



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

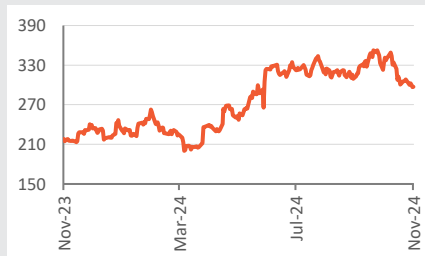
**Company details**

Market cap:	Rs. 31,894 cr
52-week high/low:	Rs. 365 / 198
NSE volume: (No of shares)	57.0 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	51.4 cr

**Shareholding (%)**

Promoters	52.0
FII	20.2
DII	14.8
Others	13.1

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-10.9	-6.0	17.6	36.2
Relative to Sensex	-8.3	-6.7	9.4	13.9

Sharekhan Research, Bloomberg

**Aditya Birla Fashion & Retail Ltd**  
**Muted Q2**

**Consumer Discretionary**

Sharekhan code: **ABFRL**

Reco/View: **Buy**

CMP: **Rs. 298**

Price Target: **Rs. 385**

↑ Upgrade ↔ Maintain ↓ Downgrade

**Summary**

- Aditya Birla Fashion & Retail Limited's (ABFRL's) Q2FY2025 numbers were muted with revenues rising 13% y-o-y (LFL growth of key brands remained muted), while EBITDA margin stood flat y-o-y at 9.9% and adjusted loss widened y-o-y to Rs. 230 crore.
- Management expects H2FY2025 to be better, aided by festive and wedding demand. Focus will stay on improved profitability across the established and new businesses.
- At H1FY2025-end, net debt stood at Rs. 3,759 crore. With pick up in retail sales in H2, management expects net debt to reduce by Rs. 400-500 crore in H2.
- Stock trades at 22x/18x/15x its FY25E/FY26E/FY27E EV/EBITDA, respectively. We maintain Buy with an unchanged SOTP-based PT of Rs. 385.

**ABFRL registered muted performance in Q2FY2025 amid weak demand environment with established brands registering low single-digit LFL growth, EBITDA margin flat y-o-y and adjusted loss widening y-o-y. Consolidated revenue growth of 12.9% y-o-y to Rs. 3,644 crore was mainly driven by newer businesses operating in emerging consumer segments (TCNS revenue grew by 2.2x y-o-y and TMRW revenue more than doubled y-o-y), while Lifestyle Brands and Pantaloons reported muted retail LFL growth of 3.4% and 1.3% respectively. Gross margin improved by 308 bps y-o-y to Rs. 56.5%, while EBITDA margin stood flat y-o-y at 9.9%. Lifestyle brands' EBITDA margin declined by 291 bps y-o-y to 18.5%, while Pantaloons' EBITDA margin rose by 563 bps y-o-y to 15%. EBITDA grew by 11.8% y-o-y to Rs. 361.3 crore. ABFRL reported adjusted loss of Rs. 230 crore against a loss of Rs. 200 crore in Q2FY2024. In H1FY2025, consolidated revenues grew by 10.1% y-o-y to Rs. 7,071 crore, EBITDA margin rose by 58 bps y-o-y to 10.2% and adjusted loss came in at Rs. 445 crore against loss of Rs. 362 crore in H1FY2024.**

**Key positives**

- Consolidated gross margin rose by 308 bps y-o-y to Rs. 56.5%.
- Pantaloons' EBITDA margin rose 563 bps y-o-y to 15%.
- House of Masaba posted 123% y-o-y revenue growth led by strong growth in beauty segment.
- TCNS posted positive EBITDA in Q2.
- Men's premium ethnic wear brand TASVA reported 79% y-o-y revenue growth with retail LTL growth at ~26%.

**Key negatives**

- Pantaloons reported 1.3% y-o-y LFL growth.
- Lifestyle brands' EBITDA margin declined by 291 bps y-o-y to 18.4%.
- Net debt rose ~Rs. 260 crore q-o-q to Rs. 3,759 crore.

**Management Commentary**

- Demand remained subdued in Q2 due to inflationary pressure, inauspicious periods and extreme weather, which impacted footfalls. However, green shoots were visible owing to early festive season and higher wedding dates. Management expects H2FY2025 to be better, aided by festive and wedding demand.
- For Pantaloons, smaller markets continue to underperform which is impacting performance. Focus will be on expanding in metros and T-1 towns. ABFRL plans to open 20-25 Pantaloons stores in FY2025, which are likely to be bigger stores with urban centric focus. Management indicated that Pantaloons is a free cash flow generating business.
- In Lifestyle brands, the base quarter had one-off gains, which led to margin decline in Q2. ABFRL would be careful about small town expansion, however, urban and middle-India expansion would continue. It eyes a 10-12% revenue CAGR from a long term perspective.
- ABFRL plans to accelerate store expansion of Reebok in H2. For Reebok, focus is on brand building initiatives, footprint expansion and throughput improvement.
- LFL growth (excluding TCNS and Tarun Tahiliani couture) for ethnic portfolio was at 10% in Q2. Management expects momentum to continue in H2 driven by strong wedding season.
- The last step in TCNS acquisition has been successfully completed and TCNS has been fully amalgamated with ABFRL from September 1, 2024. Management expects Q3 to be breakeven quarter and profitability to improve in coming quarters.
- TMRW delivered organic growth of 30%+ in Q2. The business scaling up very fast and is clocking close to Rs. 1,000 crore revenue run rate. Management guided that many brands are profitable at brand level.
- Net debt stood at Rs. 3,759 at Q2FY2025-end. With a pick-up in retail sales in H2, management expects net debt to reduce by Rs. 400-500 crore in H2.

**Revision in earnings estimates** – We have fine-tuned our earnings estimates for FY2025 and FY2026 to factor in muted performance in H1FY2025. We have introduced FY2027 estimates through this note.

**Our Call**

**View – Maintain Buy with an unchanged PT of Rs. 385:** ABFRL delivered muted operating performance in Q2FY2025 amid subdued demand, while higher interest cost and depreciation hit profitability. We believe the vertical demerger of MFL into a separate entity is the right strategy to simplify the company's structure. Separating entities under the revamped organisational structure with an appropriate capital-allocation plan can create value for shareholders in the long run. The stock is trading at 22x/18x/15x its FY25E/FY26E/FY27E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged SOTP-based price target (PT) of Rs. 385.

**Key Risks**

Any sustained slowdown in recovery due to weak demand in the branded apparel space in the coming quarters would act as a risk to our estimates in the near term.

**Valuation (Consolidated)**

Particulars	Rs cr				
	FY23	FY24	FY25E	FY26E	FY27E
Revenue	12,418	13,996	16,008	18,709	21,323
EBITDA Margin (%)	12.0	10.4	12.1	12.6	13.0
Adjusted PAT	-53	-749	-503	-438	-333
Adjusted EPS (Rs.)	-0.6	-6.9	-4.7	-4.1	-3.1
P/B (x)	8.5	6.4	7.5	8.3	9.1
EV/EBITDA (x)	23.2	27.4	21.7	17.6	14.6
RoCE (%)	4.4	0.3	0.9	0.8	1.6

Source: Company; Sharekhan estimates