September 02, 2021

Aditya Birla Fashion and Retail Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	422.00	15.7	[ICRA]AA (Stable); reaffirmed
Long-term, Fund-based/Non-fund Based Facilities	2,073.00	2,273.0	[ICRA]AA (Stable); reaffirmed
Long-term, Unallocated	5.00	-	-
Non-Convertible Debenture (NCD) Programme	300.00	-	[ICRA]AA (Stable); reaffirmed and withdrawn
Commercial Paper Programme	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	**4,800.00**	**4,288.7**	

^Instrument details are provided in Annexure-1

Rationale

The ratings favourably factor in Aditya Birla Fashion and Retail Limited's (ABFRL) 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 rating continues 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 ratings favourably factor in ABFRL's improved capital structure and liquidity position following the equity infusion of Rs. 2,250 crore in FY2021 (including rights issue of Rs. 750 crore and investment of Rs. 1,500 crore by Flipkart Investments Private Limited [Flipkart]) and Rs. 250 crore in Q2 FY2022 as well as a significant release of working capital of Rs. 785 crore in FY2021. The proceeds of the same were primarily used for repayment of debt, leading to an improvement in ABFRL's consolidated net gearing to 0.2 times as on March 31, 2021 from 2.4 times as on March 31, 2020. Around 66% of the rights issue was subscribed by the promoter group. The liquidity position of the company remains adequate, with current unencumbered cash and bank balances as well as liquid investments (consolidated) of ~Rs. 240 crore, along with unutilised fund-based bank limits of ~Rs. 1, 000 crore[1] (as of May 2021).

The performance of the Indian retail sector was adversely impacted in FY2021, following the Covid-19 pandemic and the subsequent Government-mandated shutdown of malls as well as non-essential stores and reduced discretionary spends. ABFRL reported a 40% YoY decline in revenues in FY2021, with a net loss of Rs. 735.7 crore. While sales recovered up to 95% of the pre-Covid levels by March 2021, the second wave of the pandemic derailed the recovery in Q1 FY2022. With store closures in April and May 2021, ABFRL reported a 55% sequential decline in revenues in Q1 FY2022, with a net loss of Rs. 352.2 crore against a net loss of Rs. 195.9 crore reported in Q4 FY2021. The company started re-opening its stores from the second half of May 2021. As of August 2021, ~90% of its stores were operational. Given the increasing vaccination coverage, ABFRL's strong brand portfolio as well as increased focus of omni-channel presence, ICRA expects the company to post a healthy YoY recovery in sales in FY2022 (partly attributed to low base), with operations normalising to the pre-Covid levels from FY2023. Net debt, which had increased to Rs. 1,200 crore (at the standalone level) as on June 30, 2021, is also expected to normalise

[1]*with commensurate drawing power*

to March 2021 levels in the subsequent quarters, with a pick-up in sales. The possibility of a third wave of infections would, however, remain a downside risk to the recovery and a key rating monitorable.

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 Van Heusen's range of innerwear and athleisure as well as the recently acquired ethnic business.

The Stable outlook on [ICRA]AA rating reflects ICRA's expectations that ABFRL will continue to benefit from the established market position of its brands and association with the Aditya Birla Group. ICRA expects that ABFRL will maintain an adequate liquidity and financial profile, despite disruption to operations from the pandemic.

ICRA has also re-affirmed and withdrawn the [ICRA]AA (Stable) rating assigned to the Rs. 300-crore NCD as the same has been redeemed.

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 is demonstrated by the recent rights issue of Rs. 1,000 crore, 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 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. As of June 30, 2021, the company operated 2,874 stores under the Madura division and 342 stores under the Pantaloons division.

Improved capital structure and liquidity position – 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 Flipkart investment were primarily utilised for the repayment of debt and growth investment of Rs. 520 crore largely towards acquiring a 51% and a 33% stake in Sabyasachi Couture LLP and Goodview Fashion Private Limited, respectively. The consolidated net debt following the equity infusion declined to Rs. 530.3 crore as on March 31, 2021 from 2,509.7 crore as on March 31, 2020, resulting in an improvement in the net gearing to 0.2 times from 2.4 times. While the standalone net debt increased to Rs. 1,200 crore as on June 30, 2021 due to loss funding as well as to fund working capital requirements following the second wave of the pandemic, the same has reduced in August 2021 following repayment of Rs. 300-crore NCD. The same was done primarily from the proceeds of the last tranche (Rs.250 crore) of the rights issue. Going forward, with an improvement in cash flows stemming from increased store openings, ICRA expects the net debt to normalise to the March 2021 levels in the subsequent quarters. The management targets a normalised net debt-to-operating profit (excluding the impact of Ind AS 116) of 1.0-1.5 times. The liquidity position of the company is further supported by unutilised fund-based bank limits of ~Rs. 980 crore as on May 31, 2021.

Credit challenges

Adverse impact of financial performance in FY2021 and Q1 FY2022 due to the slowdown in discretionary spend amid the pandemic – ABFRL's performance in FY2021 was affected by the closure of its stores on account of the nationwide lockdown induced by the pandemic in Q1 FY2021. The company reported a revenue decline of 40% on a consolidated level to Rs. 5,248.9 crore in FY2021 from Rs. 8,787.9 crore in FY2020. Notwithstanding a sharp decline in revenue, the decline in the operating profit margin (OPM) was limited mainly due to a) rental negotiations as well as unconditional rent concessions (Rs. 343 crore received in FY2021) and b) cost rationalisation, spanning across employee costs (down 20% YoY) and selling, general and advertisement expenses (down 32% YoY). ABFRL, like other entities in the Indian retail sector, was adversely impacted in Q1 FY2022, following the onset of the second wave of Covid-19 pandemic. The company started reopening its stores from the second half of May 2021 and as of August 2021, ~90% of its stores were operational. Nonetheless, with the increasing vaccination coverage, ABFRL's strong brand portfolio and its pan-India presence as well as increased focus of omni-channel presence, ICRA expects the company to post a healthy YoY recovery in sales in FY2022 (partly attributed to low base). Aided by the benefits of operating leverage and continuing cost rationalisaton of selling and other overheads, the OPM is also expected to witness a YoY improvement in FY2021 despite expected lower rental concessions. ICRA expects the operations to normalise to the pre-Covid levels from FY2023. The possibility of a third wave of infections would, however, remain a downside risk to the recovery and a key rating monitorable.

Continued operating losses in business segments like Van Heusen's range of innerwear and recently acquired ethnic business – Margin expansion in the Madura business is restricted by the continued losses in the Van Heusen's range of innerwear and the recently acquired ethnic business, though the fast fashion segment is expected to achieve break-even of operations in FY2022.

Highly 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 current unencumbered cash and bank balances as well as liquid investments (consolidated) of ~Rs. 240 crore, along with unutilised fund-based bank limits of ~Rs. 1,000 crore[2] (as on May 31, 2021). The company has already redeemed its Rs. 300-crore NCD in August 2021 (from the proceeds of the last tranche of the rights issue) and does not have any major long-term debt repayment obligations falling due till November 2022. While the company is exposed to roll-over risk of its commercial paper (CP) obligations (outstanding Rs. 400 crore as on June 30, 2021), ICRA draws comfort from the demonstrated track record of the company in timely refinancing of its debt obligations as well as its strong parentage, which also lends superior financial flexibility. The company is estimated to incur ~Rs. 350-400 crore of capital expenditure (capex) per annum towards new store additions in FY2022 and FY2023.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to report a healthy improvement in revenues and operating profit margins (OPM) on a sustained basis at the consolidated level. Sustained improvement in net-debt-to-operating profit ratio (adjusted for Ind AS 116) to below 1.0 times would also be a positive factor.

Negative factors – Pressure on ABFRL's ratings could arise in case a slow ramp-up in ABFRL's operating performance in subsequent quarters or any unanticipated debt-funded capex or acquisition adversely impacts its credit profile and liquidity position. Any weakening of linkages with the Aditya Birla Group would also be a negative factor.

[2] *with commensurate drawing power*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry - Apparels Rating Methodology for Entities in the Retail Industry Impact of Parent or Group support on an Issuer's Credit Rating
Parent/Group Support	Parent Group - Aditya Birla Group ICRA expects Aditya Birla Group to be willing to extend need-based financial support to ABFRL out of its need to protect its reputation from the consequences of a Group entity's distress. 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, 2021, ABFRL had five subsidiaries and one joint venture (JV) that are enlisted in Annexure-2.

About the company

Aditya Birla Fashion and Retail Limited (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 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 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 the largest branded women's wear retailer in India.

The company has forayed into the premium and luxury ethnic wear segment in the last two 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.

Key financial indicators

Consolidated financials (Ind AS)	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	8787.9	5248.9
PAT (Rs. crore)	-165.0	-735.7
OPBDIT/OI (%)	14.4%	10.6%*
PAT/OI (%)	-1.9%	-14.0%
Total Outside Liabilities/Tangible Net Worth (times)	7.8	2.7
Total Debt/OPBDIT (times)	4.2	6.5
Interest Coverage (times)	2.7	1.1

*Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Excluding other income of Rs. 73.4 crore; Source: ABFRL*

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Sep 2, 2021	Sep 7, 2020	Apr 28, 2020	May 31, 2019	Apr, 27, 2018
1	Term Loans	LT	15.7	15.7*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based / Non-fund Based Facility	LT	2,273.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	LT	-	-	-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	LT	-	-	[ICRA]AA (Stable), withdrawn	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-convertible Debenture Programme	LT	-	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Non-convertible Debenture Programme	LT	-	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7	Commercial Paper Programme	ST	2,000	400^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *As on March 31, 2021; ^As on June 30, 2021; LT – Long Term; ST – Short Term*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Very Simple
Fund-based / Non-fund Based Facility	Simple
Non-convertible Debenture Programme	Very 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 analyzing 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loans	Mar-18	-	Mar-25	15.7	[ICRA]AA (Stable); reaffirmed
-	Fund-based / Non-fund Based Facility	-	-	-	2,273.0	[ICRA]AA (Stable); reaffirmed
-	Unallocated	-	-	-	-	-
INE647O08073	Non-convertible Debenture Programme	September 7, 2018	8.96%	August 14, 2021	300.0	[ICRA]AA (Stable); reaffirmed and withdrawn
INE647O14EK5	Commercial Paper Programme	May 25, 2021	3.57%	August 23, 2021	150.0	[ICRA]A1+; reaffirmed
INE647O14EK5	Commercial Paper Programme	May 25, 2021	3.57%	August 23, 2021	50.0	[ICRA]A1+; reaffirmed
INE647O14EL3	Commercial Paper Programme	June 04, 2021	3.54%	August 03, 2021	100.0	[ICRA]A1+; reaffirmed
INE647O14EM1	Commercial Paper Programme	June 18, 2021	3.55%	September 14, 2021	100.0	[ICRA]A1+; reaffirmed
NA	Proposed commercial Paper Programme	-	-	-	1,600.0	[ICRA]A1+; reaffirmed

Source: *Company*

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	51%	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

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