impacted due to high cost inventory liquidation during EOSS
- Eastern region of India saw double digit de-growth due to shift of Pujo to Q3 while Non-eastern regions did well
- Retail LTL @-15% for Q2FY24 reflecting subdued demand
- 5 stores added in Q2
- Target to add net 30 to 40 stores in FY24

C. Ethnic Subsidiaries

- JAYPORE: Retail revenue +49% YoY, added 2 new stores @ 22 stores
- Shantanu & Nikhil: Sales +33% YoY || Bride segment posts 45% LTL growth || added 2 new stores at 18 stores
- Sabyasachi: Revenue +39% || 18% LTL growth
- TASVA: Grew 129% over Q2FY23 || opened 1 store in Q2FY24 (59 in total)

D. MASABA

- +18% revenue over LY
- Added 1 new stores , Total at 12

E. D2C brands subsidiary in the making

- Losses in TMRW has peaked out
- 90% of investment in TMRW is completed

Quarterly Performance Analysis (standalone)

Exhibit 1:

Particulars Rs Mns (Standalone)	Q2FY24	Q2FY23	YOY	Q1FY24	QoQ
Revenue from Operations	29,953	29,528	1%	29,872	0%
Other Income	449	214	173%	585	-23%
Total Income	30,402	29,742	2%	30,456	0%
COGS	14,394	13,592	3%	13,954	3%
<i>% of sales</i>	<i>48.06%</i>	<i>46.03%</i>		<i>46.71%</i>	
GROSS MARGINS	51.94%	53.97%		53.29%	
Employee Benefit Expense	3,300	3,284	7%	3,514	-6%
<i>% of sales</i>	<i>11.02%</i>	<i>11.12%</i>		<i>11.76%</i>	
Other Expenses	6,388	6,218	5%	6,532	-2%
<i>% of sales</i>	<i>21.33%</i>	<i>21.06%</i>		<i>21.87%</i>	
Rent	2,058	1,998	12%	2,229	-8%
<i>% of sales</i>	<i>6.87%</i>	<i>6.77%</i>		<i>7.46%</i>	
EBITDA excluding other income	3,813	4,435	-18%	3,643	5%
EBITDA MARGINS	12.73%	15.02%		12.20%	
EBITDA including other income	4,262	4,649	-9%	4,228	1%
EBITDA Margins	14.02%	15.63%		13.88%	
Depreciation	3,431	2,654	22%	3,233	6%
EBIT	831	1,995		995	
Finance costs	1,839	944	74%	1,647	12%
PBT reported	(1,008)	1,051		(652)	
Adjusted PAT	(749)	801		(486)	
NPM	-2.46%	2.69%		-1.60%	
Equity	9,384	9,487		9,488	
Face Value	10	10		10	
Number of Shares	938	938		949	
Basic EPS	(0.78)	0.86		(0.50)	

Source: Dalal & Broacha Research, Company

Valuations and Outlook:

Particulars (Rs. Bn)	FY25
Lifestyle Business	
Sales	78,379
EBITDA	14,400
Margins	18.4%
EV/EBITDA (x)	13
EV	187,202
Pantaloons	
Sales	47,746
EBITDA	7,401
Margins	15.5%
EV/EBITDA (x)	10
EV	74,006
Other Business	
Sales	21,123
EV/Sales (x)	1
EV	21,123
Ethnic wear	
Sales	11,952
EV/Sales (x)	1
EV	11,952
Total EV	
Total EV	294,283
Debt + Lease Liability	72,183
Cash	6,185
Equity Value	228,285
No of shares (fully diluted)	1,015
Per share	225
CMP	217
Upside (%)	4%

TCNS acquisition not considered)

Valuations

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/EBIDTA position remaining elevated at 3x.

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 sounds promising.

Management remains cautiously optimistic for H2FY24 as Onam, PujO and initial festive demand was FLAT to negative.

Post Q1FY24 results we had given a neutral rating to the stock and the stock has remained at that level. **We maintain our NEUTRAL call on the stock with a Target price of Rs 225, an upside of 4%.**

FINANCIALS

Profit and Loss (Rs. Mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	51,811	78,242	117,369	126,073	147,248
Cost of sales	45,868	67,447	101,421	109,641	125,519
Operating Profit	5,943	10,795	15,948	16,432	21,729
Depreciation	9,450	9,469	11,145	13,974	16,065
PBIT	(3,507)	1,326	4,803	2,458	5,663
Other income	726	941	1,102	1,423	1,436
Interest	4,984	3,402	4,242	6,650	7,024
Profit before tax	(7,764)	(1,135)	1,663	(2,769)	76
Exceptional and Extra Ordinary share of profit/loss in JV	-	-	-	-	-
PBT (Post Extra Ordinary)	(7,764)	(1,135)	1,663	(2,769)	76
Provision for tax	(1,268)	(328)	337	(698)	19
Reported PAT	(6,496)	(807)	1,325	(2,071)	57
MI	-	-	-	-	-
Adjusted PAT	(6,496)	(807)	1,325	(2,071)	57

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	44,652	44,709
Net worth	26,846	28,821	37,869	54,798	54,854
Minority Interest	-	-	-	-	-
Non Current Liabilites	29,642	31,203	51,431	57,583	64,708
Current Liabilites	39,914	55,990	65,433	59,737	67,369
CAPITAL EMPLOYED	96,402	116,014	154,732	172,118	186,932
Non Current Assets	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	216	204	21	21	21
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
Current Assets	35,497	50,170	64,377	71,459	77,110
Current investments	2,995	5,374	1,500	1,500	1,500
Inventories	17,429	27,292	37,640	40,412	47,200
Trade Receivables	5,999	7,544	8,351	10,362	12,103
Cash and Bank Balances	1,645	1,079	6,430	7,684	3,695
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	(2,071)	57
Add: Dep. & Amort.	9,450	9,469	11,145	13,974	16,065
Minority Interest	-	-	-	-	-
Cash profits	2,954	8,661	12,470	11,902	16,122
(Inc)/Dec in					
-Sundry debtors	2,403	(1,545)	(807)	(2,011)	(1,740)
-Inventories	6,065	(9,863)	(10,348)	(2,772)	(6,787)
-Loans/advances	15	(14)	(170)	(27)	(30)
+Current Liab and Provisions	(3,208)	14,439	11,117	(2,861)	6,264
+ 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)	(9,310)	(4,059)
CF from Oper. activities	6,372	9,791	7,422	2,592	12,064
CF from Inv. activities	(17,411)	(14,034)	(18,019)	(14,089)	(16,052)
CF from Fin. activities	10,034	3,677	15,948	12,750	0
Cash generated/(utilised)	(1,005)	(566)	5,351	1,253	(3,988)
Cash at start of the year	2,651	1,645	1,079	6,430	7,684
Cash at end of the year	1,645	1,079	6,430	7,684	3,695
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	11	14	14	13	15
NPM	(12)	(1)	1	(2)	0
Tax rate	16	29	20	25	25
Growth Ratios (%)					
Net Sales	(41)	51	50	7	17
Operating Profit	(51)	82	48	3	32
PBIT	(201)	(138)	262	(49)	130
PAT	351	(88)	(264)	(256)	(103)
Per Share (Rs.)					
Net Earnings (EPS)	(7)	(1)	1	(2)	0
Cash Earnings (CPS)	3	9	13	12	16
Dividend	-	-	-	-	-
Book Value	29	31	40	54	54
Free Cash Flow	(12)	(5)	(11)	(11)	(4)
Valuation Ratios					
P/E(x)	(30.6)	(252.3)	155.4	(106.3)	3,877.5
P/B(x)	7.4	7.1	5.4	4.0	4.0
EV/EBIDTA(x)	39.0	22.3	16.1	16.6	13.1
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	(5.6)	(2.1)	(5.1)	(5.2)	(1.8)
Return Ratios (%)					
ROE	-24%	-3%	3%	-4%	0%
ROCE	-7%	6%	10%	6%	10%

Source: Company, Dalal & Broacha Research

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