March 31, 2017

Aditya Birla Fashion and Retail Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term loans	377.39 (reduced from 900.00)	[ICRA]AA (Stable); re-affirmed
Long-term, fund based / non-fund based limits	541.00 (enhanced from 100.00)	[ICRA]AA (Stable); re-affirmed
Long-term, unallocated	331.61 (earlier nil)	[ICRA]AA (Stable); re-affirmed
Non-Convertible debenture programme	860.00	[ICRA]AA (Stable); assigned
Non-Convertible debenture programme	400.00	[ICRA]AA (Stable); re-affirmed
Non-Convertible debenture programme	200.00	[ICRA]AA (Stable); withdrawn
Commercial paper programme	1250.00 (enhanced from 750.00)	[ICRA]A1+; re-affirmed /

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has re-affirmed the long-term rating of [ICRA]AA (pronounced ICRA double A)[1] assigned to the Rs. 377.39 crore[2] (reduced from Rs. 900.00 crore) long-term loans, the Rs 541.00 crore (enhanced from Rs. 100.0 crore) long-term, fund based / non-fund based limits, Rs 331.61 crore unallocated limits, and the Rs 400.0 crore non-convertible debenture programme of Aditya Birla Fashion and Retail Limited (ABFRL). ICRA has also assigned an [ICRA]AA (pronounced ICRA double A) rating to the Rs. 860.00 crore non-convertible debenture programme of the company, The outlook on the long term rating is Stable. ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1,250.00 crore (enhanced from Rs. 750.00 crore) commercial paper programme of the company.

ICRA has also withdrawn the long-term rating of [ICRA]AA (Stable) assigned to the Rs. 200.0 crore non-convertible debenture programme of the company as there is no amount outstanding against the rated instruments.

Detailed Rationale

The ratings re-affirmation factors in the strong parentage of the Aditya Birla group enjoyed by ABFRL which lends financial flexibility as well as operational expertise. The ratings also favorably factor in the market leadership position of ABFRL within the branded apparel industry, its diverse product portfolio and extensive multi-channel reach across India.

The ratings also derive comfort from the improvement in the revenues and profitability metrics of the Pantaloons business in 9M FY2017 aided by store additions, increase in revenue contribution of own brands as well as the healthy demand for the value fashion segment, resulting in improved same-store-sales growth. The management's decision to reduce discounting in the Madura division might impact the revenues and profitability of the division in the near term; the same are however expected to improve over

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

the medium term given the intrinsic strength of the Madura brands. This remains a key rating sensitivity. Besides, improvement in the profitability metrics of newly acquired Forever 21 brand is a key rating monitorable.

With the consolidation of the higher EBITDA generating Madura segment into and with Pantaloons segment, while the overall financial profile of ABFRL improved in FY2016 and 9M FY2017, it continues to remain moderate, marked by high debt levels. ICRA also notes that ABFRL operates in the highly competitive fashion segment characterised by presence of domestic and international brands and few but well-established retail players. Further, the business remains vulnerable to economic slowdown. Nonetheless, the extensive experience of the management team and business building initiatives undertaken by the company are expected to facilitate superior execution capability and drive future growth in revenues and profitability.

Key rating drivers

Credit Strengths
- Strong parentage of the Aditya Birla group lends financial flexibility and operational expertise
- Largest branded apparel player in India with a diverse product portfolio and extensive multi-channel reach across India
- Improvement in revenues and profitability metrics of the Pantaloons business in 9M FY2017

Credit Weakness
- Weakened performance of the Madura segment over the last one year on account of calibrated discounting; however, it is expected to improve over the medium term given the intrinsic strength of the Madura brands
- Moderate financial profile marked by high debt levels
- Highly competitive nature of the fashion segment; revenues and profitability of the business additionally remain vulnerable to economic slowdown

Description of key rating drivers highlighted above:

ABFRL is the largest branded apparel player in India, with a diverse product portfolio and has brand offerings across various price points- from value to luxury segment. The Madura division of ABFRL is the largest branded menswear player in India. The Pantaloons division of ABFRL is one of the leading players in the value fashion segment and the largest branded womenswear retailer in India.

The performance of the Pantaloons division, which had earlier been impacted due to transition issues (post its acquisition), has been gradually improving over the last three years. The revenue and profitability metrics of the division witnessed improvement in 9M FY2017 aided by store additions, increase in revenue contribution of own brands as well as improved positioning of the Pantaloons format (from that of department store to a value fashion retailer). This coupled with the healthy demand for the value fashion segment led to healthy YoY revenue and EBITDA growth of 21% and 56%, respectively, in 9M FY2017.

The YoY revenue growth of Madura business moderated in FY2016 and 9M FY2017 to 7% and 1%, respectively, owing to demand slowdown in the premium apparel segment as well as calibrated discounting by the management. The performance of the segment was additionally impacted in Q3 FY2017 by demonetisation led cash crunch. EBITDA of Madura division also weakened due to early End of season sale (EOSS), losses of the newly acquired Forever 21 brand and recently launched Van Heusen's range of innerwear for men.

The financial profile of the company, though improved following consolidation of high EBITDA generating Madura business, remains moderate on account of high debt levels. The fashion segment, in which the company operates, also remains highly competitive, marked by presence of domestic and international brands and well-established retail players. Further, the business remains vulnerable to economic slowdown on account of the discretionary nature of spending on these products. Nonetheless, the extensive experience of the management team and business building initiatives undertaken by the company are expected to facilitate superior execution capability and drive future growth in revenues and profitability. Further, the company also benefits from the strong parentage of the Aditya Birla group which lends financial flexibility and operational expertise.

Analytical approach:
Links to applicable Criteria
http://www.icra.in/Files/Articles/Retail%20Rating-Methodology-Final.pdf

About the Company
Aditya Birla Fashion and Retail Limited (ABFRL), in its present form, is a result of consolidation / merger of branded apparel business of Aditya Birla Group comprising Aditya Birla Nuvo Limited's (ABNL) 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; then subsidiary of ABNL) in May 2015. Post the consolidation, PFRL was renamed as ABFRL. This scheme of arrangement became effective from January 9, 2016 with effect from the appointed date of April 1, 2015.

ABFRL currently has two divisions under its umbrella- Madura Fashion & Lifestyle (Madura) and Pantaloons. Madura is the largest branded men's wear player in India; it houses India's leading premium apparel brands (the company holds perpetual license to manufacture and sell these brands in India) like Louis Philippe, Van Heusen, Allen Solly, Peter England and People. The division also includes other fashion formats – Planet Fashion, The Collective, Hackett London In July 2016, ABFRL acquired the exclusive online and offline rights to the global brand-Forever 21, for the Indian market and its network of 12 stores in India. Headquartered in Los Angeles, Forever 21 is a fashion brand targeted at teens and young adults and mainly deals in fashion clothing and garment accessories.

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 Kids. It also operates in non-apparel segment which primarily comprises Beauty Products, Fashion Jewellery, Footwear, Sports Division and Watches. It is one of the leading value fashion retailers and the largest branded womenswear retailer in India.

As per audited financials for the 12-month period ended March 31, 2016, ABFRL reported a net loss of Rs. 104.1 crore on an operating income (OI) of Rs. 6,060.1 crore, as against a net loss of Rs. 228.1 crore on an OI of Rs. 1,850.7 crore for the 12-month period ended March 31, 2015. The financial numbers are however not comparable, since the Madura business was consolidated with PFRL with effect from April 1, 2016..As per the unaudited financials for the nine month period ended December 31, 2016, ABFRL reported a profit after tax of Rs 31.7 crore on an OI of Rs 5,009.0 crore, as against a net loss of Rs. 0.8 crore on an OI of Rs. 4,599.1 crore for the nine month period ended December 31, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S No	Name of the instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount Rs crore	Month and year of rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				Mar-17	Jan-16	Sep-14	May-13
1	Term loans	Long-term	377.39	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based / Non-fund based limits	Long-term	541.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated limits	Long-term	331.61	[ICRA]AA (Stable)			
4	Non-convertible debenture programme	Long-term	1260.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Commercial paper programme	Short-term	1250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Non-convertible debenture programme	22-May-13	9.20%	22-May-18	100.00	[ICRA]AA (Stable)
Non-convertible debenture programme	5-May-16	8.84%	12-Apr-19	200.00	[ICRA]AA (Stable)
Non-convertible debenture programme	31-May-16	8.73%	31-May-19	300.00	[ICRA]AA (Stable)
Non-convertible debenture programme	10-Oct-16	8.20%	20-Apr-20	400.00	[ICRA]AA (Stable)
Non-convertible debenture programme	17-March-17	7.70%	17-June-21	260.00	[ICRA]AA (Stable)
Term loans			1-Oct-17	1.02	[ICRA]AA (Stable)
Term loans			27-Sep17	1.02	[ICRA]AA (Stable)
Term loans			4-Sep-18	6.15	[ICRA]AA (Stable)
Term loans			23-Mar-22	5.00	[ICRA]AA (Stable)
Term loans			23-Mar-22	5.00	[ICRA]AA (Stable)
External commercial borrowing (ECB)			11-Jan-18	9.20	[ICRA]AA (Stable)
Working capital demand loans				350.00	[ICRA]AA (Stable)
Unallocated				331.61	[ICRA]AA (Stable)
Fund based/ Non-fund based limits				541.00	[ICRA]AA (Stable)
Commercial Paper	27-Dec-16	6.49%	27-Mar-17	50.00	[ICRA]A1+
Commercial Paper	08-Feb-17	6.55%	09-May-17	75.00	[ICRA]A1+
Commercial Paper	17-Feb-17	6.26%	29-Mar-17	100.00	[ICRA]A1+
Commercial Paper	22-Feb-17	6.46%	28-Apr-17	150.00	[ICRA]A1+
Commercial Paper	28-Feb-17	6.44%	02-May-17	175.00	[ICRA]A1+
Commercial Paper	14-Mar-17	6.43%	15-May-17	75.00	[ICRA]A1+
Proposed commercial paper borrowing programme				625.00	[ICRA]A1+

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