March 02, 2023(Revised)

Aditya Birla Fashion and Retail Limited: Ratings upgraded and reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	10.00	10.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA (Positive)
Long-term, Fund-based/Non-fund Based Facilities	2,490.00	2,490.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA (Positive)
Commercial Paper Programme	1,250.00	1,250.00	[ICRA]A1+; reaffirmed
Total	**3,750.00**	**3,750.00**	

^Instrument details are provided in Annexure-1

Rationale

The long-term rating upgrade considers the significant improvement in the scale of operations of Aditya Birla Fashion and Retail Limited (ABFRL) and ICRA's expectation that business and financial risk profiles of ABFRL will continue to further strengthen over the near term. ABFRL reported a healthy YoY growth of 63% in revenues in 9M FY2023, led by the strong performance of lifestyle brands in the Madura segment and store expansion across various brand formats. ICRA expects ABFRL to clock a double-digit revenue growth in FY2024 and FY2025, led by steady performance of the lifestyle segment, regular increase in store counts across various brands and ramp-up of new businesses including ethnic wear, innerwear and the athleisure segment. The operating profit margins (OPMs) are also expected to improve gradually, aided by the benefits of operating leverage and improvement in profitability of new businesses. The ratings also factor in the significant fund-raising tied by the company, which coupled with an improvement in cash flows will limit dependence on external debt and further strengthen its financial risk profile.

The board of directors on May 24, 2022, had approved fund raising of up to Rs.2,195 crore by way of 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. Of this, Rs. 770 core has been infused till H1 FY2023. Aided by equity infusions over the last three years, ABFRL has sharply deleveraged its balance sheet. As on January 31, 2023, the company had an estimated net debt of Rs. 638 crore. The same is expected to reduce significantly by March 2024 post receipt of the second tranche of equity investment of Rs. 1,425 crore. This coupled with an improvement in cash flows from the existing and new businesses should facilitate sustenance of net debt to operating profit of below 1 times.

The ratings favourably factor in ABFRL'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 continue 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 liquidity position of the company remains adequate, with unencumbered cash and bank balances as well as liquid investments (Standalone) of Rs. 595 crore, along with unutilised fund-based bank limits of around ~ Rs. 1,500 crore as on January 31, 2023.

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 innerwear and athleisure as well as the recently acquired ethnic businesses.

The Stable outlook reflects ICRA's expectations that ABFRL's credit profile would continue to remain adequately supported by a healthy improvement in cash flows, aided by profitable ramp-up across the business segments. Along with the equity fund infusion, this would limit reliance on debt for funding expansion and working capital requirements, leading to healthy debt coverage indicators.

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 was demonstrated by the rights issue of Rs. 1,000 crore in FY2021, of which 66% was subscribed by the promoter group. Besides, the extensive experience of the management team facilitates superior execution capabilities, thereby driving revenues and profitability growth.

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. The Pantaloons division is one of the leading players in the value fashion segment and is among the largest womenswear retailer in India. As of December 31, 2022, the company operated 3,442 brand stores and 406 stores under the Pantaloons division.

Strong growth in revenues and profits in FY2023, expected to further improve, going forward – The company witnessed a strong YoY growth of 63% in 9M FY2023 to Rs.9,538 crore, led by the strong performance of lifestyle brands in the Madura segment and store expansion across various brand formats. Notwithstanding the inflationary pressure, ICRA expects ABFRL to clock a double-digit revenue growth (11-13%) over FY2024 and FY2025, led by steady performance of the lifestyle segment, regular increase in store counts across various brands and ramp-up of new businesses including ethnic wear, innerwear and the athleisure segments. The OPM moderated to 13.6% in 9M FY2023 due to an increase in the marketing spends of ~Rs. 300 crore. This was mainly utilised for brand building and advertisement. A part of these investments were utilised to build first-ever national TV and digital launches along with spending on local activations, celebrity endorsement, influencer marketing, among others. The operating profit margins (OPM) are also expected to improve gradually, aided by benefits of the operating leverage and an improvement in profitability of the new businesses.

Comfortable financial profile, expected to strengthen further, going forward – Aided by equity infusions over the last three years, ABFRL has sharply deleveraged its balance sheet. 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 the Flipkart investment were primarily utilised for the repayment of debt. The company has also tied up fund raising of up to Rs.2,195 crore by way of 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. Of this, Rs. 770 core has been infused till H1 FY2023. Led by equity infusions, ABFRL's net debt has sharply reduced over the last three years. As on January 31, 2023, the company had an estimated net debt of Rs. 638 crore. The same is expected to reduce significantly by March 2024, post the receipt of the second tranche of equity investment of Rs. 1,425 crore in March 2024. This coupled with an improvement in cash flows from the existing and new businesses should facilitate sustenance of net debt to operating profit of below 1 times, thereafter.

Credit challenges

Continued operating losses in Van Heusen's range of innerwear and other new businesses – ABFRL's margin expansion is restricted by the continued losses (albeit reducing) in Van Heusen's range of innerwear and the recently acquired ethnic business. While the innerwear segment is expected to achieve EBITDA break-even in FY2024, that in the ethnic segment (including the recently launched TASVA brand) is expected to take around two to three years. The company has also acquired exclusive online and offline rights for Reebok for the Indian market w.e.f. October 01, 2022. This is also loss making at present and is expected to achieve break-even in 12-18 months.

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 Risks

ABFRL has low exposure to environmental risks. The sector does not face any major physical climate risks. 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.

Increasing usage of customer data following growing penetration of e-commerce poses data privacy and legal risks for retail entities. The company ensures 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 unencumbered cash and bank balances as well as liquid investments (Standalone) of ~Rs. 595 crore, along with unutilised fund-based limits of around ~Rs.1,500 crore as on January 31, 2023. The company has scheduled debt repayments of around Rs. 330 crore in FY2024 and is estimated to incur ~Rs. 700-800 crore of capital expenditure (capex) towards new store additions each year in FY2024 and FY2025. This is expected to be adequately funded through healthy cash flows as well as Rs. 1,425 crore of proposed fund infusion in March 2024.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company is able to significantly improve its return metrics along with a notable growth in revenues and OPM while maintaining healthy credit profile and strong liquidity position. The return on capital employed (ROCE) improving to above 25% on a sustained basis would also be a positive rating factor.

Negative factors – The ratings may be downgraded in case a sharp decline in sales/ profitability or if any significant debt-funded capex adversely impacts its credit metrics and/or the 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 Retail Rating approach – Implicit Support from Parent or group Rating approach- Consolidation
Parent/Group Support	Parent Group - Aditya Birla Group ICRA expects 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 arose.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ABFRL. As on December 31, 2022, ABFRL had 12 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, 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 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, Van Heusen's range of innerwear and athleisure and the recently acquired Reebok business. 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 among the largest branded women's wear retailer in India.

The company has forayed into the premium and 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.

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 had announced partnership with eight digital first (D2C) lifestyle brands namely; Berrylush, Bewakoof, Juneberry, Natilene, Nauti Nati, Nobero, Urbano and Veirdo. By February 2023, TMRW had completed the acquisition and integration of six of these eight digital-first brands.

Key financial indicators (Audited, Consolidated)

	FY2021(A)	FY2022(A)	6M FY2023(Prov.)
Operating Income (Rs. crore)	5,248.9	8,136.2	5,949.4
PAT (Rs. crore) *	-735.7	-120.7	123.9
OPBDIT/OI (%)	10.6%	13.5%	14.5%
PAT/OI (%)	-14.0%	-1.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	3.3	3.2
Total Debt/OPBDIT (times)	6.5	3.7	2.7

	FY2021(A)	FY2022(A)	6M FY2023(Prov.)
Interest Coverage (times)	1.1	3.1	4.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations; ^The financial statements of FY2021 and FY2022 are reported numbers, based on 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	Current Rating (FY2023)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					March 02, 2023	Jul 21,2022	Sep 2, 2021	Sep 7, 2020	Apr 28, 2020	May 31, 2019
1	Term Loans	LT	10.0	10.0	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
2	Fund-based / Non-fund Based Facility	LT	2,490.0	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
3	Unallocated	LT	-	-		-	-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	LT	-	-	-	-	[ICRA]AA (Stable), withdrawn	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)
5	Non-convertible Debenture Programme	LT	-	-	-	-	-	-	[ICRA]AA@ , withdrawn	[ICRA]AA (Stable)
6	Non-convertible Debenture Programme	LT	-	-	-	-	-	-	[ICRA]AA@ , withdrawn	[ICRA]AA (Stable)
7	Commercial Paper Programme	ST	1,250	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1 +	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore, @- On watch with Negative 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

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loans	Mar-18	-	Mar-25	10.0	[ICRA]AA+ (Stable)
-	Fund-based / Non-fund Based Facility	-	-	-	2,490.0	[ICRA]AA+ (Stable)
-	Commercial Paper Programme#		-	-	1,250	[ICRA]A1+

Source: Company; # Commercial Paper outstanding as on date is nil

Please click here to view details of lender-wise facilities rated by ICRA.

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	58.69%	Full Consolidation
Sabyasachi Calcutta LLP [formerly M/s. Sabyasachi Couture]	51%	Full Consolidation
Sabyasachi Inc, USA	51%	Full Consolidation
Indivinity Clothing Retail Private Limited	80%	Full Consolidation
Goodview Fashion Private Limited	33.5%	Equity method
Aditya Birla Digital Fashion Ventures Limited (ABDFVL)	100%	Full Consolidation
Aditya Birla Garments Limited	100%	Full Consolidation
House of Masaba Lifestyle Private Limited	52.44%	Full Consolidation
Pratyaya E-Commerce Private Limited (Subsidiary of ABDFVL)	66%	Full Consolidation
Imperial Online Services Private Limited (Subsidiary of ABDFVL)	55%	Full Consolidation
Awesomefab Shopping Private Limited (Subsidiary of ABDFVL)	55%	Full Consolidation

***Source**: Company*

Corrigendum

Rationale dated March 02,2023 has been corrected with revision as detailed below:

- Rating methodology with respect to consolidation has been added in analytical approach segment on page no.4.

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