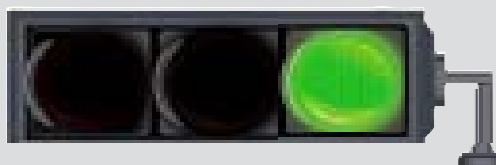


spotlight

The Idea Junction



Aditya Birla Fashion & Retail (as Pantaloon Fashion & Retail will come to be known post the merger with Madura Garments) is India's largest pure-play fashion lifestyle company and consists of brands and retail businesses of Madura and Pantaloons, respectively. AB Fashion (ABFRL) is the number one branded women's wear and men's wear player in India by market positioning, with a retail network of 1869 stores (4.8m sq ft)-the largest in fashion space in India. Madura has four leading brands under its fold (Louis Philippe, Van Heusen, Allen Solly and Peter England) with a network of 1735 stores across India; Pantaloons is one of India's largest big-box affordable fashion retailers, with presence in 49 cities and 134 stores and a strong portfolio of exclusive private brands (which form ~52% of its revenues).

Brands play: Set to ride discretionary spend boom

Set for multi-year secular growth along with robust capital efficiency

- ABFRL's Madura sells four iconic brands (Louis Philippe, Van Heusen, Allen Solley and Peter England) and has successfully scaled up each- Louis Philippe and Van Heusen, the top 2 largest selling brands in India, individually clocked revenues of ~INR10b in FY15. A unique differentiator for ABFRL is that unlike peers who have licenses for global brands, it has the ownership / perpetual license of its brands.
- The combination of Madura and Pantaloons is highly synergetic in the sense that it merges the expertise of Madura in the menswear market with the expertise of Pantaloons in the womenswear market; we believe combination of the two formats gives ABFRL the bargaining power in retail space and inventory sourcing.
- We believe a rise in per capita income in India over the next decade-from USD2,113 in FY15 to USD4,194 by FY24-can lead to 10x discretionary demand, thus providing strong growth tailwind. We expect demand for luxury and bridgeto-luxury products to witness exponential growth over next 10 years, and market leaders like ABFRL will be the frontrunners to benefit from this growth.
- ABFRL has a capital efficient distribution model, with 70%-80% of incremental store additions in Madura likely to come from Buy and Sell stores, COFO or FOFO stores-where the responsibility of capex lies with the franchisee. The unique model has resulted in strong 70% RoCE for ABFRL (ex Pantaloons).
- We believe ABFRL is a pure play on India's fast-growing and high-potential brands and retail business, and enjoys best-in-class profitability and management pedigree. The company will be amongst the biggest beneficiaries of the J-Curve in luxury and bridge-to-luxury spends. The stock trades at 33x FY18E EPS.

Our coverage universe is a wide representation of investment opportunities in India. However, there are many emerging midcap names that are not under our coverage. **Spotlight** is our attempt to feature such stocks based on fundamental analysis and site visits, without initiating formal coverage on them. Spotlight adopts a descriptive rating system, which uses terms like Interesting, Cautious and In Transition (see definitions alongside). We do not assign Buy, Sell or Neutral recommendations to the stocks under Spotlight. Investors should carefully read Motilal Oswal Research in its entirety, and not draw inferences from the ratings alone. Ratings should not be used or relied upon as investment advice.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock Info

Bloomberg	PFRL IN
CMP (INR)	215
Equity Shares (m)	769.5
M.Cap. (INR m)/(USD b)	165.4/2.5
52-Week Range (INR)	245/100
1,6,12 Rel. Perf. (%)	4/26/94

Financials & Valuation (INR b)

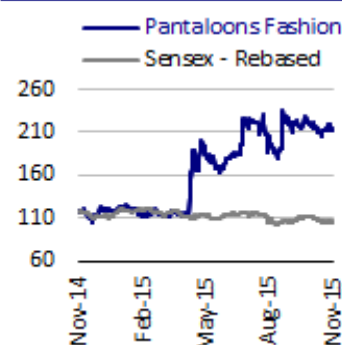
Y/E March	2016E	2017E	2018E
Sales	59.5	69.6	82.4
EBITDA	5.2	7.0	9.5
NP	1.4	2.6	5.0
EPS (INR)	1.9	3.4	6.5
EPS Gr. (%)	-107.5	81.7	92.5
BV/Sh. (INR)	15.1	18.5	25.0
RoE (%)	18.9	20.0	29.8
RoCE (%)	13.3	14.6	21.1
P/E (x)	115.9	63.8	33.1
P/BV (x)	14.2	11.6	8.6
EV/EBITDA (x)	35.0	26.0	18.5
EV/Sales (x)	3.1	2.6	2.1

Shareholding pattern (%)

As on	Sep-15	Jun-15	Sep-14
Promoter	72.6	72.6	68.0
DII	10.3	0.7	0.8
FII	1.5	0.2	0.6
Others	15.6	26.5	30.6

Notes: FII includes depository receipts

Stock performance (1 year)



Interesting: Currently, the analyst believes that this is an interesting stock based on its fundamental strength

Cautious: Currently, the analyst does not have adequate conviction based on fundamental assessment of the stock

In Transition: Currently, the analyst thinks that the stock is in transition from "Cautious" to "Interesting"

Unique model of brand ownership the key differentiator

With the acquisition of Madura Garments (established as Madura Coats Limited in 1988) from the erstwhile Coats Viyella Plc—Europe’s largest clothing supplier—in December 1999, Aditya Birla Nuvo became the owner of three brands: Louis Philippe (LP), Allen Solly (AS) and Peter England (PE). It also got perpetual license for Van Heusen (VH) for India, Middle East and SAARC countries. Unlike peers - Arvind and Page Industries, who hold licenses for popular brands for the India region, Madura owns all four brands with the management focused on pursuing a similar model of brand ownership going forward as well. We believe this model of brand ownership lends freedom to Madura to expand the brand the way it desires, along with flexibility in merchandise. Additionally, brand ownership results in savings of royalty (unlike in Arvind and Page who have to pay the brand royalties to brand owners).

Presence across affordability pyramid through multi-brand strategy

Madura primarily caters to men’s formal wear and has presence across various price points: Louis Philippe is a premium formal brand focused on classy designs serving middle-aged consumers; Van Heusen is also a premium brand and targets young consumers; Allen Solly with its differentiated concept of Friday dressing gives a casual feel while Peter England being a sub-premium brand, targets the affordable segment of consumers. We believe this multi-brand strategy and brand pyramid adequately covers the lifecycle of an average consumer—while a fresher corporate employee might pick an unbranded product to start with, he switches to Peter England and later to the more premium brands like Louis Philippe/Van Heusen as he moves up the ladder in his career. After a certain point of time, the consumer sticks to premium wear; hence, the demand is relatively price inelastic, thus rendering loyal consumers.

Pantaloons completes portfolio with presence in women’s/kid’s wear

Madura’s merger with Pantaloons adequately completes ABFRL’s brands and retail business portfolio.

While Madura has strong presence in the menswear segment with its large bouquet of brands across the super-premium, premium and sub-premium range, Pantaloons fills the product gap on the women’s wear front through its large bouquet of private labels and its niche in women’s ethnic wear market and kids market. The combination of Madura and Pantaloons is synergetic in the sense that it merges the expertise of Madura in the menswear market with the expertise of Pantaloons in the women’s wear market; we believe combination of the two formats gives ABFRL strong bargaining power in sourcing retail space and inventory management.

Store expansion plans geared toward low-capex model

In line with historic trend, Madura plans to open ~300 stores annually over FY16-FY17—of which 100 will be under the buy and sell model and 200 under the consignment model. Since capex is the responsibility of franchisee under COFO/FOFO/ Buy & Sell, we expect capex intensity to be limited going forward—considering the fact that 80% of planned stores are either Buy and Sell, COFO or FOFO. On Pantaloon’s front, ABFRL plans to add ~30-35 stores annually in FY16 and FY17, which will extend Pantaloons leadership as a retailer.

With doubling of GDP per capita, discretionary demand can grow 10x

We believe a rise in per capita income in India over the next decade—from USD2,113 in FY15 to USD4,194 by FY24—can lead to 10x discretionary demand, thus providing strong growth tailwind. We believe demand for luxury and bridge-to-luxury products will witness exponential growth over the next 10 years, a key beneficiary of which will be leading brand owners like ABFRL.

Valuation and view

We believe ABFRL is a pure play on India’s fast-growing and high-potential brands and retail business, and enjoys best-in-class profitability and management pedigree. ABFRL will be amongst the biggest beneficiaries of the J-Curve in luxury and bridge-to-luxury spends. The stock trades at 33x FY18E EPS.

Company overview

Aditya Birla Fashions: A brands play

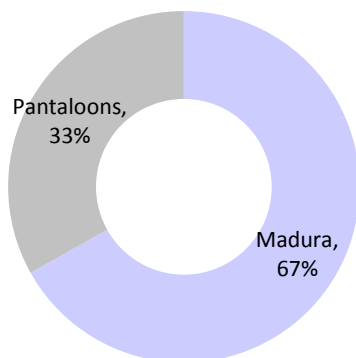
Aditya Birla Fashions (earlier a segment of Aditya Birla Nuvo) post demerger will consist of brands and retail businesses of Madura and Pantaloons respectively. By market positioning, AB Fashions will be the number one branded women’s wear and men’s wear player in India with a retail network of 1869 stores (4.8m sq ft) – the largest in fashion space in India.

Exhibit 1: Winning combination of brands and retail



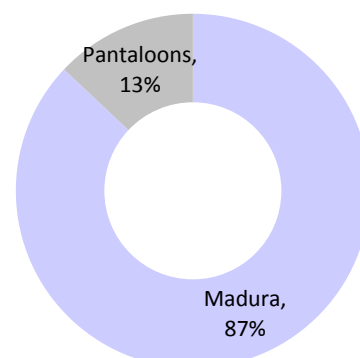
Source: Company, MOSL

Exhibit 2: Revenues mix (FY15)



Source: Company, MOSL

Exhibit 3: EBITDA mix (FY15)



Source: Company, MOSL

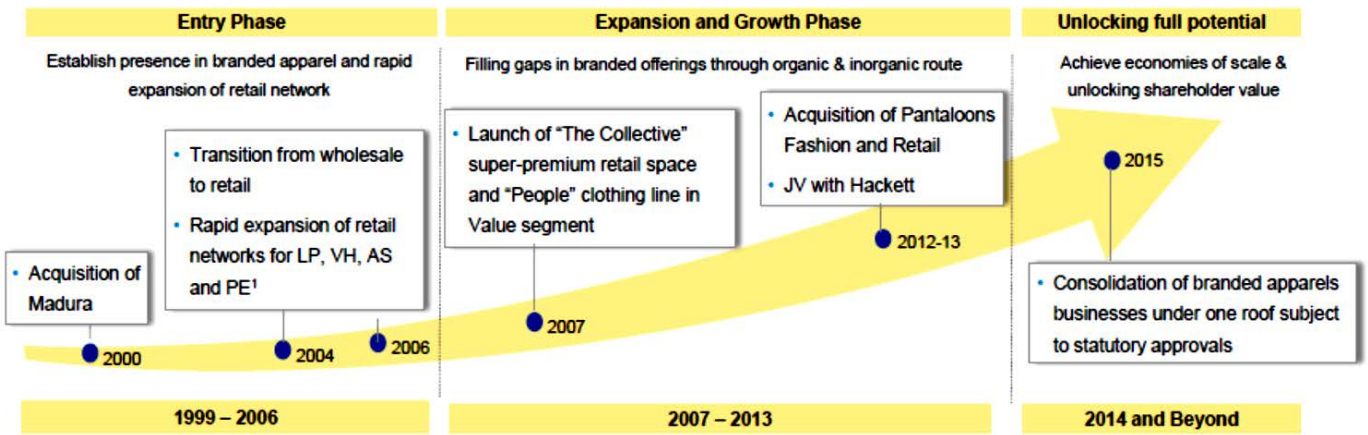
Madura Fashion & Lifestyle Limited

Established in 1988 by Madura Coats Limited, Madura Garments has its origins in the erstwhile Coats Viyella Plc—Europe’s largest clothing supplier. Aditya Birla Nuvo acquired Madura Garments in December 1999. Madura owns /holds perpetual license for four iconic brands (Louis Philippe, Van Heusen, Allen Solley and Peter England) and currently it has 1759 stores across India.

Pantaloons Fashion & Retail Limited

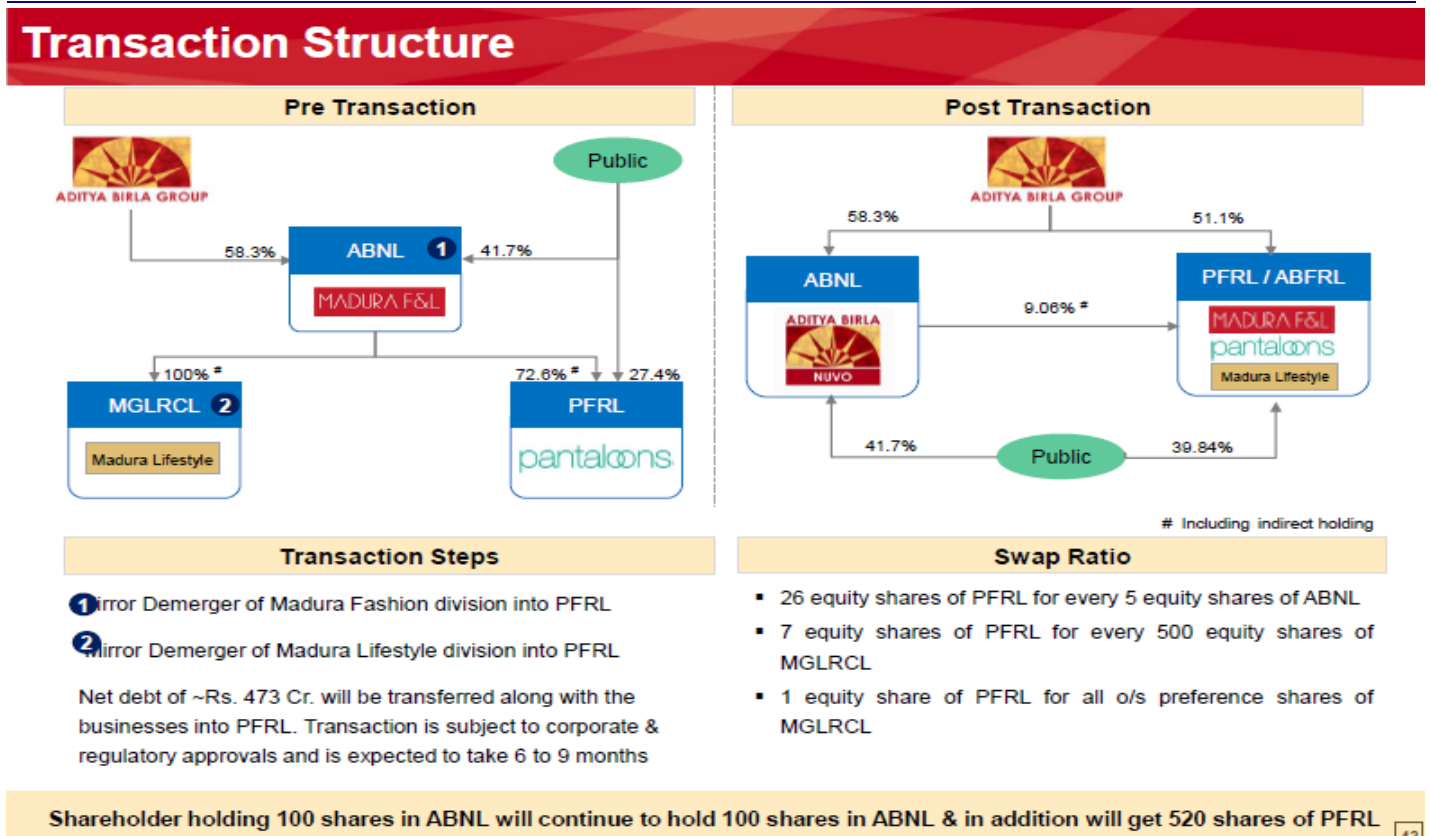
Pantaloons Fashion & Retail Limited operates a national chain of ‘Pantaloons’ stores of apparels and fashion accessories. Pantaloons retails over 200 brands, which comprise a mix of exclusive brands, licensed brands, international brands and more in apparel as well as accessories.

Exhibit 4: Journey of fashion & lifestyle business



Source: Company, MOSL

Exhibit 5: Transaction details of Madura and Pantaloons merger



Source: Company, MOSL

Strong portfolio of leading brands; at an inflection point

Unique model of brand ownership the key differentiator

- Unlike Arvind and Page Industries, who hold licenses for popular brands, ABFRL's Madura owns / holds perpetual license for its four iconic brands (LP, VH, AS and PE); this ensures freedom and flexibility in expansion and merchandising, apart from savings in substantial royalty costs.
- Brands offered cater to various price points, thereby expanding customer base and affordability across the pyramid.
- ABFRL employs a strategy of product extensions, leveraging on brand equity of its existing brands. Some of the brand extensions include LP shoes on the back of its hugely popular mother brand Louis Philippe.
- Merger of Madura and Pantaloons extends the fast fashion segment of merchandise with Pantaloons unique model of 'design to retail'.

Unique model of brand ownership the key differentiator

With the acquisition of Madura Fashion & Lifestyle (established as Madura Coats Limited in 1988) from the erstwhile Coats Viyella Plc—Europe's largest clothing supplier—in December 1999, Aditya Birla Nuvo became the owner of four brands: Louis Philippe (LP), Allen Solly (AS), Peter England (PE) and Van Heusen (VH). While for LP, AS and PE, Madura has right to use the brands on a global basis, in case of Van Heusen the rights are restricted to India, Middle East and SAARC.

Unlike peers Arvind and Page Industries, who hold licenses to popular brands for India region, Madura owns / holds perpetual license for all four brands and the management is focused on pursuing a similar model of brand ownership going forward as well. We believe this model of brand ownership lends strong freedom to ABFRL to expand the brand in the way it desires, along with flexibility in merchandise. Brand ownership also results in savings of royalty expenses, unlike in the case of Arvind and Page who have to pay the brand royalties to brand owners.

Exhibit 6: Key brands owned by AB Fashions



Source: Company, MOSL

Presence across the affordability pyramid through multi-brand strategy

ABFRL's Madura primarily caters to men's formal wear and has presence across the affordability pyramid: **Louis Philippe**, being a premium formal brand is focused on classy designs serving middle-aged consumers; **Van Heusen**, also a premium brand, targets young consumers; **Allen Solly** with its differentiated concept of Friday dressing gives a more semi-formal feel while **Peter England** being a mass-premium brand, targets the affordable segment of consumers. ABFRL's brand pyramid adequately covers the lifecycle of an average consumer—while a fresher corporate employee might pick an unbranded product to start with, he switches to **Peter England** and later to the more premium brands like **Louis Philippe/Van Heusen** as he moves up the ladder in his career. After a certain point of time, the consumer sticks to premium wear; hence, the demand is relatively price inelastic.

Exhibit 7: Presence across the affordability pyramid through multi-brand strategy



Source: Company, MOSL

Product extensions driving higher growth for power brands

With a view to leverage existing brands, ABFRL’s Madura has significantly oriented its attention on product extensions over the last couple of years; for e.g. Madura launched ‘LP Young’, a colorful, classy version of Louis Philippe to cater to the youth. To expand presence in newer product categories, a new brand ‘LP Shoes’ was also launched—it is now ~INR0.7b brand, with three Exclusive Brand Outlets (EBO) for LP Shoes operational in Bangalore. We believe the strategy of entering newer categories on the back of strength of existing brands provides a strong lever for growth, especially considering the brand equity and acceptability of existing brands.

Exhibit 8: AB Fashions’s Madura has rapidly grown its power brands through product extensions

Brand	Core	Brand and Product Extensions		
LOUIS PHILIPPE				
VAN HEUSEN				
Allen Solly				
PETER ENGLAND				

Successfully broadened product offerings of each brand yet reinforcing core positioning

Source: Company, MOSL

Successfully scaled individual brands

ABFRL has successfully scaled up its four large brands, with Louis Philippe and Van Heusen, the top 2 largest selling brands in India, clocking revenues of ~INR10b in FY15. We believe with the right focus on store expansion as well as brand extensions, ABFRL is on track for continued growth for its four iconic brands.

Exhibit 9: Revenue profile of key brands of Madura

Brand	Value (INR m)
Louis Philippe	10,000
Van Heusen	9,600
Peter England	8,500
Allen Solly	5,600

Source: Company, MOSL

Exhibit 10: Shirts contribute 43% of Madura’s sales

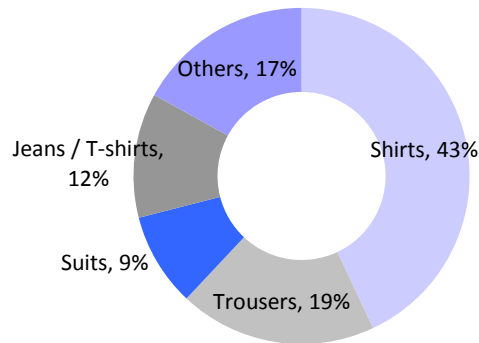


Exhibit 11: Madura brands primarily cater to men’ wear category

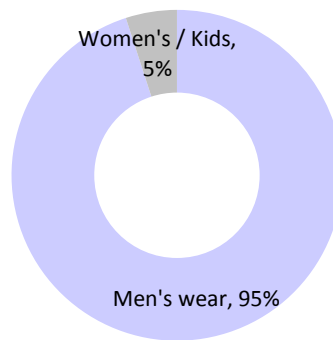
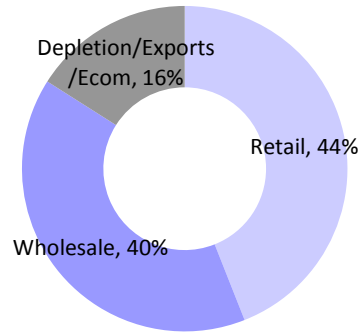


Exhibit 12: Madura brands distributed through a mix of retail and wholesale channels



Pantaloons completes portfolio with presence in women’s/kid’s wear

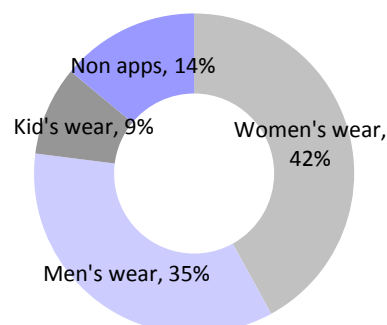
Madura’s merger with Pantaloons adequately completes ABFRL brands portfolio. While Madura has strong presence in the menswear segment with its large bouquet of brands across the affordability pyramid, Pantaloons fills the product gaps on the womenswear front through its large bouquet of private labels and its niche in women’s ethnic wear market and kids market. The combination of Madura and Pantaloons is highly synergetic in the sense that its merges the expertise of Madura in the menswear market with the expertise of Pantaloons in the womens wear market; we believe combination of the two formats gives AB Fashions bargaining power in sourcing retail space and inventory management.

Exhibit 13: Pantaloons completes portfolio with presence in womenswear and kidswear



Source: Company, MOSL

Exhibit 14: More than 50% of Pantaloons revenues come from women’s / kids wear



Pantaloon extends range in fast fashion and mass segment

With Pantaloon, which is India’s largest big-box affordable fashion retailer, we believe ABFRL has expanded its footprints in the fast fashion segment. Pantaloon has a rich portfolio, which spans across genders and consumer segments. Pantaloon’s unique business model of ‘design to retail’, with private labels contributing ~52% of its revenues, augurs well from a gross margin perspective.

Reduced share from non-core brands/non-apps to drive margin expansion

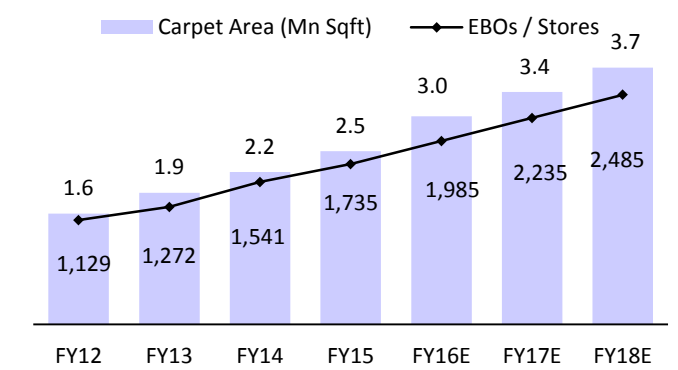
The management highlights that steps have been taken to reduce the share of non-core brands and loss-making segments like non-apparels in Pantaloon. The contribution of non-apparels like perfumes and watches towards revenue mix has reduced to ~14% vs ~17% earlier. Going forward, the target mix for these products is expected to be ~10% and the focus remains on faster-moving branded womenswear segments. We believe the discontinuance of non-core brands and lower share of non-apparels would lead to margin expansion over FY15-18 in Pantaloon’s business.

Operational efficiencies, synergies to drive margin expansion

Pantaloon and Madura together have the largest fashion space in India—a strong retail network across of 1,869 EBOs with an area of 4.8m sqft. The merger will pave way for operational synergies through common purchases and bargaining power on retail space. We believe the merger of Pantaloon and Madura will drive margin improvement and efficiencies in working capital and, consequently, improve RoCEs.

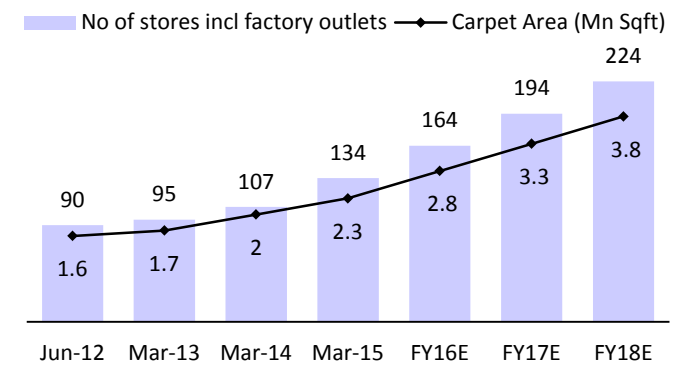
Madura being a strong brands business commands higher margins and better terms of trade with franchisees, led by its strong brand pull; we believe this will rub off on Pantaloon. Given that ABFRL might look at franchising Pantaloon stores going forward, Madura’s brands can act as a catalyst to secure favorable terms for Pantaloon with increased operational efficiencies.

Exhibit 15: Retail space for Madura

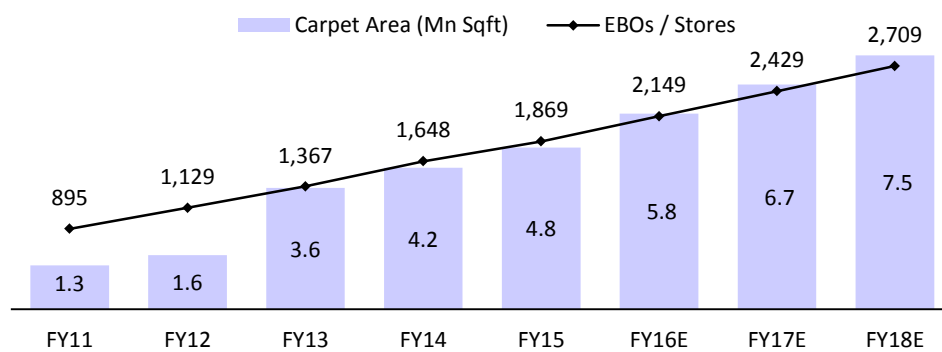


Source: Company, MOSL

Exhibit 16: Retail space for Pantaloon



Source: Company, MOSL

Exhibit 17: Combined retail network of 1,869 stores—the largest fashion space in India**Tax advantages from Pantaloon to result in lower effective tax rate**

Being a profitable entity, Madura was subject to taxes under the normal provisions of income taxes (~33% tax rate). The brought forward losses of Pantaloon will result in lower tax rate for the merged entity ABFRL. As per our estimates, the brought forward losses will be set off by FY18, and expect FY19 to be a normally taxed year.

Strong play on J-curve in discretionary demand

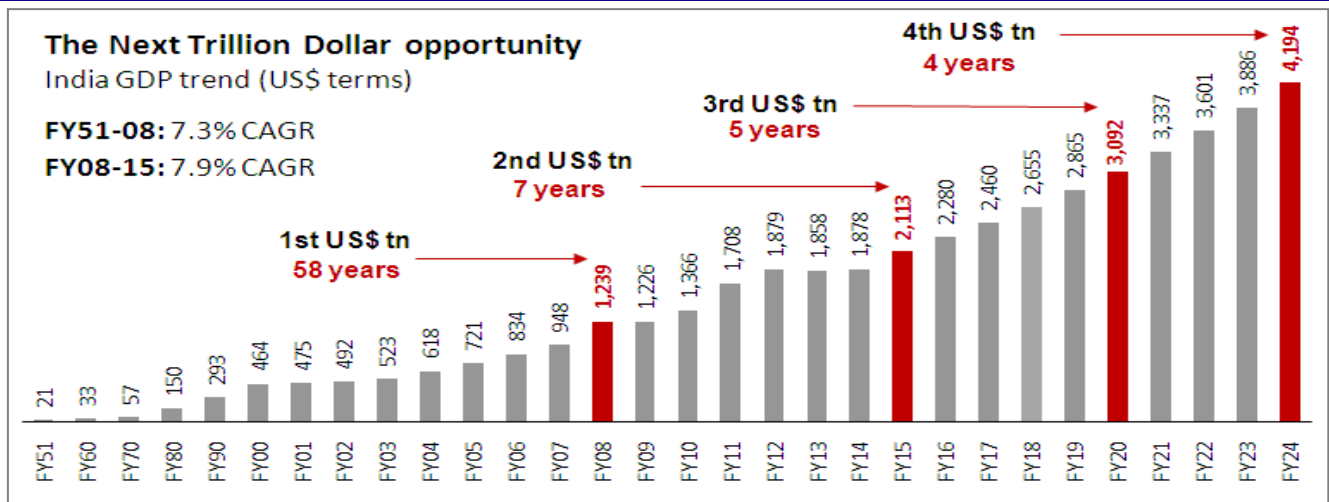
When per capita GDP doubles, discretionary spend grows 10x

- Expansion in per capita income may lead to a 10x increase in discretionary demand, thereby providing a platform for exponential growth over the next decade.
- The organized retail market is expected to post 18% CAGR over the next five years, reaching USD93b in size.
- ABFRL's brands have strong appeal, acceptability and aspirational demand. Market is a function of supply of brands, with enough demand for absorption of products.

Doubling of per capita GDP may drive 10x growth in discretionary demand

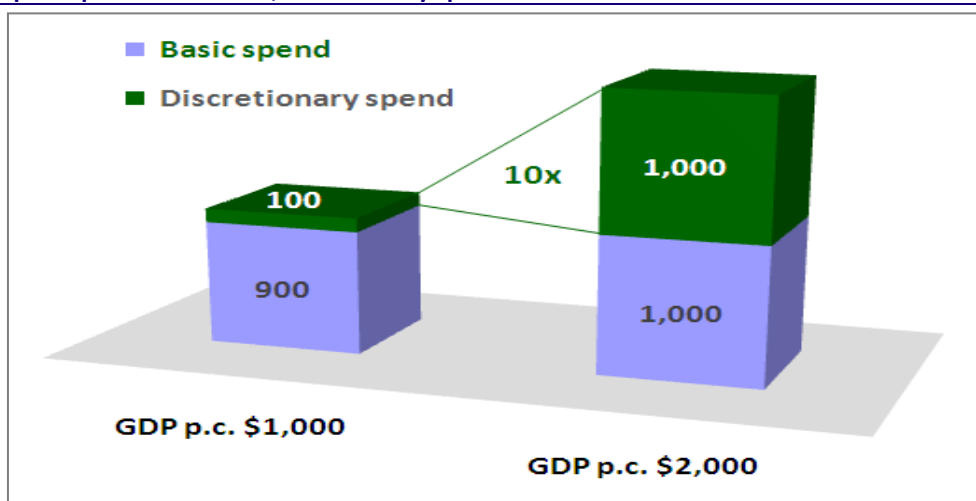
We believe a rise in per capita income in India over the next decade—from USD2,113 in FY15 to USD4,194 by FY24—can lead to 10x discretionary demand, thus providing strong growth tailwind. We believe demand for luxury and bridge-to-luxury products will witness exponential growth over the next 10 years, a key beneficiary of which will be leading brand owners like ABFRL.

Exhibit 18: Linear growth, exponential opportunity



Source: Company, MOSL

Exhibit 19: When per capita GDP doubles, discretionary spend becomes 10x



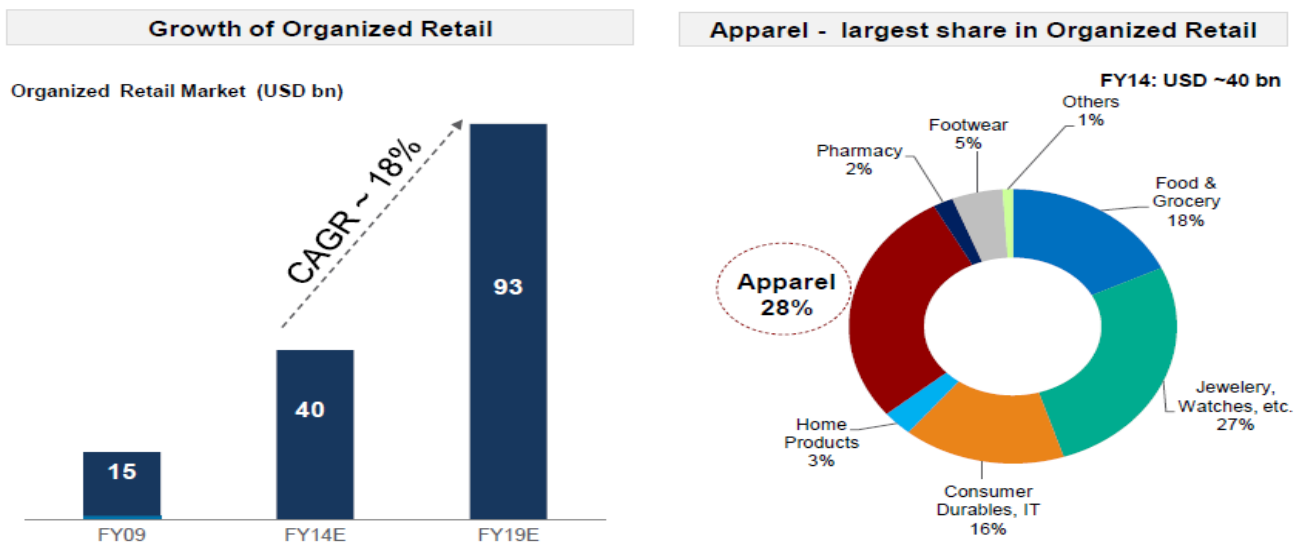
Source: Company, MOSL

Supply-led market: Increasing affordability levels to drive strong growth in the bridge-to-luxury segment

The Indian organized retail market currently stands at USD40b, of which apparel segment accounts for the highest portion (28%). The organized retail market is expected to post strong 18% CAGR over next 5 years, reaching USD93b in size. We expect exponential growth in the luxury and bridge-to-luxury market in the long-term, given the underpenetrated nature of the market, rising per capita income and highly discretionary nature of the market.

We believe, growth in the market is more of a function of supply of brands, with enough demand for absorption of products; given that only a handful of large brands currently cater to the luxury and bridge-to-luxury segment, we believe ABFRL is poised for a strong growth in the segment owing to strong appeal, acceptability and aspirational demand of its brands.

Exhibit 20: Apparel accounts for the largest share (28%) of the USD40b organized retail market in India



Source: Company, MOSL

Robust and capital efficient distribution model

80% of incremental distribution Madura additions will not require capex

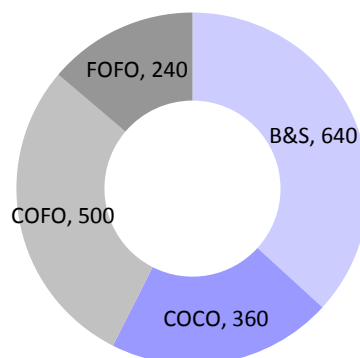
- Madura's distribution model comprises COCO, COFO or FOFO stores, depending on the place of function. Its flexible model helps in tapping regional markets efficiently.
- Out of the 300 store openings planned over next three years, 100 would be through B&S model; out of the balance 200, ~30% each will be through COFO and COCO, and ~40% through FOFO. Capex intensity is seen to be lower, considering that ~80% of stores will be Buy and Sell, COFO or FOFO.
- ABFRL sells directly to third party e-commerce channels and has agreements in place with its traditional channel ensuring discipline in sales through the ecommerce model. The company also operates independently through its website TRENDIN.com. The rapid growth of ecommerce provides sufficient scope to ramp up in this channel.

Distribution expansion through franchising—enhances capital efficiency

Madura's distribution strategy has evolved over the last decade. During the initial years (2000-2006), Madura largely concentrated on a wholesale model— where it sold through multi-brand outlets (MBOs) like Shoppers Stop and Westside. However, realizing that the wholesale-based strategy will not be conducive for long-term growth/ visibility of its brands and to de-risk its overdependence on a single channel, Madura changed its strategy post 2006 and started opening exclusive stores for its brands.

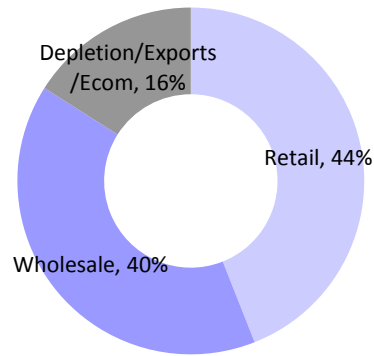
Accordingly, beginning 2006, Madura started expanding its exclusive brand outlets (EBOs). Madura opened EBOs through three formats: 1) Company Owned Company Operated (COCO) 2) Company Owned Franchisee Operated (COFO), 3) Franchisee Owned Franchisee Operated (FOFO). All these three stores formats are consignment stores and hence inventory is in books of the company. Besides, Madura also sells its brands through Buy and Sell (B&S) stores, which are EBOs, however, inventory is in books of store owner. Out of the 1735 stores of Madura as on Mar'15, ~640 are B&S, ~360 COCO, ~500 COFO and ~240 FOFO.

Exhibit 21: Store mix



Source: Company, MOSL

Exhibit 22: 44% of Madura's sales come through its retail channels



Source: Company, MOSL

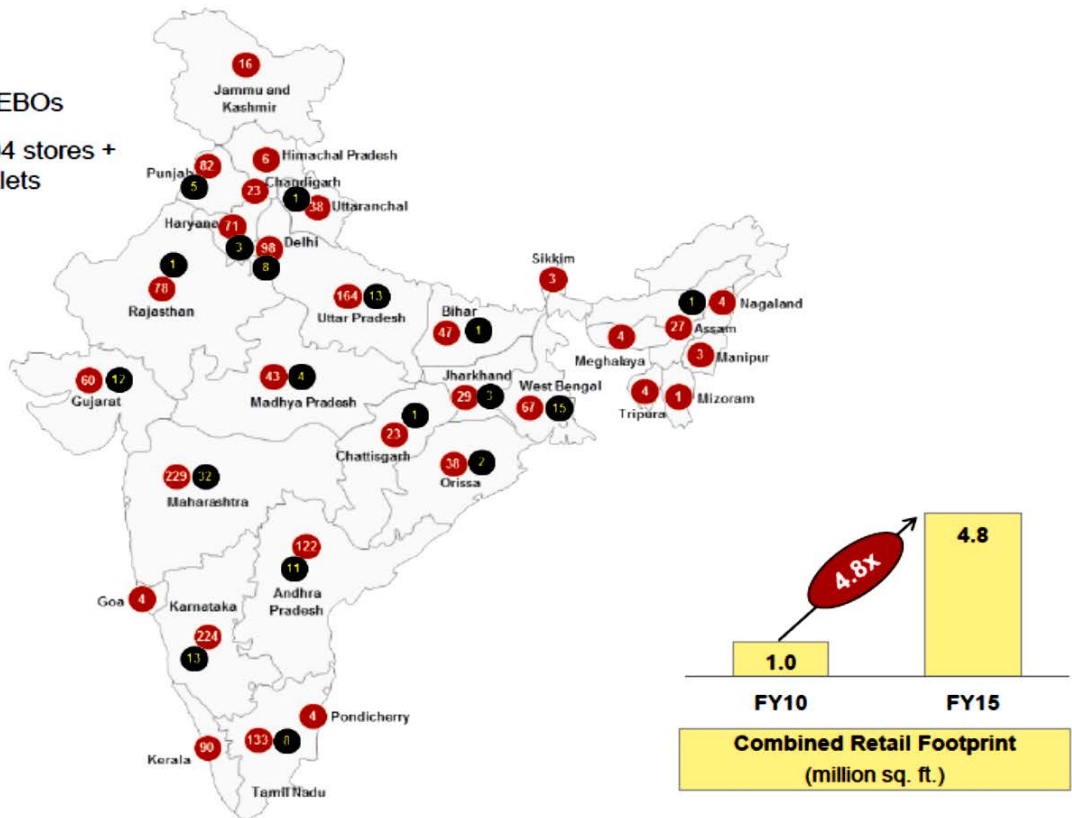
Differentiated store formats provides the right flexibility

The company opens COCO stores in high-potential metros; it relies on COFO format in Tier 1 cities, where it sees large spending potential and where the market is largely untapped. However, since the company does not have expertise in smaller cities and is unaware of local micro market conditions, it relies on local entrepreneurs through COFO and FOFO formats. The key difference between COFO and FOFO formats is that lease is under the name of the company in COFO and under the name of the franchisee in FOFO; the capex and store operations are the responsibility of the franchisee under both the formats, thus Madura has no investment requirements. Over the last four years, Madura has opened on an average 250-300 new stores annually including B&S, of which consignment stores were ~150-200 stores per annum.

Exhibit 23: Largest retail network in the fashion space

As at Mar 31, 2015

- Madura: 1735 EBOs
- Pantaloon: 104 stores + 30 Factory Outlets

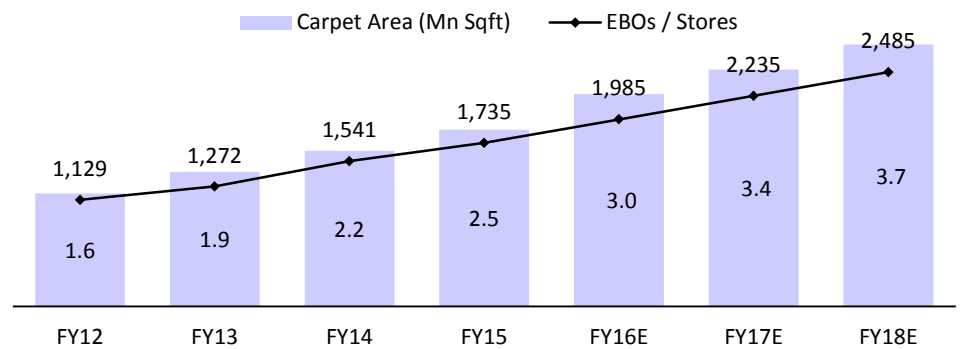


Source: Company, MOSL

Store expansion plans geared toward low-capex model

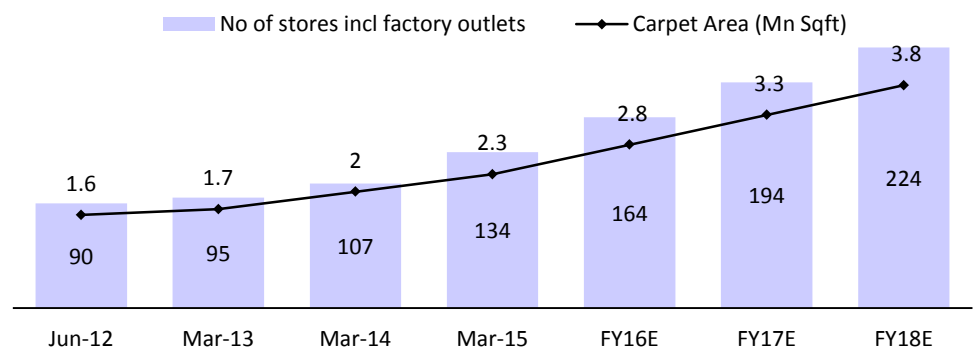
Following the historic trend, the management plans to open 250-300 new stores over FY16-FY17—out of these, about 100 under buy and sell model, 200 under the consignment model. The average store size is ~1,000 sq ft for a buy and sell store, ~2000 sq ft for a COCO store, ~1500 sq ft each for COFO and FOFO stores. On an average, Madura stores require a capex of INR2700/ sq ft depending on the brand mix and format; capex per sq ft differs based on the brand. Since capex is the responsibility of franchisee under COFO/FOFO, we expect capex intensity to be limited going forward— considering 80% of the planned stores are either Buy and Sell, COFO or FOFO. On Pantaloons front, ABFRL plans to add ~30-35 stores each in FY16 and FY17 which will extend Pantaloons leadership as a retailer.

Exhibit 24: Madura store count has expanded by 150-200 stores (net) annually



Source: Company, MOSL

Exhibit 25: Pantaloons has 134 outlets as at FY15 and plans to add 30-35 stores annually



Source: Company, MOSL

Scaling up e-commerce presence through TRENDIN, third-party platforms

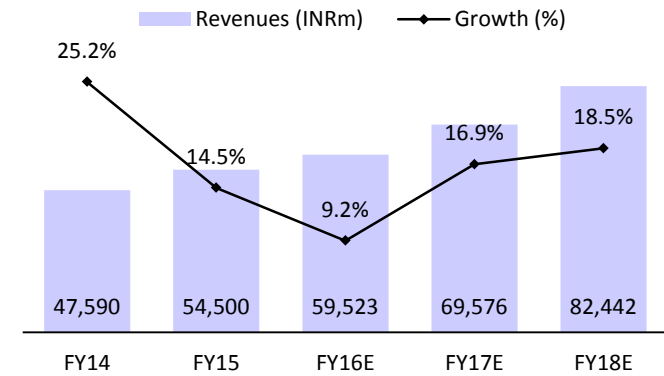
ABFRL launched online sales portal TRENDIN.com to showcase its entire range of brands and products and capitalize on the growing importance of online as a sales channel. The management also plans to empower its current offline presence with an OMNI channel network, wherein consumers can pick a particular design/product even if it is not available in the store and ABFRL can deliver the product to the consumer’s address either from a nearby store or the nearby warehouse. Currently, online channel contributes less than 2% to the total revenues. ABFRL has direct supply agreements in place with e-commerce players to limit discounts, thereby retaining the brand value and avoiding cannibalizing of brick and mortar sales.

Earnings seen at INR5b in FY18

Earnings seen at INR5b, capital efficiency to remain robust

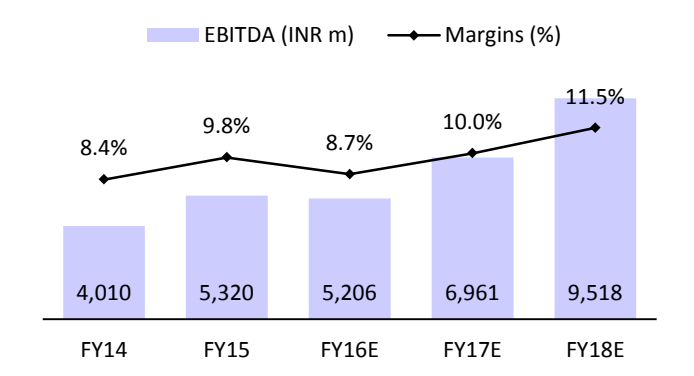
We expect PAT at INR5b, with RoCE and RoE at 21% and 30%.

Exhibit 26: Revenues to post 15% CAGR over FY15-18E



Source: Company, MOSL

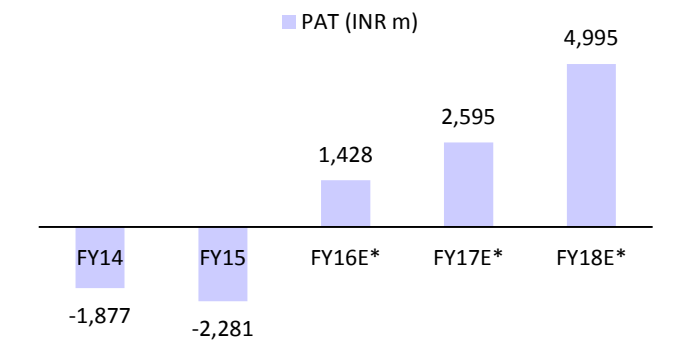
Exhibit 27: EBITDA to post 18% CAGR over FY15-18E



Source: Company, MOSL

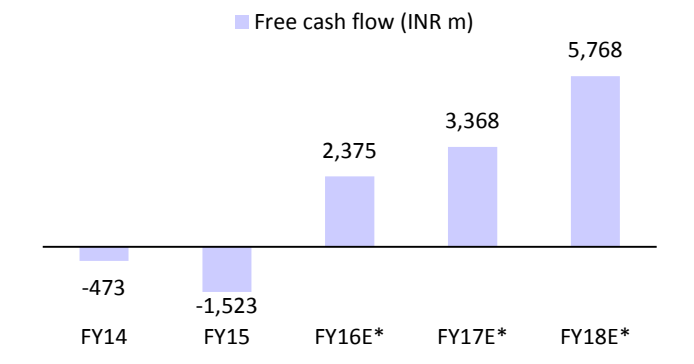
Note – Numbers listed above for FY14/FY15 for revenue and EBITDA are proforma numbers and include Madura’s financials. Madura will be merged effective FY16 and hence we have built in the consolidation of Madura effective FY16 in our forward numbers. We have not adjusted FY14/FY15 numbers for Madura for below charts.

Exhibit 28: PAT seen at INR5b



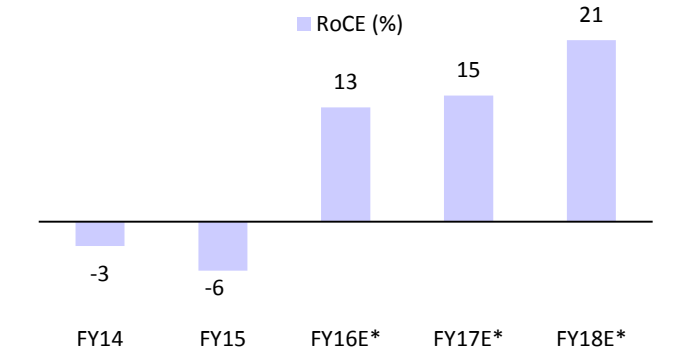
Source: Company, MOSL

Exhibit 29: Free cash generation on cards



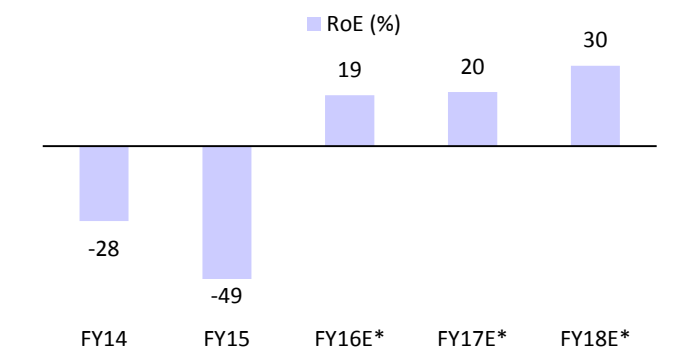
Source: Company, MOSL

Exhibit 30: RoCE to improve to 21% by FY18



Source: Company, MOSL

Exhibit 31: RoE to improve to 30% by FY18



Source: Company, MOSL

Valuation and view

- **Strong beneficiary of higher discretionary demand:** As per capita incomes expand in India from USD2,113 in FY15 to USD4,194 by FY24, discretionary demand can be 10x—thus providing strong growth tailwind. We believe the demand for luxury and bridge-to-luxury products will witness exponential growth over next 10 years and leaders like ABFRL will be front-runners to capture this growth.
- **Pure play on branded apparel business:** We believe AB Fashions is a pure play on India's fast-growing and high-potential brands and retail business, and enjoys best-in-class profitability and management pedigree. AB Fashions will be amongst the biggest beneficiaries of the J-Curve in luxury and bridge-to-luxury spends.
- **The stock trades at 33x FY18E EPS.**

Exhibit 32: Assumption sheet

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Income from Operations						
Revenues	38,080	48,870	55,860	59,523	69,576	82,442
Madura	25,230	32,260	37,350	40,734	47,327	56,215
Pantaloons	12,850	16,610	18,510	20,353	24,047	28,296
Growth (%)		28%	14%	9%	17%	18%
Madura		28%	16%	9%	16%	19%
Pantaloons		29%	11%	10%	18%	18%
EBITDA	3,120	4,010	5,320	5,234	7,122	9,568
Madura	2,450	3,880	4,630	4,481	5,679	7,870
Pantaloons	670	130	690	753	1,443	1,698
EBITDA Margin (%)	8.2%	8.2%	9.5%	8.8%	10.2%	11.6%
Madura	9.7%	12.0%	12.4%	11.0%	12.0%	14.0%
Pantaloons	5.2%	0.8%	3.7%	3.7%	6.0%	6.0%

Source: Company, MOSL

Key risks

Slowdown in discretionary demand

ABFRL is the largest fashion house in the country. Demand is highly dependent on the macroeconomic environment in India and a slowdown can impact the discretionary demand, which in turn will affect growth.

Sharp increase in raw material prices

Any sharp increase in cotton or other raw material prices could impact margins in near term.

Rising e-commerce penetration

E-commerce is growing rapidly in India and is fast acquiring acceptability far and wide. Any slowdown in capitalization of this channel may affect revenues.

Management overview

Mr. Pranab Barua, Business Director, Apparel & Retail Business

Mr. Barua is a 40+ year veteran in the consumer and retail industry. Before joining Aditya Birla Group (ABG), he was the CEO of Trinethra Super Retail (acquired by ABG in 2007). He has also worked in senior positions with Brooke Bond India, as Foods Director on the Hindustan Unilever Board, as Chairman and Managing Director of Reckitt Benckiser and as Regional Director of Reckitt Benckiser for South Asia. He holds a graduate degree in B.A. (English Honours) from St. Stephens College, New Delhi.

Mr. Ashish Dikshit, Business Head, Madura

Mr. Dikshit has been with the Aditya Birla Group for over 15 years and joined Madura from Asian Paints in 1998. He has worked across several functions in the business and has headed its supply chain, marketing and sourcing functions. He has also worked as Principal Executive Assistant to the Chairman of ABG for more than three years. Mr. Dikshit is an Electronics and Electrical Engineer from IIT-Madras and holds a Postgraduate Diploma in Management from IIM-Bangalore

Mr. Shital Mehta, CEO, Pantaloons

Mr. Mehta has been with Aditya Birla Group for about 15 years. Previously, he served as the Chief Operating Officer of the International Brands and Retail, Madura Fashions and Lifestyle. Prior to that, he worked as a brand manager for Godrej Foods. He is an MBA in marketing from SP Jain Institute of Management and Research and has attended advanced management programs at Wharton Business School.

S Visvanathan, CFO, Apparel & Retail Business

Mr. Visvanathan joined the Aditya Birla Group in 2007 and has been with the Textile and Apparel business since then. He is also a member of the Management Committee of the Textile and Apparel business of the Aditya Birla Group. He has 26 years of experience across industries spanning white goods, capital equipment, electrical equipment and auto components. Mr. Visvanathan's has earlier worked with the Tata Group in various capacities in the Auto Components business, Voltas and Allwyn (CFO). He is a commerce graduate from Chennai University and a qualified Chartered Accountant and Cost Accountant.

Financials and valuations

Standalone - Income Statement (INR Million)

Y/E March	FY13	FY14	FY15	FY16E*	FY17E*	FY18E*
Total Income from Operations	12,851	16,612	18,507	59,523	69,576	82,442
Change (%)	7,273.1	29.3	11.4	221.6	16.9	18.5
EBITDA	752	455	868	5,206	6,961	9,518
Margin (%)	5.9	2.7	4.7	8.7	10.0	11.5
Depreciation	544	1,090	1,835	2,187	2,639	3,119
EBIT	208	-635	-966	3,019	4,323	6,400
Int. and Finance Charges	1,529	1,293	1,343	1,624	1,768	1,453
Other Income	632	51	28	33	40	48
PBT	-689	-1,877	-2,281	1,428	2,595	4,995
Current Tax	0	0	0	0	0	0
Reported PAT	-689	-1,877	-2,281	1,428	2,595	4,995
Adjusted PAT	-689	-1,877	-2,281	1,428	2,595	4,995
Change (%)	-5,746.7	172.5	21.5	-162.6	81.7	92.5
Margin (%)	-5.4	-11.3	-12.3	2.4	3.7	6.1

Standalone - Balance Sheet (INR Million)

Y/E March	FY13	FY14	FY15	FY16E*	FY17E*	FY18E*
Equity Share Capital	5	928	928	7,695	7,695	7,695
Equity Application Money	8,463	0	0	0	0	0
Preference Capital	5	5	5	5	5	5
Total Reserves	-778	4,862	2,523	3,950	6,545	11,540
Net Worth	7,695	5,795	3,456	11,650	14,245	19,240
Deferred Tax Liabilities	0	1,592	1,718	1,718	1,718	1,718
Total Loans	17,307	10,505	13,106	17,836	15,836	11,836
Capital Employed	25,002	17,891	18,280	31,204	31,799	32,794
Gross Block	7,132	8,161	9,305	14,992	17,992	20,992
Less: Accum. Deprn.	2,435	3,504	5,187	7,373	10,012	13,131
Net Fixed Assets	4,697	4,656	4,118	7,619	7,980	7,861
Goodwill on Consolidation	11,676	11,676	11,676	17,266	17,266	17,266
Capital WIP	136	249	38	0	0	0
Total Investments	8,000	60	0	0	0	0
Curr. Assets, Loans&Adv.	4,315	4,892	5,557	18,332	20,720	24,527
Inventory	3,249	3,584	4,273	12,649	14,581	16,982
Account Receivables	10	170	35	2,446	2,859	3,388
Cash and Bank Balance	253	108	72	856	496	859
Loans and Advances	804	1,031	1,177	2,381	2,783	3,298
Curr. Liability & Prov.	3,821	5,233	4,827	13,730	15,884	18,578
Account Payables	3,241	4,044	3,411	10,566	12,180	14,185
Other Current Liabilities	529	1,035	1,194	2,976	3,479	4,122
Provisions	51	154	222	188	225	270
Net Current Assets	494	-341	731	4,602	4,836	5,949
Deferred Tax assets	0	1,592	1,718	1,718	1,718	1,718
Appl. of Funds	25,002	17,891	18,280	31,204	31,799	32,794

E: MOSL Estimates

* Financials till FY15 are standalone financials of Pantaloons Fashion and Retail Ltd. Financials from FY16 assume consolidation of Madura Fashion & Lifestyle Ltd into Pantaloons Fashion and Retail Ltd.

Financials and valuations

Ratios						
Y/E March	FY13	FY14	FY15	FY16E*	FY17E*	FY18E*
Basic (INR)						
EPS	-7.4	-20.2	-24.6	1.9	3.4	6.5
Cash EPS	-1.6	-8.5	-4.8	4.7	6.8	10.5
BV/Share	82.9	62.4	37.2	15.1	18.5	25.0
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)						
P/E		-10.6	-8.7	115.9	63.8	33.1
Cash P/E		-25.3	-44.6	45.8	31.6	20.4
P/BV		3.4	5.8	14.2	11.6	8.6
EV/Sales		1.8	1.8	3.1	2.6	2.1
EV/EBITDA		66.7	38.0	35.0	26.0	18.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-2.9	-5.1	-16.4	3.1	4.4	7.5
Return Ratios (%)						
RoE	-17.9	-27.8	-49.3	18.9	20.0	29.8
RoCE	6.7	-2.8	-5.7	13.3	14.6	21.1
Working Capital Ratios						
Inventory (Days)	92	79	84	78	76	75
Debtor (Days)	0	4	1	15	15	15
Creditor (Days)	92	89	67	65	64	63
Working Cap. Turnover (Days)	7	-10	13	23	23	23
Leverage Ratio (x)						
Debt/Equity	2.2	1.8	3.8	1.5	1.1	0.6

Standalone - Cash Flow Statement (INR Million)

Y/E March	FY13	FY14	FY15	FY16E*	FY17E*	FY18E*
OP/(Loss) before Tax	-689	-1,877	-2,281	1,428	2,595	4,995
Depreciation	544	1,090	1,835	2,187	2,639	3,119
Interest & Finance Charges	816	1,153	1,201	1,591	1,728	1,405
Direct Taxes Paid	-89	-29	-15	0	0	0
(Inc)/Dec in WC	-516	408	-1,096	19	-593	-750
CF from Operations	67	744	-357	5,225	6,368	8,768
Others	-40	-43	-3	0	0	0
CF from Operating incl EO	27	701	-360	5,225	6,368	8,768
(Inc)/Dec in FA	-300	-1,175	-1,163	-2,850	-3,000	-3,000
Free Cash Flow	-273	-473	-1,523	2,375	3,368	5,768
(Pur)/Sale of Investments	-7,997	7,968	75	0	0	0
Others	94	20	0	33	40	48
CF from Investments	-8,202	6,813	-1,088	-2,817	-2,960	-2,952
Issue of Shares	8,000	0	0	0	0	0
Inc/(Dec) in Debt	1,670	-6,802	2,602	0	-2,000	-4,000
Interest Paid	-1,242	-857	-1,191	-1,624	-1,768	-1,453
CF from Fin. Activity	8,427	-7,659	1,411	-1,624	-3,768	-5,453
Inc/Dec of Cash	252	-144	-36	784	-360	363
Opening Balance	1	253	108	72	856	496
Closing Balance	252	108	72	856	496	859

E: MOSL Estimates

* Financials till FY15 are standalone financials of Pantaloons Fashion and Retail Ltd. Financials from FY16 assume consolidation of Madura Fashion & Lifestyle Ltd into Pantaloons Fashion and Retail Ltd.

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