

## Aditya Birla Retail Limited (REVISED)

Instrument	Amount	Rating Action
Long-term loans	Rs.2,075.69 crore (enhanced from Rs. 1,260.89 crore)	Upgraded to [ICRA]A- (stable) from [ICRA]BBB+ (stable)
Long-term, fund-based facilities	Rs. 571.50 crore (enhanced from Rs. 54.16 crore)	Upgraded to [ICRA]A- (stable) from [ICRA]BBB+ (stable)
Short-term, fund-based facilities	Rs. 665.0 crore ( reduced from Rs. 1,181.00 crore )	Upgraded to [ICRA]A2+ from [ICRA]A2
Short-term, fund-based/ non-fund based facilities	Rs. 82.0 crore (reduced from Rs. 160.00 crore )	Upgraded to [ICRA]A2+ from [ICRA]A2
Short-term unallocated facilities	Rs.105.81 crore	[ICRA]A2+ assigned

ICRA has upgraded the long-term rating on the Rs. 2,075.69 crore (enhanced from Rs. 1,260.89 crore)<sup>1</sup>, long-term loans; and the Rs. 571.50 crore (enhanced from Rs. 54.16 crore) long-term, fund-based bank facilities of Aditya Birla Retail Limited (ABRL)<sup>2</sup> to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB+ (pronounced ICRA triple B plus). ICRA has also upgraded the short-term rating on the Rs. 665.00 crore (reduced from Rs. 1,181.00 crore), short-term, fund-based bank facilities; and the Rs. 82.00 crore (reduced from Rs. 160.00 crore), short-term, fund-based/ non-fund based bank facilities of ABRL to [ICRA]A2+ (pronounced ICRA A two plus) from [ICRA]A2 (pronounced ICRA A two). ICRA has also assigned an [ICRA]A2+ rating to the Rs. 105.81 crore, short-term, unallocated bank facilities of the company. The outlook on the long-term rating is stable.

The ratings upgrade takes into account the improvement in the operating performance of the company and the continued strong financial support received from the Aditya Birla Group. The improvement in the operating performance has been facilitated by improvement in gross margins through better product mix, vendor negotiations and increased contribution of private label sales; continued store rationalisation with closure of unviable stores; cost control initiatives being undertaken by the company; along with significant improvement in sales per square feet in the past three years aided by a double digit like-to-like (LTL) growth. The above initiatives have resulted in reduction in the EBITDA loss to around 5% for FY 2016. Additionally, the company is further trying to improve efficiencies in supply chain operations to reduce costs and drive availability and freshness in the stores. While cost reduction initiatives are expected to help the company improve its cost structure, improvement in gross margins and further scale-up of operations would be the key in achieving profitability.

The company has enjoyed continuous financial support from its promoters in the form of Optionally Convertible Bonds (OCBs) amounting to Rs. 2,873.6 crore as on March 31, 2016 to fund its net losses and for its store expansion plans. The redemption dates for these OCBs have been regularly extended by the promoters and ICRA expects the same to continue in future. Though the EBITDA losses are expected to narrow down further, the company is expected to continue to incur net losses over the medium term on account of the high interest burden. ICRA expects the group to continue funding the same and also any capital expenditure in the medium term; ICRA takes note of the Rs. 75 crore equity infusion in FY2016, and also takes comfort from the management's indication of steady equity infusion into the company rather than dependence on OCBs. Further, ABRL continues to enjoy strong financial flexibility reflected in its refinancing ability and ability to tie-up fresh debt. The ratings, are however, constrained by the weak financial profile of the company characterized by negative networth owing to continued losses, a situation unlikely to change in the medium term.

In ICRA's view, while ABRL is present in the hypermarket and supermarket segments, which generally exhibit lower business risk than many other segments that are exposed to general economic slowdown, stiff competition supported by low absolute differentiation across the different retailers has been posing significant challenges. Therefore, even though the sales per square feet have been improving for ABRL's stores, it would require further scale up to attain breakeven as overhead costs remain unabsorbed at present. Improved consumer sentiment and any positive developments such as introduction of the Goods & Services Tax (GST) bill could aid faster EBITDA breakeven as some of the input taxes remain unabsorbed currently. Factors such

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website, [www.icra.in](http://www.icra.in), or other ICRA Rating Publications



as strong execution capability, real estate assets positioning, investments in logistics and supply chain, and ability of the promoters to provide financial support are key to a successful and viable retail format.

Further, in view of the investment requirements going forward and cash losses, the business is likely to need further equity support in the future. ICRA derives comfort from the promoters' commitment to the business and their ability to bring in necessary funding; timely infusion of funds for meeting commitments is a key rating sensitivity.

#### **Company Profile**

Incorporated in FY2007, Aditya Birla Retail Limited (ABRL) is the venture of Aditya Birla Group in the organised retail segment. The company's erstwhile wholly-owned subsidiary – Trinethra Superretail Private Limited (Trinethra) was merged with ABRL in FY2014. ABRL is held 68% by Kanishtha Finance & Investment Private Limited and 32% by RKN Retail Private Limited (investment holding companies of Mr. Kumar Mangalam Birla and his family).

ABRL operates a chain of 487 supermarkets and 19 hypermarkets under the brand name 'More' as on June 30, 2016.

#### **Recent results:**

As per the audited results for FY 2016, the company reported a net loss of Rs. 649.4 crore over an operating income of Rs. 3,509.4 crore as against a net loss of Rs. 571.1 crore over an operating income of Rs. 2,893.4 crore during FY2015.

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