

October 26, 2023

## Aditya Birla Fashion and Retail Limited: Ratings reaffirmed; assigned to the enhanced limits

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	10.00	10.00	[ICRA]AA+(Stable); reaffirmed
Long Term - Fund Based/Non-Fund Based	2,490.00	2,490.00	[ICRA]AA+(Stable); reaffirmed
Commercial Paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Non-Convertible Debenture (NCD) Programme (proposed)	500.00	500.00	[ICRA]AA+(Stable); reaffirmed
Non-Convertible Debenture (NCD) Programme	-	750.00	[ICRA]AA+(Stable); assigned
<b>Total</b>	<b>5,000.00</b>	<b>5,750.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings assigned to Aditya Birla Fashion and Retail Limited (ABFRL) continue to 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 factor in 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, Reebok, and the direct-to-consumer segment.

ABFRL, in September 2023, concluded its debt-funded acquisition of a 51% stake in TCNS Clothing Company Limited (TCNS) at a total cost of Rs.1,626 crore, funded through debt of Rs. 750 crore and the balance via internal accruals. This would strengthen ABFRL's presence in the women's ethnic wear segment. TCNS is a leading player in this segment, operating via 677 exclusive brand outlets, 2,300+ large format store outlets and 1,000+ multi-brand outlets as on June 30, 2023. 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.

Given the above debt-funded acquisition, regular capital expenditure towards store additions (Rs. 800-900 crore in FY2024) and increased working capital requirement and investments to ramp up the new businesses, the financial profile 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 of ABFRL in H1 FY2024, though the demand conditions are expected to improve from H2 FY2024, led by the onset of the festive season. ABFRL is also due to receive the last tranche of equity investment of ~Rs. 1,425 crore from Caladium Investment Pte Ltd., an affiliate of GIC, Singapore in March 2024. Nonetheless, given the above funding requirements, ABFRL's net debt to OPBDITA (consolidated, excluding TCNS and excluding Ind AS 116 adjustments) would remain elevated and is estimated at 3-3.5 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 the innerwear and the 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, aided by an 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 Investments Private Limited 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, the last tranche of equity worth Rs. 1,425 crore 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 June 30, 2023, the company operated 3,574 brand stores and 434 stores under the Pantaloons division.

**Strong growth in revenues in FY2023; expected to improve further, going forward** – The company's revenue jumped 53% in FY2023 to Rs.12,417.9 crore on a YoY basis, led by 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 (excluding TCNS) 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 profit margins (OPM) moderated to 12.0% in FY2023 (from 14.1% in FY2022 due to a substantial increase in advertisement expenses and losses in new businesses. In Q1 FY2024, despite the 11% YoY revenue growth, the OPM moderated to 9.1% (vis-à-vis 16.3% in Q1 FY2023) amid demand slowdown, particularly in the value fashion segment and increased investments in the ethnic and D2C segments. 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 debt-funded acquisition of TCNS, capex towards store additions (estimated to be around Rs. 800-900 crore in FY2024) and increased working capital requirement and investments to ramp up the new businesses, the financial profile of ABFRL is expected to remain moderate in FY2024. As on August 31, 2023, ABFRL had total net debt outstanding of Rs. 3,298.7 crore (excluding lease liabilities), vis-à-vis Rs. 1,430.0 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 3-3.5 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 a key rating monitorable.

**Continued operating losses in Van Heusen's range of innerwear and other new businesses** – ABFRL's margin expansion is restricted by the continued losses in Van Heusen's range of innerwear and the recently acquired ethnic business (including the recently launched TASVA brand). These are expected to achieve breakeven of operations over the next three to four years only. 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 Risk

**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 cash and bank balance of ~Rs. 272 crore, along with unutilised fund-based limits of around ~Rs.837 crore as on August 31, 2023. The company does not have any scheduled long-term debt repayment in H2 FY2024. Around Rs. 1,050 crore of commercial paper obligations are falling due for repayment between September 2023 and December 2023. The company is estimated to incur Rs. 800-900 crore of capex towards new store additions each year in FY2024 and FY2025. In September 2023, ABFRL also acquired a 51% stake in TCNS for Rs. 1,626 crore, funded through debt of Rs.750 crore and the balance via internal accruals. The cash flows of ABFRL are expected to improve in H2 FY2024, led by the festive season, with estimated retained cash flows of Rs. 600 crore in FY2024. In addition, Rs. 1,425 crore of proposed fund infusion in March 2024 will also provide liquidity support. ICRA also draws comfort from the demonstrated track record of the company in timely refinancing its debt obligations as well as in its strong parentage, which lends superior financial flexibility.

### 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/ investment 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology- Retail</a> <a href="#">Rating approach- Implicit Support from Parent or group</a>
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 is one of the leading value fashion retailers in India.

The company has forayed into the premium and the 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. Subsequently, in September 2023, it completed acquisition of a 51% stake in TCNS Clothing Company Limited at a total cost of Rs.1,626 crore.

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 D2C lifestyle brands.

### Key financial indicators (Audited)

ABFRL Consolidated	FY2022	FY2023	Q1FY2024
Operating income	8,136.2	12,417.9	3,196.1
PAT *	-120.7	-66.3	-162.0
OPBDIT/OI	14.1%	12.6%	9.1%
PAT/OI	-1.5%	-0.5%	-5.1%
Total outside liabilities/Tangible net worth (times)	3.3	4.0	-
Total debt/OPBDIT (times)	3.6	4.2	-
Interest coverage (times)	3.0	3.1	1.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Source: Company & ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs crore, financial numbers are as per 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	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as of Aug 31, 2020 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Oct 25, 2023	Jul 31, 2023	Apr 26, 2023	Mar 02, 2023	Jul 21, 2022	Sep 02, 2022	Sep 07, 2020	Apr 28, 2020	
1 Term loans	Long term	10.0	10.0	[ICRA]AA+ (Stable)	[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	Long term	2,490.0	--	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA@	
3 Non-convertible Debenture Programme	Long term	-								[ICRA]AA (Stable)	[ICRA]AA@	
4 Non-convertible Debenture Programme	Long term	-							[ICRA]AA (Stable), withdrawn	[ICRA]AA (Stable)	[ICRA]AA@	
5 Non-convertible Debenture Programme	Long term	-									[ICRA]AA@	
6 Non-convertible Debenture Programme	Long term	-									[ICRA]AA@	
7 Commercial Paper Programme	Short term	2,000.0	1,050	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
8 Non-convertible Debenture Programme (Proposed)	Long term	500.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	-	
9 Non-convertible Debenture Programme	Long term	750.0	750.0	[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 are available on ICRA's website: [Click Here](#)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Mar-18	NA	Mar-25	10.0	[ICRA]AA+ (Stable)
NA	Fund-based / Non fund Based Facility	-	NA	NA	2,490.0	[ICRA]AA+ (Stable)
INE647O14EQ2	Commercial Paper Programme	April-2023	7.31%	Sept-2023	350	[ICRA]A1+
INE647O14ET6		June -2023	7.03%	Sept-2023	250	
INE647O14EU4		August -2023	7.10%	Nov-2023	100	
INE647O14EV2		August-2023	7.18%	Nov-2023	100	
INE647O14EW0		August-,2023	7.14%	Nov-2023	200	
INE647O14EW0		August-2023	7.14%	Nov-2023	50	
Unplaced		NA	NA	NA	950.0	
NA	Non-convertible Debenture Programme*	NA	NA	NA	500.0	[ICRA]AA+ (Stable)
INE647O08123	Non-convertible Debenture Programme	Sept-2023	7.57%	Sept-2030	750.0	[ICRA]AA+ (Stable)

Source: Company; \*Proposed; Note: The outstanding Commercial paper stood at Rs.1,050 crore as on August 31,2023

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

<b>Company Name</b>	<b>ABFRL Ownership</b>	<b>Consolidation Approach</b>
Jaypore E-Commerce Private Limited	100.00%	Full Consolidation
TG Apparel & Décor Private Limited	100.00%	Full Consolidation
Finesse International Design Private Limited	58.69%	Full Consolidation
Sabyasachi Calcutta LLP [formerly M/s. Sabyasachi Couture]	51.00%	Full Consolidation
Sabyasachi Inc, USA	51.00%	Full Consolidation
Indivinity Clothing Retail Private Limited	80.00%	Full Consolidation
Goodview Fashion Private Limited	33.50%	Full Consolidation
Aditya Birla Digital Fashion Ventures Limited (ABDFVL)	100.00%	Full Consolidation
Aditya Birla Garments Limited	100.00%	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)	55.00%	Full Consolidation
Awesomefab Shopping Private Limited (Subsidiary of ABDFVL)	55.00%	Full Consolidation
Bewakoof Brands Pvt Ltd (BBPL)	85.17%	Full Consolidation
Next Tree Products Private Limited (Subsidiary of BBPL)	85.17%	Full Consolidation

Source: Annual report FY2023

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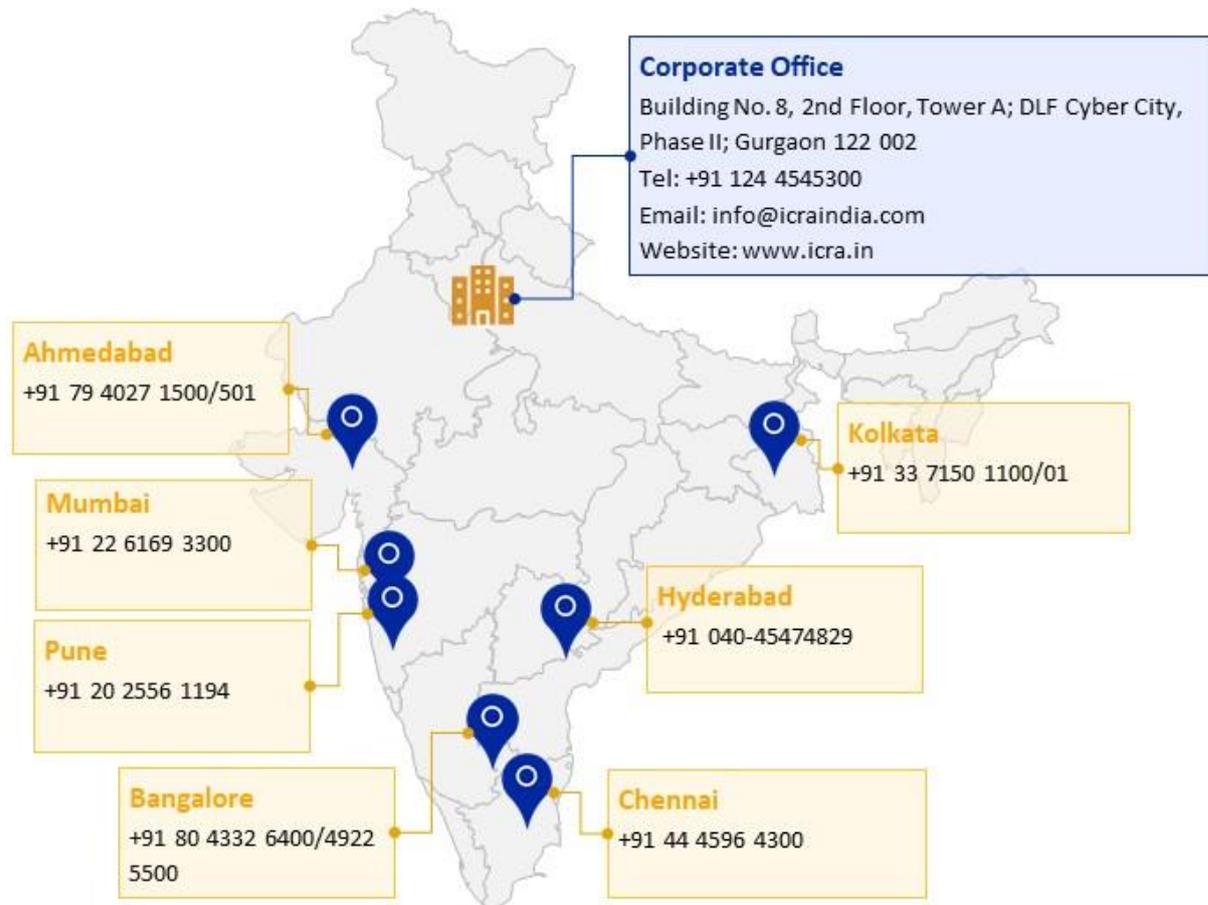
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