


Narrative Changing Towards Profitability; Maintain HOLD
Est. vs. Actual for Q1FY25: Revenue – MISS; EBITDA – INLINE; PAT – MISS
Changes in Estimates post Q1FY25
FY25E/FY26E: Revenue:-5%/-5%; EBITDA:-7%/-4%
Recommendation Rationale

- **Sluggish consumption demand in the discretionary space:** Prolonged heat waves and a lesser wedding season in Q1 have resulted in sluggish consumption demand in the discretionary space. The company's consolidated revenue grew by 7% YoY, led by Ethnic (up 2.6x YoY) and TMRW (up 2x YoY), while the overall demerged business grew strongly by 26% YoY. EBITDA stood at Rs 358 Cr, up 22.6% YoY, with EBITDA margins coming in at 10.5%, up by 131 bps YoY due to gross margin expansions and effective cost control measures. The management noted improvements in EBITDA margins across all individual businesses of ABFRL (Lifestyle & Pantaloons). Additionally, they guided that H2 would be better than H1, with significant improvements in profitability and margins.
- **Demerger on track:** The management highlighted that the demerger is on track. The amalgamation of TCNS with ABFRL is expected to be completed by the end of FY25.
- **Scaling the existing portfolio:** In TMRW, the management emphasized that the portfolio now has significant potential for scaling. They are focusing on scaling the existing portfolio to Rs 1,000 Cr while holding off on new acquisitions for the time being.
- **Short-term headwinds persist, but long-term prospects remain positive:** The management's renewed strategy to focus on profitability is a step in the right direction. The past strategy of revamping product strategy through new launches and acquisitions, renewing brand positioning, and undertaking a digital transformation to increase online sales contributions (including next-generation digital-first brands under its technology-led 'House of D2C Brands' venture TMRW) should drive long-term growth. However, these initiatives will take time to yield results. The demand environment remains challenging, and meaningful recovery is likely only in H2 FY25.

Sector Outlook: Cautious
Company Outlook & Guidance: Demand environment continue to remain challenging and meaningful recovery is likely only in H2 FY25. Hence, **we maintain our HOLD rating on the stock.**
Current Valuation: 18xMar'26V/EBITDA (Earlier Valuation: 17xMar'26V/EBITDA)
Current TP: Rs 310/share(Rs 275/share)
Recommendation With a 4% downside potential from the CMP, we **maintain our HOLD rating.**
Outlook: We believe the management's renewed strategy to focus on profitability is a step in the right direction. Further, its past strategy of revamping product strategy through new launches and acquisitions, renewing brand positioning, and undertaking a digital transformation to increase online sales contributions (including next-generation digital-first brands under its technology-led 'House of D2C Brands' venture TMRW) should drive long-term growth. However, these initiatives will take time to yield results. Additionally, the demand environment remains challenging, with a meaningful recovery likely only in H2FY25. Hence, we maintain our HOLD rating on the stock.

Valuation & Recommendation: We **maintain a HOLD rating** on the stock with the revised TP of Rs 310/ share implying a downside of 4% from CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	3,428	0.6	7.3	3,675	(6.7)
EBITDA	358	26.3	22.6	357	0.5
EBITDA Margin (%)	10.5	213bps	131bps	9.7	75bps
Net Profit	(215)	(19.3)	33.0	(203)	5.7
EPS (Rs)	(2.1)	(19.3)	24.3	(2.0)	5.7

Source: Company, Axis Research

 (CMP as of 7th Aug 2024)

CMP (Rs)	323
Upside /Downside (%)	-4%
High/Low (Rs)	348/198
Market cap (Cr)	32,876
Avg. daily vol.(6m)Shrs. '000	7481
No. of shares (Cr)	101

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	55.5	51.9	52.0
FII's	13.9	19.3	19.6
MFs / UTI	11.3	10.1	10.6
FIs / Banks	0.0	0.0	0.0
Others	19.3	18.8	17.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	16,595	18,899	21,390
EBITDA	1,990	2,529	3,051
Net Profit	-302	-48	194
EPS (Rs)	(2.7)	(0.4)	1.7
EV/EBITDA (x)	20.1	15.8	12.9
P/BV (x)	15.8	16.2	14.9
ROE (%)	(13.1)	(2.1)	7.9

Change in Estimates (%)

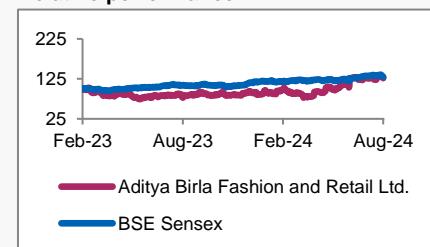
Y/E Mar	FY25E	FY26E
Sales	-5%	-5%
EBITDA	-7%	-4%

ESG disclosure Score**

Environmental Disclosure	47.47
Social Disclosure Score	46.28
Governance Disclosure Score	84.85
Total ESG Disclosure Score	59.57
Sector Average	41.61

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Financial Performance:

The company's consolidated revenue stood at Rs 3,428 Cr, up by 7% YoY (compared to our estimate of 15% YoY), led by new businesses operating in emerging consumer segments. EBITDA stood at Rs 358 Cr, up by 22.6% YoY, with EBITDA margins coming in at 10.5%, up by 131 bps YoY due to gross margin expansions of 180 bps YoY to 56.6% and effective cost control measures. The company's overall PAT was negative at Rs 215 Cr due to continued investments in TMRW and losses in the ethnic business (TCNS & Tasva). However, management anticipates that demand will revive in the coming quarters (Q3 onwards) due to the upcoming festive and wedding seasons.

Other ConCall Key Highlights

Proposed Aditya Birla Lifestyle Brands Limited (ABLFL):

It comprises mainly 4 brands.

1. **Lifestyle Brands (Louis Philippe, Van Heusen, Allen Solly, Peter England, Simon Carter):** Despite fewer wedding dates, revenue grew to Rs 1482 Cr, driven by women's wear and kids' wear, which delivered low single-digit growth. EBITDA margins expanded by 50 bps due to sustained cost optimization and better discount control. In Q1, 35+ new stores were opened, while some underperforming stores were closed.
2. **Youth Western Wear Brands (American Eagle & Forever 21):** American Eagle grew by 35% YoY, led by strong distribution expansion. The brand added 4 stores in Q1, bringing the total count to 69 stores.
3. **Sportswear Brand (Reebok):** Reebok, after a successful first year with ABFRL, continued its profitable growth trajectory. The brand is actively launching new products and expanding distribution channels, now available at 170 stores and 900+ trade outlets and departmental stores.
4. **Innerwear Business (Van Heusen):** Innerwear continues to outperform the athleisure segment, which remains in decline. The brand has focused on expanding distribution and investing significantly in consumer engagement through social media collaborations and other digital channels. It is now present in over 35,000 trade outlets and operates more than 100 EBOs.

Demerged Aditya Birla Fashion and Retail Ltd- It comprises of:-

1) Value Retail (Pantaloons & Style up)- The business posted a revenue of Rs 1101Cr up by 5% yoy led by LKL growth of 2%. This growth was supported by gross margin expansion on the back of better markdown management and cost control measures. EBITDA grew by 42.6% yoy while margins improved by 470bps at 17.6% in Q1FY25. It has enhanced its consumer propositions by improving product offerings and the retail experience through strategic initiatives in merchandising planning, inventory management and consumer outreach, thereby increasing its private label share by 66%. In terms of store expansion strategy under Pantaloons, the management reiterated their store guidance (25 stores) remain intact by FY25. Style Up segment is also seeing good traction, though it's very small, however, they continuously remain focused on store expansion led by organic growth. Added 3 stores in Q1 and total count reaches to 30 stores.

2) Ethnic Brand-One of the comprehensive ethnic wear portfolio comprises of –

Designer-led brands (Sabyasachi, Shantnu & Nikhil and House of Masaba)- Despite a weak wedding season, designer-led brands grew by 4% yoy where Sabyasachi delivered another quarter of strong performance with 5% L2L. House of Masaba grew by 75% yoy with beauty segment growing by 6 times over last year. The total store count reaches to 16 stores. Shantnu & Nikhil brand, on the other hand, grew by ~12% yoy driven by distribution expansion. The total store stands at 20.

Premium ethnic wear brands (Jaypore, Tasva & TCNS) - This segment is currently experiencing challenges primarily due to

losses in TCNS and, to a lesser extent, Tasva. TCNS reported revenue of Rs 206 Cr, up by 84% YoY, driven by network rationalization. However, EBITDA was impacted due to lower sales and policy alignment issues. Despite these challenges, TCNS, with its network of 500 stores, delivered a 5% retail LTL in a tough market environment. The brand has improved its position in departmental stores, gained market share, and resolved most of its old inventory issues. Management expects profitable growth for TCNS by H2 FY25. The men's premium ethnic wear brand, TASVA, also had a challenging quarter, with 50% fewer wedding dates compared to last year, impacting sales. However, with its strong product proposition and high-quality store experience, TASVA is well-positioned for a strong performance in H2, driven by the upcoming wedding and festive seasons. The brand is available at 63 stores, with 6 stores added in Q1 FY25. The Jaypore brand, available across 27 stores, grew by 12% YoY, driven by offline expansion.

3)Luxury Retail(The collective & Mono Brands portfolio, Galeries Lafayette) - This segment delivered another quarter of strong performance with revenue growing by 18% yoy. The E-commerce channel grew by 31% YoY led by organic growth. Total network including the Mono brand is 39 stores.

4)TMRW- It is one of the leading digital-first brands in men's casual & activewear. This brand grew to 2x last year as the brands continued to benefit from operational and business model enhancements. It has further expanded its portfolio with a minority investment in WRONG. The management however guided that losses in TMRW will still remain at least for this year. Additionally, they also highlighted that they will raise capital in the TMRW business probably by the first half of next year.

Debt- The company's net debt in Q1FY25 stood at Rs3,500 Cr.

Key Risks to Our Estimates and TP

- Increase in competitive intensity; Weakening of demand environment.

Change in Estimates

	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	15,848	17,882	17,463	19,811	10%	11%
EBITDA	1,924	2,197	2,143	2,644	11%	20%

Source: Company, Axis Securities

Results Review

Rs Cr.	Q1FY24	Q4FY24	Axis Sec	Q1FY25	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est
Total Revenue	3,196	3,407	3,675	3,428	7.3	0.6	(6.7)
COGS	1,446	1,505	1,654	1,489	3.0	(1.0)	(10.0)
Gross Profit	1,750	1,902	2,022	1,939	10.8	1.9	(4.1)
GM%	54.8	55.8	55.0	56.6	180bps	73bps	155bps
Expenditure							
Employee expenses	438	478	508	469	7.1	(1.9)	(7.7)
Other Exp	1,020	1,140	1,157	1,111	8.9	(2.5)	(4.0)
Total Expenditure	2,904	3,123	3,319	3,069	5.7	(1.7)	(7.5)
EBIDTA	292	284	357	358	22.6	26.3	0.5
EBITDA Margin (%)	9.1	8.3	9.7	10.5	131bps	213bps	75bps
Depreciation	367	455	460	436	18.8	(4.3)	(5.2)
EBIT	(74.7)	(171.7)	(103.2)	(77.6)	3.9	(54.8)	(24.9)
Interest	187	236	238	220	17.2	(6.8)	(7.7)
Oth. Inc.	60	87	66	48	(20.7)	(45.3)	(27.9)
Exceptional Items	-	-	-	-	0.0	0.0	0.0
Share of profits	0	6	-	(0)			
PBT	(201)	(314)	(275)	(250)	24.0	(20.6)	(9.2)
Tax	(40)	(48)	(71)	(35)	(12.7)	(27.5)	(51.5)
Effective Tax Rate(%)	19.7	15.2	26.0	13.9	-583bps	-133bps	-1212bps
PAT	(162)	(266)	(203)	(215)	33.0	(19.3)	5.7
PAT Margin (%)	(5.06)	(7.82)	(5.53)	(6.27)	-121bps	155bps	-74bps
EPS (Rs)	(1.7)	(2.6)	(2.0)	(2.1)	24.3	(19.3)	5.7

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Dec	FY24A	FY25E	FY26E	FY27E
Net sales	13,996	16,595	18,899	21,390
Growth, %	12.7	18.6	13.9	13.2
Other operating income	0	0	0	0
Total income	13,996	16,595	18,899	21,390
Raw material expenses	-6,267	-7,207	-8,072	-9,041
Employee expenses	-1,826	-2,192	-2,476	-2,798
Other Operating expenses	-4,450	-5,206	-5,821	-6,500
EBITDA (Core)	1,453	1,990	2,529	3,051
Growth, %	(2.7)	37.0	27.1	20.6
Margin, %	10.4	12.0	13.4	14.3
Depreciation	-1,655	-1,727	-1,915	-2,103
EBIT	-203	263	614	948
Growth, %	(176.0)	(229.8)	133.6	54.3
Margin, %	(1.4)	1.6	3.3	4.4
Other Income	238	214	225	236
Non-recurring Items	0	0	0	0
Pre-tax profit	-842	-409	-64	263
Tax provided	93	106	17	-68
Profit after tax	-749	-302	-48	194
Net Profit	-736	-302	-48	194
Growth, %	1,137.4	(58.9)	(84.3)	(508.7)
Unadj. shares (cr)	113	113	113	113

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY24A	FY25E	FY26E	FY27E
Debtors	999	1,185	1,349	1,527
Inventory	4,750	5,632	6,414	7,259
Loans & advances	0	0	0	0
Other current assets	1,186	1,186	1,186	1,186
Total current assets	6,565	6,795	7,876	9,445
Investments	84	84	84	84
Gross fixed assets	14,137	16,137	17,637	19,137
Less: Depreciation	-5,432	-7,160	-9,075	-11,178
Add: Capital WIP	204	204	204	204
Net fixed assets	8,908	9,180	8,765	8,163
Non-current assets	1,218	1,218	1,218	1,218
Total assets	16,781	17,284	17,950	18,916
Current liabilities	6,778	7,583	8,297	9,068
Provisions	0	0	0	0
Total current liabilities	6,778	7,583	8,297	9,068
Non-current liabilities	7,393	7,393	7,393	7,393
Total liabilities	14,171	14,976	15,690	16,461
Paid-up capital	949	949	949	949
Reserves & surplus	1,659	1,356	1,309	1,503
Shareholders' equity	2,610	2,308	2,260	2,455
Total equity & liabilities	16,781	17,284	17,950	18,916

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY24A	FY25E	FY26E	FY27E
Pre-tax profit	-842	-409	-64	263
Depreciation	1,655	1,727	1,915	2,103
Chg in working capital	-172	-263	-233	-252
Total tax paid	93	106	17	-68
Cash flow from operating activities	734	1,162	1,635	2,045
Capital expenditure	-2,000	-2,000	-1,500	-1,500
Chg in marketable securities	0	0	0	0
Cash flow from investing activities	-2,000	-2,000	-1,500	-1,500
Free cash flow	-1,266	-838	135	545
Equity raised/(repaid)	0	0	0	0
Dividend (incl. tax)	0	0	0	0
Cash flow from financing activities	13	0	0	0
Net chg in cash	-1,253	-838	135	545
Opening cash balance	701	-552	-1,389	-1,255
Closing cash balance	-552	-1,389	-1,255	-709

Source: Company, Axis Securities

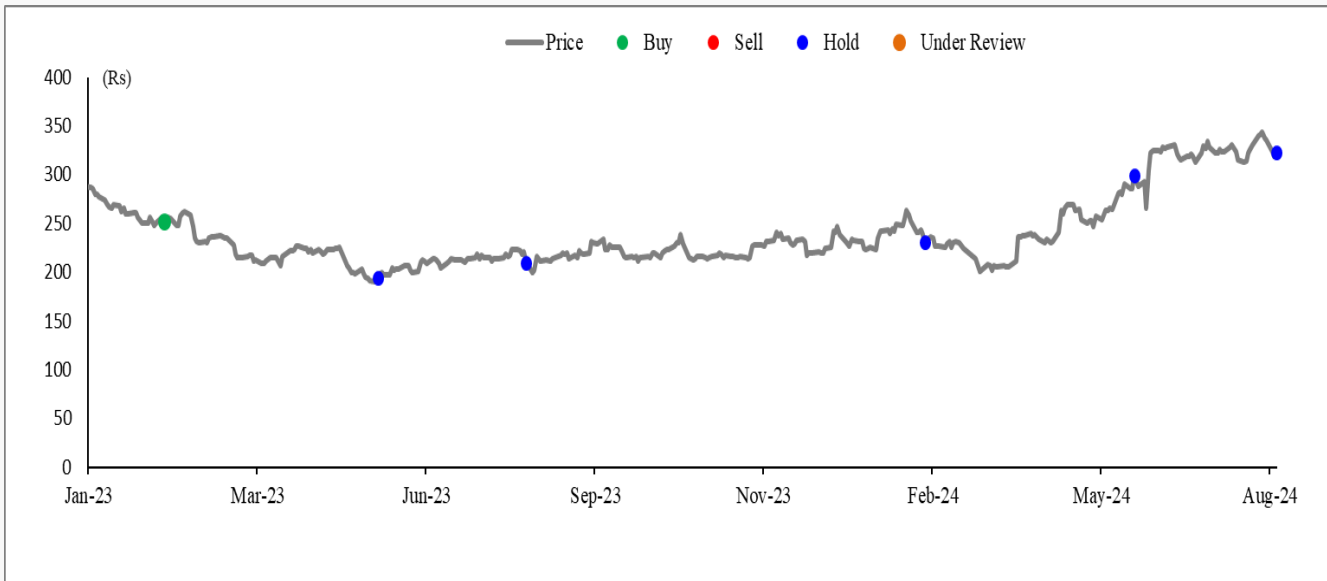
Ratio Analysis

(%)

	FY24A	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	(6.5)	(2.7)	(0.4)	1.7
Growth, %	1,613.2	(58.9)	(84.3)	(508.7)
Book NAV/share (INR)	23.1	20.4	20.0	21.7
FDEPS (INR)	(6.5)	(2.7)	(0.4)	1.7
CEPS (INR)	8.1	12.6	16.5	20.3
CFPS (INR)	4.4	8.4	12.5	16.0
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	0.8	3.4	4.8	6.0
Return on equity (%)	(28.2)	(13.1)	(2.1)	7.9
Return on capital employed (%)	1.2	5.9	8.8	11.4
Turnover ratios				
Asset turnover (x)	3.8	3.9	4.3	5.1
Sales/Total assets (x)	0.8	1.0	1.1	1.2
Sales/Net FA (x)	1.6	1.8	2.1	2.5
Working capital/Sales (x)	0.0	0.0	0.0	0.0
Receivable days	26.1	26.1	26.1	26.1
Inventory days	123.9	123.9	123.9	123.9
Payable days	126.1	128.5	130.5	131.9
Working capital days	4.1	9.2	12.6	15.4
Liquidity ratios				
Current ratio (x)	1.0	0.9	0.9	1.0
Quick ratio (x)	0.3	0.2	0.2	0.2
Interest cover (x)	(0.2)	0.3	0.7	1.0
Total debt/Equity (%)	0.9	1.0	1.0	0.9
Net debt/Equity (%)	1.1	1.6	1.6	1.2
Valuation				
Price/Book (x)	14.0	15.8	16.2	14.9
EV/Net sales (x)	2.8	2.4	2.1	1.8
EV/EBITDA (x)	27.0	20.1	15.8	12.9
EV/EBIT (x)	(193.4)	152.2	64.9	41.5

Source: Company, Axis Securities

Aditya Birla Fashion Price Chart and Recommendation History



Date	Reco	TP	Research
08-Feb-23	BUY	325	Result Update
23-May-23	HOLD	200	Result Update
07-Aug-23	HOLD	200	Result Update
13-Nov-23	HOLD	205	Result Update
19-Feb-24	HOLD	220	Result Update
30-May-24	HOLD	275	Result Update
08-Aug-24	HOLD	310	Result Update

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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