August 1, 2023

BSE Limited
Scrip code: 535755 & 961915

National Stock Exchange of India Limited
Symbol: ABFRL

Sub.: Intimation of credit rating of Aditya Birla Fashion and Retail Limited

Ref.: 1. **Regulation 30** (read with Schedule III - Part A) **of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015** *("Listing Regulations")*
2. **ISIN: INE647O01011& INE647O13016**

Dear Sir/ Madam,

Please be informed that ICRA has revised existing rating as per details which are as mentioned below:

Name of the Credit rating agency	Type of credit rating	Existing	Revised
ICRA Limited	Long term Loans	ICRA AA+ (Stable)	ICRA AA+ (Stable) (Reaffirmed)
	Long-term, Fund-based/Non-fund Based Facilities		
	Commercial Paper	ICRA A1+	ICRA A1+ (Reaffirmed/assigned for enhanced limits)
	Non-Convertible Debenture	ICRA AA+ (Stable)	ICRA AA+ (Stable) (Reaffirmed)

The report received from the credit rating agency is enclosed herewith.

The above information is also available on the website of the Company i.e. www.abfrl.com.

Thanking you,

Sincerely,
For **Aditya Birla Fashion and Retail Limited**

ANIL KUMAR MALIK
Digitally signed by ANIL KUMAR MALIK
Date: 2023.08.01 18:21:47 +05'30'

Anil Malik
President & Company Secretary
Enc: a/a

July 31, 2023

Aditya Birla Fashion and Retail Limited: Rating reaffirmed; rated amount enhanced

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); reaffirmed
Long-term, Fund-based/Non-fund Based Facilities	2,490.00	2,490.00	[ICRA]AA+(Stable); reaffirmed
Commercial Paper Programme	1,250.00	2,000.00	[ICRA]A1+; reaffirmed/assigned for enhanced limits
Non-Convertible Debenture (NCD) Programme	500.00	500.00	[ICRA]AA+ (Stable); reaffirmed
Total	**4,250.00**	**5,000.00**	

^Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Aditya Birla Fashion and Retail Limited (ABFRL) 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 continue to derive comfort from ABFRL's superior financial flexibility for being a part of the Aditya Birla Group (ABG), evident from the regular fund raisings over the last two years, and ICRA's expectation that the Group would 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. ABFRL is expected to clock a double-digit revenue growth in FY2024 and FY2025, led by steady performance of the lifestyle segment, a regular increase in store counts across various brands and ramp-up of new businesses including ethnic wear, innerwear and the athleisure segment.

ICRA has noted ABFRL's recent announcement regarding the debt-funded acquisition plan of TCNS Clothing Company Limited (TCNS), aimed at strengthening its presence in women's ethnic wear segment. TCNS is a leading player in this segment, operating via 675 exclusive brand outlets, 2,200+large format store outlets and 1,000+ multi-brand outlets as on March 31, 2023. ABFRL will be acquiring a 51% stake in TCNS for Rs. 1,650 crore, to be funded through debt of Rs. 700-750 crore and the balance via internal accruals. ABFRL will make a conditional open offer to acquire up to 29% from public shareholders (conditional upon a minimum level of acceptance of 20.19% of the shareholding) and acquire the balance stake from the founder promoters (between 22% and 30.81%) to reach an overall shareholding of 51% in TCNS. Subsequently, TCNS will be amalgamated with ABFRL under the merger scheme wherein public shareholders of TCNS will receive 11 shares of ABFRL for every 6 shares held by them in TCNS. The entire process is expected to be completed by March 2024. At present, ABFRL has received approval from the Competition Commission of India (CCI) for this acquisition.

Given the above debt-funded acquisition, regular capital expenditure towards store additions (~Rs. 700-800 crore in FY2024) and increased working capital requirement and investments to ramp up the new businesses, the financial position of ABFRL is expected to remain moderate in FY2024. ICRA also notes the current demand headwinds faced by the retail industry due to high inflation, which is expected to put pressure on revenues and profits in H1 FY2024, though the demand conditions are expected to improve from H2 FY2024. ABFRL is due to receive the last tranche of equity investment of ~Rs. 1,425 crore by Caladium Investment Pte Ltd, an affiliate of GIC, Singapore in March 2024, given the above funding requirements. Consequently, ABFRL's net debt to OPBDITA (consolidated, excluding TCNS and excluding Ind AS 116 adjustments) shall remain elevated and is estimated at ~3 times as of March 31, 2024. The same is however, expected to improve to below 2 times over the next two years, supported by an increase in profitability amid steady performance by the existing formats and ramp-up of new businesses. This remains a key 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 innerwear and athleisure as well as the recently acquired ethnic businesses.

The Stable outlook reflects ICRA's expectations that ABFRL's credit profile will remain adequately supported over the medium term, led by improvement in cash flows amid profitable ramp-up across the business segments.

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 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. Of this, Rs. 770 crore has been infused till H1 FY2023. The balance is expected to be infused in March 2024. 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 March 31, 2023, the company operated 3,546 brand stores and 431 stores under the Pantaloons division.

Strong growth in revenues in FY2023; expected to improve further, going forward – The company witnessed a strong YoY revenue growth of 53% in FY2023 at Rs.12,417.9 crore, network expansion, healthy retail like-to-like (LTL) sales across various formats and accelerated omnichannel play and network expansion. Notwithstanding the near-term headwinds in the form of inflationary pressure, which will impact revenues and profits till H1 FY2024, 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. Despite strong revenue growth, the operating profitability moderated to 12.0% in FY2023 (from 14.1% in FY2022, due to a substantial increase in advertisement expenses and losses in new businesses. Nonetheless, OPMs are expected to improve gradually over the medium term, aided by benefits of the operating leverage and an improvement in profitability of the new businesses.

Credit challenges

Financial profile to remain moderate in FY2024, though expected to improve thereafter – Given the proposed debt-funded acquisition of TCNS, capex towards store additions (estimated to be around Rs. 700-800 crore in FY2024) and increased working capital requirement and investments to ramp up the new businesses, the financial position of ABFRL is expected to remain moderate in FY2024. As on May 31, 2023, ABFRL had total net debt outstanding of Rs. 2,050.8 crore, vis-à-vis Rs. 1,422.0 crore as on March 31, 2023. ICRA also notes the current demand headwinds faced by the retail industry due to inflation, which is expected to put pressure on revenues and profits in H1 FY2024, though the demand conditions are expected to improve from H2 FY2024. While ABFRL is due to receive the last tranche of equity investment of ~Rs. 1,425 crore by Caladium Investment Pte Ltd. in March 2024, given the above funding requirements, ABFRL's net debt to OPBDITA (consolidated, excluding TCNS and excluding Ind AS 116 adjustments) shall remain elevated and is estimated at ~3 times as of March 31, 2024. The same is however, expected to improve to below 2 times over the next two years, supported by an improvement in profitability, led by a steady performance of the existing formats and ramp-up of new businesses. This will remain under focus.

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, the same 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 selling Reebok products in 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. Moreover, the overall profitability of the company is impacted by losses in the new direct-to-consumer (D2C) venture, TMRW.

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

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 liquid investments of ~Rs. 1,327 crore, along with unutilised fund-based limits of around ~Rs.1,480 crore as on May 31, 2023. The company has scheduled debt repayments of around Rs. 330 crore (of which payment of Rs.325 already done till May-2023) in FY2024 and is estimated to incur ~Rs. 700- 800 crore of capex towards new store additions each year in FY2024 and FY2025. ABFRL will also acquire a 51% stake in TCNS for Rs. 1,650 crore and will raise debt of around Rs.700-750 crore for the same. The cash flows of ABFRL are expected to improve in FY2024, aided by an expected improvement in its profitability. In addition, Rs. 1,425 crore of proposed fund infusion in March 2024 will also provide liquidity support. The average utilisation of non-fund-based limits stood at around 77% during the last 12 months ended in May 2023.

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 a healthy credit profile and a 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 rating may be downgraded in case of a sharp decline in sales/ profitability or if any significant debt-funded capex or large acquisition/ investments 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 Rating Methodology - Retail Rating approach – Implicit Support from Parent or group
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 March 31, 2023, ABFRL had 14 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 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 retailers 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 digital first (D2C) brands across categories such as beauty, fashion and other allied lifestyle segments. Subsequently, in November 2022, the company had announced partnership with eight D2C lifestyle brands namely, Berrylush, Bewakoof, Juneberry, Natilene, Nauti Nati, Nobero, Urbano and Veirdo. TMRW had completed acquisition and integration of seven of these eight digital-first brands within March 2023.

Key financial indicators (Audited, Consolidated)

	FY2021(A)	FY2022(A)	FY2023(A)
Operating Income (Rs. crore)	5,248.9	8,136.2	12,417.9
PAT (Rs. crore) *	-735.7	-120.7	-66.3
OPBDIT/OI (%)	10.6%	14.1%	12.0%
PAT/OI (%)	-14.0%	-1.5%	-0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	3.3	4.0
Total Debt/OPBDIT (times)	6.5	3.6	4.4
Interest Coverage (times)	1.1	2.9	3.2

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 numbers as mentioned above 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 (FY2024)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					July 31,2023	April 26,2023	March 02, 2023	Jul 21,2022	Sep 2, 2021	Sep 7, 2020	Apr 28, 2020
1	Term Loans	LT	10.0	10.0	[ICRA]AA + (Stable)	[ICRA]AA + (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA @
2	Fund-based / Non-fund Based Facility	LT	2,490.0	-	[ICRA]AA + (Stable)	[ICRA]AA + (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA @
3	Unallocated	LT	-	-	-	-		-	-	[ICRA]AA (Stable)	[ICRA]AA @
4	Non-convertible Debenture Programme	LT	-	-	-	-	-	-	[ICRA]AA (Stable), withdrawn	[ICRA]AA (Stable)	[ICRA]AA @
5	Non-convertible Debenture Programme	LT	-	-	-	-	-	-	-	-	[ICRA]AA @, withdrawn
6	Non-convertible Debenture Programme	LT	-	-	-	-	-	-	-	-	[ICRA]AA @, withdrawn
7	Commercial Paper Programme	ST	2,000	0.0	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1 +
8	Non- convertible Debenture Programme	LT	500	-	[ICRA]AA + (Stable)	[ICRA]AA + (Stable)	-	-	-	-	-

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
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, 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)
INE647O14ET6	Commercial Paper Programme	Jun-23	7.03%	Sep-23	250.0	[ICRA]A1+
INE647O14EQ2	Commercial Paper Programme	Apr-23	7.31%	Sep-23	350.0	[ICRA]A1+
INE647O14ER0	Commercial Paper Programme	May-23	7.23%	Aug-23	100.0	[ICRA]A1+
INE647O14ES8	Commercial Paper Programme	May-23	7.24%	Aug-23	200.0	[ICRA]A1+
Unplaced	Commercial Paper Programme	-	-	-	1,100.0	[ICRA]A1+
-	Non-convertible Debenture Programme*	-	-	-	500.0	[ICRA]AA+ (Stable)

*Source: Company; *Proposed; Note: The outstanding Commercial paper stood at Rs.900.0 crore as on July 04,2023*

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)	66.26%	Full Consolidation
Imperial Online Services Private Limited (Subsidiary of ABDFVL)	55%	Full Consolidation
Awesomefab Shopping Private Limited (Subsidiary of ABDFVL)	55%	Full Consolidation
Bewakoof Brands Pvt Ltd (BBPL)	85.17%	Full Consolidation
Next Tree Products Private Limited (Subsidiary of BBPL)	85.17%	Full Consolidation

***Source**: Company*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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