

April 12, 2024

## Aditya Birla Fashion and Retail Limited: Long-term rating placed on Rating Watch with Developing Implications and short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term Loan	10.00	10.00	[ICRA]AA+; Placed on rating watch with developing implications
Long Term - Fund Based/Non-Fund Based	2,490.00	2,490.00	[ICRA]AA+; Placed on rating watch with developing implications
Commercial Paper Programme	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Non-Convertible Debenture (NCD) Programme (proposed)	500.00	500.00	[ICRA]AA+; Placed on rating watch with developing implications
Non-Convertible Debenture (NCD) Programme	750.00	750.00	[ICRA]AA+; Placed on rating watch with developing implications
<b>Total</b>	<b>5,750.00</b>	<b>5,750.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

On April 1, 2024, Aditya Birla Fashion and Retail Limited (ABFRL) announced that it plans to vertically demerge its Madura Fashion & Lifestyle (MFL) business, consisting of four lifestyle brands, namely Louis Phillippe, Van Heusen, Allen Solly and Peter England, casual wear brands, namely American Eagle and Forever 21, sportswear brand, namely Reebok, and the innerwear brand, namely Van Heusen, into a separate listed entity. The proposed demerger is aimed at creation of independent growth engines with value creation opportunities for the two separately listed companies. The demerger will be implemented through a National Company Law Tribunal (NCLT) scheme of arrangement and all shareholders of ABFRL will have identical shareholding in the newly formed entity.

ICRA notes that the entire demerger process would take nearly 9-12 months to complete and would be subject to the Board's approval along with other necessary regulatory approvals. ICRA has thus placed the ratings of ABFRL on Watch with Developing Implications. MFL business is the key revenue driver of the company and accounted for around 59% of its consolidated revenues and 72% of its operating profits in 9M FY2024. Going forward, the company plans to concentrate on growing its ethnic segment along with its high growth masstige segment (under Pantaloons and Style Up). As per segment-wise division, the proforma revenue estimates for demerged ABFRL for FY2023 would be ~Rs. 4,460 crore against the consolidated revenues of Rs. 12,418 crore, and the operating profit margin (OPM) would be 12% against the consolidated OPM of 13%. However, with the weak performance of the Pantaloons segment in 9M FY2024 due to more pronounced demand slowdown in the masstige segment, the proforma OPM estimate for demerged ABFRL for 9M FY2024 is 9% against the consolidated OPM of 13%. The overall financial profile of ABFRL has been impacted in FY2024 due to sluggish demand (especially in the value fashion and masstige segment), write down of slow-moving inventories (especially in its TCNS Clothing Company Limited), and lower-than-expected ramp-up of operations in the recently acquired businesses.

While full details of the scheme of demerger are yet to be disclosed, especially the capital allocation between the two demerged entities, ICRA expects a significant portion of the consolidated debt to be retained in ABFRL. However, ABFRL has also announced that after completion of the proposed demerger, it will raise growth capital within 12 months to strengthen its balance sheet as well as support its growth and expansion plans. ICRA will continue to monitor developments and take appropriate rating action, as required.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#).

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology- Retail</a>
Parent/Group support	Parent Group - Aditya Birla Group; ICRA expects the 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 has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ABFRL. As on December 31, 2023, ABFRL had 16 subsidiaries (including step-down subsidiaries) and one joint venture (JV) that have been enlisted in Annexure-2.

## About the company

ABFRL is a result of the consolidation/merger of the branded apparel business of the Aditya Birla Group. 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 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, Van Heusen’s range of innerwear and athleisure and the recently acquired Reebok business. The Pantaloons format operates in the masstige segment across varied categories like casual wear, ethnic wear, formal wear, party wear and sportswear for men, women and children.

The company has forayed into the premium and the 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 52.44% stake in the House of Masaba Lifestyle Private Limited. Subsequently, in September 2023, it completed acquisition of a 51% stake in TCNS Clothing Company Limited at a total cost of Rs.1,626 crore.

Moreover, ABFRL has set up a wholly-owned subsidiary, TMRW, for incubating a portfolio of fashion and lifestyle D2C brands across categories such as beauty, fashion and other allied lifestyle segments. Subsequently, in November 2022, the company announced partnership with eight D2C lifestyle brands.

## Key financial indicators (audited)

ABFRL Consolidated	FY2022	FY2023	9M FY2024
Operating income	8,136.2	12,417.9	10,589.2
PAT *	-120.7	-66.3	-476.7
OPBDIT/OI	14.1%	12.6%	11.0%
PAT/OI	-1.5%	-0.5%	-4.5%
Total outside liabilities/Tangible net worth (times)	3.3	4.0	NA
Total debt/OPBDIT (times)	3.6	4.2	NA
Interest coverage (times)	3.0	3.1	1.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Source: Company & ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs crore, financial numbers are as per 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:**

ABFRL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating-linked covenants. Upon a failure to meet the covenants, if the company is not able to get waivers from the lenders/ investors or the lenders/ investors do not provide adequate time to the company to arrange for alternative funding to pay off the accelerated loans, the ratings would face a downward pressure.

### Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of rating history for the past 3 years					
			Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	
				April 12, 2024	Oct 26, 2023	Jul 31, 2023	Apr 26, 2023	Mar 02, 2023	Jul 21, 2022	Sep 02, 2021
1 Term loans	Long term	10.0	10.0	[ICRA]AA+; rating watch with developing implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
2 Fund-based / Non-fund Based Facility	Long term	2,490.0	--	[ICRA]AA+; rating watch with developing implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
5 Non-convertible Debenture Programme	Long term	-	-							[ICRA]AA (Stable), withdrawn
8 Commercial Paper Programme	Short term	2,000.0	1,050	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9 Non-convertible Debenture Programme (Proposed)	Long term	500.0	-	[ICRA]AA+; rating watch with developing implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-
10 Non-convertible Debenture Programme	Long term	750.0	750.0	[ICRA]AA+; rating watch with developing implications	[ICRA]AA+ (Stable)	-	-	-	-	-

## 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
Non- convertible Debenture 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Mar-18	NA	Mar-25	10.0	[ICRA]AA+; rating watch with developing implications
NA	Fund-based / Non fund Based Facility	-	NA	NA	2,490.0	[ICRA]AA+; rating watch with developing implication
INE647O14EQ2	Commercial Paper Programme	April-2023	7.31%	Sept-2023	350	[ICRA]A1+
INE647O14ET6		June -2023	7.03%	Sept-2023	250	
INE647O14EU4		August -2023	7.10%	Nov-2023	100	
INE647O14EV2		August-2023	7.18%	Nov-2023	100	
INE647O14EW0		August-,2023	7.14%	Nov-2023	200	
INE647O14EW0		August-2023	7.14%	Nov-2023	50	
Unplaced		NA	NA	NA	950.0	
NA	Non-convertible Debenture Programme*	NA	NA	NA	500.0	[ICRA]AA+; rating watch with developing implications
INE647O08123	Non-convertible Debenture Programme	Sept-2023	7.57%	Sept-2030	750.0	[ICRA]AA+; rating watch with developing implications

Source: Company; \*Proposed; Note: The outstanding Commercial paper stood at Rs.650 crore as on December 31,2023

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis –**

Company Name	ABFRL Ownership	Consolidation Approach
Jaypore E-Commerce Private Limited	100.00%	Full Consolidation
TG Apparel & Décor Private Limited	100.00%	Full Consolidation
Finesse International Design Private Limited	58.69%	Full Consolidation
Sabyasachi Calcutta LLP [formerly M/s. Sabyasachi Couture]	51.00%	Full Consolidation
Sabyasachi Inc, USA	51.00%	Full Consolidation
Indivinity Clothing Retail Private Limited	80.00%	Full Consolidation
Goodview Fashion Private Limited	33.50%	Full Consolidation
Aditya Birla Digital Fashion Ventures Limited (ABDFVL)	100.00%	Full Consolidation
Aditya Birla Garments Limited	100.00%	Full Consolidation
House of Masaba Lifestyle Private Limited	52.44%	Full Consolidation
Pratyaya E-Commerce Private Limited (Subsidiary of ABDFVL)	66.26%	Full Consolidation
Imperial Online Services Private Limited (Subsidiary of ABDFVL)	55.00%	Full Consolidation
Awesomfab Shopping Private Limited (Subsidiary of ABDFVL)	55.00%	Full Consolidation
Bewakoof Brands Pvt Ltd (BBPL)	85.17%	Full Consolidation

Company Name	ABFRL Ownership	Consolidation Approach
Next Tree Products Private Limited (Subsidiary of BBPL)	85.17%	Full Consolidation
TCNS Clothing Co. Limited	51.00%	Full Consolidation

Source: Company data

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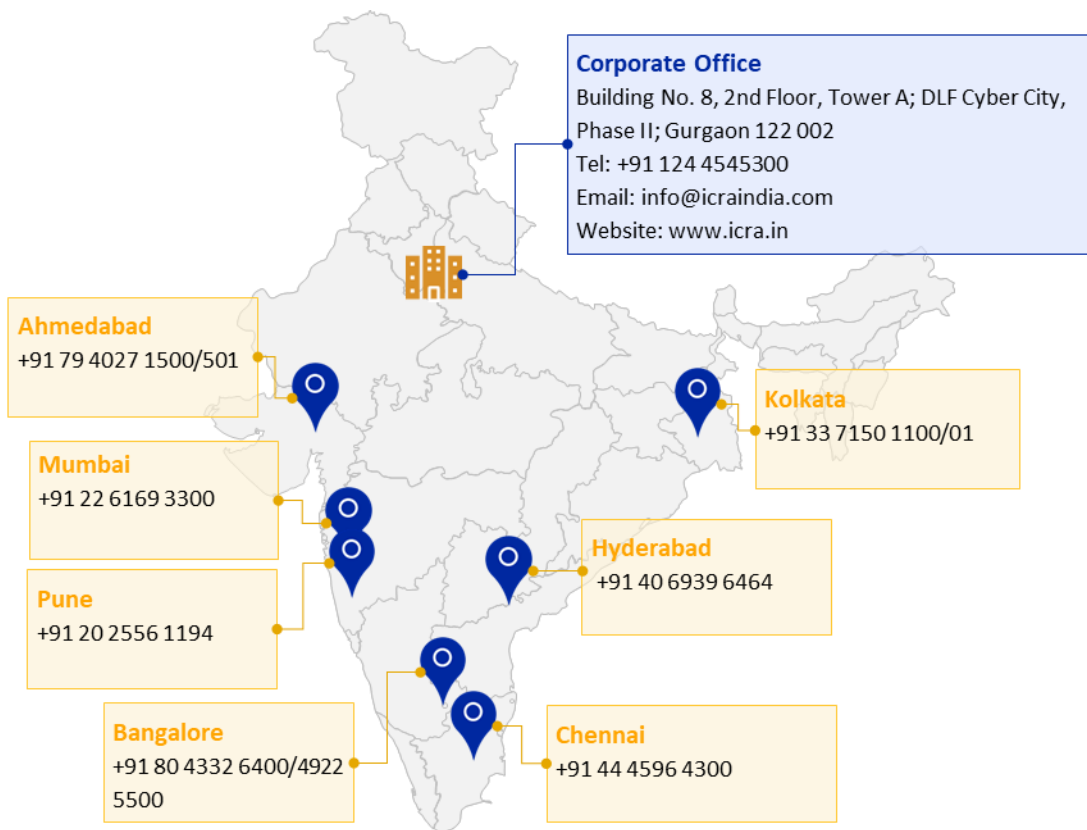
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