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India Ratings Upgrades Aditya Birla Fashion and Retail and its NCDs to ‘IND AA+’/Stable

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India Ratings and Research (Ind-Ra) has upgraded Aditya Birla Fashion and Retail Limited’s (ABFRL) Long-Term Issuer Rating to ‘IND AA+’ from 'IND AA' with a Stable Outlook. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Proposed non-convertible debentures (NCDs)*	-	-	-	INR5,000	IND AA+/Stable	Assigned
NCDs*				INR12,250	IND AA+/Stable	Upgraded
Term loans	-	-	FY25	INR100	IND AA+/Stable	Upgraded
Fund-based working capital limits	-	-	-	INR12,400	IND AA+/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR5,400	IND A1+	Affirmed
Commercial paper (CP)	-	-	0-365 days	INR12,500	IND A1+	Affirmed
Working capital limits (fund-based/non-fund based)	-	-	-	INR5,800	IND AA+/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Proposed fund/non-fund-based working capital limit	-	-	-	INR1,300	IND AA+/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed

*Details in annexure

The upgrade reflects the improvement in ABFRL’s business profile and a continued improvement in its financial profile since 9MFY23, based on same store sales growth (SSG) and revenue from the newly added stores. Moreover, ABFRL reported higher-than-industry average revenue growth over FY20-9MFY23, implying an improvement in its market positioning. This has been a result of ABFRL aggressively acquiring various brands over the past two years to widen its product portfolio. Profitability and integration of such acquired assets within core operations remain rating monitorables.

The financial profile of ABFRL has improved on the back of an improvement in its profitability and continued equity infusions which will aggregate to INR46.6 billion by FY24. Caladium Investment Pte Ltd (affiliate of GIC) has already infused the first tranche of INR7.7 billion in FY23, while the second tranche of INR14.2 billion could come in FY24. Ind-Ra expects the equity funds infused in FY23 to have brought down the net debt level to INR5 billion-6 billion in March 2023 (FY20: INR25 billion), improving the credit profile significantly. Moreover, the expected fund infusion and enhanced profitability are likely to provide funds for steady growth in the profitability over the medium term.

Key Rating Drivers

Increase in Scale of Operations with Improved Profitability: Ind-Ra expects ABFRL to have reported revenue of INR115 billion-120 billion in FY23. The scale of operations grew 63% yoy to INR95.4 billion in 9MFY23 and 20% qoq to INR35.9 billion in 3QFY23, while the absolute operating profit improved 73% yoy to INR13.85 billion in 9MFY23. The EBITDA margin improved 120bp yoy to 13.6% in 9MFY23, despite the higher opex in form of increased advertising expenses. The growth was supported by double-digit growth in the premium segment while the value fashion segment remained under inflationary pressure. Among all, the ethnic portfolio recorded 66% yoy revenue growth in 9MFY23. Starting 3QFY23, ABFRL has integrated the financials of Reebok brand, although not a major contributor to the reported growth. Ind-Ra expects the margins to have remained in the range of 14%-16% in FY23 and could be range-bound in the medium term.

Improved Credit Profile to be Further Supported by Fresh Equity Infusion: Ind-Ra expects ABFRL’s credit metrics to have improved in FY23 in view of the 9MFY23 figures. The improved operational performance in 9MFY23 led to an improvement in the credit metrics, with the interest coverage (EBITDA/interest cost) being 3.9x (FY22: 2.0x; FY21: 1.1x) and net adjusted leverage (net debt/EBITDAR) being 2.7x in 1HFY23 (FY22: 3.8x; FY21: 5.4x). Furthermore, ABFRL's board approved the raising of funds in the form of preferential issue of equity and warrants amounting to INR21.95 billion on 24 May 2022 to Caladium Investment. The infusion will be through two tranches with the first tranche of the investment totalling to INR7.7 billion already in, and the remaining INR14.25 billion to be infused through one or more tranches in March 2024. After the investment, GIC will hold about 7.5% stake in ABFRL. Ind-Ra, thus, expects ABFRL’s overall credit profile to further strengthen after the infusion of funds, with the net adjusted leverage remaining below 1.5x over the medium term. The funds will also support the growth in the operations of the company.

Acquisition of Brands Strengthens Portfolio: The company offers a diversified portfolio across a range of price points and categories, from value segment to luxury. During FY22, it acquired strong, premium brands such as House of Masaba and Reebok. The company has completed the acquisition of Reebok’s India operations through signing of a local transfer agreement effective 1st October 2022. Reebok’s financials have been integrated from 3QFY23 with ABFRL’s financials. The company is focusing on streamlining operations such as designing, product innovation, sourcing, retail expansion and marketing. Kidswear has been launched under VH Inner Wear, and House of Masaba has launched its beauty and personal care line, Lovechild, targeting a wide range of products. These strategic acquisitions will enable the company to expand into the footwear, kidswear and beauty segments. Additionally, ABFRL has continued to aggressively expand its retail presence across markets while increasing its offerings, and enhanced its focus in the ethnic wear portfolio through the launch of brands Tasva and Marigold Lane. In FY23, ABFRL invested in D2C business through its subsidiary TMRW, which has acquired eight digital first-lifestyle brands. ABFRL is planning to create a digital-first House of Brands.

Recovery in Madura Segment: The revenue of the company’s Madura segment grew 58% yoy to INR60.3 billion in 9MFY23. Lifestyle brands, which include Peter England, Louis Philippe, Van Heusen and Allen Solly, reported an increase in their revenue to total INR50.7 billion in 9MFY23 (9MFY22: INR31.8 billion), with a healthy increase across the retail and wholesale channels; the segment reported an EBITDA of INR8.7 billion in 9MFY23 (9MFY22: INR4.9 billion). The other businesses under this segment, as per the reported financials, constitute innerwear, youth fashion and super premium brands, which together reported a revenue of INR9.6 billion in 9MFY23 (9MFY22: INR6.4 billion). Ind-Ra expects Madura to report significant growth over the medium term, supported by the launch of new stores as well as the recent acquisitions in the ethnic wear and footwear segments.

Furthermore, revenue in the e-commerce channel grew 33% yoy in 9MFY23. Ind-Ra, however, expects the revenue share to be capped at 8%-10% yoy over the medium term, as the company continues to expand its core retail operations.

Strong Growth in Pantaloons Segment: Revenue in the Pantaloons segment grew 68% yoy in 9MFY23 to INR32.71 billion, supported by the pent-up demand in fashion retail and addition of showrooms. In 3QFY23, the revenue grew 9% yoy to INR11.6 billion with EBITDA of INR1.68 billion (9MFY22: INR10.66 billion revenue and INR2.16 billion EBITDA), as the division observed a sluggish demand in small towns post Diwali. Pantaloons added 10 new stores taking the total number of stores to 406 in December 2022, with a total of 5,363 sq ft. Ind-Ra expects the segment to report healthy revenue growth in FY24 as the operations normalise and the company continues to expand its showroom presence with gross opening of over 30 stores each year. Given the larger format of the stores under this segment, a majority of the new stores will be opened through the capex incurred by the company, while 20%-25% will be through franchisees.

Established Brand in Apparel Retail: ABFRL operated out of an aggregate retail space of 10.2 million square feet (sf) in 9MFY23, across a total of 3,848 outlets - with 3,442 brand stores (across Madura and ABFRL's subsidiaries) and 406 large format stores (under Pantaloons). Madura's brands are also distributed through the wholesale channel, comprising around 32,589 multi-brand outlets and 6,048 shop-in-shops in department stores. ABFRL, which is one of the leading pure play fashion and lifestyle companies in the country, reported healthy revenue growth in 9MFY23, in line with Ind-Ra's expectations, supported by improved demand and revenue from same SSG and newly opened stores. The company continued to report SSG of 5%-6% in 9MFY23. The EBITDA margins for 1QFY23, 2QFY23 and 3QFY23 stood at 16.3%, 12.9%, and 12.1% respectively. The company witnessed a sharp increase in opex, majorly in the form of marketing expense starting 2QFY23 which could further increase in the near term, as they plan to scale up the newly acquired brands.

Strong Parentage: ABFRL benefits from the strong financial flexibility of the Aditya Birla Group and the group's experience of successfully handling consumer-facing businesses such as financial services, apparel and telecom. The group has been able to substantially scale-up these businesses, despite intense competition in each of these segments. The group considers apparel retail sector to be a focus area, and in Ind-Ra's assessment, it will continue to extend need-based managerial and financial support to ABFRL.

Liquidity Indicator - Adequate: ABFRL's cash flow from operations remained positive at INR4.9 billion in 1HFY23 (FY22: INR6.5 billion; FY21: INR6.3 billion), supported by the improvement in profitability. Ind-Ra expects the company to incur a large capex of over INR3.5 billion over the medium term, apart from franchise-led expansions. This capex will be met through internal accruals and equity. The liquidity could further improve with the additional equity infusion of INR14.2 billion by March 2024. This would also support the company's aggressive expansion plans. ABFRL had INR1.5 billion of cash and cash equivalents and INR9.8 billion of liquid investments in 1HFY23. The overall utilisation of fund-based working capital facilities for the 11 months ended February 2023 was 1%. ABFRL has scheduled debt repayments of INR3.28 billion and INR4.38 billion in FY24 and FY25, respectively, which can be serviced through a mix of internal accruals and equity infusions.

Intense Competition; Vulnerable to Economic Cycles: ABFRL continues to face stiff competition in the apparel retail sector from e-commerce players and other unorganised players. Moreover, given the discretionary nature of the products, the company's performance remains susceptible to economic cycles.

Rating Sensitivities

Negative: Deterioration in the operating profitability, leading to the net adjusted leverage remaining above 1.5x on a sustained basis and/or a weakening of the linkages with the Aditya Birla Group will lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ABFRL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

ABFRL is the apparel retail venture of the Aditya Birla Group. It is among India's largest branded apparel players with a pan-India network spanning retail space of 10.2 million sf, comprising 3,848 retail outlets as on 31 December 2022.

FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Revenue (INR billion)	95.4	81.3	52.5
EBITDAR (INR billion)	19.8	14.9	5.7
EBITDAR margin (%)	20.8	18.4	10.8
Interest expense (INR billion)	3.3	3.5	5.0
Gross interest coverage (x)	3.9	2.0	1.1
Net leverage (x)	-	3.8	5.4
Source: ABFRL; Ind-Ra			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Histori		
				4 January 2023	26 July 2022	30 August 2021
Issuer Rating	Long-term	-	IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/Stable
Term loan	Long-term	INR 100	IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/Stable
Fund-based working capital limit	Long-term/Short-term	INR12,400	IND AA+/Stable/IND A1+	IND AA/Positive/IND A1+	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+
Non-fund-based working capital limit	Short-term	INR5,400	IND A1+	IND A1+	IND A1+	IND A1+
CP	Short-term	INR12,500	IND A1+	IND A1+	IND A1+	IND A1+
Fund/non-fund-based working capital limit	Long-term/Short-term	INR7,100	IND AA+/Stable/IND A1+	IND AA/Positive/IND A1+	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+
NCDs	Long-term	INR17,250	IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/Stable

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
Proposed NCDs	-	NA	NA	NA	INR5,000	IND AA+/Stable
NCDs	INE647O08115	30 January 2023	7.80%	30th January, 2026	INR5,000	IND AA+/Stable
NCDs	INE647O08099	22 May 2020	8.75	22 May 2023	INR3,250	IND AA+/Stable
NCDs	INE647O08107	9 September 2021	5.8	9 September 2024	INR4,000	IND AA+/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
CP	Low
NCDs	Low
Non-fund-based working capital limits	Low
Fund-based working capital limits	Low
Term loans	Low
Working capital limits (fund/non-fund based)	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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