

September 03, 2024

Aditya Birla Fashion and Retail Limited: Ratings assigned for the proposed non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Outstanding Rating
Non-Convertible Debenture (NCD) Programme (proposed)	-	500.00	[ICRA]AA+, rating watch with developing implications; assigned
Long-term -Fund-based –Term Loan	10.00	10.00	[ICRA]AA+, rating Watch with Developing Implications
Long Term -Fund Based/Non-Fund Based	2490.00	2490.00	[ICRA]AA+, rating Watch with Developing Implications
Commercial Paper Programme	2000.00	2000.00	[ICRA]A1+
Non-Convertible Debenture (NCD) Programme(proposed)	500.00	500.00	[ICRA]AA+, rating Watch with Developing Implications
Non-Convertible Debenture (NCD) Programme	750.00	750.00	[ICRA]AA+, rating Watch with Developing Implications
Total	5,750.00	6,250.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings for Aditya Birla Fashion and Retail Limited (ABFRL) continue to derive comfort from the company's 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 ratings further factor in ABFRL's superior financial flexibility arising being a part of the Aditya Birla Group (ABG) and the financial support available to it from the Group, evident from the regular fund raisings over the last two years, and ICRA's expectation that the Group would continue to provide need-based funding support to ABFRL. The company also receives operational support and benefits from the extensive experience of the management team of ABG, which facilitates superior execution capabilities.

The rating watch factors in the impending demerger of ABFRL's 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, which was announced on April 01, 2024, 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 another 5-6 months to complete and would be subject to necessary regulatory approvals. The proposed demerged ABFRL accounted for ~47% of ABFRL's consolidated revenues and 27% of operating profits, as against 68% of net debt in FY2024. As per segment-wise division, the proforma revenue estimates for demerged ABFRL for Q1 FY2025 stood at ~Rs. 1,709 crore, against the consolidated revenues of Rs. 3,428 crore, and the operating profit margin (OPM) was 6.9% against the consolidated OPM of 11.8%, following the continued investments in the ethnic and TMRW subsidiaries. However, ICRA takes comfort from ABFRL's announcement of raising growth capital of ~Rs. 2,500 crore in demerged ABFRL as soon as the demerger process gets completed 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.

The consolidated financial profile of ABFRL was 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. ICRA also notes that the continued demand headwinds faced by the retail industry due to high inflation, which is expected to put pressure on revenues and profits of ABFRL in H1 FY2025, though the demand conditions are expected to improve from H2 FY2025, led by the onset of the festive season. This will remain 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 innerwear and the athleisure as well as the recently acquired ethnic businesses.

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 strong financial flexibility and receives need-based funding and operational support from the Group. The same was demonstrated by the rights issue of Rs. 1,000 crore in FY2021, of which 66% was subscribed by the promoter group. Additionally, ABFRL made a preferential allotment to Flipkart Investments Private Limited in January 2021 and raised Rs. 1,500 crore for a 7.8% equity stake. The company has also tied up fund raising worth Rs.2,195 crore through issuance of equity shares and warrants on a preferential allotment basis to Caladium Investment Pte. Limited, an affiliate of GIC, Singapore's sovereign wealth fund wherein the last tranche of equity worth Rs. 1,425 crore was infused in March 2024. Moreover, ABFRL post demerger will raise fresh capital of Rs.2,500 crore to strengthen its balance sheet and support the growth plans in near future

Besides, the extensive experience of the management team facilitates superior execution capabilities, driving revenues and profitability growth.

One of the largest branded apparel players in India with a diverse product portfolio and extensive multi-channel reach - ABFRL is among the largest branded apparel players 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. The Pantaloons division is one of the leading players in the value fashion segment and is among the largest womenswear retailers in India. As of June 30, 2024, the company had a retail presence through 4,190 exclusive brand outlets (EBOs), 37,352 multi-brand outlets (including Van Heusen innerwear outlets), 417 pantaloons stores and around 9,466 shop-in-shop (SIS) formats. Management is working towards brands rationalization i.e. to reduce the fixed cost of less profitable or unprofitable stores which will help in improving the overall health of the network

Credit challenges

Financial profile moderated in FY2024 and Q1 FY2025 - The overall cash flows of ABFRL moderated 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. This coupled with elevated debt levels, due to the debt-funded acquisition of TCNS Clothing Company Limited in FY2024, capex towards store additions and increased working capital requirement and investments to ramp up the new businesses, adversely impacted the financial profile of ABFRL moderated in FY2024. As on June 30, 2024, ABFRL had total net debt outstanding of Rs. 3,500 crore (excluding lease liabilities), vis-à-vis Rs.2,868 crore as on March 31, 2024. ICRA also notes that the continued demand headwinds faced by the retail industry due to high inflation, which is expected to put pressure on revenues and profits of ABFRL in H1 FY2025, though the demand conditions are expected to improve from H2 FY2025, led by the onset of the festive season. ABFRL has also announced that after completion of the proposed demerger, it will raise growth capital of Rs.2,500 crore as soon as the demerger process gets completed 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.

Continued operating losses in Van Heusen’s range of innerwear and other new businesses - ABFRL’s margin expansion is restricted by the continued losses in Van Heusen’s range of innerwear and the recently acquired ethnic business (including the recently launched TASVA brand). These are expected to achieve breakeven of operations over the next three to four years only. Moreover, the overall profitability of the company is impacted by losses in the new direct-to-consumer (D2C) venture, TMRW along with continued investments in TMRW and ethnic business.

Intensely 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.

Environmental and Social Risk

Environmental considerations: ABFRL has low exposure to environmental risks. The sector does not face any major physical climate risk. The company, being a part of ABG, follows policy which focuses on areas such as energy, carbon, waste and water management along with sustainable products and packaging.

Social considerations: Increasing usage of customer data following growing penetration of e-commerce poses data privacy and legal risks for retail entities. The company ensures that employees handling sensitive and critical data are covered with all information security and data leakage prevention controls to mitigate IT risks. Being a manpower intensive segment, entities like ABFRL are exposed to the risks of business disruption due to inability to properly manage human capital in terms of their safety and overall well-being. Besides, human rights issue could pose social risks for the company. As a retailer, the company is also subject to other social factors such as responsible sourcing, product, and supply chain sustainability, given the high reliance on external suppliers. The company continues to emphasise on social and environmental sustainability across its value chain.

Liquidity position: Adequate

The liquidity position of the company remains adequate, with cash and bank balance of ~Rs. 629 crore, along with unutilised fund-based limits of around ~Rs.1,879 crore as on June 30, 2024. The company is estimated to incur Rs. 600-650 crore of capex towards new store additions in FY2025. The scheduled repayment for FY2025 stands at Rs. 540 crore, which is expected to be largely refinanced. In addition, Rs. 2,500 crore of proposed fund infusion post demerger will also provide liquidity support. ICRA also draws comfort from the demonstrated track record of the company in timely refinancing its debt obligations as well as in its strong parentage, which lends superior financial flexibility.

Rating sensitivities

Positive factors – ICRA will resolve the watch once there is greater clarity on the credit profile and liquidity position of demerged ABFRL.

Negative factors – ICRA will resolve the watch once there is greater clarity on the credit profile and liquidity position of demerged ABFRL. Downward pressure on the ratings could arise in case of any sustained decline in sales/ profitability which adversely impacts ABFRL’s credit metrics and/or its liquidity position. Any weakening of linkages with the Aditya Birla Group would also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Retail

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 June 30, 2024, ABFRL had 18 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	FY2023	FY2024
Operating income	12,417.9	13,995.9
PAT	-66.3	-748.7
OPBDIT/OI	12.6%	10.9%
PAT/OI	-0.5%	-5.3%
Total outside liabilities/Tangible net worth (times)	4.0	3.6
Total debt/OPBDIT (times)	4.2	6.2
Interest coverage (times)	3.1	1.7

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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	Current (FY2025)				Chronology of rating history for the past 3 years						
	Type	Amount Rated (Rs Crore)	Sept 03, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	10.00	[ICRA]AA+; rating watch with developing implications	12-Apr-24	[ICRA]AA+; rating watch with developing implications	26-Oct-23	[ICRA]AA+ (Stable)	02-Mar-23	[ICRA]AA+ (Stable)	02-Sep-21	[ICRA]AA (Stable)
				-	-	31-Jul-23	[ICRA]AA+ (Stable)	21-Jul-22	[ICRA]AA (Positive)	-	-
				-	-	26-Apr-23	[ICRA]AA+ (Stable)	-	-	-	-
Fund-based / Non-fund Based Facility	Long Term	2490.00	[ICRA]AA+; rating watch with developing implications	12-Apr-24	[ICRA]AA+; rating watch with developing implications	26-Oct-23	[ICRA]AA+ (Stable)	02-Mar-23	[ICRA]AA+ (Stable)	02-Sep-21	[ICRA]AA (Stable)
				-	-	31-Jul-23	[ICRA]AA+ (Stable)	21-Jul-22	[ICRA]AA (Positive)	-	-
				-	-	26-Apr-23	[ICRA]AA+ (Stable)	-	-	-	-
Non-convertible Debenture Programme	Long Term	-	-	-	-	-	-	-	-	02-Sep-21	[ICRA]AA (Stable), withdrawn
Commercial Paper Programme	Short Term	2000.00	[ICRA]A1+	12-Apr-24	[ICRA]A1+	26-Oct-23	[ICRA]A1+	02-Mar-23	[ICRA]A1+	02-Sep-21	[ICRA]A1+
				-	-	31-Jul-23	[ICRA]A1+	21-Jul-22	[ICRA]A1+	-	-
				-	-	26-Apr-23	[ICRA]A1+	-	-	-	-
Non-convertible Debenture Programme (Proposed)	Long Term	500.00	[ICRA]AA+; rating watch with developing implications	12-Apr-24	[ICRA]AA+; rating watch with developing implications	26-Oct-23	[ICRA]AA+ (Stable)	-	-	-	-
				-	-	31-Jul-23	[ICRA]AA+ (Stable)	-	-	-	-
				-	-	26-Apr-23	[ICRA]AA+ (Stable)	-	-	-	-
Non-convertible Debenture Programme	Long Term	750.00	[ICRA]AA+; rating watch with developing implications	12-Apr-24	[ICRA]AA+; rating watch with developing implications	26-Oct-23	[ICRA]AA+ (Stable)	-	-	-	-
Non-convertible Debenture	Long Term	500.00	[ICRA]AA+ Rating watch with	-	-	-	-	-	-	-	-

Programme
(Proposed)

 developing
implications

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	10.00	[ICRA]AA+; rating watch with developing implications
NA	Fund-based / Non fund Based Facility	NA	NA	NA	2,490.0	[ICRA]AA+; rating watch with developing implications
INE647O14EQ2	Commercial Paper Programme	April-2023	7.31%	Sept-2023	350.00	[ICRA]A1+
INE647O14ET6		June -2023	7.03%	Sept-2023	250.00	
INE647O14EU4		August -2023	7.10%	Nov-2023	100.00	
INE647O14EV2		August -2023	7.18%	Nov-2023	100.00	
INE647O14EW0		August -2023	7.14%	Nov-2023	200.00	
NE647O14EW0		August -2023	7.14%	Nov-2023	50.00	
Unplaced		NA	NA	NA	950.00	
NA	Non-convertible Debenture Programme*	NA	NA	NA	500.00	[ICRA]AA+; rating watch with developing implications
INE647O08123	Non-convertible Debenture Programme	Sept-2023	7.57%	Sep-2030	750.00	[ICRA]AA+; rating watch with developing implications
NA	Non-convertible Debenture Programme*	NA	NA	NA	500.00	[ICRA]AA+; rating watch with developing implications

Source: Company; * Yet to be Placed

[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
Styleverse Lifestyle Private Limited	50.98%	Full Consolidation
Jaypore Fashions Inc., USA	100.00%	Full Consolidation

Source: company data

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 022 61693349
sakshi.suneja@icraindia.com

Taanisha Sharma
+91 22 6169 3344
taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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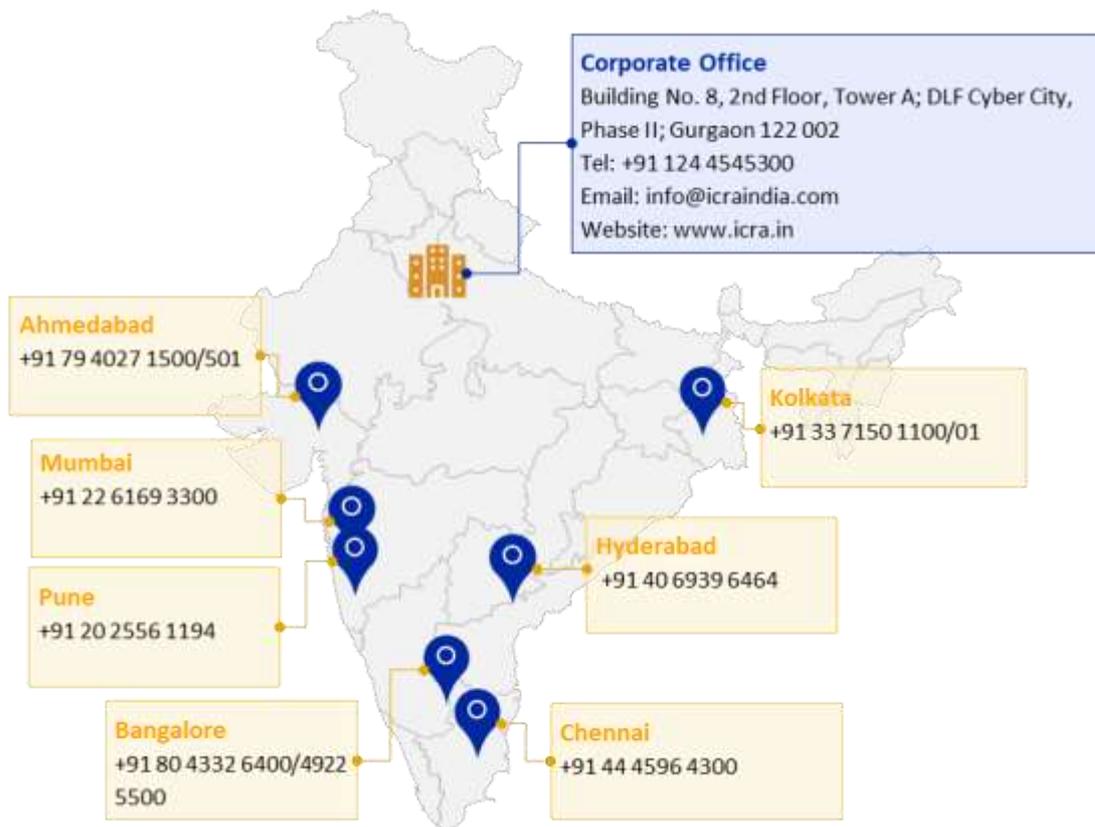
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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