

September 07, 2020

Aditya Birla Fashion and Retail Limited: Rating reaffirmed; Outlook revised to Stable and removed from watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	27.96	422.00	[ICRA]AA; reaffirmed; outlook revised to Stable and removed from watch with negative implications
Long-term, Fund-based / Non-fund Based Facilities	2,291.00	2,073.00	[ICRA]AA; reaffirmed; outlook revised to Stable and removed from watch with negative implications
Long-term, Unallocated	181.04	5.00	[ICRA]AA; reaffirmed; outlook revised to Stable and removed from watch with negative implications
Non-Convertible Debenture Programme	300.00	300.00	[ICRA]AA; reaffirmed; outlook revised to Stable and removed from watch with negative implications
Commercial Paper Programme	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	4,800.00	4,800.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook to Stable factors in the improved liquidity position of Aditya Birla Fashion and Retail Limited (ABFRL) following the successful completion of the rights issue of ~Rs. 1,000 crore, of which ~Rs. 500 crore was received in July 2020. The remaining amount will be received in January 2020 (Rs. 250 crore) and July 2021 (Rs. 250 crore). Around 66% of the rights issue was subscribed by the promoter group. ICRA expects the Aditya Birla Group to provide need-based funding support to ABFRL. The proceeds of the rights issue received in July 2020 were primarily utilised for the repayment of debt and the payment of creditors, thereby resulting in a reduction in the net debt to Rs. 2,871.1 crore as on July 31, 2020 from Rs. 3,250 crore as on June 30, 2020. The liquidity position of the company is thus adequate, with unencumbered cash and bank balances as well as liquid investments of Rs. 352 crore, along with unutilised fund-based bank limits of Rs. 592 crore as on July 31, 2020. The company does not have any major long-term debt repayment falling due over the September 2020–March 2021 period, although it continues to be exposed to high refinancing requirements for short-term loans, letter of credit and commercial paper (CP) obligations. ICRA, however, 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.

As part of the Aditya Birla Group, ABFRL also receives operational support from the Group. Furthermore, the extensive experience of the management team facilitates superior execution capabilities. ABFRL enjoys a

leadership position within the domestic branded apparel industry, supported by its diverse product portfolio and extensive multi-channel reach across India.

The performance of the Indian retail sector was adversely impacted in Q1 FY2021, following the Government-mandated shutdown of malls as well as non-essential stores across the country on account of the Covid-19 pandemic. ABFRL reported 85% YoY decline in revenues in Q1 FY2021, with a net loss of Rs. 399.9 crore. The company started re-opening its stores from the second half of May 2020, and as of August 2020, ~90% of its stores were operational. Given the expected slowdown in discretionary spending, ICRA expects the revenues and profits of the company to witness a significant YoY decline in FY2021. Despite this, the additional funding requirements are expected to be adequately met through the rights issue proceeds, release of working capital of ~Rs. 500 crore and cost rationalisation initiatives, including fixed lease rental reductions (ABFRL achieved unconditional rent concessions of Rs. 157.5 crore till June 30, 2020), manpower and other overheads cost rationalisation efforts undertaken by the company. Consequently, ABFRL's net debt is expected to reduce to ~Rs. 2,000 crore by March 2021.

The ratings remain constrained by the moderate financial risk profile of the company, as evinced by Net debt/OPBDITA of 4.9 times as on March 31, 2020 and interest cover of 2.0x for FY2020. ICRA notes the high competitive intensity in the fashion segment in which ABFRL operates, characterised by domestic as well as international brands along with a few, but well-established retail players. Furthermore, the business remains vulnerable to any economic slowdown.

The Stable outlook reflects ICRA's expectation that ABFRL will maintain an adequate liquidity profile and achieve reduction in debt, despite the disruption to operations from the pandemic.

Key rating drivers and their description

Credit strengths

Strong parentage of the Aditya Birla Group and extensive experience of the management – As 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. Furthermore, 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, 2020, the company operated 2,662 stores under the Madura division and 342 stores under the Pantaloons division.

Improved liquidity position – During July 2020, ABFRL successfully completed its rights issue of ~Rs. 1000 crore, of which ~Rs. 500 crore was received in July 2020. The remaining amount will be received in January 2020 (Rs. 250 crore) and July 2021 (Rs. 250 crore). The proceeds of the rights issue received in July 2020 were primarily utilised for the repayment of debt and the payment of creditors. The liquidity position of the company is further supported by the unencumbered cash and bank balance as well as liquid investments of Rs. 352 crore, along with unutilised fund-based bank limits of Rs. 592 crore as on July 31, 2020.

Credit challenges

Adverse impact on financial performance in FY2021 due to slowdown in discretionary spends amid ongoing pandemic – ABFRL’s Q1 FY2021 performance was primarily affected by the closure of its stores on account of the nationwide lockdown induced by the pandemic. The company’s standalone revenues witnessed a YoY decline of 85% to Rs. 320 crore in Q1 FY2021. Although majority of the stores remained shut during April and May 2020, the same were reopened mainly during May–June 2020, and currently, ~90% of the company’s stores are operational. Reduced top line in Q1 FY2021 led to a net loss of Rs. 399.9 crore. Given the expected slowdown in discretionary spending, ICRA expects the revenues and profits of the company to witness a YoY decline in FY2021.

Moderate financial risk profile – The financial profile of ABFRL is moderate, as evinced by Net debt/OPBDITA of 4.9 times and interest cover of 2.0x for FY2020. ABFRL’s net debt (excluding lease liabilities) increased to Rs. 2,871.1 crore as on July 31, 2020 from Rs. 2,512 crore as on March 31, 2020. While the company does not have any major long-term debt repayment falling due over September 2020–March 2021, it continues to be exposed to high refinancing requirements for short-term loans, letter of credit and CP obligations. ICRA, however, 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.

Continued operating losses in Forever-21 brand and Van Heusen’s range of innerwear – Margin expansion in the Madura business is restricted by the continued losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen’s range of innerwear.

Highly competitive nature of fashion business; revenues and profitability also remain vulnerable to economic slowdown – The fashion segment, in which the company operates, is highly competitive, marked by domestic and international brands as well as well-established retail players. Furthermore, 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 is adequate. The company had unutilised fund-based limits of ~Rs. 592 crore and unencumbered cash and liquid investments of Rs. 354 crore as on July 31, 2020. The company does not have any major long-term debt repayment obligations falling due over September 2020–March 2021, although it continues to be exposed to high refinancing requirements for short-term loans, letter of credit and CP obligations. ICRA, however, 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 has also initiated a host of steps to improve liquidity, including the rights issue and cost rationalisation initiatives, including fixed lease rental reductions, manpower and other overheads cost rationalisation efforts. In addition, the company has curtailed its capital expenditure (capex) programme for FY2021 to Rs. 75-100 crore (over Rs. 400 crore in FY2020), in a bid to conserve cash.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the company is able to report a healthy improvement in revenues, leading to a sustained improvement in its operating profit margins (OPM). Specific credit metrics that will result in a rating upgrade includes net debt/OPBDITA (adjusted for Ind AS 116) improving to below 1.5 times on a sustained basis.

Negative triggers – Negative pressure on ratings could arise in case of slower ramp-up in ABFRL’s operating performance resulting in an impact on its earnings profile and, thus, a further moderation in its credit profile. Deterioration of net debt/OPBDITA (adjusted for Ind AS 116) to above 2.3 times on a sustained basis would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	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 Corporate Credit Rating Methodology
Parent / Group Support	Parent Group- Aditya Birla Group We expect 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. There also exists a track record of the Group having extended timely financial support to ABFRL, whenever a need arose.
Consolidation / Standalone	The ratings are based on the company’s standalone financial profile.

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’s; 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 two divisions at present—Madura Fashion and Lifestyle (Madura) and Pantaloons. 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 (the company holds perpetual license to manufacture and sell these brands in India) like Louis Philippe, Van Heusen, Allen Solly and Peter England. The Fast Fashion segment comprises the People brand and the Forever 21 brand (which was acquired in July 2016). The Madura division also includes other fashion formats like Planet Fashion, The Collective, Hackett London, and Van Heusen’s innerwear range for men. 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 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.

Key financial indicators (audited)

	FY2019 [^]	FY2020 [*]
Operating Income (Rs. crore)	8,117.7	8,742.5
PAT (Rs. crore)	321.2	-145.2
OPBDIT/OI (%)	7.3%	14.6%
PAT/OI (%)	4.0%	-1.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	7.7
Total Debt/OPBDIT (times)	2.9	4.1
Interest Coverage (times)	2.6	2.7

Source: ABFRL, * Based on Ind AS 116, ^ Without Ind AS 116

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs crore)	Date & Rating		Date & Rating in FY2020 31-May-19	Date & Rating in FY2019 27-Apr-18	Date & Rating in FY2017 31-Mar-17	
				7-Sep-20	28-Apr-20				
1 Term Loans	Long-term	422.00	382.00	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2 Fund-based / Non-fund Based Facility	Long-term	2073.00	-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3 Unallocated	Long-term	5.00	-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
4 Non-convertible Debenture Programme	Long-term	300.00	300.00	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
5 Non-convertible Debenture Programme	Long-term	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
6 Non-convertible Debenture Programme	Long-term	-	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
7 Commercial Paper Programme	Short-term	2,000.00	1,117.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*As on July 31, 2020

@: Rating on watch with Negative Implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
NA	Term Loan	Aug-08	9.45%	Mar-22	6.20	[ICRA]AA (Stable)
NA	Term Loan	Mar-18	8.55%	Mar-25	15.80	[ICRA]AA (Stable)
NA	Term Loan	May-20	8.75%	May-20	250.00	[ICRA]AA (Stable)
NA	Term Loan	Jun-20	8.50%	Mar-24	150.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	163.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	745.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	350.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	75.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	250.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	240.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA (Stable)
NA	Fund-based / Non-fund Based Facility	-	-	-	50.00	[ICRA]AA (Stable)
NA	Unallocated Facility	-	-	-	5.00	[ICRA]AA (Stable)
INE647008073	NCD	Sep-18	8.96%	Aug-21	300.00	[ICRA]AA (Stable)
NA	Commercial Paper Programme	-	-	-	2000.00	[ICRA]A1+

Source: Aditya Birla Fashion and Retail Limited

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