5 April 2024

Aditya Birla Fashion and Retail

Step in the right direction; upgrading to a Buy

Rating: **Buy**
Target Price (12-mth): Rs.294
Share Price: Rs.237

We believe hiving off its cash generating business, Madura, is a step in the right direction for ABFRL: it simplifies its business structure and betters capital allocation. The Madura entity has four industry-leading power brands with high profitability, RoCE and strong cash generation. Further re-rating is on the cards once we have a clearer capital allocation strategy. We upgrade our rating to a Buy with a higher TP of Rs294, ~14x FY26e EV/EBITDA (earlier ~12x FY26e EV/EBITDA). The de-merged ABFRL entity (housing Pantaloons, ethnic, D2C and luxury brands) comprises the mostly loss-making businesses and a large part of the debt.

Hiving off its Madura Fashion & Lifestyle business. This would help unlock value-creation opportunities and craft a well-articulated capital allocation strategy for the two entities. All ABFRL shareholders will have identical shareholdings in the newly formed entity.

Post-demerger structure. The resultant entity would comprise the four Lifestyle brands (Louis Phillippe, Van Heusen, Allen Solly, Peter England), casual-wear brands (Forever 21, American Eagle), Reebok and innerwear (Van Heusen). The de-merged ABFRL will consist of value retail (Pantaloons, Style Up), the ethnic portfolio (incl. TCNS), digital brands under TMRW and luxury brands. As the lifestyle business was the cash cow, the de-merged ABFRL would have to raise capital in the next 12 months for growth.

Valuation. We upgrade our rating to a Buy with a 12-mth sum-of-parts TP of Rs294. We assign Rs254/sh to the resultant Madura entity, valuing the Lifestyle brands at 15x FY26e EV/EBITDA (12.5x earlier) and Rs40/sh to the residual ABFRL businesses valuing Pantaloons/TCNS at respectively 10.5x/10x FY26e EV/ EBITDA (unchanged). At the CMP, the stock would trade at a combined 15.8x/12.2x FY25e/FY26e EV/EBITDA. **Risks:** Keen competition denting revenue growth, slower turnaround for the newer initiatives, mounting debt.

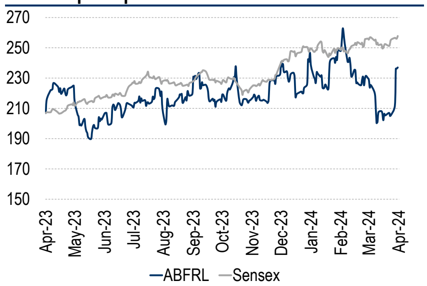
Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	81,362	124,179	141,742	159,331	180,779
Net profit (Rs m)	(1,184)	(595)	(6,085)	(2,539)	101
EPS (Rs)	(1.3)	(0.6)	(6.0)	(2.5)	0.1
P/E (x)	NA	NA	NA	NA	NA
EV / EBITDA (x)	28.8	18.9	21.5	15.8	12.2
P/BV (x)	10.2	6.7	5.8	6.2	6.1
RoE (%)	(4.4)	(1.9)	(16.2)	(6.3)	0.3
RoCE (%)	2.2	4.0	(1.4)	1.7	6.2
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	0.2	0.4	0.7	0.8	0.7

Source: Company, Anand Rathi Research *Note: Estimates are as reported, i.e., adjusted for IND-AS 116*

Key data	ABFRL IN / PNTA.BO
52-week high / low	Rs266 / 184
Sensex / Nifty	74248 / 22514
3-m average volume	$19.3m
Market cap	Rs241bn / $2892.2m
Shares outstanding	1015m

Shareholding pattern (%)	Mar'23	Dec'23	Sept'23
Promoters	52.1	55.7	55.7
- of which, Pledged	-	-	-
Free float	47.9	44.3	44.3
- Foreign institutions	19.6	14.2	14.1
- Domestic institutions	14.9	17.1	17.1
- Public	13.4	13.0	13.1

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

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Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net revenues	81,362	124,179	141,742	159,331	180,779
Growth (%)	55.0	52.6	14.1	12.4	13.5
Direct costs	37,202	55,520	63,784	72,496	82,254
SG&A	33,161	53,723	63,412	66,844	73,089
EBITDA	**10,999**	**14,936**	**14,546**	**19,992**	**25,436**
EBITDA margins (%)	13.5	12.0	10.3	12.5	14.1
Depreciation	9,970	12,270	15,618	18,363	19,533
Other income	1,006	1,165	1,737	1,572	1,414
Interest expenses	3,507	4,724	7,743	6,694	7,320
PBT	(1,473)	(893)	(7,078)	(3,494)	(4)
Effective tax rates (%)	18.3	27.9	13.1	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	(1,184)	(595)	(6,085)	(2,539)	101
Adjusted income	(1,184)	(595)	(6,085)	(2,539)	101
WANS	938	949	1,015	1,015	1,015
FDEPS (Rs)	(1.3)	(0.6)	(6.0)	(2.5)	0.1
FDEPS growth (%)	(84.3)	(50.3)	856.8	(58.3)	(104.0)
Gross margins (%)	54.3	55.3	55.0	54.5	54.5

Note: Figures are as reported

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	9,383	9,488	10,146	10,146	10,146
Net worth	27,733	33,433	41,598	39,059	39,160
Debt	12,323	23,055	31,055	34,555	30,555
Minority interest	152	27	27	27	27
DTL / (Assets)*	24,876	38,588	38,588	38,588	38,588
Capital employed	**65,085**	**95,104**	**111,269**	**112,230**	**108,330**
Net tangible assets**	31,541	46,326	64,491	62,411	59,161
Net intangible assets	6,940	13,935	14,435	14,935	15,435
Goodwill	22,092	23,297	23,297	23,297	23,297
CWIP (tang. & intang.)	1,051	2,074	2,074	2,074	2,074
Investments (strategic)	759	842	842	842	842
Investments (financial)	6,081	1,824	824	824	824
Current assets (excl. cash)	50,591	71,021	71,065	77,701	85,684
Cash	1,205	7,011	1,424	1,300	1,745
Current liabilities	55,176	71,224	67,182	71,153	80,731
Working capital	(4,585)	(204)	3,883	6,548	4,953
Capital deployed	**65,085**	**95,104**	**111,269**	**112,230**	**108,330**
Contingent liabilities	-	-	-	-	-

*Note: Figures are as reported * including lease liabilities ** including right-to-use assets*

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT (adj for int. exp.& other inc)	1,964	3,797	743	3,309	7,455
+ Non-cash items	7,475	11,658	15,618	18,363	19,533
Oper. prof. before WC	9,439	15,455	16,361	21,672	26,988
- Incr. / (decr.) in WC	(230)	9,118	4,087	2,665	(1,595)
Others incl. taxes	164	(25)	(915)	(846)	34
Operating cash-flow	9,505	6,362	13,189	19,854	28,549
- Capex (tang. + intang.)	3,185	6,708	8,000	7,000	7,000
Free cash-flow	6,321	(346)	5,189	12,854	21,549
Acquisitions	-	(1,757)	(16,500)	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	2,476	7,728	14,250	(0)	0
+ Debt raised	960	9,883	8,000	3,500	(4,000)
- Fin investments	2,436	(4,490)	(1,000)	-	-
- Misc. (CFI + CFF)	8,599	14,253	17,526	16,478	17,104
Net cash-flow	(1,279)	5,745	(5,587)	(124)	446

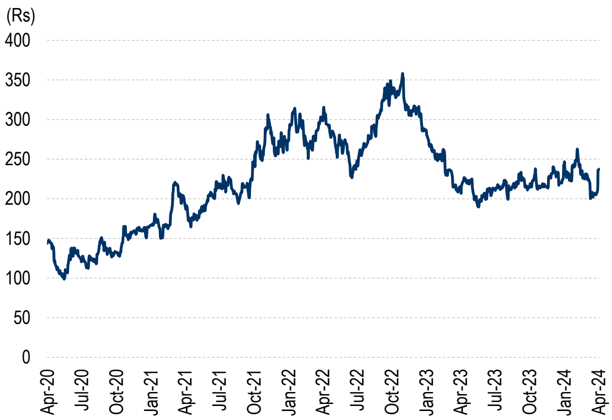
Source: Company, Anand Rathi Research Note: Figures are as reported

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	NA	NA	NA	NA	NA
EV / EBITDA (x)	28.8	18.9	21.5	15.8	12.2
EV / Sales (x)	3.9	2.3	2.2	2.0	1.7
P/B (x)	10.2	6.7	5.8	6.2	6.1
RoE (%)	(4.4)	(1.9)	(16.2)	(6.3)	0.3
RoCE (%) - after tax	2.2	4.0	(1.4)	1.7	6.2
RoIC (%) - after tax	2.6	4.8	(1.6)	1.7	6.4
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	0.2	0.4	0.7	0.8	0.7
Receivables (days)	34	26	35	35	35
Inventory (days)	131	124	110	105	100
Payables (days)	153	113	110	100	100
CFO : PAT %	(803.1)	(1,069.8)	(216.8)	(781.8)	28,340.4

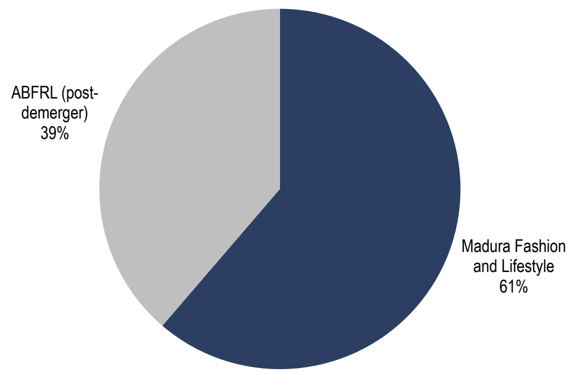
Source: Company, Anand Rathi Research Note: Figures are as reported

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – MFL accounted for 61% of total revenues (FY23)



Source: Company, Anand Rathi Research

De-merger details

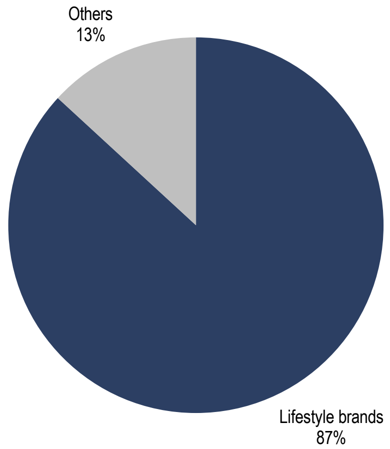
The company's proposed hiving off of its Madura Fashion & Lifestyle business would create two listed entities with distinct capital structures and parallel value-creation opportunities.

Madura Fashion and Lifestyle brands

The resultant Madura Fashion & Lifestyle (MFL) will consist of lifestyle brands (Louis Phillippe, Van Heusen, Allen Solly, Peter England), casual wear brands (American Eagle, Forever 21), sportswear brand Reebok and the innerwear business under Van Heusen.

We believe the lifestyle brands of MFL will account for most of the revenue (87% in FY23) and almost all of EBITDA.

Fig 7 – Revenue split for MFL (FY23)



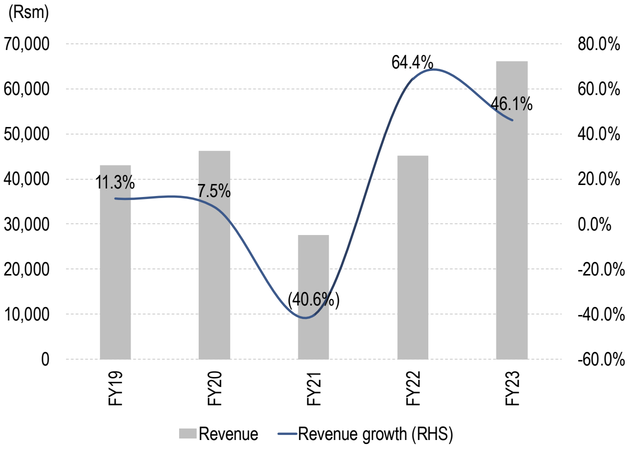
Source: Company, Anand Rathi Research

The **Lifestyle brands** have reported an 11% revenue CAGR over FY19-23, led by network expansion, brand extension and healthy comparable growth. It has reported average EBITDA margin of ~16% over FY20-23, led by premiumisation, a change in the channel mix and cost control measures. 9M FY24 revenue dropped 1.5% y/y to Rs50bn while the margin expanded 249bps y/y to 19.6%.

Channel-wise, the retail contribution rose to 51% in FY23 (vs. 39% in FY19), others (incl. e-commerce and exports) 27% (19%) while the wholesale contribution fell to 22% (41%). The store network increased from 1,980 in FY19 to 2,650 in FY23, an 8% store expansion CAGR. Avg. space per EBO was 1,340 sq. ft. in FY23. 46 stores (net) were added in 9M FY24, taking the total to 2,696 across a retail area of 3.7m sq. ft. The company is pruning its store network by shutting poor-performing stores.

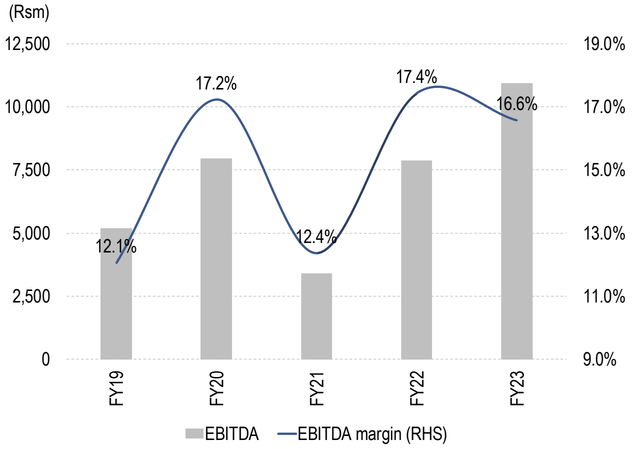
It continued to focus on premiumisation and casualisation as its strategic growth levers along with product innovation and markdown management. It has also been focusing on building brand extensions as a growth lever on the launch of new categories such as the premium sneaker range in Louis Phillipe.

Fig 8 – Lifestyle brands revenue trends



Source: Company

Fig 9 – Lifestyle brands EBITDA and EBITDA-margin trends



Source: Company *Note: FY19 is Pre IND AS 116*

Fig 10 – Lifestyle brands key performance indicators

	FY19	FY20	FY21	FY22	FY23
Walk-ins (m)	7.9	7.0	3.9	4.3	9.5
Conversion, %	*50.0*	*55.0*	*83.0*	*89.0*	*90.0*
Avg. selling price (ASP) (Rs/piece)	1,714	1,626	1,680	1,701	1,881
Avg. bill value (ABV) (Rs)	4,256	4,072	3,693	3,844	4,576
Items per bill (no.)	2.5	2.5	2.2	2.3	2.4
LTL volume growth, %	*4.0*	*3.0*	*(9.0)*	*25.0*	*26.0*
LTL ASP growth, %	*1.0*	*1.0*	*(11.0)*	*16.0*	*12.0*
LTL value growth, %	*5.3*	*4.5*	*(19.6)*	*46.0*	*40.0*

Source: Company

Fig 11 – Lifestyle brands peer comparison

	CAGR (FY19-FY23) (%)		EBITDA margin (%)					EV/EBITDA (x)		P/E (x)	
	Revenue	EBITDA	FY19	FY20	FY21	FY22	FY23	FY25	FY26	FY25	FY26
Lifestyle brands *	11.3	20.5	12.1	17.2	12.4	17.4	16.6	16.9	14.0	NA	NA
Kewal Kiran	11.6	7.8	22.3	18.0	6.2	16.5	19.5	20.1	17.0	26.4	22.5
Arvind Fashions - Power brands **	9.8	7.4	12.3	12.7	7.6	9.5	11.3	10.1	8.4	36.9	25.0
Trent	33.0	47.4	8.7	15.5	6.6	12.8	13.0	54.3	42.6	104.3	77.5
Go Fashion	23.6	27.6	28.0	32.3	18.5	30.5	31.9	21.5	17.4	52.5	39.8
Vedant Fashion	14.1	18.9	41.9	43.0	43.0	47.6	49.5	27.6	23.1	43.6	35.8

*Source: Company, Bloomberg, Anand Rathi Research Note: FY19 EBITDA & EBITDA margin is Pre IND AS 116 *EV/EBITDA and P/E for combined ABFRL entity **EV/EBITDA and P/E for Arvind Fashions Consolidated*

Casual brands include American Eagle and Forever 21. The company has been focusing on ramping up its network expansion for American Eagle and strengthened its position as a formidable denim brand. The brand reported 79%/89% y/y revenue growth in FY22/FY23, led by continued network expansion and healthy comparable growth.

The company has been struggling with Forever 21 since its acquisition in 2016. With keener competition from the likes of H&M and higher customs duty on imported apparel, Forever21 had been struggling prior to ABFRL's acquisition. It reported 13%/40% y/y revenue growth in FY22/FY23. However, with the tough demand environment in the value segment and stiffer competition, the brand has been faced with growth challenges in

FY24. It has been focusing on network rationalisation, driving operational efficiency and expanding the e-commerce channel for the brand.

The company has been focusing on its **innerwear and athleisure** portfolio through relentless distribution expansion, strong e-commerce growth and launching products. It reported 33% y/y growth over both FY22 and FY23. However, the segment has been hit due to sluggish demand for athleisure and poor secondary sales in the trade channel. Ahead, distribution expansion and athleisure/activewear would be chief growth levers for management. Innerwear, per management, would turn profitable by end-FY25 or early FY26. Trade outlets increased from 14,000 in FY19 to 34,300 in 9M FY24.

Reebok reported another quarter of Rs1bn+ sales in Q3 FY24, led by continued distribution expansion and better store throughput. It continued to expand across channels and strengthen its product range by introducing new sports categories such as cricket, tennis and badminton. The company acquired the rights to distribute and sell Reebok in India and other ASEAN countries for Rs750m-1000m. The transition for this was completed in Oct'22. The brand has already achieved break-even and is expected to be profitable in its first full year of operations. 39 Reebok stores have been added in CY23, expanding operations to 161 EBOs and 185 departmental stores.

Valuation. We arrive at Rs254/share for MFL. We assign 15x FY26e EV/EBITDA (12.5x earlier) to Lifestyle brands, a slight premium to peers on account of its mature brands with high brand equity, high RoCE and well-managed working capital. We assign 1x FY26e EV/sales to the other brands (casual wear, innerwear, Reebok). We have raised our target multiple for Lifestyle brands as it doesn't have to fund the losses of the newer businesses and can utilise its cash for own growth. Further the capital allocation is likely to improve as the two entities become separate and have separate access to capital.

We expect MFL to have minimal to no debt due to strong cash generation by the Lifestyle brands. Per our estimates, Forever 21 and the innerwear business are drags for MFL, which might have minimal debt due to investments to turn around these businesses. Hence, we have assumed overall MFL to have nil net debt.

We believe MFL post-demerger can see a multiple re-rating, led by its superior brand equity, stable margins, well-managed working capital and strong cash-flows. Its low growth could be a drag, which can be accelerated if management uses the company's cashflows for its own growth (vs. earlier using it to fund losses of other businesses). We believe a clearer capital allocation strategy of the resultant MFL entity will re-assure us regarding the company's de-merger decision.

Fig 12 – MFL valuation summary – post-demerger

Business segment	FY26e	Target multiple (x)	EV (Rs m)
Lifestyle brands (EBITDA Rs m)	16,026	15.0	240,392
Others (sales Rs m)	17,315	1.0	17,315
Sum-of-parts value	**33,341**		**257,707**
Net debt			-
Shareholder value			257,707
No. of shares (m)			1,015
TP (Rs)			**254**

Source: Anand Rathi Research

We expect Lifestyle brands to report a 13% revenue CAGR over FY24-26, driven by healthy comparable growth, network and category expansions. Led by premiumisation and economies of scale, we expect a ~200bp EBITDA margin expansion over FY23-FY26 to ~19% (~17% in FY23). For the other brands (casual wear, innerwear, Reebok) we have assumed a ~20% revenue CAGR over FY24-FY26 (on a relatively lower base) led by network expansion and comparable growth.

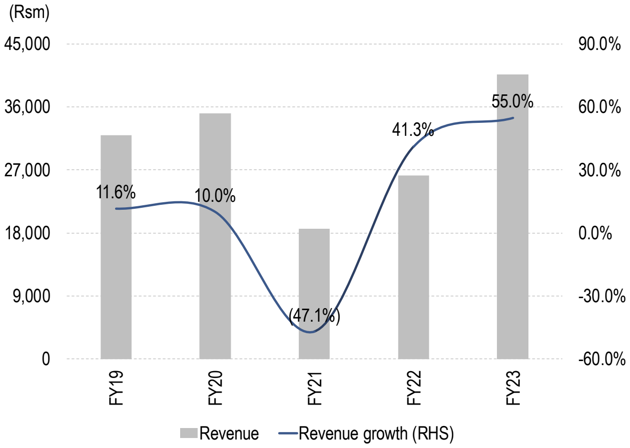
ABFRL

The de-merged ABFRL entity will consist of value retail (Pantaloons, Style Up), the ethnic portfolio (incl. TCNS), luxury brands (The Collective, Galleries Lafayette and select others) and digital brands under TMRW.

Pantaloons was hit by the dull demand environment and stiffer competition in the value segment. It reported a 6% revenue CAGR over FY19-23. Pre-Covid, the segment was struggling; Covid-19 added to its woes. Pantaloons has reported average EBITDA margin of ~15% margin over FY20-23, powered by the higher mix of private labels, better cost-control management and focus on full-price sales.

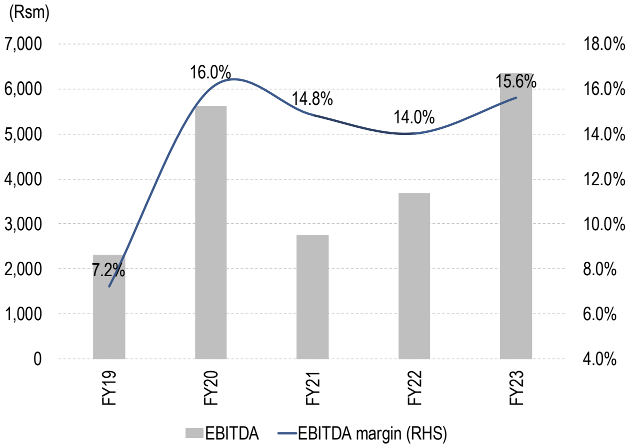
Private brands brought 64% to revenue in 9M FY24, MFL brands 10%, other brands 26%. Pantaloons reported a 9% store expansion CAGR over FY19-23 to 431 stores in FY23 (from 308 in FY19). 15 stores (net) were added in 9M FY24, taking the total to 446.

Fig 13 – Pantaloons' revenue trends



Source: Company

Fig 14 – Pantaloons' EBITDA and EBITDA-margin trends



Source: Company Note: FY19 is Pre IND AS 116

Fig 15 – Pantaloons' key performance indicators

	FY19	FY20	FY21	FY22	FY23
Walk-ins (m)	54.0	57.0	23.0	36.0	62.0
Conversion, %	*24.3*	*26.1*	*31.5*	*26.2*	*21.6*
Avg. selling price (ASP) (Rs/piece)	643	665	649	727	813
Avg. bill value (ABV) (Rs)	1,880	2,001	2,075	2,325	2,468
Items per bill (no.)	2.9	3.0	3.2	3.2	3.0
LTL volume growth, %	*3.1*	*(2.1)*	*(50.5)*	*18.0*	*31.5*
LTL ASP growth, %	*(1.7)*	*4.9*	*(1.7)*	*12.7*	*12.1*
LTL value growth, %	*1.4*	*2.7*	*(51.3)*	*33.0*	*47.5*
No. of stores	308	342	346	377	431
Total retail area (m sq.ft.)	4.0	4.4	4.5	4.9	5.7
High Street vs. mall store mix, %	40	42	42	44	48

Source: Company

Fig 16 – Pantaloons peer comparison

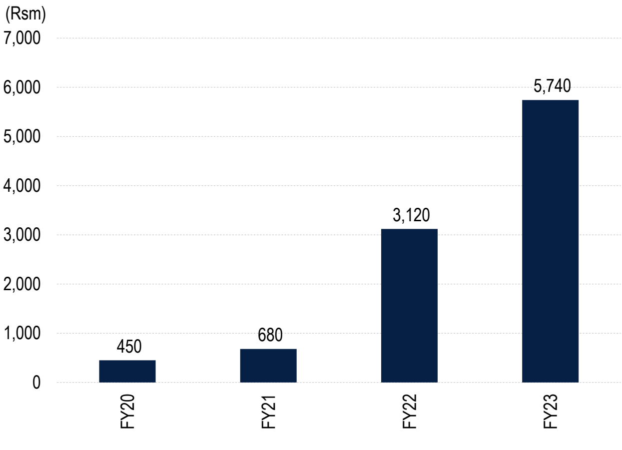
	CAGR (FY19-FY23) (%)		EBITDA margin (%)					EV/EBITDA (x)		P/E (x)	
	Revenue	EBITDA	FY19	FY20	FY21	FY22	FY23	FY25	FY26	FY25	FY26
Pantaloons *	6.2	28.8	7.2	16.0	14.8	14.0	15.6	16.9	14.0	NA	NA
Trent	33.0	47.4	8.7	15.5	6.6	12.8	13.0	54.3	42.6	104.3	77.5
Vmart	14.5	19.3	9.3	12.9	12.2	12.3	10.9	17.8	12.6	NA	101.2
Shoppers Stop	3.0	29.7	6.9	15.9	2.5	10.7	17.3	12.5	10.2	52.6	37.9
Dmart	21.0	22.2	8.2	8.6	7.2	8.1	8.5	57.5	46.7	89.0	72.2

Source: Company, Bloomberg, Anand Rathi Research *Note: FY19 EBITDA & EBITDA margin is Pre IND AS 116* **EV/EBITDA and P/E for combined ABFRL entity*

ABFRL started building its **ethnic portfolio** on acquiring Jaypore in Jun'19. Over FY20-22 it has partnered with Shantanu N Nikhil, Sabyasachi, Tarun Tahiliani and Masaba to build its ethnic portfolio, for a consideration of Rs7,250m (incl. Jaypore). It acquired a 51% stake in TCNS in Sep'23 for a consideration of Rs16.5bn. With these acquisitions, it is present across sub-segments for its ethnic product offerings in the value to luxury segments.

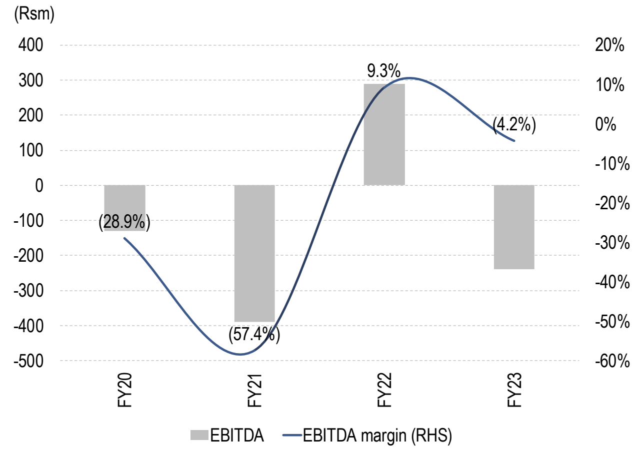
Its ethnic portfolio grew ~13x y/y over FY19-23 to Rs5.7bn. Its (EBITDA) loss was Rs240m in FY23 because of continuing investments to build this portfolio and higher marketing investments to build brand visibility. Jaypore and Tasva have been dragging on the segment's performance. The ethnic segment's (incl. TCNS from Q3) 9M FY24 revenue grew ~2x y/y to Rs8.3bn and the (EBITDA) loss fell to Rs110m (vs. Rs280m loss a year ago).

Fig 17 – Ethnic brands' revenue trends



Source: Company

Fig 18 – Ethnic EBITDA and EBITDA-margin trends



Source: Company

The company's **luxury brands** include multi-brand format 'The Collective', Galleries Lafayette and select others. The Collective has been reporting robust growth, consistently doing well in the mono-brand range (Hackett, Fred Perry, Ted Baker, Ralph Lauren), strong performance in the e-comm portal TheCollective.IN, continued network expansion, targeted marketing campaigns and healthy comparable growth. It reported ~60% y/y growth to Rs3.5bn in FY23, powered by 41% comparable growth.

ABFRL further partnered with Galleries Lafayette in Nov'22 to open luxury department stores and a dedicated e-com platform in India. It will be opening two flagship stores, in Mumbai and Delhi, expected to be operational by 2024-25.

In Nov'22 for a total consideration of Rs2,890m, ABFRL's **D2C** subsidiary 'TMRW' partnered with eight digital-first brands: Berrylush, Bewakoof, Juneberry, Natilene, Nauti Nati, Nobero, Urbano and Veirdo. Further, in Oct'23 for a consideration of Rs1,550m it partnered with Styleverse Lifestyle Pvt. Ltd. (The Indian Garage Co.). It has invested Rs7.5bn in TMRW. It has now largely completed acquisitions to grow its digital-first brands portfolio. Per management, for any subsequent brand additions, TMRW will have to raise its own funds which may happen towards next year end.

It reported Rs1.1bn and Rs3.1bn revenue respectively in FY23 and 9M FY24. Losses (EBITDA) rose to Rs1.2bn in 9M FY24 (vs. a Rs640m loss in FY23). Management says it would take a minimum three years for the portfolio to turn profitable.

Valuation. We arrive at Rs40/share for ABFRL, post-demerger. Its various divisions lead us to value it on a sum-of-parts basis. Segment-wise, we assign 10.5x FY26e EV/EBITDA to Pantaloons, and 10x to TCNS. To the other segment (ethnic wear brands excl.-TCNS, luxury and D2C brands) we assign 1x FY26e EV/sales.

According to our estimates, most of the businesses left with ABFRL post-demerger are currently cash-flow negative. We expect it (post-demerger) to have the bulk of the debt (Rs28.8bn consolidated net debt as per our FY24e) due to debt taken to fund investments (Pantaloons cash-burn and acquisitions - ethnic wear, TMRW, TCNS). In the past, the acquisitions and cash losses in these businesses were funded by Lifestyle brands' strong cash-flows. However, with such cash-flows not available to ABFRL to use post-demerger, it will have to raise capital to fund its growth requirements.

Fig 19 – ABFRL valuation summary – post-demerger

Business segment	FY26e	Target multiple (x)	EV (Rs m)
Pantaloons (EBITDA, Rs m)	8,221	10.5	86,318
Others (sales, Rs m)	13,839	1.0	13,839
TCNS (EBITDA, Rs m)	2,191	10.0	11,172
Sum-of-parts bvalue	24,251		111,330
Debt			73,229
Cash			2,570
Net debt			70,659
Shareholder value			40,671
No. of shares (m)			1,015
TP (Rs)			**40**

Source: Anand Rathi Research

We expect Pantaloons to report an 11% revenue CAGR over FY24-26 led by the better macro environment, driving growth in value retail, network expansion and comparable growth. We expect it to deliver a consistent, ~15%, EBITDA margin over FY25-26. We have built in Rs14.6bn revenue for TCNS and a 15% EBITDA margin in FY26.

Valuation

We revise our sum-of-parts valuation to reflect the two separate entities. We upgrade our rating to a Buy with a revised TP of Rs294 a share. We assign Rs254 to the resultant Madura entity and Rs40 to the residual ABFRL businesses.

Fig 20 – Sum-of-parts valuation summary

Entity	TP/share
MFL (Fig 12)	254
ABFRL (Fig 19)	40
TP combined entity	**294**
CMP	237
Up / (Downside)	**24.0%**

Source: Anand Rathi Research

Fig 21 – Valuation parameters

	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	NA	NA	NA	NA	NA
EV / EBITDA (x)	28.8	18.9	21.5	15.8	12.2
EV / Sales (x)	3.9	2.3	2.2	2.0	1.7
RoE (%)	(4.4)	(1.9)	(16.2)	(6.3)	0.3
RoCE (%)	2.2	4.0	(1.4)	1.7	6.2

Source: Company, Anand Rathi Research

Risks

- Keen competition denting revenue growth.
- Mounting losses in its Fast Fashion and other businesses, piling pressure on the overall profitability.
- Turnaround in new initiatives such as the ethnic range, D2C businesses, etc., may take time and, thus, curtail overall profitability.
- Rising debt on funding acquisitions and partnerships.

Appendix

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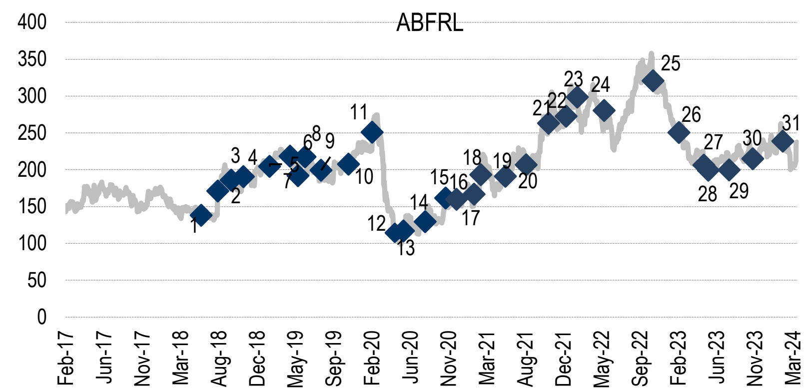

	Date	Rating	TP (Rs)	Share Price (Rs)
16	8-Nov-20	**Hold**	184	153
17	9-Feb-21	**Buy**	206	165
18	2-Mar-21	**Hold**	225	208
19	29-May-21	**Hold**	204	190
20	1-Aug-21	**Hold**	245	227
21	8-Nov-21	**Hold**	333	287
22	20-Dec-21	**Buy**	349	258
23	5-Feb-22	**Buy**	353	295
24	24-May-22	**Buy**	358	267
25	7-Nov-22	**Buy**	421	331
26	8-Feb-23	**Buy**	370	250
27	10-May-23	**Buy**	255	199
28	23-May-23	**Hold**	219	195
29	7-Aug-23	**Hold**	211	199
30	10-Nov-23	**Hold**	232	216
31	17-Feb-24	**Hold**	255	231

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