May 31, 2019

Aditya Birla Fashion and Retail Limited: Ratings re-affirmed; [ICRA]AA(Stable) assigned for Rs. 300 crore NCD programme; rating withdrawn for Rs. 560 crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	30.49	27.96	[ICRA]AA (Stable); re-affirmed
Long-term, Fund-based / Non-fund Based Facilities	1181.00	1041.00	[ICRA]AA (Stable); re-affirmed
Long-term, Unallocated	38.51	181.04	[ICRA]AA (Stable); re-affirmed
Non-Convertible Debenture Programme	700.00	700.00	[ICRA]AA (Stable); re-affirmed
Non-Convertible Debenture Programme	-	300.00	[ICRA]AA (Stable); assigned
Non-Convertible Debenture Programme	560.00	-	[ICRA]AA (Stable); withdrawn
Commercial Paper Programme	1250.00	1250.00	[ICRA]A1+; re-affirmed
Total	**3760.00**	**3500.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to factor in the strong parentage of the Aditya Birla Group, which lends financial flexibility and operational expertise to the company with the extensive experience of the management team facilitating superior execution capabilities. Aditya Birla Fashion and Retail Limited (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 financial profile of the company has improved, as evinced from the reduction in total debt to Rs. 1,702.9 crore as on March 31, 2019 from Rs. 1,861.5 crore as on March 31, 2018 and an improvement in the debt servicing metrics. This has been facilitated by the consistent improvement in the performance of its Pantaloons division over FY2017 to FY2019, with the segment operating profit margin (OPM) improving to 7.2% from 4.9%, aided by store additions, increase in revenue contribution of private label sales and the growing demand for the value fashion segment.

ABFRL's Madura business also witnessed an improvement in its OPM to 8.0% in FY2019 from 7.7% in FY2018. The Lifestyle Brand segment of Madura division witnessed an improvement in OPM in FY2019 aided by cost rationalisation. However, Madura business' margin expansion is restricted by the continued losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen's range of innerwear. ICRA notes that the losses in the Fast Fashion segment, comprising Forever-21 and People brands, have reduced significantly to Rs. 32 crore in FY2019 from Rs. 53 crore in FY2018. However, the losses in the innerwear business have expanded in FY2019 due to ongoing investments in scaling up the business and also the launch expenses associated with the women's innerwear launched during Q3 FY2019. While ABFRL's financial profile is moderate, as characterised by Total Debt/ OPBDITA of 3.1 times and Total Outside Liabilities/ Tangible Net worth of 3.5 times as on March 31, 2019 and return on capital employed (RoCE) of 11.2% for FY2019, the company has high debt repayments due in FY2020 and FY2021, requiring refinancing. However, ICRA notes that the company has already refinanced its Rs. 500 crore repayment due in FY2020 through bank term loans. ICRA also notes the high competitive intensity in the fashion segment in which ABFRL operates, characterised by presence of domestic and international brands and a few, but well-established retail players. Furthermore, the business remains vulnerable to any economic slowdown.

ICRA has withdrawn the rating on Rs. 560 crore NCD programmes as the company has fully repaid these facilities and there is no amount outstanding against the same. The rating withdrawal is in accordance with ICRA's policy on withdrawal and suspension, and at the request of the company.

Outlook: Stable

The Stable outlook reflects ICRA's expectations of ABFRL continuing to enjoy the financial flexibility as part of the Aditya Birla Group, sustaining its growth momentum and improving the performance of the Pantaloons business as well as the Lifestyle Brands business of the Madura division. The outlook may be revised to Positive if the company shows consistent 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 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 and the Pantaloons division is one of the leading players in the value fashion segment as well as the largest branded womenswear retailer in India.

Improvement in financial performance in FY2019 – 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 FY2019 aided by store additions, increase in revenue contribution of private labels to 63% in FY2019 from 55% in FY2016 and improved positioning of the Pantaloons format (from that of department store to a value fashion retailer). Coupled with growing demand for the value fashion segment, this has resulted in a healthy YoY revenue growth of ~12% and improvement in the division's OPM to 7.2% in FY2019 from 6.0% in FY2018. The performance of the Madura division has also improved with a healthy YoY revenue growth of ~13% in FY2019 and an improvement in its OPM to 8.0% in FY2019 from 7.7% in FY2018. The improvement has been facilitated by its Lifestyle Brands segment, while the Fast Fashion and Van Heusen innerwear businesses continue to report losses.

Credit challenges

Continued operating losses in Forever-21 brand (though significantly reduced) and gestation phase of Van Heusen's range of innerwear – Madura business' margin expansion is restricted by the continued losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen's range of innerwear. ICRA notes that the losses in the Fast Fashion segment, comprising Forever-21 and People brands have reduced significantly to Rs. 32 crore in FY2019 from Rs. 53 crore in FY2018. However, the losses in the innerwear business have expanded in FY2019 due to ongoing investments in scaling up the business as well as expenses associated with the women's innerwear for women launched during Q3 FY2019.

Moderate financial risk profile – The financial profile of ABFRL has improved, as evinced from the reduction in total debt to Rs. 1,702.9 crore as on March 31, 2019 from Rs. 1,861.5 crore as on March 31, 2018 and an improvement in the debt servicing metrics. However, the financial profile of the company is moderate, characterised by Total Debt/ OPBDITA of 3.1 times and Total Outside Liabilities/ Tangible Net worth of 3.5 times as on March 31, 2019 and RoCE of 11.2% for FY2019. Furthermore, the company has high debt repayments due in FY2020 and FY2021, requiring refinancing. However, ICRA notes that the company has already refinanced its Rs. 500 crore repayment due in FY2020 through bank term loans.

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 as well as well-established retail players. Furthermore, the business remains vulnerable to economic slowdown on account of the discretionary nature of spending on these products.

Liquidity position

The company has ~Rs. 500 crore of debt falling due for repayment in FY2020, which has already been refinanced by bank term loans. Furthermore, the company has significant cushion by way of unutilised fund-based limits (~Rs. 565 crore as on November 30, 2018) and also benefits from the financial flexibility by being a part of the Aditya Birla Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Indian Textiles Industry - Apparels Rating Methodology for Entities in the Retail Industry Corporate Credit Rating Methodology
Parent / Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the company's standalone financial profile.

About the company

Aditya Birla Fashion and Retail Limited, in its present form, is a result of the consolidation / merger of the branded apparel business of the Aditya Birla Group in May 2015. The Group comprises Aditya Birla Nuvo Limited's (ABNL's, now Grasim Industries Limited) Madura Fashion division and its 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). 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. The Madura division 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 (the company holds perpetual license to manufacture and sell them in India) like Louis Philippe, Van Heusen, Allen Solly and Peter England. The Fast Fashion segment comprises the People and Forever 21 brand acquired in July 2016. The Madura division also includes other fashion formats like Planet Fashion, The Collective, Hackett London and the recently launched Van Heusen's innerwear range for men and women, which come under Other businesses.

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 kids. It also operates in the 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. As on March 31, 2019, ABFRL operated 308 Pantaloons stores across India.

For the 12 months ended March 31, 2019, ABFRL reported a profit after tax (PAT) of Rs. 321.2 crore on an operating income (OI) of Rs. 8,117.8 crore, as against a PAT of Rs. 117.8 crore on an OI of Rs. 7,172.1 crore for the 12 months ended March 31, 2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7172.1	8117.8
PAT (Rs. crore)	117.8	321.2
OPBDIT/ OI (%)	7.1%	6.8%
RoCE (%)		
Total Debt/ TNW (times)	1.7	1.2
Total Debt/ OPBDIT (times)	3.6	3.1
Interest coverage (times)	2.4	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2020) Amount Rated (Rs. crore)	Amount Outstanding* (Rs crore)	Date & Rating May 2019	Chronology of Rating History for the Past 3 Years Date & Rating in FY2019 April 2018	Date & Rating in FY2018	Date & Rating in FY2017 Mar 2017
1	Term Loans	Long-term	27.96	27.96	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
2	Fund-based / Non-fund Based	Long-term	1041.00	1041.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
3	Unallocated	Long-term	181.04	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	Long-term	700.00	700.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
5	Non-convertible Debenture Programme	Long-term	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
6	Non-convertible Debenture Programme	Long-term	300.00	300.00	[ICRA]AA (Stable)	-	-	-
7	Commercial Paper Programme	Short-term	1250.00		[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+

**As on March 31, 2019*

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	August 2008	9.45%	March 2022	7.96	[ICRA]AA (Stable)
NA	Term Loan	March 2018	8.55%	March 2025	20.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	163.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	645.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	33.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA (Stable)
NA	Long Term - Unallocated	-	-	-	181.04	[ICRA]AA (Stable)
INE647O0 8040	NCD	May 2016	8.73%	May 2019	300.00	[ICRA]AA (Stable)
INE647O0 8057	NCD	October 2016	8.20%	April 2020	400.00	[ICRA]AA (Stable)
INE647008 073	NCD	September 2018	8.96%	August 2021	300.00	[ICRA]AA (Stable)
INE647008 024	NCD	May 2013	9.20%	May 2018	100.00	Withdrawn
INE647008 032	NCD	May 2016	8.84%	April 2019	200.00	Withdrawn
INE647008 065	NCD	March 2017	7.70%	June 2021	260.00	Withdrawn
NA	Commercial Paper Programme	September 2007	-	-	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.

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