

## Looking for Sustained Signs of Recovery; Maintain HOLD

**Est. vs. Actual for Q2FY25:** Revenue – **MISS**; EBITDA – **BEAT**; PAT – **MISS**

**Changes in Estimates post Q2FY25**

**FY25E/FY26E:** Revenue: -5%/-4%; EBITDA: -11%/-4%

**Recommendation Rationale**

- Resilient growth amid headwinds:** Despite a challenging environment marked by reduced footfalls due to inauspicious periods and extreme weather, the company's consolidated revenue grew by ~13% YoY, driven by strong performances in Ethnic (up 3x YoY), TMRW (up 2x YoY), and a 9% YoY increase in Luxury retail. Gross margins improved by 308bps YoY to 56.5%, supported by a sharp recovery in its demerged ABFRL business, which grew by 31% YoY. EBITDA stood at Rs 361 Cr, up 11.8% YoY, with EBITDA margins at ~10%, a slight decline of 11bps YoY due to higher expenses. Management highlighted EBITDA margin improvements across ABFRL segments (Lifestyle & Pantaloons) and expects strong performance in H2, driven by early recovery signs fueled by the festive and wedding season.
- Demerger on track:** The management highlighted that the demerger is on track and is expected to be completed before the end of FY25.
- Short-term headwinds persist, but long-term prospects remain positive:** The management's renewed focus on profitability marks a positive shift. The previous strategy of enhancing the product lineup through new launches and acquisitions, revitalizing brand positioning, and implementing a digital transformation to boost online sales contributions—including next-generation, digital-first brands under the technology-driven 'House of D2C Brands' venture, TMRW—should underpin long-term growth. However, these initiatives will take time to materialize fully. While H2FY25 appears promising, we await more sustained signs of recovery in performance to solidify confidence in the growth trajectory.

**Sector Outlook:** **Cautious**

**Company Outlook & Guidance:** Looking for sustained signs of recovery, Hence, we maintain our **HOLD** rating on the stock.

**Current Valuation:** 18xSep'26 EV/EBITDA (Earlier Valuation: 18xMar'26 EV/EBITDA)

**Current TP:** Rs 300/share(Rs 310/share)

**Recommendation** With a 1% upside potential from the CMP, we maintain our **HOLD** rating.

### Financial Performance:

The company's consolidated revenue stood at Rs 3,644 Cr, up ~13% YoY (compared to our estimate of 15% YoY), driven by new businesses in emerging consumer segments. EBITDA was Rs 361 Cr, up 11.8% YoY, with EBITDA margins at ~10%, a decline of 11 bps YoY due to higher other expenses, partially offset by 308 bps of gross margin expansion. The company reported a negative PAT of Rs 215 Cr due to higher depreciation/amortization for brand and retail assets following the inclusion of TCNS and increased costs from elevated borrowings. However, management expects demand to revive from Q3 onwards, driven by the upcoming festive and wedding seasons.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	3,644	6.3	12.9	3,675	(0.9)
EBITDA	361	0.8	11.8	357	1.3
EBITDA Margin (%)	9.9	-54bps	-11bps	9.7	21bps
Net Profit	(215)	(0.1)	7.2	(203)	
EPS (Rs)	(2.1)	(0.1)	0.2	(2.0)	

Source: Company, Axis Research

(CMP as of 8<sup>th</sup> November 2024)

CMP (Rs)	297
Upside /Downside (%)	1%
High/Low (Rs)	364/198
Market cap (Cr)	31,894
Avg. daily vol.(6m)Shrs. '000	6162
No. of shares (Cr)	107

### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	51.9	52.0	49.3
FII	19.3	19.6	19.1
MFs / UTI	10.1	10.6	11.1
FIs / Banks	0.0	0.0	0.0
Others	18.8	17.8	20.5

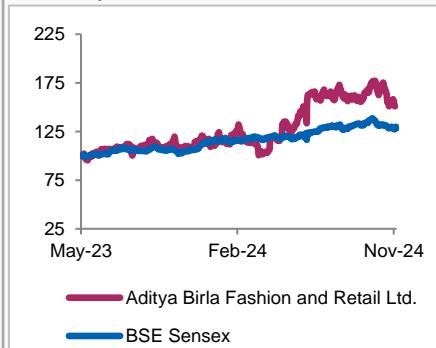
### Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	15,758	18,109	20,701
EBITDA	1,774	2,425	3,118
Net Profit	-650	-312	57
EPS (Rs)	(5.8)	(2.8)	0.5
EV/EBITDA (x)	(51.6)	(107.5)	588.5
P/BV (x)	21.0	15.3	11.8
ROE (%)	9.9	10.9	10.7

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-5%	-4%
EBITDA	-11%	-4%

### Relative performance



Source: Ace Equity, Axis Securities

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## Outlook

We believe the management's renewed focus on profitability is a step in the right direction. Additionally, its prior strategy of enhancing the product lineup through new launches and acquisitions, refreshing brand positioning, and advancing digital transformation to boost online sales contributions—including next-generation digital-first brands under the technology-led 'House of D2C Brands' venture, TMRW—should support long-term growth. However, these initiatives will require time to deliver substantial results, and the demand environment continues to pose challenges. **While H2FY25 shows potential, we seek more sustained signs of recovery in performance. Therefore, we maintain our HOLD rating on the stock.**

## Valuation & Recommendation

We maintain a **HOLD** rating on the stock with the revised TP of Rs 300/ share implying an upside of 1% from CMP.

## Other ConCall Key Highlights

A. **Proposed Aditya Birla Lifestyle Brands Limited (ABLBL):** The proposed ABLBL segment reported revenue of Rs 1,975 Cr in Q2FY25, with an EBITDA of Rs 302 Cr. EBITDA margins for the segment stood at 15.3%.

It comprises mainly 4 brands.

1) **Lifestyle Brands:- Steady growth with a strategic focus on Fresh Merchandise and Expansion (Louis Philippe, Van Heusen, Allen Solly, Peter England, Simon Carter)**

In Q2FY25, the lifestyle brand segment reported revenue of Rs 1,636 Cr, marking a 3% YoY increase. EBITDA stood at Rs 302 Cr, with a strong margin of 18.4%. Comparable-store sales (LTL) grew by 3.4%, driven by a strategic focus on casual, trend-oriented fashion and enhanced in-store experiences. Profitability was further supported by effective cost-control measures, tight markdown management, and efficient inventory practices. During the quarter, the company opened 29 high-quality stores in key markets while exiting underperforming locations. The product line was refined to include more casual, contemporary styles to meet evolving consumer preferences. The wholesale segment faced challenges due to weaker secondary sales, but the e-commerce channel demonstrated over 20% growth, contributing to improved profitability. As of September 2024, the company operated 2,569 lifestyle brand stores.

2) **Youth Western Wear Brands:- Youthful flair drives growth for Western Brand (American Eagle & Forever 21)**

The Youth Western brand achieved a remarkable 31% YoY growth in Q2FY25. To bolster its market presence, the brand launched a nationwide campaign featuring a new ambassador, enhancing visibility across diverse media platforms. Currently, the brand is available in 69 exclusive stores and over 200 department and trade counters, positioning it well for sustained momentum in the youth fashion segment.

3) **Sportswear Brand:- Sportswear expansion & innovations fuel growth (Reebok)**

The sportswear brand has expanded its footprint considerably, now available in 169 stores and over 900 trade outlets. In Q2FY25, the brand achieved a notable 10% growth in same-store sales, underpinned by innovation as a core part of Reebok's strategy. Significant product launches in H1 included the "MaxFoam," aimed at enhancing athletic performance, and the women-focused "SpaceFoam," both of which garnered strong consumer engagement and interest.

4) **Innerwear Business:- Innerwear Athleisure bounces back with fresh momentum (Van Heusen)**

After multiple quarters of decline, the Innerwear-Athleisure segment experienced a positive turnaround in Q2FY25. The addition of over 800 new trade outlets in H1FY25 has expanded the brand's presence to over 35,800 points of sale. Both e-commerce and retail channels maintained robust performance, with comparable-store sales increasing by 3% and e-commerce revenue growing by 24% YoY, indicating improved profitability. This recovery highlights the segment's resilience and strategic efforts to capture market momentum.

**B. Demerged Aditya Birla Fashion and Retail Ltd-** This segment has grown by 31% to Rs 1838 Cr in Q2FY25. This performance underscores the strength of the portfolio expansion strategy, aimed at establishing footholds in high-potential, large consumer markets for the future.

**It comprises of:-**

**1) MassTige/Value Retail:- Pantaloons Elevates Performance with Strategic Growth and Margin Gains (Pantaloons & Style up)**

The Pantaloons segment achieved solid progress in Q2, with sales reaching Rs 1,082 Cr, marking a 3% growth YoY with LTL growth of 1.3%. Enhanced gross margins fueled a remarkable 65% rise in EBITDA to Rs 162 Cr, with margin expanding by 560 bps to a strong 15%. The success stemmed from product upgrades, markdown efficiency, and rigorous cost management. Style Up also continued its momentum, adding 5 new stores to its network for a total of 35, driven by a fresh approach to product selection and improving store metrics. In Q2, Pantaloons also benefited from an on-trend AW24 collection and exclusive curated merchandise, further enhancing its appeal. The total retail network as of Sep'24 is 417 stores.

**2) Ethnic Brand-**The ethnic business overall portfolio grew by 3x vs last year to reach Rs 454Cr primarily led by the inclusion of TCNS and Tarun Tahiliani Kurti wear business. One of the comprehensive ethnic wear portfolio comprises of-

- Designer-led brands drive exceptional growth (Sabyasachi, Shantanu & Nikhil and House of Masaba)-**

The designer-led ethnic portfolio saw impressive growth, up 32% YoY, largely due to the addition of GPL. House of Masaba delivered a remarkable 123% revenue increase compared to last year, fueled by substantial expansion in its beauty line, Lovechild, which achieved nearly 10x growth YoY through wider distribution and strong organic online sales. By the end of Q2FY25, Lovechild had extended to over 35 offline touchpoints and opened 17 exclusive stores.

Apparel and accessories from Sabyasachi continued to gain popularity among celebrities and high-profile events, showing robust growth this quarter. Shantanu & Nikhil recorded a 10% increase in revenue, with its prêt label, S&N, posting a 24% uplift driven by like-for-like (LTL) growth and wider distribution, now reaching 20 stores.

Further, there is the addition of another brand named Tarun Tahiliani to the designer-led brand portfolio, marking a significant milestone. With an increased stake of 51% in the couture label—one of India's leading luxury designer brands—this strategic acquisition bolsters the company's presence in the ethnic wear segment, enhancing its luxury ethnic fashion lineup and reinforcing its market position.

- Premium ethnic wear brands:- Uplifted demand fuels growth across the brand (Jaypore, Tasva and TCNS)**

The premium ethnic wear segment saw strong Q2 momentum, with TCNS achieving revenue of Rs 254 Cr—a 13% YoY growth—driven by improved store performance and a favourable response to fresh merchandise. Further, TCNS delivered its third consecutive quarter of positive LTL growth, reaching 3% in Q2, and posted a positive EBITDA—a testament to focused merchandising and sales enhancements. The men's premium brand, TASVA, recorded a 79% sales increase YoY, benefiting from early festive demand and standout in-store experiences, pushing retail LTL growth to 26%. Jaypore, another brand in this portfolio, posted a 15% revenue growth with a solid 6% LTL, expanding its reach to 27 locations, including 11 new stores over the past 18 months.

**3) Luxury Retail(The collective & Mono Brands portfolio, Galeries Lafayette) –**

The luxury retail segment, featuring "The Collective" and a range of mono brands, achieved a solid 9% YoY revenue growth, highlighting its resilience and profitability amidst market headwinds. E-commerce, fueled by the collective.in, surged by 24% YoY, underscoring robust online demand. With a total of 40 stores across formats, the brand continues to reinforce its upscale positioning and broaden its reach within the luxury market.

**4) TMRW portfolio soars with digital-first strategy-**

TMRW's portfolio witnessed a stellar expansion, doubling its sales YoY in Q2FY25, fueled by its digital-first, strategic growth model. This diverse portfolio balances well-established brands with strong consumer loyalty alongside promising emerging brands. With an emphasis on offline growth, TMRW is scaling its retail presence through exclusive brand outlets and partnerships. Key milestones include Bewakoof's 2 exclusive brand outlets and over 30 department store partnerships, TIGC's debut offline store, and a robust brand-building push across channels. WROGN's latest campaign, "Love is Respect," underscores the brand's commitment to connecting with consumers.

**Debt:** The company's net debt in Q2FY25 stood at Rs 3,759 Cr. The management also highlighted that the debt may come down to Rs 400-500 Cr by the end of FY25, as much of their portfolio is heavily skewed towards wedding and festival-related periods during H2 FY25.

### Key Risks to Our Estimates and TP

- Increase in competitive intensity; Weakening of demand environment.

### Change in Estimates

	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	16,595	18,899	15,758	18,109	-5%	-4%
EBITDA	1,990	2,529	1,774	2,425	-11%	-4%

Source: Company, Axis Securities

## Results Review

Rs Cr.	Q2FY24	Q1FY25	Axis Sec	Q2FY25	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est
<b>Total Revenue</b>	<b>3,226</b>	<b>3,428</b>	<b>3,675</b>	<b>3,644</b>	<b>12.9</b>	<b>6.3</b>	<b>(0.9)</b>
COGS	1,504	1,489	1,654	1,586	5.5	6.5	(4.1)
<b>Gross Profit</b>	<b>1,723</b>	<b>1,939</b>	<b>2,022</b>	<b>2,058</b>	<b>19.4</b>	<b>6.1</b>	<b>1.8</b>
<b>GM%</b>	<b>53.4</b>	<b>56.6</b>	<b>55.0</b>	<b>56.5</b>	<b>308bps</b>	<b>-8bps</b>	<b>147bps</b>
<b>Expenditure</b>							
Employee expenses	423	469	508	519	22.6	10.7	2.2
Other Exp	976	1,111	1,157	1,177	20.6	6.0	1.8
<b>Total Expenditure</b>	<b>2,903</b>	<b>3,069</b>	<b>3,319</b>	<b>3,283</b>	<b>13.1</b>	<b>6.9</b>	<b>(1.1)</b>
<b>EBIDTA</b>	<b>323</b>	<b>358</b>	<b>357</b>	<b>361</b>	<b>11.8</b>	<b>0.8</b>	<b>1.3</b>
<b>EBIDTA Margin (%)</b>	<b>10.0</b>	<b>10.5</b>	<b>9.7</b>	<b>9.9</b>	<b>-11bps</b>	<b>-54bps</b>	<b>21bps</b>
Depreciation	389	436	460	461	18.6	5.7	0.2
<b>EBIT</b>	<b>(65.5)</b>	<b>(77.6)</b>	<b>(103.2)</b>	<b>(99.7)</b>	<b>52.2</b>	<b>28.5</b>	<b>(3.4)</b>
Interest	208	220	238	250	20.0	13.9	5.1
Oth. Inc.	46	48	66	52	12.7	7.8	(22.3)
Exceptional Items	-	-	-	23	0.0	0.0	0.0
Share of profits	(0)	(0)	-	(3)			
<b>PBT</b>	<b>(229)</b>	<b>(250)</b>	<b>(275)</b>	<b>(324)</b>	<b>42.0</b>	<b>30.0</b>	<b>18.1</b>
Tax	(28)	(35)	(71)	(64)	125.3	83.5	(11.0)
Effective Tax Rate(%)	12.3	13.9	26.0	22.8	1050bps	896bps	-316bps
<b>PAT</b>	<b>(200)</b>	<b>(215)</b>	<b>(203)</b>	<b>(215)</b>	<b>7.2</b>	<b>(0.1)</b>	<b>(5.6)</b>
<b>PAT Margin (%)</b>	<b>(6.21)</b>	<b>(6.27)</b>	<b>(5.53)</b>	<b>(5.89)</b>	<b>32bps</b>	<b>38bps</b>	<b>-36bps</b>
EPS (Rs)	(2.1)	(2.1)	(2.0)	(2.1)	0.2	(0.1)	5.6

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E Dec	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>13,996</b>	<b>15,758</b>	<b>18,109</b>	<b>20,701</b>
Growth, %	12.7	12.6	14.9	14.3
Other operating income	0	0	0	0
Total income	13,996	15,758	18,109	20,701
Raw material expenses	-6,267	-6,894	-7,721	-8,648
Employee expenses	-1,826	-2,027	-2,291	-2,588
Other Operating expenses	-4,450	-5,063	-5,672	-6,347
<b>EBITDA (Core)</b>	<b>1,453</b>	<b>1,774</b>	<b>2,425</b>	<b>3,118</b>
Growth, %	(2.7)	22.1	36.8	28.6
Margin, %	10.4	11.3	13.4	15.1
Depreciation	-1,655	-1,877	-2,062	-2,247
<b>EBIT</b>	<b>-203</b>	<b>-104</b>	<b>363</b>	<b>871</b>
Growth, %	(176.0)	(48.8)	(450.3)	139.9
Margin, %	(1.4)	(0.7)	2.0	4.2
Other Income	238	198	208	218
Non-recurring Items	0	0	0	0
<b>Pre-tax profit</b>	<b>-842</b>	<b>-879</b>	<b>-421</b>	<b>77</b>
Tax provided	93	228	110	-20
<b>Profit after tax</b>	<b>-749</b>	<b>-650</b>	<b>-312</b>	<b>57</b>
<b>Net Profit</b>	<b>-736</b>	<b>-650</b>	<b>-312</b>	<b>57</b>
Growth, %	1,137.4	(11.6)	(52.0)	(118.3)
Unadj. shares (cr)	113	113	113	113

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY24A	FY25E	FY26E	FY27E
Debtors	1,279	1,440	1,655	1,891
Inventory	4,505	5,073	5,829	6,664
Loans & advances	0	0	0	0
Other current assets	1,565	1,565	1,565	1,565
Total current assets	8,692	8,640	9,585	11,155
Investments	108	108	108	108
Gross fixed assets	16,621	18,421	19,921	21,421
Less: Depreciation	-4,758	-6,636	-8,698	-10,945
Add: Capital WIP	171	171	171	171
Net fixed assets	12,034	11,957	11,395	10,647
Non-current assets	1,577	1,577	1,577	1,577
<b>Total assets</b>	<b>22,411</b>	<b>22,282</b>	<b>22,664</b>	<b>23,487</b>
Current liabilities	6,908	7,429	8,123	8,889
Provisions	0	0	0	0
Total current liabilities	6,908	7,429	8,123	8,889
Non-current liabilities	10,782	10,782	10,782	10,782
Total liabilities	17,690	18,211	18,905	19,671
Paid-up capital	1,015	1,015	1,015	1,015
Reserves & surplus	3,019	2,369	2,057	2,114
Shareholders' equity	4,721	4,071	3,759	3,816
<b>Total equity &amp; liabilities</b>	<b>22,411</b>	<b>22,282</b>	<b>22,664</b>	<b>23,487</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs Cr	FY24A	FY25E	FY26E	FY27E
Pre-tax profit	-842	-879	-421	77
Depreciation	1,655	1,877	2,062	2,247
Chg in working capital	673	-208	-277	-305
Total tax paid	99	228	110	-20
<b>Cash flow from operating activities</b>	<b>1,586</b>	<b>1,019</b>	<b>1,473</b>	<b>1,999</b>
Capital expenditure	-5,126	-1,800	-1,500	-1,500
Chg in marketable securities	-698	0	0	0
<b>Cash flow from investing activities</b>	<b>-5,848</b>	<b>-1,800</b>	<b>-1,500</b>	<b>-1,500</b>
Free cash flow	-4,262	-781	-27	499
Equity raised/(repaid)	66	0	0	0
Dividend (incl. tax)	0	0	0	0
<b>Cash flow from financing activities</b>	<b>2,663</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net chg in cash	-1,599	-781	-27	499
Opening cash balance	701	462	-318	-345
Closing cash balance	462	-318	-345	154

Source: Company, Axis Securities

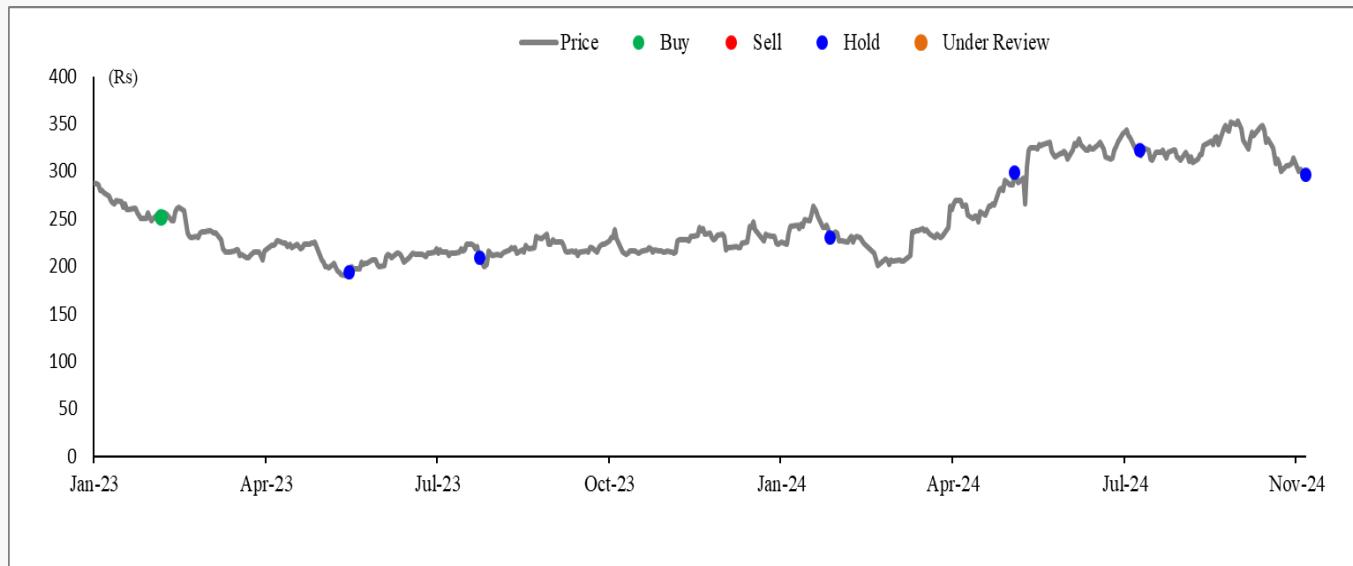
**Ratio Analysis**

(%)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share data</b>				
EPS (INR)	(6.5)	(5.8)	(2.8)	0.5
Growth, %	1,615.8	(11.6)	(52.0)	(118.3)
Book NAV/share (INR)	35.7	30.0	27.2	27.7
FDEPS (INR)	(6.5)	(5.8)	(2.8)	0.5
CEPS (INR)	8.1	10.9	15.5	20.4
CFPS (INR)	15.1	7.3	11.2	15.8
DPS (INR)	-	-	-	-
<b>Return ratios</b>				
Return on assets (%)	0.6	1.4	3.0	4.6
Return on equity (%)	(18.2)	(19.2)	(10.2)	1.8
Return on capital employed (%)	1.0	2.1	4.6	7.3
<b>Turnover ratios</b>				
Asset turnover (x)	3.0	2.6	3.1	3.7
Sales/Total assets (x)	0.7	0.7	0.8	0.9
Sales/Net FA (x)	1.4	1.3	1.6	1.9
Working capital/Sales (x)	0.0	0.0	0.1	0.1
Receivable days	33.4	33.4	33.4	33.4
Inventory days	117.5	117.5	117.5	117.5
Payable days	120.3	121.5	124.5	127.0
Working capital days	11.5	15.0	18.7	21.7
<b>Liquidity ratios</b>				
Current ratio (x)	1.3	1.2	1.2	1.3
Quick ratio (x)	0.6	0.5	0.5	0.5
Interest cover (x)	(0.2)	(0.1)	0.4	0.9
Total debt/Equity (%)	1.0	1.2	1.4	1.3
Net debt/Equity (%)	0.9	1.3	1.5	1.3
<b>Valuation</b>				
Price/Book (x)	8.3	9.9	10.9	10.7
EV/Net sales (x)	2.6	2.4	2.1	1.8
EV/EBITDA (x)	25.0	21.0	15.3	11.8
EV/EBIT (x)	(179.6)	(358.5)	102.4	42.1

Source: Company, Axis Securities

## Aditya Birla Fashion Price Chart and Recommendation History



Date	Reco	TP	Research
08-Feb-23	BUY	325	Result Update
23-May-23	HOLD	200	Result Update
07-Aug-23	HOLD	200	Result Update
13-Nov-23	HOLD	205	Result Update
19-Feb-24	HOLD	220	Result Update
30-May-24	HOLD	275	Result Update
08-Aug-24	HOLD	310	Result Update
11-Nov-24	HOLD	300	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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