Aditya Birla Fashion and Retail Limited

April 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	377.39	30.49	[ICRA]AA (Stable); Re-affirmed
Long-term, Fund-based / Non-fund Based Facilities	541.00	1181.00	[ICRA]AA (Stable); Re-affirmed
Long-term, Unallocated	331.61	38.51	[ICRA]AA (Stable); Re-affirmed
Non-Convertible Debenture Programme (NCD)	1260.00	1260.00	[ICRA]AA (Stable); Re-affirmed
Commercial Paper Programme	1250.00	1250.00	[ICRA]A1+; Re-affirmed
Total	**3760.00**	**3760.00**	

*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. 30.49-crore[2] (reduced from Rs. 377.39 crore) term loans, the Rs. 1181.00-crore (increased from Rs. 541.00 crore) long term, fund-based / non-fund-based bank facilities, the Rs. 1260.00-crore non-convertible debenture programme and the Rs. 38.51-crore (reduced from Rs. 331.61 crore) unallocated limits of Aditya Birla Fashion and Retail Limited (ABFRL or the company). ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1250.00-crore commercial paper programme of the company. The outlook on the long-term rating is Stable.

Rationale

The ratings re-affirmation factors in the strong parentage of the Aditya Birla Group which lends financial flexibility and operational expertise to the company and extensive experience of the management team which facilitates superior execution capabilities. ABFRL enjoys a leadership position within the domestic branded apparel industry, supported by its diverse product portfolio and extensive multi-channel reach across India. The ratings also derive comfort from the improvement in performance of the Pantaloons division in FY2017 and 9M FY2018 aided by store additions, increase in revenue contribution of private label sales and the healthy demand for the value fashion segment.

The ratings are, however, constrained by the continued operating losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen's range of innerwear for men launched during H2 FY2017. The operating losses in these businesses have impacted the overall performance of the Madura division. However, the Lifestyle Brand segment of Madura division has witnessed an improvement in profitability in FY2017 and 9M FY2018 aided by rationalisation of stores and management's decision to reduce discounting so as to protect the intrinsic value and profitability of the brand. In 9M FY2018, the operating profit margins of the company was impacted due to a one-time provision of Rs. 26 crore during Q2 FY2018 towards Goods and Service Tax (GST) adjustment, Rs. 6 crore towards expenses related to shelved project and Rs. 16 crore write-off of Forever-21 inventory in Q3 FY2018. The financial profile of the company is moderate, characterised by gearing of 2.1 times as on March 31, 2017 and as on September 30, 2017 and moderate coverage indicators with TD/OPBDITA of 4.3 times and Interest coverage of 2.2 times in FY2017. ICRA also

[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*

notes the high competitive intensity in the fashion segment in which ABFRL operates, characterised by presence of domestic and international brands and few but well-established retail players. Furthermore, the business remains vulnerable to economic slowdown.

Outlook: Stable

The Stable outlook reflects ICRA's belief that ABFRL will continue to enjoy the financial flexibility being a part of the Aditya Birla Group and shall sustain the growth momentum and improvement in the performance of the Pantaloons business and the Lifestyle Brands business of Madura division. The outlook may be revised to Positive if the company shows improvement in profitability metrics supported by turnaround of the operations of the Forever-21 brand and curtailed losses in Van Heusen's innerwear segment. The outlook may be revised to Negative in case of any deterioration in the credit metrics of the company due to lower profitability or any significant debt-funded capital expenditure resulting in an increase in total debt.

Key rating drivers

Credit strengths

Strong parentage of the Aditya Birla Group and extensive experience of the management – ABFRL, being a part of the Aditya Birla Group, enjoys financial flexibility and receives operational support from the Group. Furthermore, the extensive experience of the management team facilitates superior execution capability, 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 segment. The Madura division of ABFRL is the largest branded menswear player in India and the Pantaloons division is one of the leading players in the value fashion segment and the largest branded womenswear retailer in India.

Improvement in performance of the Pantaloons division in FY2017 and 9M FY2018 – The performance of the Pantaloons division, which had earlier been impacted due to transition issues (following its acquisition by the Aditya Birla Group), has been gradually improving over the last three to four years. The revenues and profitability metrics of the division witnessed further improvement in FY2017 and 9M FY2018 aided by store additions, increase in revenue contribution of private labels to 61% in 9M FY2018 from 54% in FY2016 and improved positioning of the Pantaloons format (from that of department store to a value fashion retailer). Coupled with the healthy demand for the value fashion segment, this has resulted in a healthy YoY revenue growth of ~13% and improvement in operating profit margin to 6.6% in 9M FY2018 from 4.8% in FY2016.

Credit challenges

Continued operating losses in Forever-21 brand and gestation phase of Van Heusen's range of innerwear for men – Despite strong performance of the Lifestyle Brands business, the performance of the Madura division has been adversely impacted during FY2017 and 9M FY2018 due to continued operating losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen's range of innerwear launched in H2 FY2017. The operating profit margins of Madura division have thus declined from 9.0% in FY2016 to 8.3% in FY2017 and 6.8% in 9M FY2018.

Moderate financial risk profile, characterised by high debt levels – The financial profile of the company is moderate, characterised by gearing of 2.1 times as on March 31, 2017 and as on September 30, 2017 and moderate coverage indicators with TD/OPBDITA of 4.3 times and Interest coverage of 2.2 times in FY2017.

Highly competitive nature of the fashion business; revenues and profitability additionally remain vulnerable to economic slowdown – The fashion segment, in which the company operates, is highly competitive, marked by presence of domestic and international brands and well-established retail players. Furthermore, the business remains vulnerable to economic slowdown on account of the discretionary nature of spending on these products.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below**.**

Links to applicable criteria:

Rating Methodology for Entities in the Indian Textiles Industry - Apparels

Rating Methodology for Entities in the Retail Industry

Corporate Credit Rating Methodology

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's, 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; 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 - Madura Fashion and Lifestyle (Madura) and Pantaloons. Madura is the largest branded men's wear player in India. Madura division has three segments – Lifestyle Brands, Fast Fashion and Other Businesses. Lifestyle Brands segment, which is the main business of Madura, 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 and Peter England. The Fast Fashion segment comprises People brand and Forever 21 brand acquired in July 2016. The Madura division also includes other fashion formats like Planet Fashion, The Collective, Hackett London and recently started Van Heusen's Innerwear range for men which come under Other businesses.

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 and watches. It is one of the leading value fashion retailers and the largest branded womenswear retailer in India.

For the 12 months ended March 31, 2017, ABFRL reported a profit after tax (PAT) of Rs. 53.5 crore on an operating income (OI) of Rs. 6,602.9 crore, as against a net loss of Rs. 109.8 crore on an OI of Rs. 6,033.9 crore for the 12 months ended March 31, 2016.

For the nine months ended December 31, 2017, on a provisional basis, ABFRL reported a PAT of Rs. 5.0 crore on an OI of Rs. 5450.0 crore.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	6033.9	6602.9
PAT (Rs. crore)	-109.8	53.5
OPBDIT/ OI (%)	6.9%	7.3%
RoCE (%)	4.7%	9.7%
Total Debt/ TNW (times)	2.0	2.1
Total Debt/ OPBDIT (times)	4.5	4.3
Interest coverage (times)	2.0	2.2
NWC/ OI (%)	6%	6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)*	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
	Instrument	Type			April 2018		March 2017	January 2016	November 2015	May 2015
1	Term Loans	Long-term	30.49	30.49	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based / Non-fund based	Long-term	1181.00	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long-term	38.51	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	Long-term	1260.00	1260.00	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Commercial Paper Programme	Short-term	1250.00	719.32	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**outstanding as on March 31, 2017*

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Sep-07	9.66%	Mar-22	1.49	[ICRA]AA (Stable)
NA	Term Loan	Aug-08	9.45%	Mar-22	9.00	[ICRA]AA (Stable)
NA	Term Loan	Mar-18	8.55%	Mar-25	20.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	8.45%	NA	163.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	8.65%	NA	445.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	8.50%	NA	33.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	8.85%	NA	140.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	NA	NA	100.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	NA	NA	100.00	[ICRA]AA (Stable)
NA	Working Capital Loan	NA	NA	NA	200.00	[ICRA]AA (Stable)
NA	Long term- Unallocated	NA	NA	NA	38.51	[ICRA]AA (Stable)
INE647O08024	Non-convertible Debenture Programme	May-13	9.20%	May-18	100.0	[ICRA]AA (Stable)
INE647O08032	Non-convertible Debenture Programme	May-16	8.84%	Apr-19	200.00	[ICRA]AA (Stable)
INE647O08040	Non-convertible Debenture Programme	May-16	8.73%	May-19	300.00	[ICRA]AA (Stable)
INE647O08057	Non-convertible Debenture Programme	Oct-16	8.20%	Apr-20	400.00	[ICRA]AA (Stable)
INE647O08065	Non-convertible Debenture Programme	Mar-17	7.70%	Jun-21	260.00	[ICRA]AA (Stable)
NA	Commercial Paper Programme	Sep-07	-	-	1250.00	[ICRA]A1+

Source: Aditya Birla Fashion and Retail Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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