July 21, 2022

Aditya Birla Fashion and Retail Limited: Ratings reaffirmed; outlook revised to Positive from Stable; rated amount enhanced for bank facilities

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	15.7	10.00	[ICRA]AA; reaffirmed and outlook revised to Positive from Stable
Long-term, Fund-based/Non-fund Based Facilities	2,273.0	2,490.00	[ICRA]AA; reaffirmed and outlook revised to Positive from Stable
Commercial Paper Programme	2,000.00	1,250.00	[ICRA]A1+; reaffirmed
Total	**4,288.7**	**3,750.00**	

^Instrument details are provided in Annexure-1

Rationale

The revision in the outlook on the long-term rating of Aditya Birla Fashion and Retail Limited (ABFRL or the company) factors in ICRA's expectation of a healthy improvement in the company's financial risk profile, led by fund infusion of Rs. 2,195 crore over the next two years and healthy growth in revenue and profitability in its Madura and Pantaloons segments.

ABFRL's board of directors on May 24, 2022 had approved fund raising of up to Rs.2,195 crore by issuing equity shares and warrants on a preferential allotment basis to Caladium Investment Pte. Limited, an affiliate of GIC, Singapore's sovereign wealth fund. Of this, Rs. 770 core is expected to be infused by H1 FY2023, followed by Rs.1,425 crore in one or more tranches within 18 months upon exercise of warrants. Post the entire investment, GIC will own a ~ 7.5% equity stake in ABFRL. The company plans to use this capital to accelerate its current businesses growth, with a large part of funding to be used for expanding the Pantaloons franchise, followed by its ethnic wear and innerwear segments.

The retail sector's recovery post the second wave was strong, aided by relaxation in Covid-19 related restrictions, and improved customer footfalls led by growing vaccination coverage. ABFRL witnessed a strong uptick in revenues of both Madura and Pantaloons segments on the back of an improvement in consumer sentiments and rapid store expansion in FY2022. Along with healthy growth in e-commerce sales, this led to consolidated revenues of Rs. 8,136.2 crore in FY2022, reflecting a YoY growth of 55%. The operating margins also improved YoY to 13.5%, though the same remained lower than FY2020 levels, due to intermittent impact of Covid waves and normalisation of overhead expenses. Going forward, ABFRL's continued focus on store additions across all the formats are expected to adequately support its revenues.

The ratings continue to favourably factor in ABFRL's strong business profile and leadership position in the domestic branded apparel industry, supported by its diverse product portfolio and extensive multi-channel reach across India. The ratings continue to derive comfort from ABFRL's superior financial flexibility for being a part of the Aditya Birla Group (ABG) and ICRA's expectation that the Group would provide need-based funding support to ABFRL. As a part of ABG, ABFRL also receives operational support and benefits from the extensive experience of the management team, which facilitates superior execution capabilities. The liquidity position of the company remains adequate, with unencumbered cash and bank balances as well as liquid investments (consolidated) of ~Rs. 724 crore, and unutilised fund-based bank limits of ~Rs. 1,037 crore as on April 30, 2022.

ICRA notes the intense competition in the fashion segment in which ABFRL operates, characterised by domestic as well as international brands along with a few established retail players. Besides, the business remains vulnerable to any economic slowdown. The ratings are also constrained by the continued operating losses in the business segments like innerwear and athleisure as well as the recently acquired ethnic businesses, although the same are expected to break even in the next two years.

ICRA has also reduced the CP limits to Rs.1,250 crore from Rs.2,000 crore at the request of the client. Further, the company does not have any outstanding CP as on date.

Key rating drivers and their description

Credit strengths

Strong parentage of the Aditya Birla Group and extensive experience of the management – As a part of the Aditya Birla Group, ABFRL enjoys financial flexibility and receives need-based funding and operational support from the Group. The same was demonstrated by the rights issue of Rs. 1,000 crore in FY2021, of which 66% was subscribed by the promoter group. Besides, the extensive experience of the management team facilitates superior execution capabilities, thereby driving growth in revenues and profitability.

Largest branded apparel player in India with a diverse product portfolio and extensive multi-channel reach – ABFRL is the largest branded apparel player in India, with a diverse product portfolio and brand offerings across various price points from value to luxury segments. The Madura division of ABFRL is the largest branded menswear player in India. The Pantaloons division is one of the leading players in the value fashion segment and is among the largest womenswear retailer in India. As of March 31, 2022, the company operated 3,091 brand stores and 377 stores under the Pantaloons division.

Comfortable financial profile, expected to strengthen further, going forward – ABFRL's consolidated net debt stood at Rs. 504.0 crore as on March 31, 2022 against Rs. 2509.1 crore as on March 31, 2020. In July 2020, ABFRL successfully completed its rights issue of ~Rs. 1,000 crore, of which Rs. 500 crore was received in July 2020, Rs. 250 crore in January 2021 and Rs. 250 crore in August 2021. Additionally, ABFRL made a preferential allotment to Flipkart in January 2021 and raised Rs. 1,500 crore for a 7.8% equity stake. The proceeds of the rights issue and the Flipkart investment were primarily utilised for the repayment of debt. Going forward, ICRA expects further improvement in the financial risk profile, led by proposed fund infusion of Rs. 2,195 crore and improvement in the cash flows from the existing business.

Credit challenges

Continued operating losses in Van Heusen's range of innerwear and recently acquired ethnic business – ABFRL's margin expansion is restricted by the continued losses (albeit reducing) in the Van Heusen's range of innerwear and the recently acquired ethnic business.

Intensely competitive nature of fashion business; revenues and profitability also remain vulnerable to economic slowdown – The fashion segment, in which the company operates, is very competitive, marked by the presence of domestic and international brands as well as established retail players. Besides, the business remains vulnerable to economic slowdown on account of the discretionary nature of consumer spending on these products.

Liquidity position: Adequate

The liquidity position of the company remains adequate, with unencumbered cash and bank balances as well as liquid investments (consolidated) of ~Rs. 726.4 crore, along with unutilised fund-based limits of Rs. 1,037 crore as on April 30, 2022. The company has scheduled debt repayments of around Rs. 434 crore and Rs. 330 crore in FY2023 and FY2024, respectively and is estimated to incur ~Rs. 600-700 crore of capital expenditure (capex) towards new store additions each year in FY2023 and FY2024. This apart, company is expected to invest in its recently incubated direct-to-consumer (D2C) business over the period of next two years. This is expected to be adequately funded through healthy cash flows as well as Rs. 2,195 crore of proposed funded infusion in FY2023 and FY2024. Of this, Rs. 770 crore is expected to be received by H1 FY2023 and the balance Rs. 1,425 crore is expected to be received over the next 12-18 months.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company is able to report a healthy improvement in its return metrics along with a sustained growth in revenues and operating profit margins (OPM) while maintaining healthy coverage metrics and adequate liquidity position.

Negative factors – The outlook on the ratings may be revised to stable in case a sharp decline in sales/ profitability or if any significant debt-funded capex adversely impacts its credit metrics and/or the liquidity position. Any weakening of linkages with the Aditya Birla Group would also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Retail Rating approach – Implicit Support from Parent or group
Parent/Group Support	Parent Group - Aditya Birla Group ICRA expects Aditya Birla Group to be willing to extend need-based financial support to ABFRL. The Group has a track record of extending timely financial support to ABFRL, whenever a need arose.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ABFRL. As on March 31, 2022, ABFRL had five subsidiaries and one joint venture (JV) that are enlisted in Annexure-2. ICRA has also factored in investments in the D2C business.

About the company

ABFRL is a result of the consolidation/merger of the branded apparel business of the Aditya Birla Group, comprising Aditya Birla Nuvo Limited's (ABNL; now Grasim Industries Limited) Madura Fashion division, ABNL's subsidiary, Pantaloons Fashion and Retail Limited (PFRL), and Madura Lifestyle, the luxury branded apparel retailing division of Madura Garments Lifestyle Retail Company Limited (MGLRCL; erstwhile subsidiary of ABNL), in May 2015. Following the consolidation, PFRL has been renamed as ABFRL. This scheme of arrangement became effective from January 9, 2016, with effect from the appointed date of April 1, 2015.

ABFRL has three divisions at present—Madura Fashion and Lifestyle (Madura), Pantaloons and the ethnic segment. Madura is the largest branded men's wear player in India. It has three segments—Lifestyle Brands, Fast Fashion and Other Businesses. The Lifestyle Brands segment, which is the main business of Madura, houses India's leading premium apparel brands like Louis Philippe, Van Heusen, Allen Solly and Peter England. The Fast Fashion segment comprises the Forever 21 (which was acquired in July 2016) and American Eagle brands. The Madura division also includes other fashion formats like The Collective, other mono-brands and Van Heusen's range of innerwear and athleisure. The Pantaloons format operates in the lifestyle retail segment across varied categories like casual wear, ethnic wear, formal wear, party wear and sportswear for men, women and children. It also operates in the non-apparel segment, which primarily comprises beauty and home products, fashion jewellery, footwear, and accessories. It is one of the leading value fashion retailers and is the largest branded women's wear retailer in India.

The company has forayed into the premium and luxury ethnic wear segment during the last three years. The premium segment journey began with Jaypore in 2019, which is an artisanal brand, and subsequent addition of Shantanu & Nikhil. In FY2021, the company expanded its luxury play with addition of Sabyasachi and Tarun Tahiliani to its portfolio of designer partnerships. In June 2022, it acquired a 52.4% stake in the House of Masaba Lifestyle Private Limited. In December 2021, ABFRL also entered into an agreement to acquire exclusive online and offline rights to the global brand, Reebok, for the Indian market.

Key financial indicators (Audited, Consolidated)

	FY2021(A)	FY2022(A)
Operating Income (Rs. crore)	5,248.9	8,136.2
PAT (Rs. crore)*	-735.7	-120.7
OPBDIT/OI (%)	10.6%	13.5%
PAT/OI (%)	-14.0%	-1.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	3.3
Total Debt/OPBDIT (times)	6.5	3.7
Interest Coverage (times)	1.1	3.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA's calculations

^The financial statements of FY2021 and FY2022 are reported numbers, based on Ind AS 116

**PAT excludes the share of profit from JV and associates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jul 21,2022	Sep 2, 2021	Sep 7, 2020	Apr 28, 2020	May 31, 2019
1	Term Loans	LT	10.0	10.0	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
2	Fund-based / Non-fund Based Facility	LT	2,490.0	-	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
3	Unallocated	LT	-	-		-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	LT	-	-	-	[ICRA]AA (Stable), withdrawn	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
5	Non-convertible Debenture Programme	LT	-	-	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)
6	Non-convertible Debenture Programme	LT	-	-	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)
7	Commercial Paper Programme	ST	1,250	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore, @- On watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Very Simple
Fund-based / Non-fund Based Facility	Simple

Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loans	Mar-18	-	Mar-25	10.0	[ICRA]AA (Positive)
-	Fund-based / Non-fund Based Facility	-	-	-	2,490.0	[ICRA]AA (Positive)
-	Commercial Paper Programme#		-	-	1,250	[ICRA]A1+

Source: Company; # Commercial Paper outstanding as on date is nil

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	ABFRL Ownership	Consolidation Approach
Jaypore E-Commerce Private Limited	100%	Full Consolidation
TG Apparel & Décor Private Limited	100%	Full Consolidation
Finesse International Design Private Limited	58.69%	Full Consolidation
Sabyasachi Calcutta LLP [formerly M/s. Sabyasachi Couture]	51%	Full Consolidation
Indivinity Clothing Retail Private Limited	80%	Full Consolidation
Goodview Fashion Private Limited	33.5%	Equity method

***Source**: Company*

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