



Leveraging Brands to Capitalize Domestic Consumption Play

We initiate coverage on Aditya Birla Fashion (ABFRL) with a BUY recommendation and a Target Price of Rs 240 which implies 25% upside from the current levels. ABFRL's strong growth prospects, and well-accepted brands in apparels (under Madura) and value range offerings in Pantaloons will aid in faster recovery in the post COVID environment. Furthermore, expansion of Innerwear and Ethnic wear will support medium to long term growth. Recent fund infusion through the right issues and strategic investment by Flipkart will lower debt levels and improve liquidity. We like ABFRL's strong execution capabilities across all business segments backed by competent management bandwidth. Over FY13-20, the company has delivered healthy Revenue/EBITDA growth at ~32%/52% CAGR respectively. PAT levels improved till FY19 but delivered a subdued performance led by Covid-19 lockdown announced towards the fag end of FY20. While Covid-19 is likely to impact revenues and profitability in FY21E, we expect growth revival in Revenue/EBITDA at ~7%/14% CAGR respectively over FY20-23E and PAT to turn positive in FY22E on account of 1) Revenue stability backed by the strong brand recall for Lifestyle Brands 2) Expected growth in Pantaloons and Innerwear segment 3) Pan-India distribution network of EBO's and MBO's and E-commerce channels to penetrate further into newer cities, 4) Deleveraging balance sheet through capital infusion, and 5) Asset light business model to render high ROE & ROCE, with expected strong revenue growth over FY20-FY23E.

INVESTMENT THESIS

Value retailing through Pantaloons

Pantaloons Segment is expected to report ~7% revenue CAGR through FY20-23E to Rs ~4250 crore. This will be led by 5-6% yoy SSSG post FY21E where we expect a steep revenue decline of ~38%, followed by the growth of ~73% in FY22E on a low base. We further expect ~11% segment growth in FY23E largely driven by product improvement and addition of new stores at the growth rate of 8-9% YoY. Focus on improving profitability is likely to lead to ~13% CAGR in EBITDA over FY20-23E to Rs ~320 crore. We expect EBITDA margins to expand by ~70bps YoY annually in the backdrop of the increasing share of private labels, the higher share of matured stores, increasing reach through e-com channels, and improving operating efficiencies in the newly launched online platform (www.pantaloons.com).

Revenue stability backed by the strong brand recall for Lifestyle Brands

The major brands of Madura Lifestyle witnessed a slowdown from FY16-18 due to demonetisation and GST rollout but recovered swiftly and registered a revenue growth of 10%, 13%, and 8% in FY18/19/20 respectively. However, the unprecedented outbreak of Covid-19 and consequent lockdown announcement across the country significantly impacted the company's store expansion growth and weakened consumer sentiment which resulted in muted demand for and premium formal and casual wear. While 1HFY21 was a complete washout, gradual recovery was witnessed in Q3FY21 on account of the festive season and lockdown relaxations. The growth momentum is likely to continue moving forward and we expect strong performance in the segment over the next few years driven by 1) Deeper retail penetration in tier 2 & 3 cities, 2) Increasing share in women and kids wear 3) Ramping up of ethnic wear and casual and super-premium categories 4) Further penetration in the untapped market through digital and omnichannel 5) New product introduction led by 12-season model, and 6) Continuous premiumization across brands. We expect steep revenues decline of ~41% in FY21 led by Covid-19 disruptions with a recovery of ~77% in FY22E on a low base. This is expected to be followed by 16% growth in FY23E, registering a healthy revenue CAGR of ~7% over FY20-23E.

Growth in Other Business Segment

Other businesses consist of innerwear/athleisure wear and luxury brands businesses. The innerwear segment has shown a robust revenue growth from Rs 100 cr in FY18 to Rs 280 cr in FY20 with the consistent addition of 20,000+ outlets to the channel network within 2.5 years of its launch (Q2FY17). We expect the innerwear/athleisure segment to recover relatively faster in comparison to other categories backed by robust demand for athleisurewear. Furthermore, the management is confident of paring losses in due course considering improving efficiencies and increasing scale. We expect EBITDA losses to trim further and expect the company to attain breakeven post FY23E.

Deleveraging Balance Sheet to improve Return Ratios

ABFRL's asset-light model has helped it to render healthy ROE and ROCE over the years. The company performance has been weighed down due to the high level of debt on the books to the extent of Rs ~2590 crores as of Q3FY21. However, an infusion of Rs 1,500 cr via Flipkart deal and the right issue of Rs 1,000 crores coupled with efforts of cost reduction initiatives would reduce net debt to Rs 250 crores in FY21E. We have modelled ROE to 11% and ROCE to 14% in FY23E given the consistent performance of the Lifestyle brand, improving profitability in Pantaloons, and reduction in losses in new ventures.

Robust long-term growth outlook – Initiate with BUY

We initiate coverage on the stock with a BUY rating and a target price of Rs 240/share on a SOTP basis. We believe ABFRL is well placed in the domestic retail apparel industry given its strong offering across segments from value to premium and luxury range apparels, new introductions, increasing reach to newer cities through store expansion, and robust e-commerce channel. We arrive at a TP of Rs 240/ share on a SOTP basis implying a return potential of 25% from the current levels.

Key Financials (Consolidated)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	8,788	5,399	9,474	10,837
EBITDA	1,212	448	1,535	1,788
Net Profit	-165	-334	313	449
EPS (Rs.)	-2	-4	3	5
PER (x)	-68	-44	57	40
EV/EBITDA (x)	9	32	11	10
ROE (%)	-15	-11	8	11
Debt/Equity (x)	1.9	0.2	0.1	0.1

Source: Company, Axis Research

CMP as of Mar 1, 2021

CMP (Rs)	190
Upside /Downside (%)	25
High/Low (Rs)	263/96
Market cap (Cr)	15,575
Avg. daily vol. (6m) Shrs.	12,60,135
No. of shares (Cr)	84

Shareholding (%)

	Jun-20	Sept-20	Dec-20
Promoter	59.1	59.8	59.8
FIs	6.4	6.1	6.3
MFs / UTI	19.2	18.2	17.8
Banks / FIs	0.0	0.0	0.0
Others	15.3	15.9	16.2

Financial & Valuations

Y/E Mar (Rs. bn)	2021E	2022E	2023E
Net Sales	5,399	9,474	10,837
EBITDA	448	1,535	1,788
Net Profit	-334	313	449
EPS (Rs.)	(4.3)	3.3	4.8
PER (x)	(41.7)	54.0	37.6
EV/EBITDA (x)	30.0	10.8	9.2
P/BV (x)	2.6	4.3	4.1
ROE (%)	(10.5)	8.4	10.7

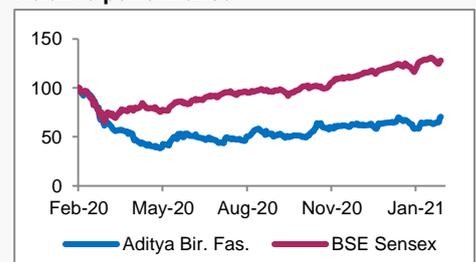
Key Drivers (%)

Y/E Dec	FY21E	FY22E	FY23E
Sales Growth	(38.6)	75.5	14.4
EBITDA Growth	8.3	16.2	16.5
PAT Growth	NA	NA	43.6

Axis Sec vs Consensus

EPS Estimates	FY21E	FY22E	FY23E
Axis Sec	-3.6	3.3	4.8
Consensus	-5.8	1.5	3.0
Consensus (Mean) TP			208

Relative performance



Source: Capitaline, Axis Securities

Gaurav Uttrani

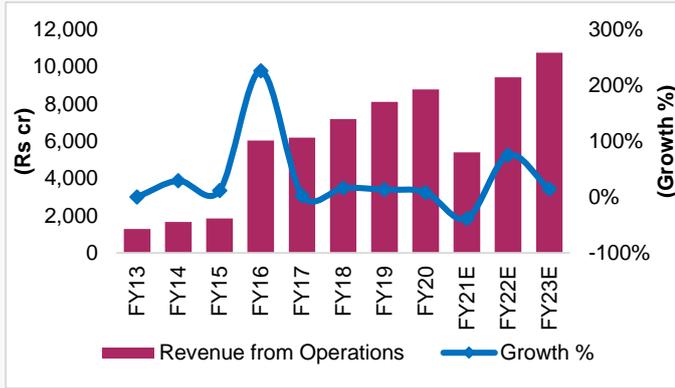
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Story in charts

Exhibit 1: Revenue to register ~7% CAGR over FY20-23E



Source: Company, Axis Securities

Exhibit 2: Improving share of Pantaloons and Lifestyle Brands

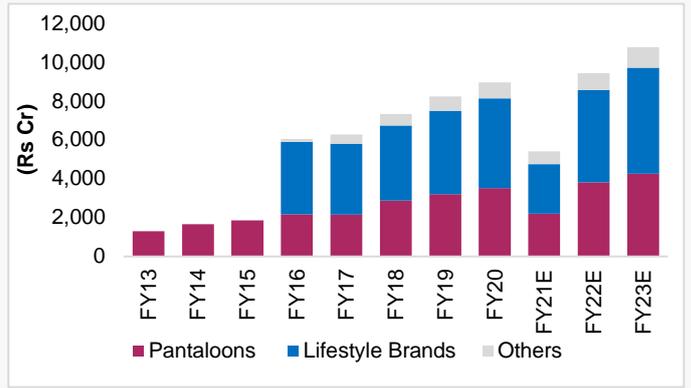
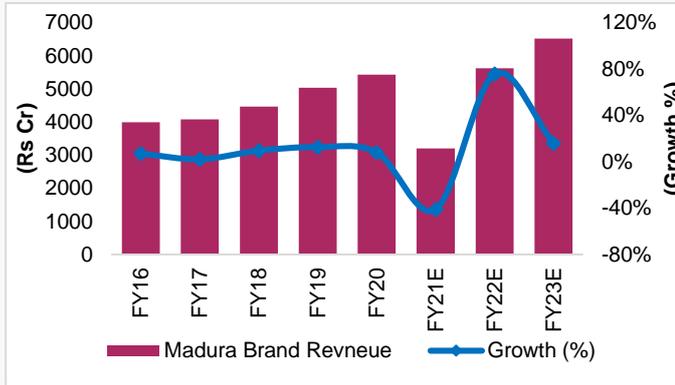


Exhibit 3: Consistent revenue growth in Madura Lifestyle Brand



Source: Company, Axis Securities

Exhibit 4: EBITDA to post ~17% CAGR over FY20-23E

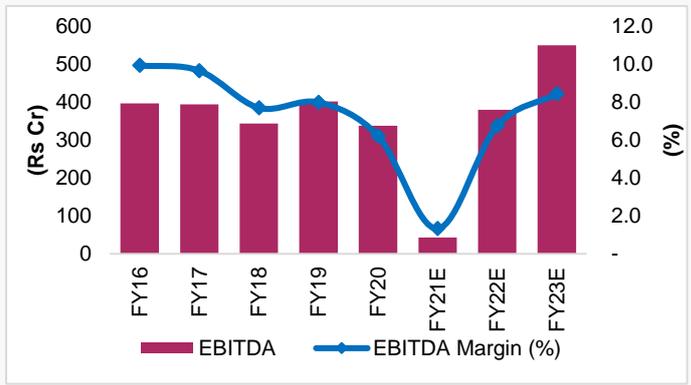
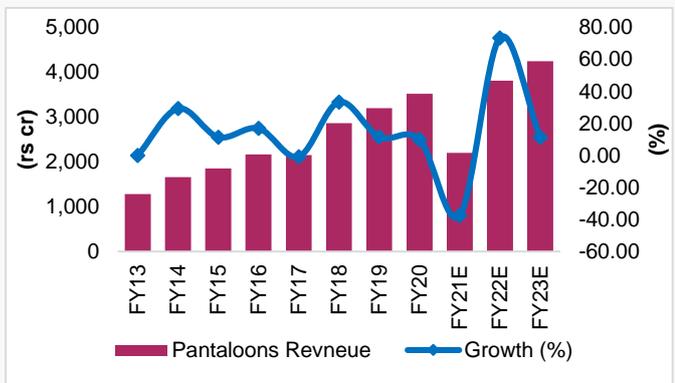


Exhibit 5: Ramping up Pantaloons business in the value segment



Source: Company, Axis Securities

Exhibit 6: EBITDA to post ~13% CAGR over FY20-23E

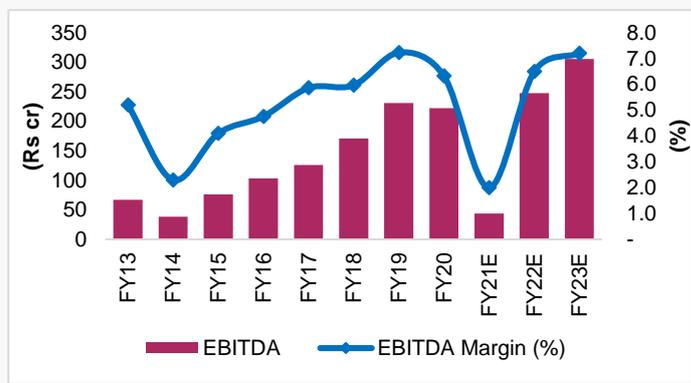
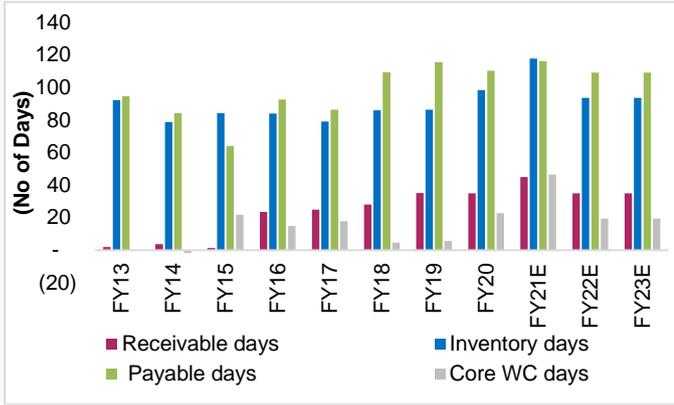


Exhibit 7: Working capital to improve over FY20-23E



Source: Company, Axis Securities

Exhibit 8: Cash Flow to improve over FY20-23E

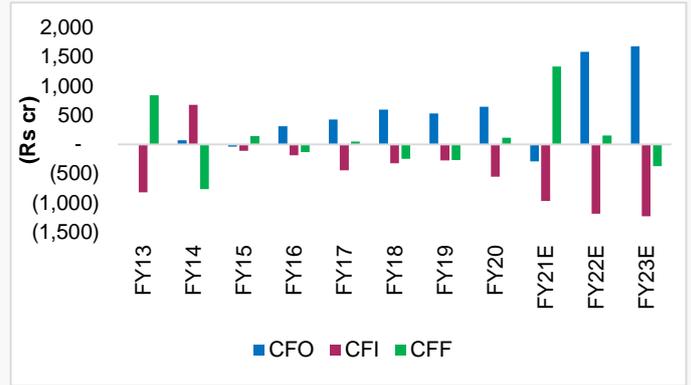
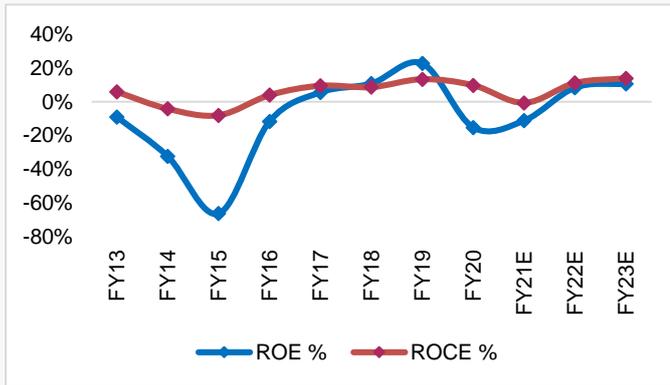


Exhibit 9: Return Ratios to improve with reduction in debt over FY20-23E



Source: Company, Axis Securities

Exhibit 10: Debt/Equity ratio to stabilize with debt repayment

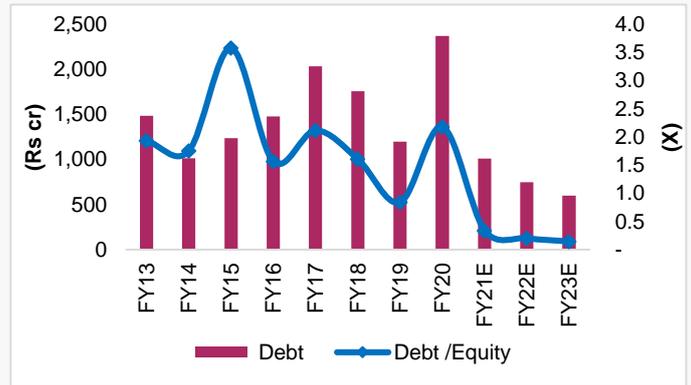
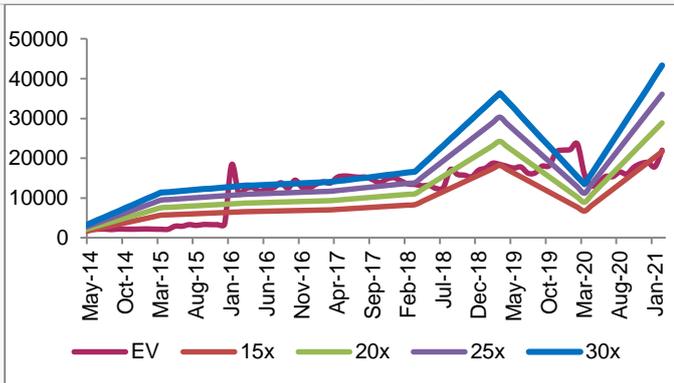
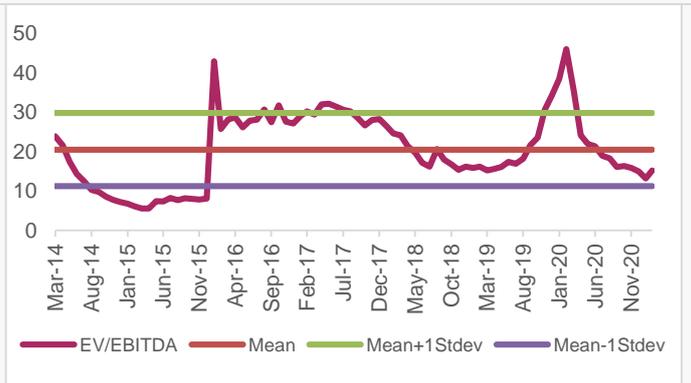


Exhibit 11: 12MFWD EV/EBITDA CHART (x)



Source: Company, Axis Securities

Exhibit 12: 12MFWD EV/EBITDA BAND CHART



Key Investment Arguments

Pantaloons: Eyeing for a profitable growth with improved store economics

Pantaloon story witnessed a positive shift post the acquisition from Future Group in 2013. It underwent a series of transitions since its first store in 1997 from a discount format store to a family concept store and finally to a fast-fashion retailer with a focus on bringing fast fashion. The company has a strong presence in the lower-tier cities with the North and Eastern part of the country contributing a major chunk of segmental revenues and profits. Superior profitability is driven primarily by the regions' increasing traction in affordable branded products and relatively lower operational costs than southern and western regions. Pantaloon is focused on value fashion and is eyeing to capitalise the fastest growing women and kids segment (55% of the revenues in FY20).

Exhibit 13: Focus on Women and Kids segment

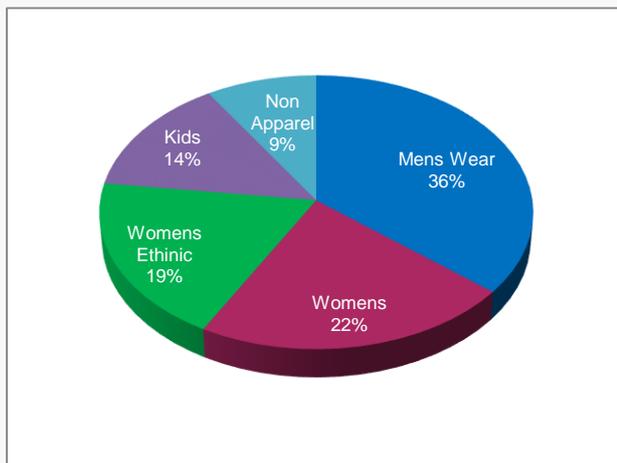
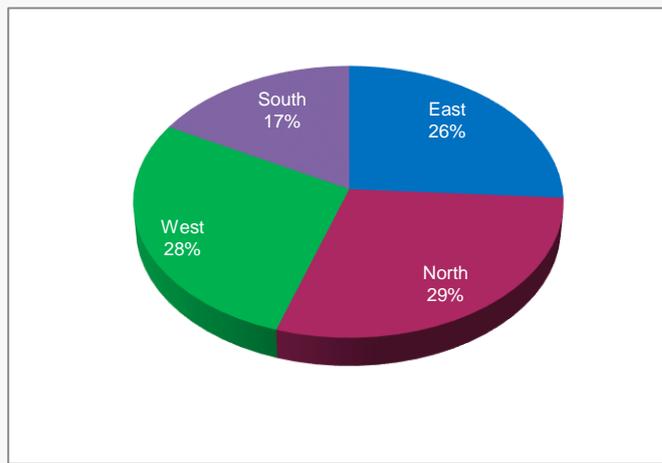


Exhibit 14: East & North contributing to Revenue and Profitability



Source: Company, Axis Securities

Covid-19 de-railing Pantaloon's growth story

Since the acquisition in 2013, Pantaloon delivered encouraging improvements in its revenue/profitability, registering ~16%/~19% CAGR respectively over FY13-20. EBITDA margins improved by ~315 bps from FY15-19 to 7.2% and 6.3% in FY20 (due to lockdown in March 2020) on account of better operating leverage and higher contribution from owned & licensed brands which increased to 62% in FY19 from 55% in FY16. We note that the contribution of Pantaloons to the total EBITDA has also increased to ~42% in FY19 from ~27% in FY16 on account of improving store economics and better product mix.

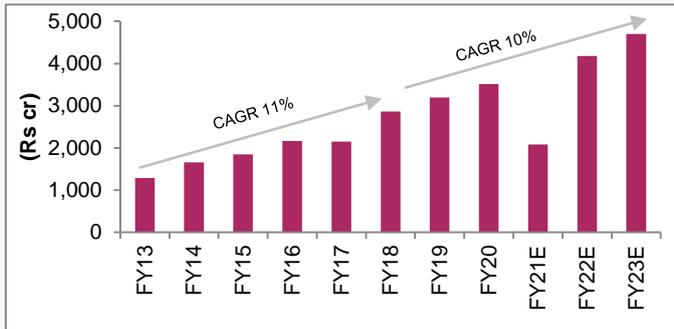
COVID-19 outbreak and ensuing lockdown adversely impacted operations in 1HFY21. While pantaloon resumed 90-95% of the stores post partial lockdown relaxations, rising COVID-19 cases muted social gatherings and outings, impacting demand and thereby revenues in H1FY21. On a positive note, healthy recovery was seen in Q3FY21 on account of festive seasons and lockdown relaxations across the country. We believe, H2FY21 is likely to see a respite from COVID-19 led demand slowdown and progressive normalization in Q4FY21E. Furthermore, E-commerce sales witnessed strong traction, growing by 3x yoy given stronger assortment and launch of new categories leading to higher traffic and better conversions. The company has partnered with major e-commerce companies such as Amazon and Flipkart (strategic investment by flipkart for 7.8% shares of the company) which will provide further impetus to the company's revenues moving forward.

Story to continue...

Keeping the Covid-19 led disruptions in perspective, FY21E is expected to witness a revenue decline of ~38% YoY and normalization from Q4FY21E and onwards. We expect, revenue to register ~7% CAGR over FY20-23E to ~Rs 4,250 cr led by average store growth of ~9% post FY21E and SSSG of 4-5% YoY. The company's focus on improving operating margins and profitability has led to ~315 bps margin expansion in EBITDA over FY15-19. Covid-19 has further highlighted areas of improvement which will improve margins further going ahead. We expect EBITDA to post ~13% CAGR with ~120 bps margin expansion over FY20-23E given 1) Increasing share of private label to ~70% by FY23E 2) improving store economics through cost rationalisation measures.

Summary in Charts

Exhibit 15: Revenue to post ~7% CAGR over FY20-23E



Source: Company, Axis Securities

Exhibit 16: EBITDA CAGR of ~13% & ~120bps margin expansion over FY20-23E

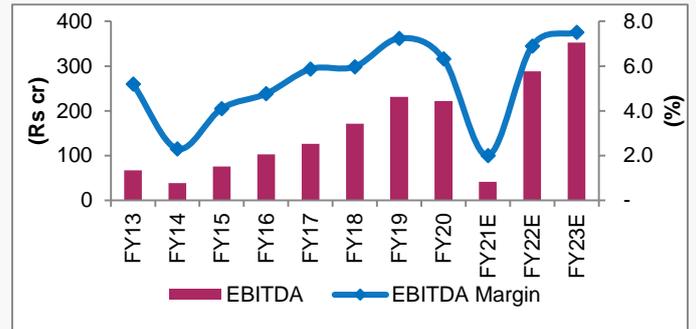


Exhibit 17: Robust growth in loyalty base



Source: Company, Axis Securities

Exhibit 18: Improving walk-ins and conversion rate

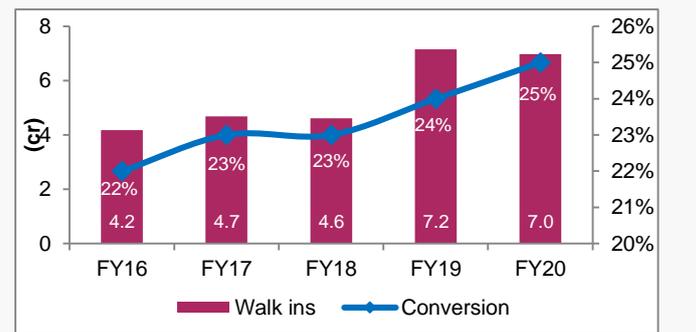
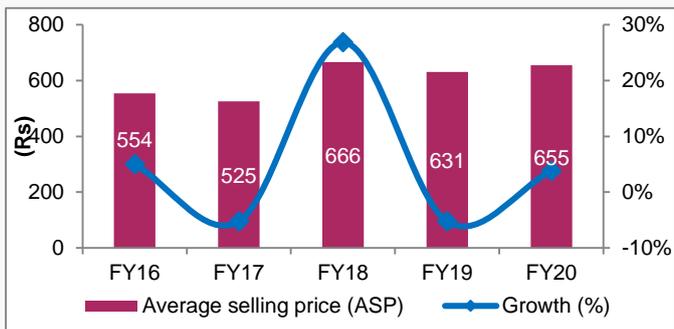


Exhibit 19: ASP to improve further with increasing share of Private Labels



Source: Company, Axis Securities

Exhibit 20: Surge in ABV and items per bill with increase in footfall

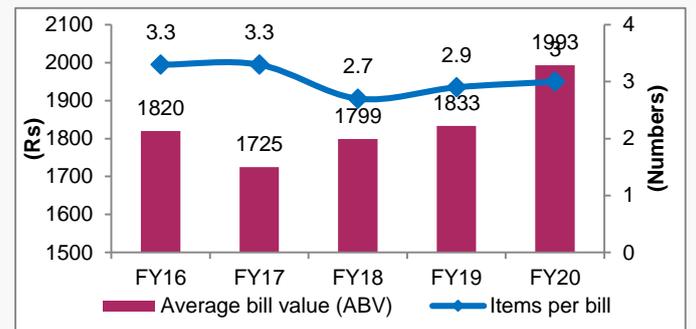
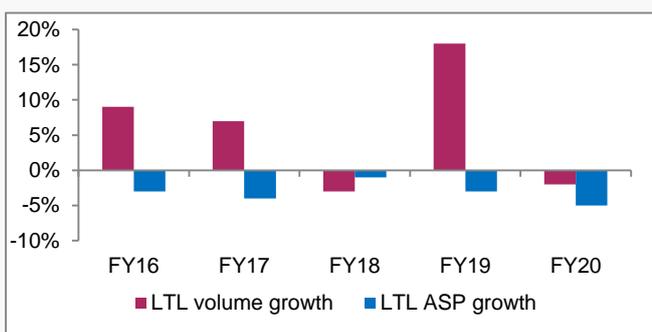
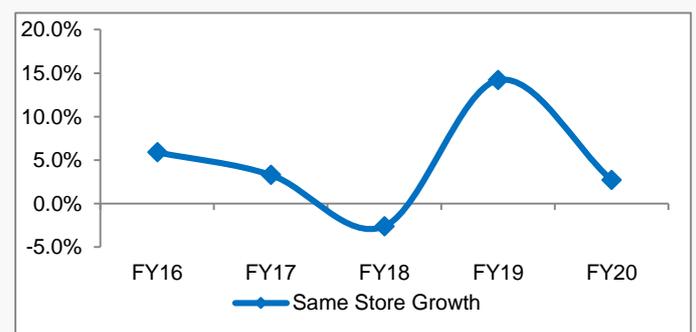


Exhibit 21: Strong Volume and ASP growth trend over FY16-20



Source: Company, Axis Securities

Exhibit 22: SSSG trend to further improve going ahead



Valuation

We value Pantaloon's EV at ~Rs 6,366 cr and target valuation EV at 20x EV/EBITDA on FY23E. Our valuation assumes (1) Addition of ~90 stores till FY23E with ~20 stores in FY21E and ~35 stores each in FY22 and 23E. 2) Further improvement in revenue/sqft (3) EBITDA margin of 7.5% by FY23E from 6.3% in FY20 on account of increase in share of private labels and cost rationalisation measures 4) Improvement in inventory days.

Exhibit 23: Pantaloon's key metrics performance

Pantaloon's	2017	2018	2019	2020	2021E	2022E	2023E
Revenue / Store	13.1	12.8	11.6	11.1	6.4	10.2	10.5
% YoY change	-14%	-2%	-9%	-4%	-42%	59%	3%
Revenue / Sq Ft	7,045	8,228	8,211	8,386	4,864	7,783	7,938
% YoY change	-15%	17%	0%	2%	-42%	60%	2%
Area Sq Ft	3.2	3.8	4.0	4.4	4.7	5.1	5.6
YoY Addition	0.30	0.56	0.25	0.35	0.31	0.45	0.45
Total Segment Revenue	2,149	2,865	3,194	3,514	2,197	3,809	4,244
% YoY change	-1%	33%	11%	10%	-37%	73%	11%
Average Store Size	15,311	13,687	13,039	12,757	12,898	12,898	12,898
Number of Stores	209	275	308	342	362	397	432
YoY Addition	28%	32%	12%	11%	6%	10%	9%
EBITDA % Margin	5.9	6.0	7.2	6.3	2.0	6.5	7.5
Bps Growth YoY	110	10	126	(91)	(432)	450	100
EBITDA	126	171	231	222	44	248	318
YoY % Growth	22%	36%	35%	-4%	-80%	464%	29%
Annual Capex	170	212	69	128	75	132	132

Source: Company, Axis Securities

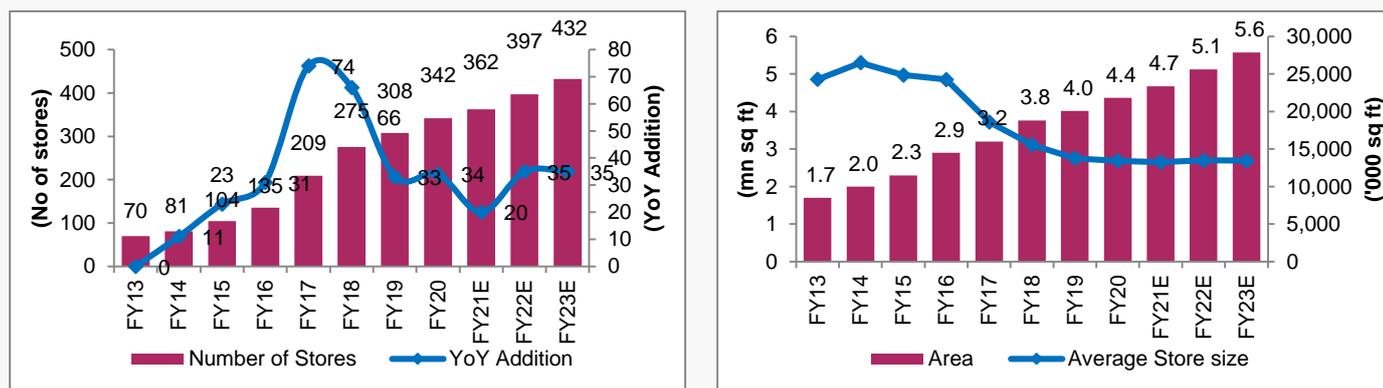
Restructuring for better store economics

Post its acquisition in FY13, ABFRL reduced the size of the stores from ~24000 sq ft in FY13 to ~13000 sq ft in FY20. Going further, it plans to add new stores in lower-tier cities having lower size at ~8,000 sq ft vs. 13,000 sq ft with a preference for affordable branded products over premium products. The mid-premium focused fashion would (i.e., non-luxury) continues to be the preferred segment for Indian consumers despite a steady increase in per-capita income levels. Also, the purchase frequency is increasing (due to fast fashion brands) which keeps affordability per unit limited.

Aggressive store expansion and renovation of the existing stores to continue

Pantaloon's store expansion has been aggressive post-acquisition and store count increased 4x from 81 in FY14 to 342 in FY20, implying average addition of ~40 stores per year. The company has added 7 new stores till H1FY21 and plans to add ~15 stores in FY21E. We expect the company to add ~35 new stores in FY22E and FY23E each. The new stores developed adhere to the new retail identity designed by the company and management intends to renovate 8-10 existing stores each year to give a new retail identity. The company is undertaking more expansion in the lower-tier cities considering growing income levels and brand aspiration. Stores in these regions in a combination with the increasing use of the online platform will help the company increase its reach by further penetrating smaller towns.

Exhibit 24: Pace of expansion to increase post FY21E with ~90 stores and ~1.2 mn sqft addition till FY23E

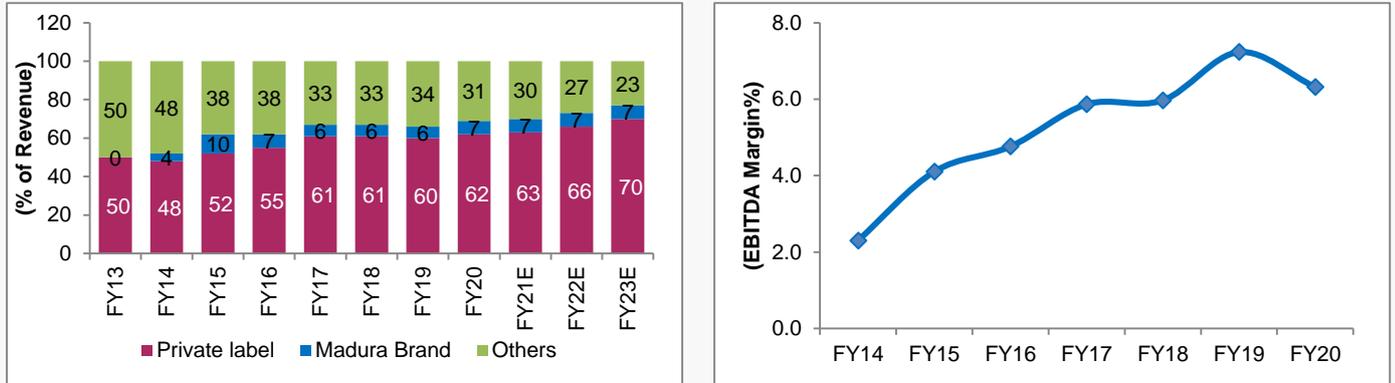


Source: Company, Axis Securities

Focus on increasing share of margin acreative Private Label

Private label and other brands contributed ~50% each to the revenues in FY13. However, post rationalization of brands, the share of private label gradually increased to 62% in FY20. Superior realization coupled with proper inventory management and lower royalty payments resulted in EBITDA margins to improve by ~315 bps from FY15-19 to 7.2% and 6.3% in FY20. Private label growth remained muted in FY17 and FY18 on account of significant portfolio rationalization within Pantaloons brand label. We expect, the share of private label-mix to improve to 70% in FY23E from 62% in FY20 given 1) higher stock (up to 80%) of private-label brands in new stores and 2) Addition of People brand which will improve private label share as the company plans to withdraw ~100 standalone stores of the People brand and add it within Pantaloon umbrella.

Exhibit 25: Increasing share of private label to improve margins further and reach ~70% by FY2023E



Source: Company, Axis Securities

Exhibit 26: Pantaloons brand category

Categories	Men	Women Western wear	Women Ethnics	Kids
Own & In-Licensed brands	AJILE, BYFORD, BARE DENIM, INDUS ROUTE, PEOPLE, RIG, SF JEANS, URBAN RANGER, RICHARD PARKER	AJILE, ANABELLE, SF JEANS, BARE DENIM, HONEY, FOREVER GLAM, PEOPLE	RANG MANCH, RANG MANCH PLUS, AKKRITI	AJILE, AKKRITI, PANTALOONS BABY, PANTALOONS JUNIOR, CHIRPIE, POPPERS, CHALK
Outside Brand	SKULT, SPYKAR	DREAMZ, CANDIE'S	BIBA, W, AND, GLOBAL DESI	
Madura	ALLEN SOLLY, PETER ENGLAND, VAN HEUSAN	VAN HEUSEN		

Source: Company, Axis Securities

Exhibit 27: Pantaloons' Men's wear brand



Source: Company, Axis Securities

Exhibit 28: Pantaloons' Women's wear brand



Source: Company, Axis Securities

Exhibit 29: Pantaloons' Kids wear brand



Source: Company, Axis Securities

Madura Fashion & Lifestyle

Madura's Lifestyle segment consists of brands in sub-premium to the premium range and showcases a bouquet of fashion brands in men's wear such as Louis Philippe, Van Heusen, Allen Solly, and Peter England. Its balanced portfolio of brands available at different price points attracts customers with different budget. Over the years, the brand has gained strong traction in India's retail industry, achieved a leadership position, and thereby has built strong brand recall with a growing customers base. Louis Phillippe and Van Huesen offer formal clothing in the premium segment whereas Allen Solly focuses on casual clothing. Peter England is a sub-premium brand that targets value customers.

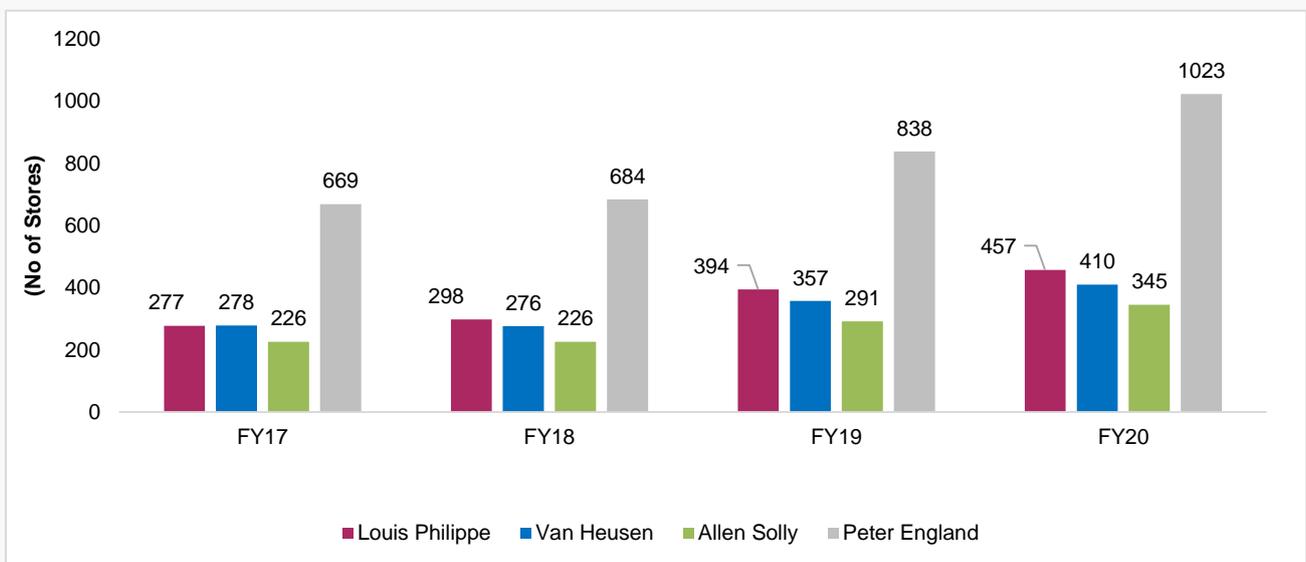
We expect Madura Fashion's segment revenue to post ~7% CAGR to ~Rs 6600cr given 1) lifestyle brands (~6% CAGR over FY20-23E –considering subdued FY21E) and Innerwear & Global brands (~13% CAGR during FY20-23E). Segmental EBITDA is expected to register ~17% CAGR over FY20-23E to ~Rs 545 cr on account of 1) Steady performance of lifestyle brands, 2) Further improvement in margins due to cost rationalization measures, and 3) Reduction in Fast Fashion and Innerwear segment losses.

We expect a steep dip in SSSG in FY21E and expect it to stabilise over FY22-23E. Going Forward, the segment is expected to deliver a strong performance driven by (1) Deeper retail penetration in tier 2-3 cities (2) 12 season model strengthening supply chain (3) New product designs launches with increased brand investments (4) Brand extension with a foray into fast-growing ethnic wear, casual and luxury categories, and (5) Widening reach through e-commerce channels.

Lifestyle Brands: A Strong & Consistent Performer

- LOUIS PHILIPPE (LP):** LP has firmed its position in the men's wear segment in India over the last 30 years. The brand offers a clothing range for marriage occasions, formal meetings, and casual wear. It currently operates with four segments: 1) Louis Philippe; 2) LP Jeans; 3) LP Sport; and 4) Luxure by LP. LP contributes largest to the lifestyle brand through its 457 stores (FY20) present in 400+ cities. The management intends to extend its reach further to tier 2-3 cities through new store openings and e-commerce channels.
- VANHEUSEN:** Van Heusen is a premium lifestyle brand of formal wear for professional men and women, having a presence in 410 stores in 400+ cities. It has emerged as a fashion authority for the ever-evolving Indian consumer and has established itself as a one-stop destination for the latest trends. It not only caters to the work-wear segment but also straddles across the entire spectrum of occasions like casuals, ceremonial, and party wear. Its key sub-categories are: 1) Van Heusen (2) VH Women; (3) VHSport; and (4) V Dot.
- ALLEN SOLLY:** Allen Solly has cemented its position in workwear expressions and reinforced its unconventional workwear core by dressing young India in fashionable and unconventional shirts, trousers and denims. Allen Solly Juniors offers an interesting product line offering t-shirts, shirts, denim, dresses and accessories and is among the top 3 premium casual brands. Its key sub-categories are: 1) ALS; (2) ALS Junior (3) Solly 94) Solly Jeans (5) Solly Sports. The brand has a presence in 345 stores across 400+ cities.
- PETER ENGLAND:** Peter England offers range of shirts, trousers, denims, suits & blazers, and t-shirts combine high-fashion, impeccable fits and a wide range of curated looks catering to every versatile occasion of today's young Indian men. Peter England also refreshed its identity in large towns and cities through its Men's Obsession stores, delivering a young and vibrant shopping experience for all. Its key sub-categories are 1) PE Casuals; (2) PE Elite; and (3) PE Jeans. The brand operates via 1023 stores in 750+ cities.

Exhibit 30: Network of Lifestyle Brand over the period



Source: Page Industries AR, Axis Securities

Strong wholesale channel growth

Lifestyle brands marked ~30k touchpoints (vs. 7k in FY16) by leveraging Multi- Brand Outlets (MBOs) and Department Stores (Others). MBOs and Department Stores contribute ~60% of the Lifestyle Brands revenue and reported revenue growth of ~3% CAGR in FY16-20. The segment has generated healthy ROCE over the years without any significant investments and is expected to report consistent SSSG growth of 4-5% post FY21E and revenue growth of ~6% CAGR over FY20-23E given 1) Retail penetration in lower-tier cities with increased demand for branded wears 2) Higher traction in women and kid segment. 3) Better inventory management across the retail value chain post-deployment of the 12-season model.

Exhibit 31: Wholesale & Others channel to grow at ~6% CAGR over FY20-23E with robust distribution network of ~30k stores

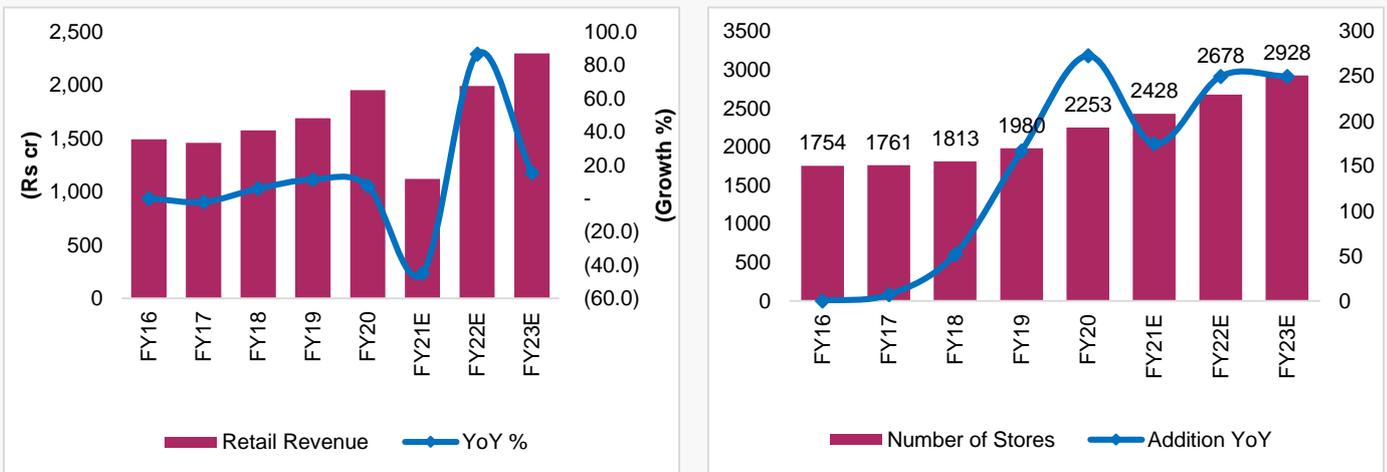


Source: Company, Axis Securities

Deeper retail penetration in tier 2-3 cities

The pace of store expansion reduced in the FY16-18 period due to 1) Weaker consumer sentiments post demonetization in FY17, 2) GST rollout in FY18 2) Disruption caused by heavy discounting by eCommerce companies, and 3) Overall economic slowdown. However, with a revival in consumer sentiments and proper implementation of GST, Madura's both retail channels attained normalcy. In FY20, the segment witnessed the highest number of store additions with 400 EBOs, despite the slowdown. However, store addition is likely to pick up pace after rationalisation and closure of stores undertaken during the last 2 years thereby improving the network quality. The Company is likely to add ~500 stores (net of closures) in the next 2 years with average gross store addition of 250 stores annually. Most of the store additions are expected to be franchise-based, leading to minimal Capex requirement. The Company opened ~155 stores in 9MFY21 and likely to add 20-25 stores by end of FY21E. We expect the retail/EBOs segment of a lifestyle brand to report revenue growth of ~6% CAGR led by normalcy in SSSG and growth led by new store addition.

Exhibit 32: Retail channel to grow at ~6% CAGR with addition of ~500 stores over FY20-23E



Source: Company, Axis Securities

Strong Online presence

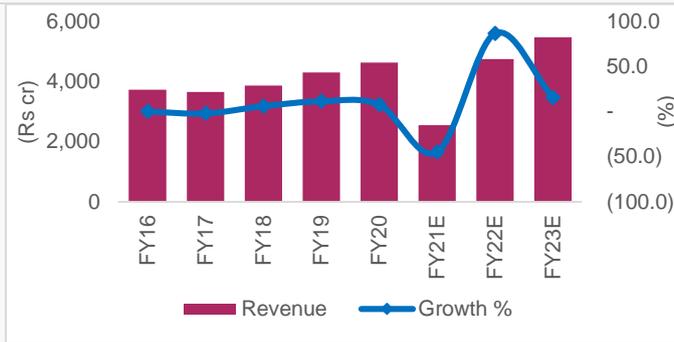
Adoption of e-commerce early on provided immense growth opportunity to the ABFRL, with online branded business contributing ~8% revenue share in FY20. Lifestyle Brands business recorded Rs. 364 cr revenue from e-commerce channel recording a growth of 18.7% in FY20. The company intends to capitalise on rapidly growing E-commerce by proactively establishing a presence across dedicated e-commerce channels, mobile apps, and major eCommerce platforms. The management expects E-commerce sales to grow by ~100% and contribute ~ 10-15% to FY21 revenues. While E-commerce is expected to be a key growth driver moving ahead, heavy promotion and discounting needed to sell online continue to pose challenges to explore its full potential. We believe ABFRL's branded business enjoys a first-mover advantage and enjoyed superior protected from Covid-19 disruption due to its strong brand recall.

Supply chain shift to 12-season Model from 4-season model:

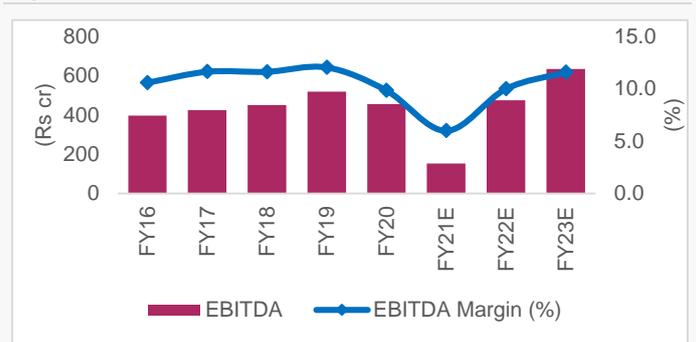
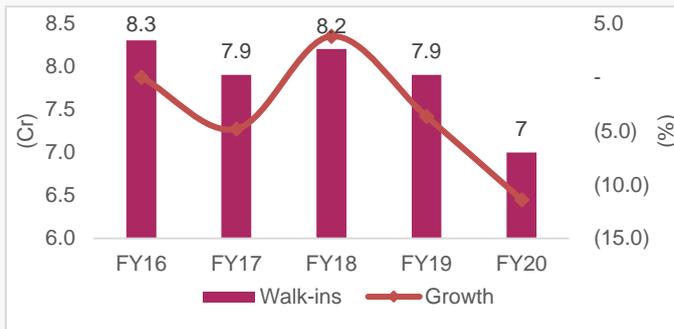
ABFRL implemented 12-season model i.e new collections and designs every month against earlier 4-season model, which is likely to benefit Madura and its distributors as it reduce the lead time significantly and add constant freshness in collections. This model will enable quicker movement of inventory and reduce pressure on liquidation with lower markdowns. Channel partners are likely to benefit as well with as they can book inventory on a monthly basis rather lock in their buys 8-10 months in advance. The 12-season model helps them in optimizing their inventory by giving them flexibility in drops of their settled contemporary inventory and additionally molding their material inventory during a manner appropriate to current times. This provides them higher gracefulness in offer chain planning; thereby positioning them to deliver lower inventory on the record and larger freshness for customers. Infrastructure and Technology investment has mostly been incurred by the corporate.

Comparable EBITDA Margin to Remain Healthy

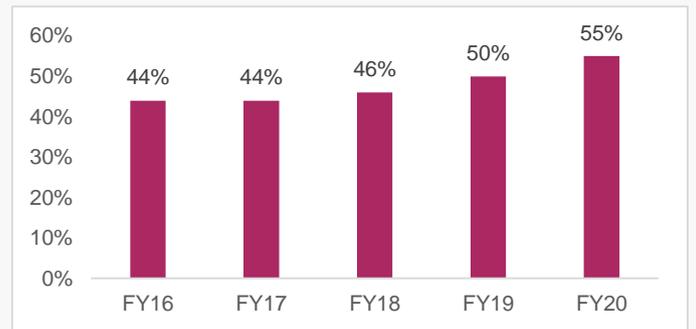
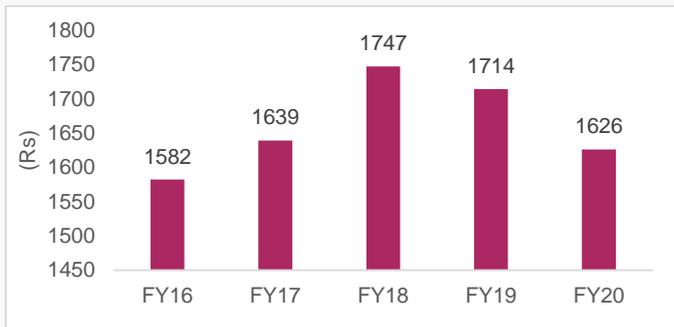
The Company believes the margin of lifestyle brands to remain stable at 11-12% range in the near-term. It plans to re-invest the gains in operating margin to drive the revenue growth and gain market share. Gains from better discount management, improved channel-mix/store optimisation and operating efficiencies are likely to get offset by lower margin from investments in smaller towns. Comparable segment EBITDA is expected to grow by 12% CAGR in FY20-23E to Rs ~635cr.

Lifestyle Brand Summary in Charts
Exhibit 33: Revenue expected to post CAGR of ~6% over FY20-23E


Source: Company, Axis Securities

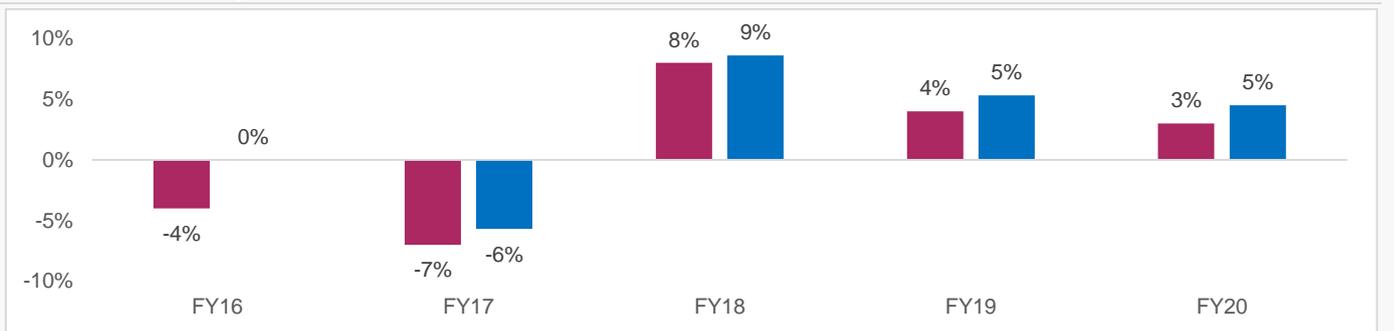
Exhibit 34: EBITDA CAGR of ~12% with ~175 bps margin expansion over FY20-23E

Exhibit 35: Consistent in number of walk-ins, witnessed a dip due to lockdown in Q4FY20


Source: Company, Axis Securities

Exhibit 36: Increase in conversion rate given strong brand recall

Exhibit 37: Witnessed decreasing trend in average selling price


Source: Company, Axis Securities

Exhibit 38: Consistent rise in average bill value from FY16-19, with slight dip in FY20

Exhibit 39: Consistent growth in LTL volume and ASP over FY18-20 with increase in brand traction


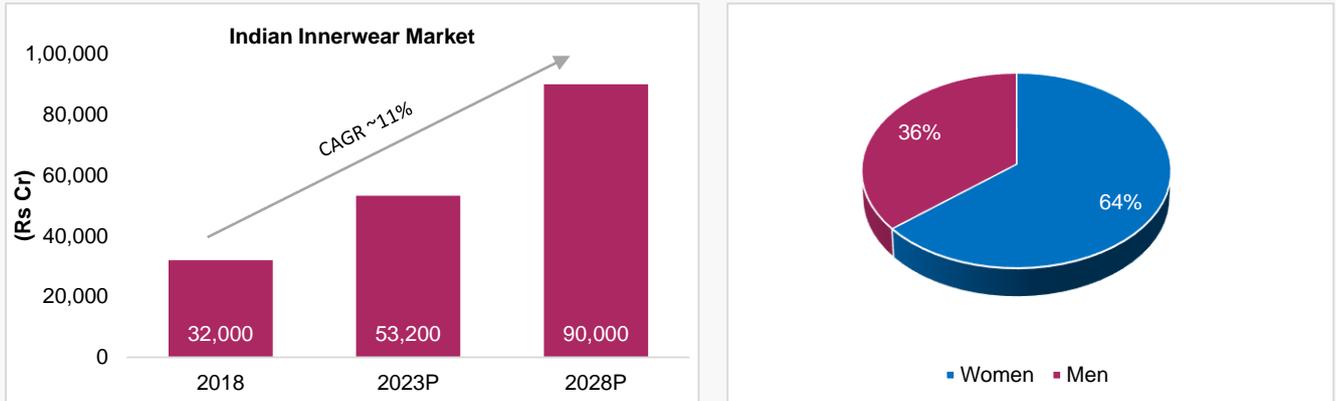
Source: Company, Axis Securities

Other Business

A) Innerwear and Fast Fashion: Next leg of growth

India's, innerwear market is currently estimated to be worth Rs 32,000 cr and accounts for a mere ~9% of the total domestic fashion retail market in CY20. This is expected to grow at 11% CAGR over CY18-28 to reach ~ Rs 90,000 cr. The innerwear segment is mainly dominated by women's innerwear, which accounts for 64% of the total innerwear market and accounts for 16% of the total women apparel market. The women's innerwear segment is poised to grow at ~13% CAGR to reach Rs 68,000 cr by 2028 from the current market size of Rs 21,000 crore. The men's innerwear market is currently valued at Rs 11,000 cr and is expected to grow at a CAGR of 7% over CY18-28 to reach ~Rs 22,000 cr by 2028. It contributes ~7% of the total men apparel market. The premium branded innerwear market is currently underpenetrated in India and offers significant opportunity for growth.

Exhibit 40: Innerwear market expected to grow at ~11% CAGR over FY18-28P, dominated by women segment



Source: Page Industries AR, Axis Securities

Underpenetrated market: Huge headroom for growth and expansion

The apparel industry stands at \$54bn and is expected to reach \$118bn by 2028 registering a CAGR of 8.1%. Of the total industry, the innerwear market share is minuscule. Page Industries continues to dominate the segment through its brand "Jockey", despite many international brands like Calvin Klein, Levi's have forayed into the segment. The key reason for dominating other players are 1) Robust outreach with 66k+ outlet across 2,850+ cities/towns through MBOs and availability through LFS as well as EBOs. 2) Attractive price range at ~ Rs 150 catering value category against premium offerings of Levi's and Calvin Klein. The revenue for page industries has registered a CAGR of ~14% from FY15-20 with the network growing to 75k outlets.

Exhibit 41: Page industries lead the innerwear market segment with a robust distribution network of ~75k retailers



Source: Page Industries AR, Axis Securities

Innerwear, Athleisure and Activewear: Fast growing segment

ABFRL ventured into the segment in FY17 under a brand name Van Heusen and expanded the network to ~20,000+ distribution points in just 3 years of operations. Segment revenue grew by 40% last year to Rs 280cr and we expect growth momentum to continue with increasing brand awareness and encouraging acceptance in tier 2,3, and 4 cities. The company has recently launched women’s wear and aims to expand its premium segment network to 25-30k+ outlets in the next 3-4 years. Few other large players are; Jockey (814 EBOs and 63,000+ outlets), US Polo Association (10,000+ outlets), Rupa (10 EBOs and 1,000 dealers and 1,25,000 retailers) . About 70% of innerwear sales comes from the wholesale channel. As the segment scales further, the company plans to introduce innerwear products across other brands at various price points to capitalise on cross-selling opportunities in existing Van Heusen stores as well as Pantaloon stores. The brand offers an Innerwear range comprising of four collections – Classic, Platinum, Signature and Active, each designed to offer a differentiated range to the various consumer segments: 1) **Classic** – Classy wardrobe essential offering performance features like “All day fresh” and “Colour fresh” 2) **Platinum** – The range offering sophisticated styling and elevated comfort with “Pima Cotton” 3) **Signature** - Fashion innerwear with “Flexi stretch” feature for body-defining fit 4) **Active** - True sports innerwear with “Swift Dry” feature 5) **Athleisure** - Crafted with elevated fashion and new age fabric, it also comes with ‘Smart-Tech’ offering ‘Quick Dry’ feature, “Stain Release” and “Anti-stat”, making this a true cross over between fitness and fashion.

Strong growth to continue

The innerwear segment has posted a robust sales growth from Rs 100cr in FY18 to Rs 280 cr in FY20, registering a CAGR of 67%. We expect the segment to clock ~20% revenue CAGR over FY20-23E to Rs ~490cr driven by higher penetration. The Management has guided for cash-burn to peak out by FY21E with 65-70% of investments deployed as of FY19. Incremental fixed investments are likely to be less, as the women’s distribution will happen in the same EBO/MBO channel as of men’s category.

Exhibit 42: Innerwear segment to expected to clock ~20% revenue CAGR over FY20-23E with further expansion in retail channel

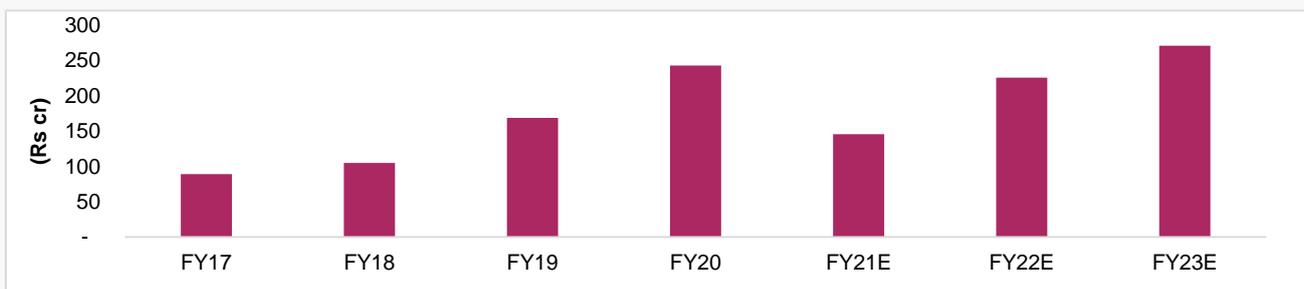


Source: Company, Axis Securities

Global Brands

Global Bands portfolio consists of ‘The Collective’ - the largest multi-brand retailer of international brands in India with licensing and distribution agreements for select mono brands such as Ralph Lauren, Simon Carter, American Eagle, Ted Baker, Hackett, and Fred Perry. This portfolio caters to the super-premium and luxury segment and deals in global luxury brands like Armani Jeans, Versace Collection, and Alexander McQueen, etc. The Company continues to focus on expanding its distribution footprint for these iconic brands by launching new stores in premium markets across the country. American Eagle is on the path to becoming a formidable player in the denim category, given its rising brand prominence and product excellence. With the addition of these Global brands to its portfolio, ABFRL will continue its trajectory of building a strong-but-selective play in the emerging super-premium and bridge-to-luxury segments. However, we believe the performance of this segment is likely to be subdued in FY21E due to an economic slowdown and uncertainty weighing down buyer sentiments. Total revenue from this portfolio is expected to witness a ~4% CAGR to Rs 270 cr in FY23E and the growth will be primarily led by new store additions.

Exhibit 43: Revenue adversely impacted in FY21E likely to pick up in FY22-23E

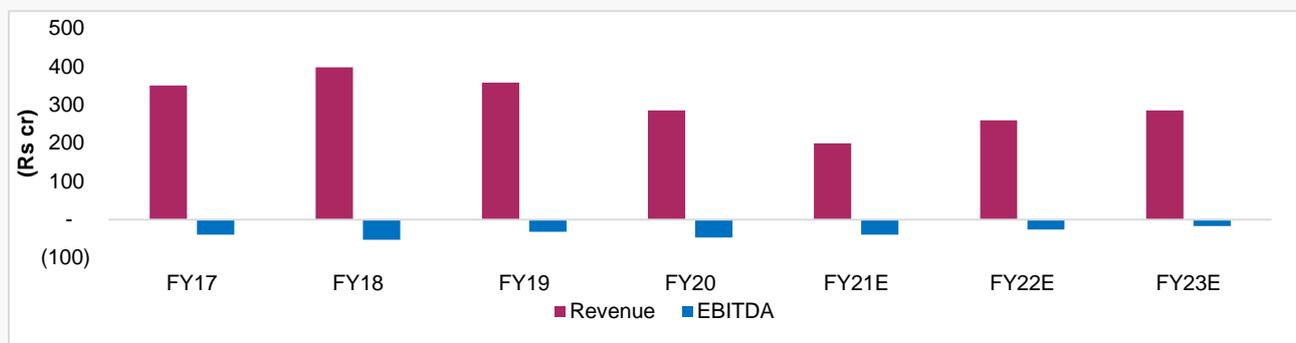


Source: Company Axis Securities

Fast Fashion – Subdued performance over the years

ABFRL acquired online and offline rights of Forever 21 in 2016 from a JV of DLF Brands and Forever 21 for ~Rs 180 cr and the Fast Fashion business successfully incorporated PEOPLE into the Pantaloon's format. The Forever 21 brand largely caters to teens and young adults with a prime focus on women's western wear while the PEOPLE brand provides value offerings to the mid-premium segment. Over the past few years, the company undertook business model correction and rationalisation measures which enabled it to arrest revenue growth slowdown and losses in both Forever 21 and PEOPLE. In FY20, revenue declined by 20% to Rs 285 cr with an EBITDA loss of Rs 47 cr on account of one-time costs incurred for shutting down PEOPLE's business. We do not factor in any store addition in FY21E/22E from the current store-count of 25 and revenue contribution to remain steady at ~Rs 300 cr annually, as per our estimate.

Exhibit 44: Subdued revenue growth over the period with reducing losses



Source: Company, Axis Securities

Foray into Ethnic Segment- Tapping the high growth potential market

To tap the ethnic wear segment, ABFRL invested Rs ~560 cr to acquire a 100% stake in Jaypore, 51% stake in Shantanu & Nikhil and 51% in Sabyasachi respectively. The proposed acquisitions were made considering huge growth potential in the \$17 bn Indian ethnic wear market. These strategic additions to the portfolio are expected to further strengthen ABFRL's position in the branded fashion space. At the basic level, the Pantaloon's brand Rangmanch caters to an affordable market. While the premium market will be catered by Jaypore acquired two years back, but the company has not been able to scale this up due to the COVID-19 challenges. The Men's wear segment would be catered through Shantanu & Nikhil while Sabyasachi will cater to the women's wedding wear market which forms the largest segment of the market (part of the USD24bn market, including accessories). In the medium term, the company looks to build Rs. 200-300 crores business to get designer wear more accessible for broader Indian consumers.

- **Jaypore:** Jaypore is India's leading destination for all Craft and Artisanal across Apparel, Exquisite Jewellery, and Beautiful Home Products. The brand sources from more than 70 craft clusters and curates these products on its beautiful website and two stores, one each in Delhi and Bangalore. Led by strong growth in online channel sales and home category, the business ramped up quickly, growing by 15% yoy in Q3FY21. The company opened its first store post-acquisition and in Jaypore, the management intends to take essentially an online business off-line through the distribution of stores and leveraging the strength that the company has.
- **Shantanu & Nikhil:** ABFRL entered into a strategic partnership with Shantanu & Nikhil by acquiring a 51% stake for Rs 60 cr. The company plans to grow the exiting brand by launching new lines at lower price points. It has opened 3 new EBO's and launched a brand commerce site with a new state-of-the-art factory and design studio. While the lockdown and subsequent slowdown delayed rolling out stores, the company plans to ramp up the retail operations by adding 10-15 stores by FY22E.
- **Sabyasachi:** In a planned move, ABFRL recently acquired Sabyasachi at Rs ~400 cr which would accelerate the company's strategy of acquiring a large share in the Ethnic wear market. The brand has a strong brand recall and robust financials with consistent margins and a return profile. Sabyasachi has 5 stores in India and contributing most of the revenues. In FY20, it generated Rs 274 cr with over 20% operating margin. The recent fund invested will be utilized to augment design and manufacturing capabilities, build the brand, scale-up business, and further grow into new categories like designer accessories such as bags, shoes, belts, etc. It also generates some revenue from select multi-brand outlets in India and overseas. At present, Export revenue forms a minority part despite its high demand in the overseas market such as the US, UK, and the Middle East with the large Indian population. It would likely have 3-5 international stores over the next five years with 8-10 stores domestically from 5 at present. The stores have very high throughput given its overall revenue profile and management expects the brand to grow at 20-25% over the next few years.
- **Partnership with designer "TARUN TAHILIANI":** ABFRL in a strategic partnership with India's ace designer Tarun Tahiliani to form a new entity that will soon launch a contemporary men's ethnic wear brand. The new brand will operate in the premium occasion wear segment and will offer an entire range of high quality, sophisticated celebration wear for men at accessible price points. The new brand aims to build a Rs 500 Cr business in the next 5 years with more than 250 stores across the country. The brand will launch the first set of retail stores by September '21. ABFRL will hold an 80% stake in the new entity while Tarun Tahiliani will hold the remaining 20%. As part of the deal, ABFRL will also acquire a 33% stake in the existing Luxury Couture business of Tarun Tahiliani, with the option to increase it to 51% in the next few years.

Right Issue and Flipkart’s strategic investment to taper down debt level:

ABFRL’s mounting debt of Rs 3159 cr in H1FY21 was anchoring down its performance which was worsened with Covid-19 disruption. However, it raised funds cumulating Rs 2,500 cr via Flipkart infusion of Rs 1500 cr and the right issue of Rs 1,000 cr, reducing the debt burden and lowering the interest cost. ABFRL’s net debt witnessed a spike in FY20 to ~Rs 2,350 cr on account of higher Capex on store expansion and renovation front, multiple acquisitions in ethnic wear segments, and inventory overhang due to underperformance in Fast Fashion and other business segments due to Covid-19.

ABFRL’s board has approved a rights issue of Rs 995 cr at an issue price of Rs 110, implying ~12% dilution. The shareholders will make payments in three tranches with 50% of the issue price (Rs 55) for a partly-paid share of the face value of Rs 5 each. The second and the third tranches will include payment of Rs 27.5 each in Q4FY21 and Q2FY22, respectively. Management has stated that the capital raised through rights issue will be used for repaying debt, strengthening its balance sheet, and for general corporate purposes, including working capital.

Flipkart invested Rs 1,500 cr for a 7.8% equity stake at a price of Rs 205/share, a ~37% premium (on 22nd Oct’20 closing price) as part of a strategic investment in ABFRL. Subject to approvals among other things, the deal provides Flipkart certain rights such as pre-emption rights and right of first refusal for 1-5 years from the date of allotment of equity shares. Post the deal, promoters’ stake will be diluted to 55.1% from 59.8% currently. The deal is a non-exclusive deal and ABFRL would continue to have its own online presence as well as work with other platforms. Flipkart’s infusion will help the company to 1) Reduce debt levels, 2) Boost e-commerce sales through Flipkart’s online platforms, 3) Boost omnichannel growth 4) Flipkart could access ABFRL’s wide store network, especially Pantaloons, to drive its private label sales.

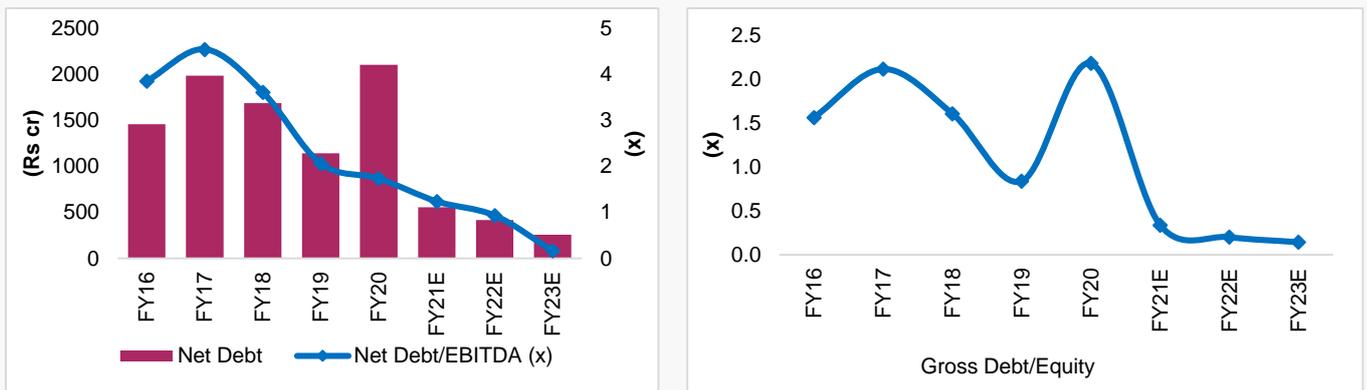
Cost, Capex, and inventory levels rationalisation to aid in debt reduction

Management indicated net debt (including finance cost and ex. Flipkart infusion), which peaked out at Rs. 3180 cr in Q2FY21, will reduce to Rs. 250 cr by the end of FY21E. This will largely will be driven by 1) Moderate Capex in FY21 assuming addition 175 EBOs in Lifestyle segment and 20 Pantaloons stores in FY21, much lower than 276 Lifestyle stores and 34 Pantaloons stores it added FY20, 2) Lower WC needs due to large inventory base of Rs ~2400cr in FY20, 3) Rights issue of Rs 1,000 crore and 4) Various cost reduction initiatives undertaken by the company. We believe more manageable debt levels will support EBITDA which will remain positive despite a sharp decline in sales in FY21.

Post deal performance would be a key monitorable

COVID-19 pandemic opened gates for new opportunities for e-commerce companies. In July 2020, Flipkart invested Rs ~260 cr in Arvind Youth Brands (Arvind Fashion’s arm) which owns brands such as Flying Machine. On the other hand, Amazon has acquired stakes in Shoppers Stop (2017) and More while Future Retail to be acquired by Reliance Ltd. E-commerce giants are in the race to acquire stakes in retail companies to widen its reach and offerings. However, online sales have not picked up as expected and the growth remained in the low single digits. Thus, we need to closely monitor the business model of ABFRL post the deal with Flipkart.

Exhibit 45: Significant reduction in debt levels post strategic investment to improve Debt/Equity ratio

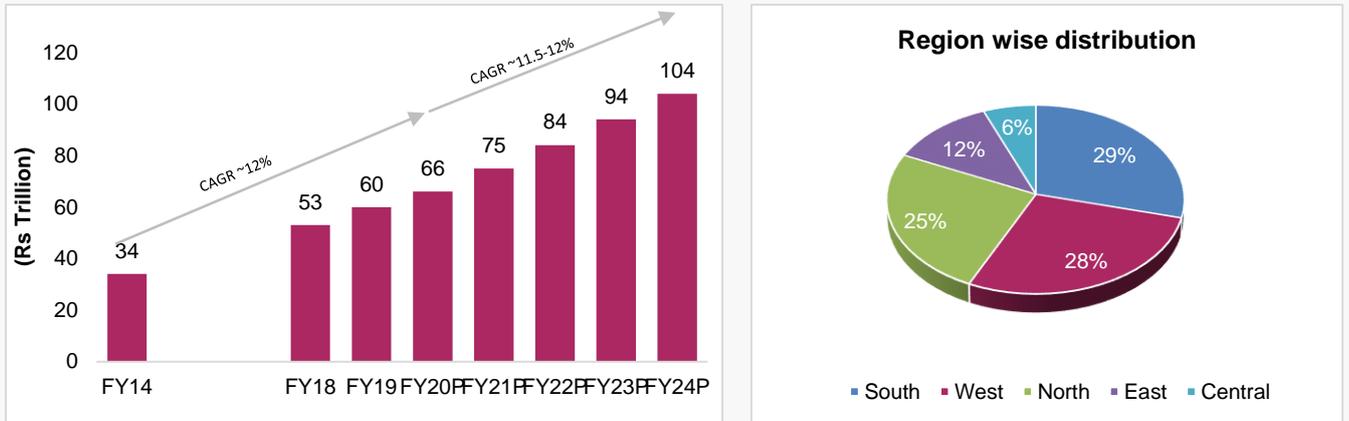


Source: Page Industries AR, Axis Securities

Indian Retail Industry overview

Indian retail industry accounts for over 25% of the country's GDP and ~50% of the private consumption (~57% of the GDP) and around ~8% of employment. It has emerged as one of the most fast-paced industries due to the entry of several new players. As per CRISIL Research retail industry is expected to grow 11.5-12.5% CAGR on account of increasing economic activity and low to moderate inflation levels. In FY19 the western region consisting ~20% of the total population accounted for ~28% of the overall retail consumption in the country. Similarly, a Southern region comprising five states and housing ~20% of the country's population accounted for ~29% of the overall retail consumption. The northern region which accounts for 25% of the overall market, has lower retail consumption as compared to the Western and Southern regions. Moving forward, pent-up demand coupled with a better economic outlook will boost consumer sentiment and drive up discretionary spending.

Exhibit 46: Retail industry to post ~12% CAGR over CY20-24E to ~Rs 104 trn

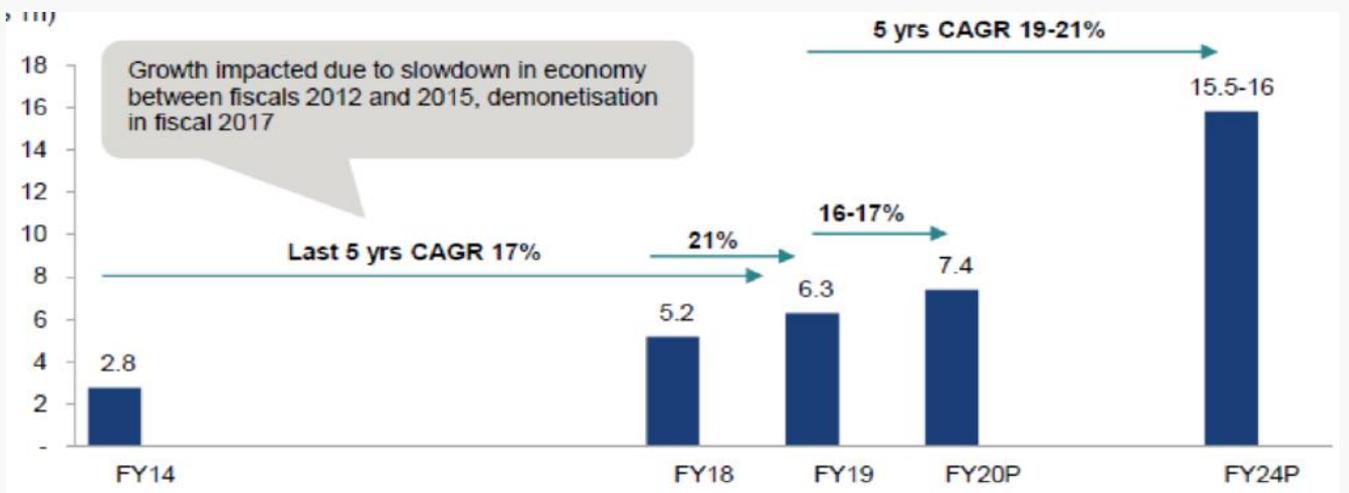


Source: DMART QIP Report, Axis Securities

Organised retail of a total pie?

Organised retailing accounted for ~11% of the total retail industry in CY19 and registered a CAGR of ~30% between FY06-11. The segment grew at a relatively slower pace at 16% CAGR from FY13-17 on account of tepid economic growth and declining disposable incomes. While it gained some traction in FY16 with the segment expanding 17% YoY, in FY 2017, the industry got impacted due to demonetisation. However, the roll-out of GST supported organised retailers, as the cost of doing business increased for unorganised retailers and organised retail grew at ~20% yoy in FY18 followed by ~21% yoy in FY19 with B&M retailers registering a growth of ~18% yoy. With the economy gaining momentum post-COVID scenario and improved consumer spending organised retail is estimated to clock ~19-21% CAGR over FY19-24E, reaching Rs ~16 trn to form ~15% of the total retail industry. The organised retail market is expected to grow at ~1.6 times the overall retail market.

Exhibit 47: Total retail industry expected to post CAGR of ~12% over CY20-24E to ~Rs 104 trn



Source: DMART QIP Report, Axis Securities

Organised Food and Grocery, Footwear, and Consumer Durable retail to grow fastest

Food and Grocery accounts for ~19% share in value terms (Rs 1.19 trn of Rs 6.3 trn organised retail market) but just form ~3.6% and remains the most under-penetrated segment, with unorganised retailers (such as standalone Kirana stores, cart vendors and wet markets) forming the remaining the market. Unorganised retailers have a lower fixed cost, are either self-owned or self-managed and are established in favourable locations. They compete fiercely with organised retailers by offering customers the convenience of home delivery and credit. The low organised retail penetration (ORP) possess a large opportunity for organised retail players. However, managing the supply chain along with achieving economies of scale remains a challenge due to the products' perishable nature. CRISIL Research estimates the organised food and grocery segment to have grown ~26% YoY in FY2018 followed by growth of ~29% YoY in FY2019. Going forward, the segment is expected to witness healthy growth driven by new store additions by retailers along with growth in like-to-like (LTL) sales.

Exhibit 48: Food and Grocery accounts for the largest share with least penetration against other segments

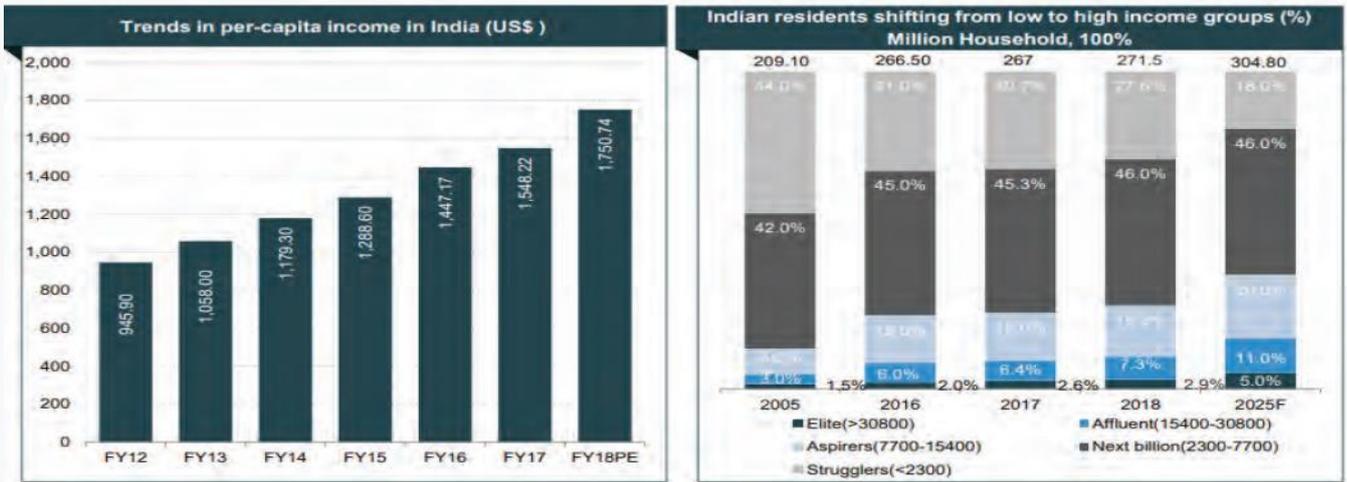
Organised Retail		FY19			FY22P		
Segments		Market size	ORP	Past 3-year CAGR	Market size	ORP	3-year CAGR
		Rs Billion	%	%	Rs Billion	%	%
Food and grocery		1,192	3.6%	26%	2,535	5.5%	28-30%
Apparel		1,444	24.9%	19%	2,063	31.2%	19-21%
Footwear		257	17.6%	14%	407	18.9%	16-18%
Furniture & Furnishing		124	7.1%	18%	213	9.4%	10-21%
Pharmacy		87	7.6%	15%	137	8.7%	15-17%
Consumer durables, mobile & IT		1,547	56.0%	12%	2,578	62.8%	17-19%
Books and music		50	5.7%	1%	50	5.1%	0-1%
Others		1,654	13.2%	17%	2,148	13.3%	14-16%
Total organised retail		6,354	10.6%	18%	10,923	13%	19-21%

Source: Company QIP Report, Axis Securities

Apparel Industry Structure and Development

Indian Textiles and Apparels (T&A) industry is one of the largest and the most important sectors for the Indian economy in terms of output, foreign exchange earnings and employment and accounts for approximately 4% of the global T&A market. The industry contributes approximately 7% to industrial output in value terms, 2% to the GDP, and 15% to the country's export earnings.

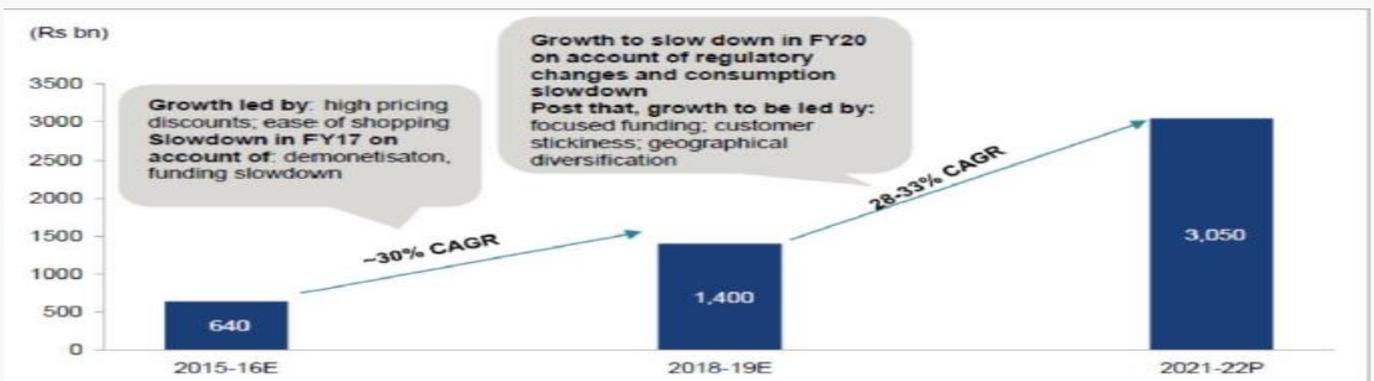
The Indian apparel sector is expected to grow at over 10% CAGR in the coming years with the branded apparel segment outpacing industry growth. Higher growth in the branded apparel segment will be driven by favourable demographics facilitating higher employment and higher income levels and younger population inclined to adopt branded products. This is expected to significantly increase branded apparel's penetration from 48% in FY20 to 56% by FY25. In the same period, the share of organized apparel, too, will rise to 40%. For the apparel industry, Men's wear: Women's wear: Kidswear contribution ratio stands at 41:38:21 respectively, whereas globally, the share of women wear is larger than men's wear, indicating a growth opportunity in the Indian women wear segment. The Indian innerwear market having a market size of USD 3.5 billion (2016) is expected to grow at 11% CAGR to USD 11.5 billion by 2026. The premium branded innerwear market is currently underpenetrated in India and offers significant growth opportunity.

Exhibit 49: Rising middle-class consumer base presents huge opportunity to Indian apparel industry growth


Source: Company, Axis Securities

E-Retail Industry in India

For the past decade, E-Commerce has been a focus area with large global players entering the market to capture under-penetrated Indian retail space and COVID-19 has further accelerated growth in this channel. Within E-retail, the online grocery segment continues to be relatively under-penetrated and has caught the attention of all major e-retailers. With significant investment in the segment over the past two years, the online grocery segment is likely to be the fastest-growing segment moving ahead. On the other hand, major e-retailers continues to focus on existing business segments such as electronics, apparel, and fashion which will drive growth. With the omnichannel strategy gaining prominence, the e-retail industry seems to be providing growth impetus to the entire organised retail sector rather than posing competition to existing retailers. Indian e-commerce sector is estimated to clock 28-33% CAGR from CY19-22E. With recent policy changes to create a level-playing field for all sellers, discounts are likely to come down which may result in slower growth in the near term till e-retailers rework their strategies.

Exhibit 50: With Omni channel strategy gaining prominence, the e-retail industry tend to grow fastest in the overall organized retailing sector


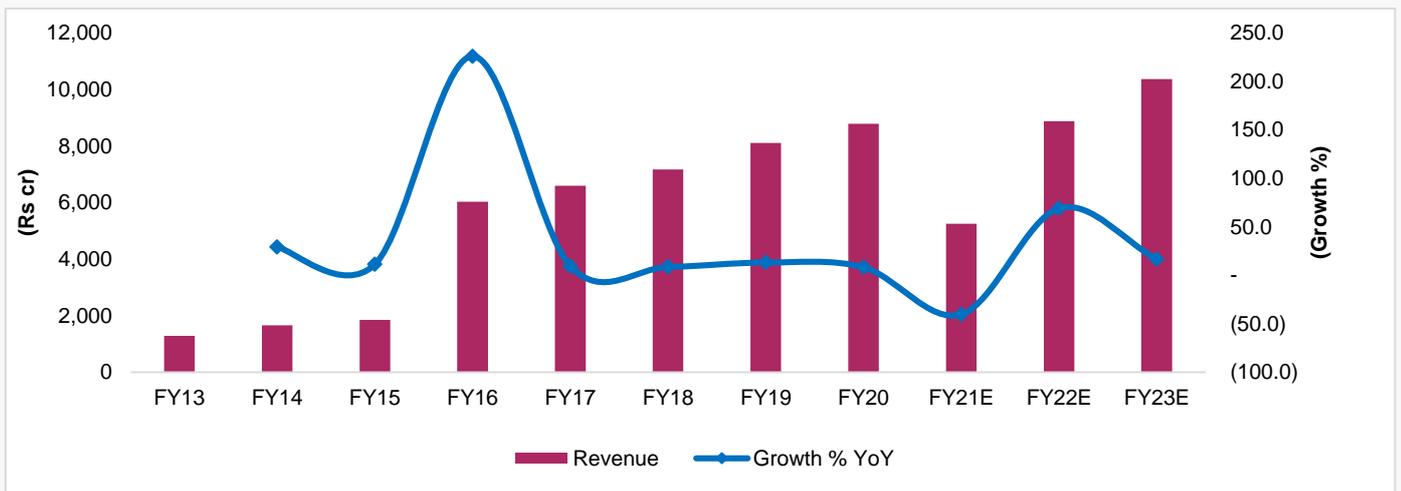
Source: Company QIP Report, Axis Securities

Financial Commentary

FY21E to be impacted, expect to post revenue CAGR of ~7% over FY20-23E

ABFRL has registered a healthy revenue CAGR of ~32% over the FY13-20 largely driven by store expansion and strong brand recall in the lifestyle segment, and pantaloons. Its strong focus across the premium to value segment has resulted in higher footfalls with a steady rise in average bill size. With the outbreak of the COVID-19 pandemic and ensuing pressure on discretionary spends, demand for premium products is likely to take a hit. Moreover, consumers with reduced earning capacity are focusing on essential and hygiene products while closures of institutions like schools and offices and restricted travelling may further drive down sales of formal and premium products. We expect a ~40% decline in FY21E revenues and expect recovery at ~7% revenue CAGR over FY20-23E. We expect the recovery to be driven by 1) Addition of stores in pantaloons and lifestyle brand from FY20-23E 2) Increased focus on tier II and III cities with its Pantaloons stores to cater to value-range consumers 3) Increase in traction from online channels.

Exhibit 51: Healthy revenue growth at CAGR of ~7% with store addition across segment over FY20-23E

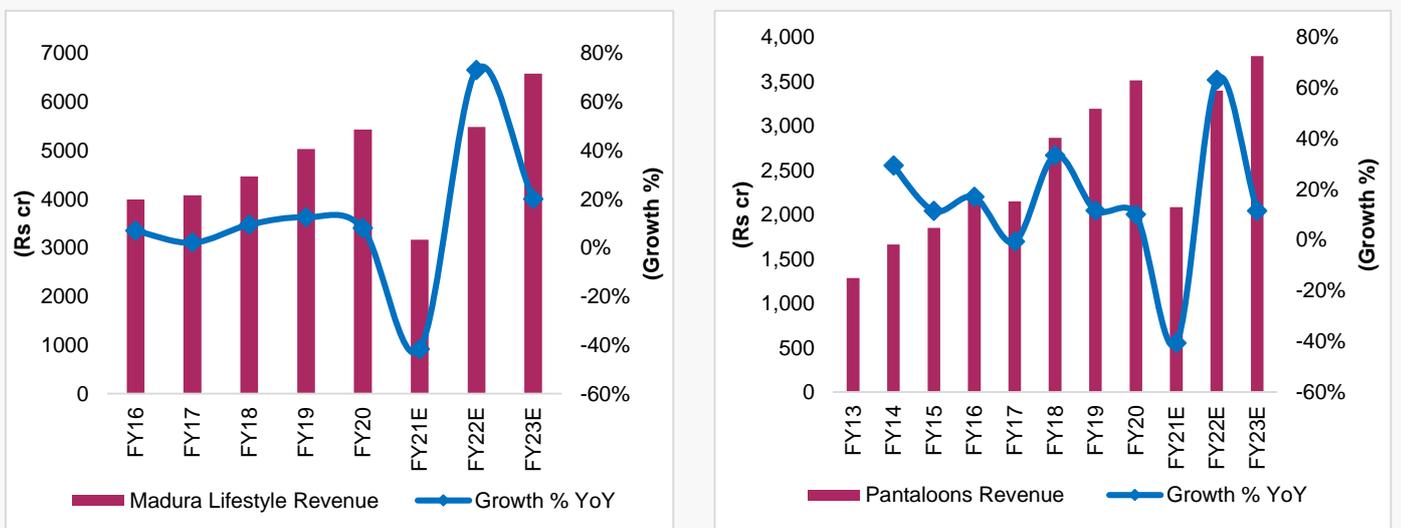


Source: Company, Axis Securities

SSSG growth to decline sharply in FY21E and recover over FY22-23E

We expect a decline in Madura and Pantaloons revenue by ~41% & ~38% in FY21 respectively, followed by a recovery in FY22E and FY23E on a low base given 1) further, ease in lockdowns and people resuming their normal lifestyle 2) pickup in-store expansion (which remained muted in FY21).

Exhibit 52: Same-store growth to moderate with a steady rise in revenue/sqft over FY22-23E

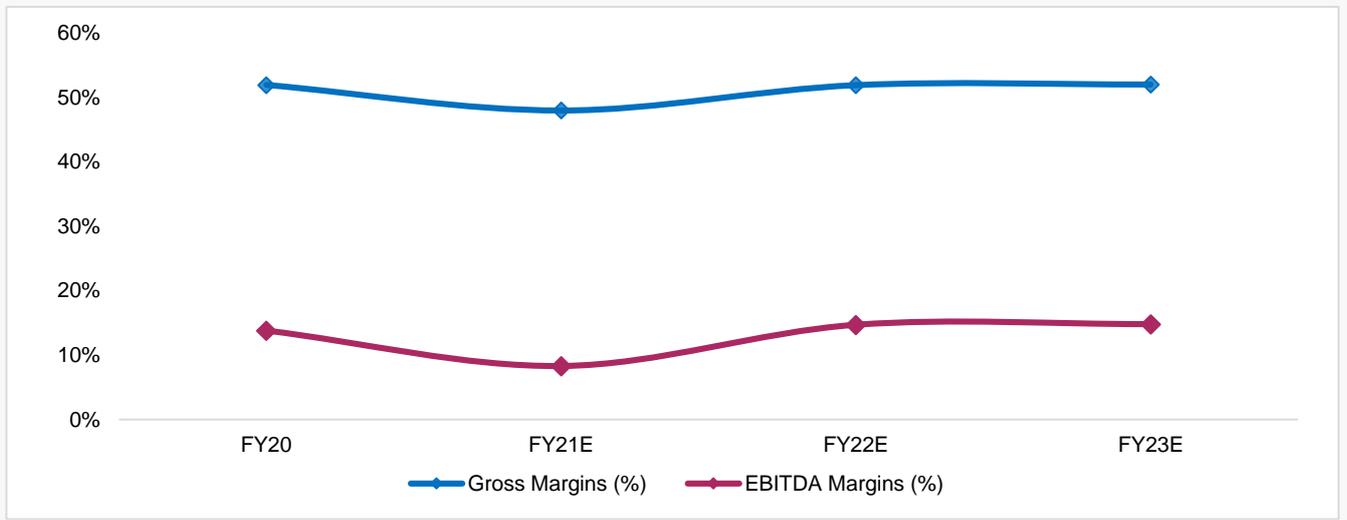


Source: Company, Axis Securities

EBITDA improvement to support a healthier margin profile

We expect higher revenue contribution from value range apparels and lower premium apparels sale drawing down gross margins by ~400 bps to 48% in FY21E. However, post COVID-19 containment and lockdown relaxations, we believe, Gross Margin will improve in FY22-23E and sustain similar levels post supported by higher sale contribution by premium apparel items. We expect ABFRL to report a Gross and EBITDA Margin of ~48%/8.3% (post ind as) in FY21E while EBITDA margin to improve further in FY22E and FY23E to 16.2% & 16.5% respectively with an EBITDA CAGR of ~14% over FY20-23E. The expectation of a strong EBITDA growth is on the back of 1) Healthy revenue growth driven by new store addition and high same-store growth, 2) Strong operating leverage with cost rationalisation measures in the advertising, employee expenses, and rentals while continuing store refurbishment, and 3) Increasing share of higher-margin private labels

Exhibit 53: Margins Improvement expected backed by EBITDA CAGR of ~14% over FY20-23E

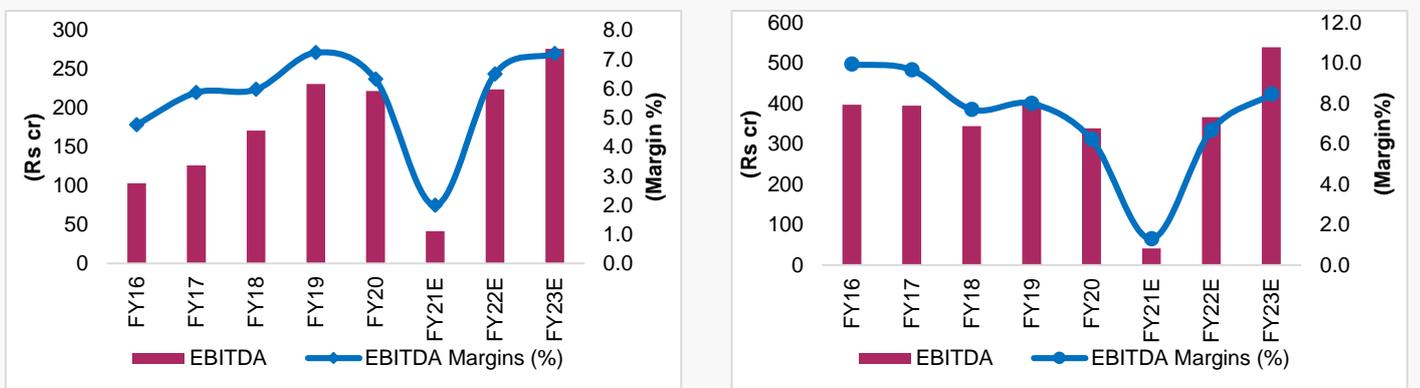


Source: Company, Axis Securities

EBITDA margins of Madura and Pantaloons to improve further

Weak consumer sentiments towards discretionary spends, closure of institution like offices and schools, and limited social outings reduced the demand for formal and premium apparels in H1FY21 affecting sales of Fast Fashion and Other Businesses. We expect EBITDA margins to decline by~490 bps in FY21 in Madura lifestyle segment followed by a gradual recovery in FY22E and FY23E. In the pantaloon segment, loss of sale and higher discounting to clear inventory is expected to taper down EBITDA margins by ~430 bps in FY21. However, we expect a gradual recovery in margins on account of the increasing share of private labels in pantaloon revenue moving forward.

Exhibit 54: Gross/EBITDA margin growth to continue barring FY21E, expected EBITDA CAGR ~17%/13% in Madura & Pantaloons respectively over FY20-23E

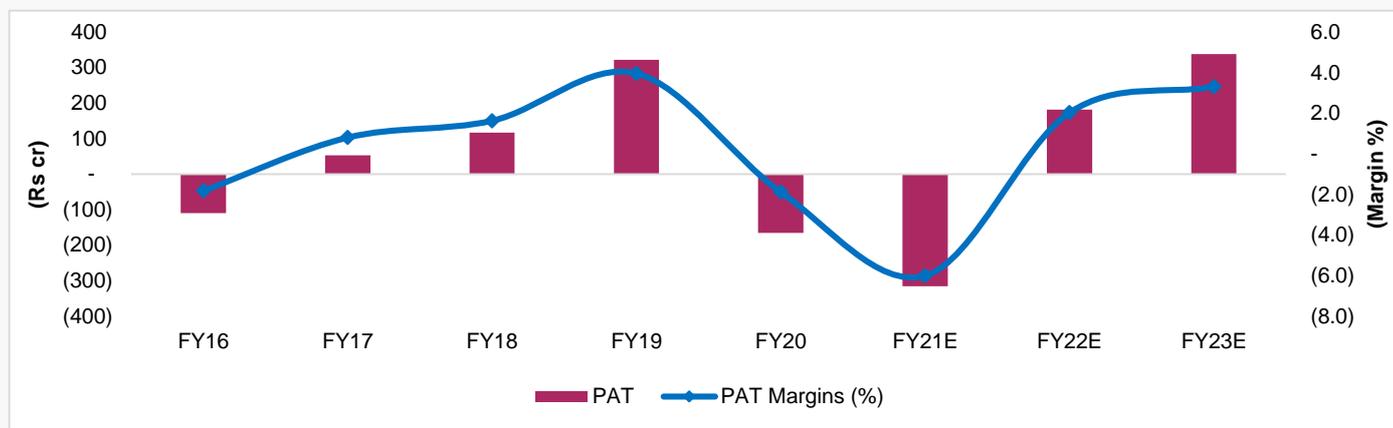


Source: Company, Axis Securities

PAT to turn positive in FY22E and continue growth trajectory

ABFRL profits started to see an upward trajectory from FY17 but tumbled in FY20 on account of weak economic cues and lockdown in the last 15 days of FY20. ABFRL has firmly cemented a position in the organised apparel industry through its strong product offering across the segment. We expect it to deliver positive PAT from FY22E and expect to continue the growth trajectory going ahead given (1) Continuing store expansion with a focus on tier 2-3 cities (b) Experienced management team with strong execution capabilities, and 3) Focus on cost savings.

Exhibit 55: Profitability to improve over FY 20-23E

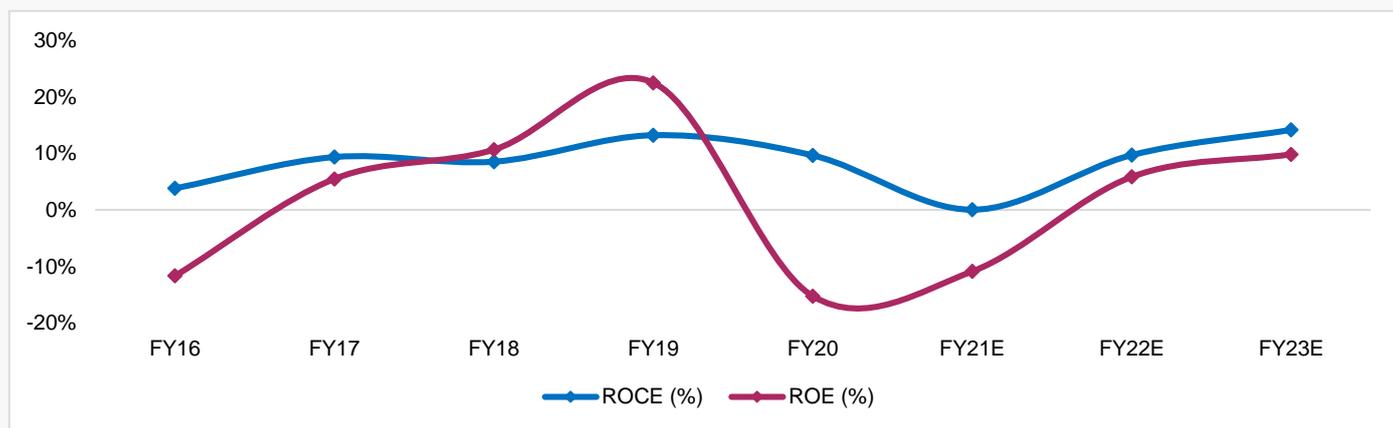


Source: Company, Axis Securities

Asset light model with improving return ratios (RoE, RoCE)

ABFRL operates with an asset-light model with stores operating on a rental basis. We expect return ratios to improve in the backdrop of encouraging growth in high-RoCE Madura Lifestyle brands division and improving profitability in Pantaloons stores due to increasing share of private labels. We expect the company to report RoE/ RoCE growth of ~11%/~14% respectively by FY23E. Key drivers to sustain growth will be 1) Expansion of stores and increasing reach through e-commerce channel; 2) Growing contribution of higher-margin private label and premium apparels brands; 3) Improving operating cash flows to internally fund future Capex while reducing debt level and consequently finance cost.

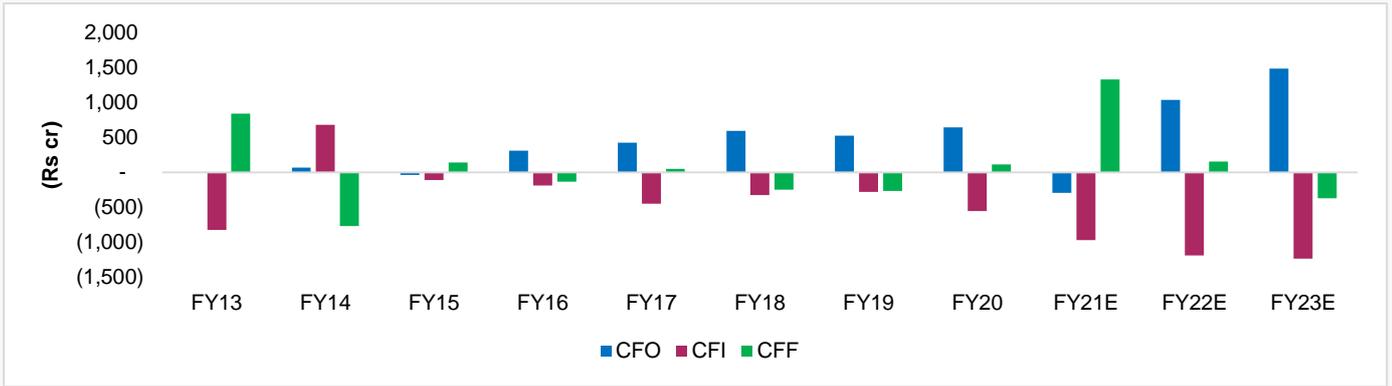
Exhibit 56: Return ratios likely to be impacted in FY21E due to lower earnings and likely to improve in FY22 & FY23E



Source: Company, Axis Securities

Generating positive free cash flows

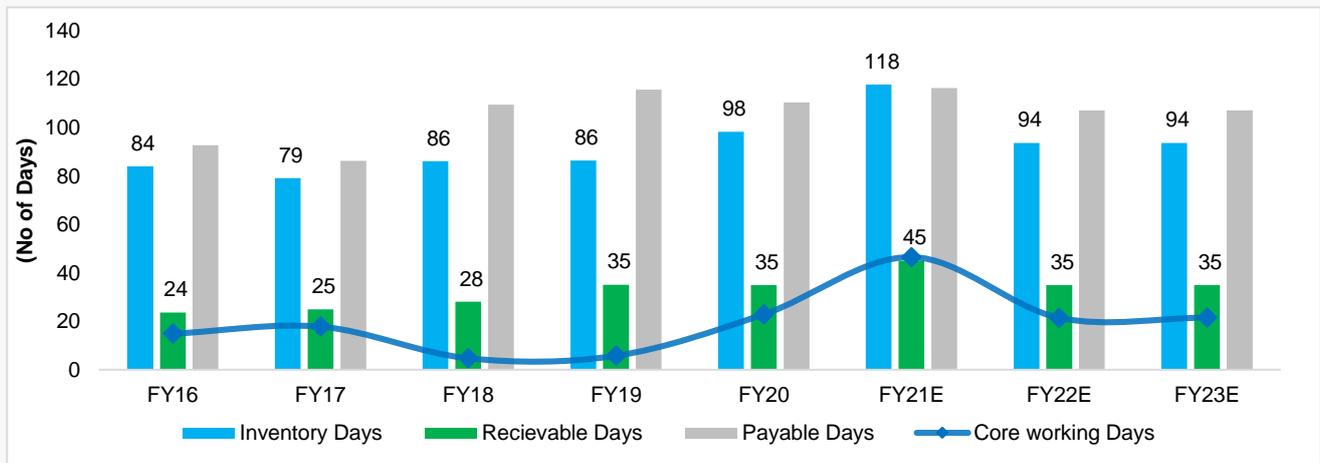
ABFRL is likely to spend ~Rs 970 cr from FY21-23E for store expansion as against generating total cash flow from operations (CFO) worth ~Rs 2,200 cr in the same period. After a sharp dip in FY21E, Free cash flows (post interest cost) are expected to improve further with superior earnings OCF generation over FY22-23E. Despite aggressive store expansion under Lifestyle and Pantaloons, we believe growth Capex requirements should be maintained at Rs 350-400cr (Rs 100cr/ Rs 200 cr/ Rs 50cr for Lifestyle/ Pantaloons/ Other segments, respectively) due to strong consumer traction and limited maintenance Capex due to franchisee-led model. Other segment Capex for Forever 21, merging People store with Pantaloon, and investment in the innerwear segment will demand reasonable Capex of ~Rs 350-400cr and prevent the balance sheet from excessive bloating. We note, ABFRL CFO has registered a CAGR of ~20% over FY16-20 recording Rs 645cr in FY20 and we expect similar growth rates over FY20-23E. Thus, strong revenue growth and an uptick in margins coupled with stable Capex requirements should result in healthy FCF.

Exhibit 57: Low CAPEX requirements to generation healthy Free Cash Flows


Source: Company, Axis Securities

Working Capital to remain stable

Retail apparel companies key focus will be to optimise working capital and clear off existing inventory rather than buying new inventories for festive and winter wear. We expect the company's inventory days (in value terms) to remain in-line with 1HFY21 levels for full-year FY21. Payables are expected to normalize to earlier levels as and when the company's inventory and ordering cycle normalizes. Barring FY21, inventory and receivables days are likely to improve given an lifestyle shift in pantaloons business from a 4 season model to a 12 season model. While payable days are expected to rise in FY21E due to fresh purchase, it will stabilise at similar levels going ahead.

Exhibit 58: Working Capital Days to sustain at similar levels going ahead


Source: Company, Axis Securities

Valuations and Outlook

Over the years, ABFRL has built a strong brand with high growth potential catering to various categories fashion segments. We expect lifestyle brands (Louis Philippe, Van Heusen, Peter England and Allen Solly) to lead in the men’s formal and casual wear in the mid premium and premium space and yield a healthy return going forward. Pantaloons is well set in the value range apparel market after years of investments and business restructuring. Innerwear and other fashion ventures are likely to provide ABFRL with incremental growth opportunity.

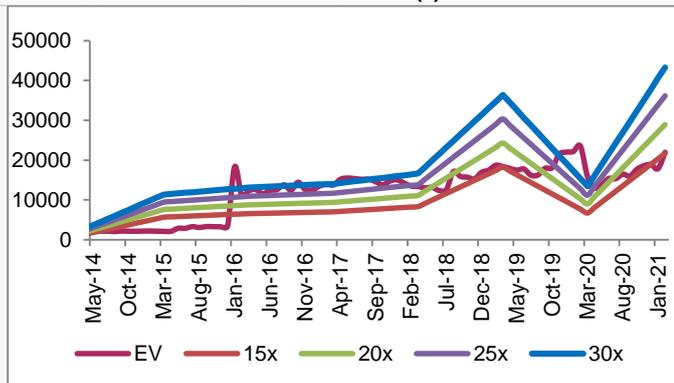
We initiate coverage on ABFRL with a Buy rating and an SOTP-based TP of Rs 240, 25% upside from the current levels. We value Lifestyle segment on FY23E EBITDA of Rs 635cr at 22x given its strong brand traction in the men’s formal and casual wear and gradually ramping women segment, 20x to Pantaloons FY23E EBITDA of Rs 320 cr given traction in value range apparels and 2x FY23E EV/sales for Innerwear, fast fashion, ethnic and global brands business. At CMP, the stock is trading at 40x/10x FY23E P/E and EV/EBITDA.

Exhibit 59: SOTP Valuation

Segment	Valuation	Multiple (x)	Equity Value (Rs cr)
Lifestyle Brand	EV / EBITDA Multiple (x)	22	13,967
Pantaloons	EV / EBITDA Multiple (x)	20	6,366
Others	EV / Sales Multiple (x)	2	2,241
Enterprise Value			22,573
Net Debt			256
Market Cap (Rs.Cr)			22,317
Shares Outstanding (Cr)			94
Per Share Value (Rs)			240
CMP			190
% Upside			25

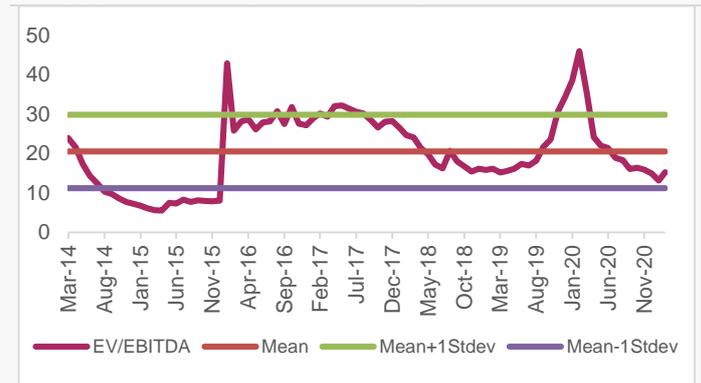
Source: Company, Axis Securities

Exhibit 60: 12MFWD EV/EBITDA CHART (x)



Source: Company, Axis Securities

Exhibit 61: 12MFWD EV/EBITDA BAND CHART



ABOUT THE COMPANY

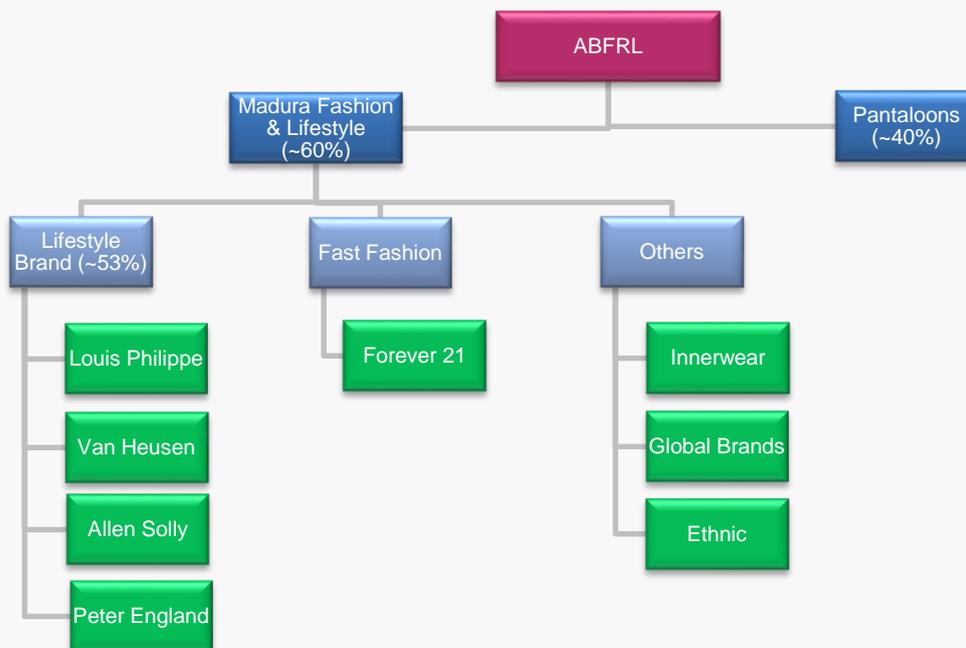
Aditya Birla Fashion and Retail Ltd. (ABFRL) emerged after the consolidation of the branded apparel businesses of Aditya Birla Group comprising ABNL's Madura Fashion division and ABNL's subsidiaries Pantaloons Fashion and Retail (PFRL) and Madura Fashion & Lifestyle (MFL) in May 2015. The company operates through three well-known segments. The first segment is "**Madura Fashion & Lifestyle**" which consists of brands such as Louis Philippe, Van Heusen, Allen Solly, and Peter England with fast fashion brands such as Forever 21 (exclusive online and offline rights in India) and People. The second segment is "**Pantaloons**" which offers value fashion in ethnic, formal, casual, and activewear for men, women and kids. The third segment consists of innerwear, ethnic space (acquisition of Jaypore and investment in Shantanu and Nikhil), and other global brands comprising Hackett, Ralph Lauren, and Ted Baker, to name a few.

Exhibit 62: Bouquet of brands under ABFRL



Source: Company, Axis Securities

Segment Information



Source: Company, Axis Securities

Key Risks

- COVID-19 Impact on the retail sector:** While COVID-19 induced lockdown restricted people movement halting sales, economic disruptions and uncertainty caused by it muted demand for discretionary apparel purchase. As a result, the sector is likely to witness liquidity issues resulting from servicing high-fixed costs under circumstances of potentially volatile revenue for an uncertain period.
- Increased value consciousness:** Over the past few years, e-commerce has significantly shifted consumer's brand expectations to value-for-money products, resulting in heavy discounting. Mega sales around festivals became a characteristic of the market, thereby shifting a large portion of sales towards these events, stifling profit margins. In the long-term, increased discounting can pose a big risk in the apparel industry. Apparel players are now focusing on sharpening their core customer proposition with innovative products, attractive pricing and delightful pre and post-purchase experience. These initiatives will help consumers shift back to a full-price sale regime.
- Commoditization of fashion:** While the value fashion space has emerged as a new area of opportunity for apparel players, it is being rapidly swamped by new entrants in the market. The nature of this format, however, can commoditize customers' fashion expectations, who are experiencing quality retail for the first time. This can make it difficult for brands to connect with such customers and build long-term relationship.
- Inadequate supply of quality retail space:** Commercial real estate in India has seen a slowdown in the past few years. Lack of prime retail land and high property rates in prime areas have further discouraged developers from investing in commercial spaces, resulting in high rentals and untenable economics for retailers.

Shareholding Pattern

Shareholder's Name	% of holding
Promoter & Promoter Group	59.76
Nippon Mutual Fund and its Affiliates	5.18
UTI Mutual Fund and its Affiliates	2.49
Franklin Mutual Fund and its Affiliates	2.30
Other Institutions	3.57
Others	26.7

*As of June'2020

Leadership Team

Person	Designation
Mr. Vishak Kumar	Chief Executive Officer Lifestyle Brands
Mr. Sangeeta Pendurkar	Chief Executive Officer Pantaloons
Mr. R Sathyajit	Chief Executive Officer International Brands
Mr. Sooraj Bhat	Deputy Chief Executive Officer Pantaloons
Mr. Puneet Malik	Chief Executive Officer Innerwear Business
Mr. Dr. Naresh Tyagi	Chief Sustainability Officer
Mr. Chandrashekhar Chavan	Chief Human Resource Officer
Mr. Praveen Shrikhande	Chief Digital and Information Officer
Mr. Kedar Apshankar	Chief Operating Officer Special Projects
Mr. Swaminathan Ramachandran	Chief Supply Chain Officer
Mr. Jagdish Bajaj	Chief Financial Officer Key Managerial Personnel

*As of June'2020

Board Of directors

Name	Details & Experience
Mr. Ashish Dikshit <i>Managing Director</i>	<p>He is Electronics & Electrical Engineer from IIT - Madras and holds a Master's Degree in Business Administration from IIM -Bangalore. He has extensive work experience of over 26 years in diverse roles across industries. He worked at Asian Paints for over 15 years before moving to Madura Fashion and Lifestyle Division of the Company and handled various functions such as Sales, Brand Management, Supply Chain, and Sourcing. He was appointed President of its Lifestyle Business in 2007 and went on to become its CEO in 2012.</p>
MR. ARUN THIAGARAJAN <i>Independent Director</i>	<p>He holds an M.Sc. in Electrical Engineering from Royal Institute of Technology, Stockholm and a degree in Business Administration and Information Systems from Uppsala University, Sweden. He has also attended the Advanced Management Programme of the Harvard Business School. He is a Director on the Board of several other companies and has served as the Part-time Chairman of ING Vysya Bank Limited, Managing Director of Asea Brown Boveri Limited, Vice-chairman of Wipro Limited and President of Hewlett-Packard India Private Limited earlier.</p>
MR. HIMANSHU KAPANIA <i>Non-Executive Director</i>	<p>He is an alumnus of IIM Bangalore and BIT Mesra and has been a former Managing Director of erstwhile Idea Cellular (renamed 'VodafoneIdea Limited' after the merger with Vodafone India). He is presently on the Board of the new mobile company. Mr. Kapania is also the Vice Chairman of Grasim Industries and a member of the 'Business Review Council' for the Aluminum business of Hindalco and the Cement business of UltraTech (Indian listed companies promoted by the Aditya Birla Group).</p>
MR. NISH BHUTANI <i>Independent Director</i>	<p>He has over 27 years of experience in digital and technology companies in Silicon Valley, the UK and India and holds an MBA (Honors) degree from Harvard University, and B.S. and M.S. in Engineering from Stanford University. He is the Founder & CEO of Indiginus - a digital growth consulting business specializing in digital strategies, experimentation and capability building, with clients in varied industries including healthcare, education, online marketplaces, e-commerce, and real estate.</p>
MR. SANJEEB CHAUDHURI <i>Independent Director</i>	<p>He is a Graduate in Science (Honors) and holds a Masters degree in Business Administration from J. Bajaj Institute of Management Studies, Mumbai. He has over four decades of senior multinational business experience across global banks and consumer companies. Mr. Chaudhuri has served as Group Head, Brand & Global Chief Marketing Officer of Standard Chartered Bank. Prior to that, he was CEO, Retail and Commercial Banking for Citicorp, Europe, Middle East and Africa, in addition to other senior, global leadership positions. Before joining Citigroup, he managed product development, testing and launch of large global brands in senior management Roles at Procter & Gamble, Colgate-Palmolive, and Unilever.</p>
MR. SUSHIL AGARWAL <i>Non-Executive Director</i>	<p>He is a Qualified Chartered Accountant and holds a Master's degree in Commerce. He is currently the Group Chief Financial Officer for the Aditya Birla Group and a member of the Business Review Council - an institutionalized mechanism for bringing in wider managerial perspectives and leadership experiences into reviewing the development, growth and operations of the Group's businesses. He has been with the Aditya Birla Group since the beginning of his career in 1989 and has a distinction of working closely with the former Late Chairman Mr. Aditya Vikram Birla and current Chairman Mr. Kumar Mangalam Birla.</p>
MS. SUKANYA KRIPALU <i>Independent Director</i>	<p>She is a graduate of St. Xavier's College and the Indian Institute of management, Calcutta. She is a consultant in the fields of marketing, strategy, advertising and market research having experience working with leading corporates like Nestle India Limited, Cadbury India Limited and Kellogg's India. She was also the CEO of Quadra Advisory, a WPP group company. Ms. Kripalu is presently on the Boards of Directors of various companies, namely Ultratech Cement Limited, Huhtamaki Paper Products Limited, Aditya Birla Health Insurance, Entertainment Network India Limited (Radio Mirchi) and Colgate India Limited.</p>
MR. SUNIRMAL TALUKDAR <i>Independent Director</i>	<p>He is a Chartered Accountant from the Institute of Chartered Accountants of India and B.Sc. (Bachelor of Science) from St.Xavier's College, Calcutta University. He retired as Group Executive President and Chief Financial Officer of Hindalco Industries Limited in 2012. He has over 3 decades of rich & comprehensive experience backed by benchmark competence in the areas of Strategic & Tactical Planning, Mergers & Acquisitions, Corporate Governance, Project Evaluation & Financing, Equity & Debt Syndication, Internal Control/Audit Compliance, Direct, Indirect & International Taxation, Organizational Restructuring etc.</p>

Financials (consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total Net Sales	8,788	5,399	9,474	10,837
% Change	8.3	(38.6)	75.5	14.4
Total Raw material Consumption	4,224	2,807	4,557	5,202
Staff costs	1,081	864	1,184	1,300
Other Expenditure	2,271	1,279	2,198	2,547
Total Expenditure	3,352	2,143	3,382	3,847
EBITDA	1,212	448	1,535	1,788
% Change	118.7	(63.0)	242.5	16.5
EBITDA Margin %	13.8	8.3	16.2	16.5
Depreciation	885	937	997	968
EBIT	327	-489	538	820
% Change	20.2	NA	NA	52.5
EBIT Margin %	3.7	-9.1	5.7	7.6
Interest	425	407	270	320
Other Income	65	450	150	100
PBT	-32	-446	418	600
Tax	133	(112)	105	151
Tax Rate %	-115.1	25.2	25.2	25.2
APAT	(165)	(334)	313	449
% Change	NA	NA	NA	43.6

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Share Capital	774	938	938	938
Reserves & Surplus	313	2,229	2,792	3,241
Net Worth	1,087	3,167	3,730	4,179
Total Borrowings	2,369	1,012	750	600
Deferred Tax Liability	7	7	7	7
Long Term Provisions	100	120	120	130
Other Long-Term Liability	2,003	2,150	2,160	2,200
Capital Employed	5,566	6,457	6,767	7,116
Gross Block	4,406	5,301	6,375	7,462
Less: Depreciation	1,403	2,162	2,986	3,779
Net Block	3,004	3,138	3,389	3,683
Other Non-Current Assets	2,590	2,937	3,027	3,097
Investments	7.04	7.04	7.04	7.04
Sundry Debtors	840	666	908	1,039
Cash & Bank Bal	267	457	333	344
Loans & Advances	7	10	15	40
Inventory	2,367	2,159	2,961	3,284
Other Current Assets	683	700	800	1,200
Total Current Assets	4,164	3,992	5,017	5,907
Current Liability & Provision	4,199	3,617	4,672	5,578
Net Current Assets	-34	375	345	329
Total Assets	5,566	6,457	6,767	7,116

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	(32)	(446)	418	600
Depreciation & Amortization	885	937	997	968
Net Finance Interest and other expenses	411	(43)	120	220
Chg in Deferred tax				
Chg in Working cap	(613)	(920)	(356)	(23)
Direct tax paid	7	(112)	105	151
Cash flow from operations	645	-359	1,074	1,613
	0	0	0	0
Chg in Gross Block	-318	-1,071	-1,248	-1,262
Chg in Investments	(103)	450	150	100
Others	(130)	(347)	(90)	(70)
Cash flow from investing	(551)	(968)	(1,188)	(1,232)
Proceeds / (Repayment) of ST Borrowings (Net)	1,074	1,010	10	-50
Issue of equity	7	914	250	-
Loans Repayment	-	-	-	-
Finance Cost paid	(424)	(407)	(270)	(320)
Dividends paid	-	-	-	-
Other repayment	(541)	-	-	-
Cash flow from financing	116	1,517	(10)	(370)
Chg in cash	210	190	(124)	12
Cash at start	57	267	457	333
Cash at end	267	457	333	344

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	8.3	(38.6)	75.5	14.4
EBITDA	118.7	(63.0)	242.5	16.5
APAT	NA	NA	NA	43.6
Per Share Data (Rs.)				
Adj. EPS	(2.1)	(4.3)	3.3	4.8
BVPS	13	70	42	44
Profitability (%)				
EBITDA Margin	13.8	8.3	16.2	16.5
Adj. PAT Margin	(1.9)	(6.2)	3.3	4.1
ROCE	9.7	-0.7	11.1	13.9
ROE	(15.2)	(10.5)	8.4	10.7
Valuations (X)				
PER	(67.7)	(44.0)	56.9	39.7
P/BV	10.9	2.7	4.5	4.3
EV / EBITDA	9.0	31.7	11.4	9.8
EV / Net Sales	1.2	2.6	1.8	1.6
Turnover Days				
Asset Turnover	4.7	1.8	2.9	3.1
Inventory days	98	146	114	111
Debtors days	35	45	35	35
Creditors days	110	116	109	109
Working Capital Days	23	75	40	36
Gearing Ratio				
Debt: Equity (x)				
Net Debt to Equity	1.93	0.18	0.11	0.06

Source: Company, Axis Securities

About the analyst


Analyst: Gaurav Uttrani

Contact Details: gaurav.uttrani@axissecurities.in

Sector: Agrochemical& Consumer sector

Analyst Bio: Gaurav Uttrani is Chartered Accountant (ICAI) with about 2 years of experience in Equity market and research

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Contact Details: suvarna.joshi@axissecurities.in

Sector: FMCG, Consumption sector, Mid-Caps, Agrochemical

Analyst Bio: Suvarna Joshi is MBA (Finance) from Mumbai University with about 10years of experience in Equity market and research

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