India Midcaps

POST CONFERENCE NOTES

BRANDED APPAREL & RETAIL

Normalcy in sight; structural changes underway

India Equity Research| Retail

We hosted eight companies as part of our Branded Apparel & Retail Conference held on September 3 and 4. Key highlights from our interactions are: 1) First leg of recovery is under way with majority of the store network operational. The next leg will entail normalising of store sales with the industry anticipating full recovery by Q4FY21. While the upcoming festive season is expect to boost demand, its sustenance post that is key monitorable. 2) Companies are curtailing production/carrying over inventory to the next season. With limited inventory in the system, discounting till now has been low. 3) Online has been the stand out channel during the lockdown and the momentum is expected to sustain (3x industry growth). All players, including retailers, acknowledge this channel's importance and are looking to establish a presence on it. Our top picks remain Trent, TCNS Clothing and VMart. We remain underweight on Page Industries and Shopper's Stop.

First leg of recovery underway; majority network now open

The first leg of recovery is underway with majority of the store network operational. Offline channels are now fully open, with online sales already surpassing pre-covid level and are tracking strong growth. Companies have also used various initiatives like Whatsapp and video to engage with customers during the lockdown. The next leg will be for store sales to normalise--currently they range from 40-80% of pre-covid level, with the inner wear segment clocking a faster ramp-up. 30-40% recovery visible in big cities; 70-80% in smaller cities as lockdown is more relaxed. The ramp-up in towns with limited covid impact is also a key driver of the industry's confidence in recovery by Q4FY21. Commencement of the festive season (Durga Pooja, Onam, Diwali) is expected to provide a fillip in ensuing days. Key monitorable will be sustenance of demand post that.

Limited discounting; inventory liquidation to drive cash flows

While inner wear and athleisure brands are gaining good traction, demand for other categories (formal, wedding, etc.) remains weak. Majority players are carrying over their Spring Summer (SS20) inventory to Autumn Winter (AW20). Collections in India are fungible, except for core winter wear. With limited inventory available and no production, discounting has been limited, contrary to expectations. Companies are also building in cash release this year primarily driven by inventory liquidation.

Online channel: Immediate saviour and long-term driver

A clear trend visible during the lockdown has been the rising share of online channel; covid will accelerate it post end of lockdown as well. Consequently, not just brands, but retailers are looking at driving higher online share via private labels or tie ups (e.g., Amazon with Shoppers Stop). With e-commerce expected to grow ~3x the industry average, success on this channel will be critical for future growth of any brand/retailer.

Top picks

Trent, TCNS Clothing and VMart. Underweight on Page Industries and Shopper's Stop.

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September 7, 2020

Table 1: Recovery tracker – Percentage share of network operational

	Parameter	Apr	May	June	July	August
Apparel & Retail (% operational)						
Arvind Fashion	Stores	8	28	70	70	77
TCNS Clothing	Store Days	8	15	50	60	NA
Shoppers Stop	Stores	0	0	53	70	88
VMart	Store Days	0	22	55	70	75
ABFRL - Lifestyle Brands	Network	0	41	81	86	90
ABFRL - Pantaloons	Stores	0	37	75	82	90
Innerwear (% operational)						
Page Industries	Network	0	42	83	86.5	~90
ABFRL - Innerwear	Revenues	0	42	83	NA	NA
Lux Industries	Revenues	~85	~90	~100	NA	NA
Dollar Industries	Revenues	~30	~70	~90	NA	NA

Source: Company, Edelweiss research

Note: For certain months estimated as average of preceding and following month

Chart 1: Online--Fastest-growing channel; ~3x market

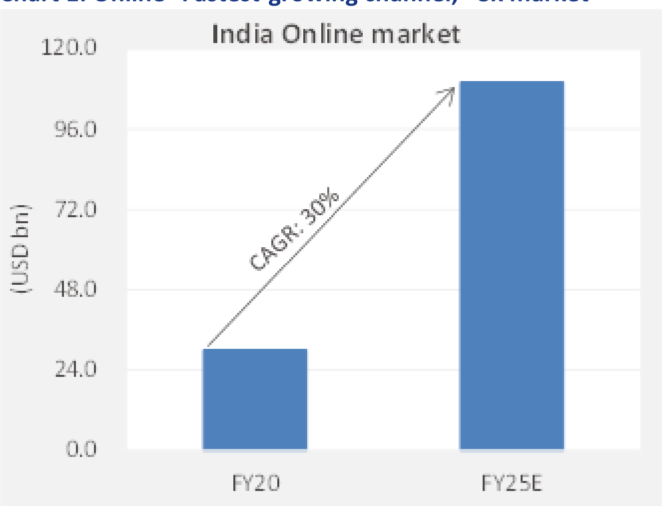
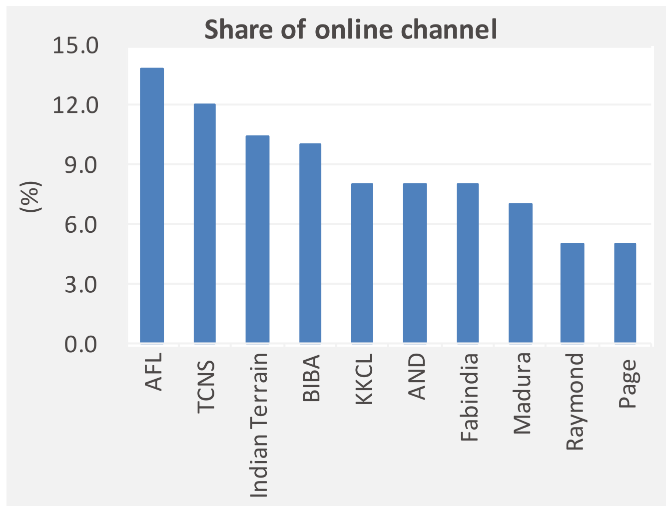


Chart 2: Online sales still minuscule for Indian brands



Source: Bain & Co: How India Shops Online, Edelweiss research

POST CONFERENCE NOTES

ADITYA BIRLA FASHION

Normalcy in sight

India Equity Research| Retail

Edelweiss
Ideas create, values protect

BRAVEHEART SERIES

Key takeaways

- **Network operational:** 95% stores are open as of end-August. Chennai stores are closed, but expected to open soon. 30-40% recovery visible in big cities; smaller cities 70-80% recovery as lockdown is more relaxed. Management expects normalcy to be back by Q4FY21/Q1FY22. ABFRL does not think promotions will have much impact in the current scenario.
- **Festive season:** Some demand to come in during October-December as there will be some buying and also due to pent-up demand. Could be around 70-80% of the normal festive demand.
- **Key trends:** Formal t shirts are selling more than casual t shirts. Funky/outdoorsy casual wear is not selling. Bridal wear is not selling. Athleisure is picking up
- **Segment & Debt reduction:** Fast fashion losses are expected to fall going ahead. Ethnic wear is a big opportunity and management believes demand will expand. Debt should be below INR20 by end FY21 (INR26bn); reduction will be sharper next year.
- **Channel:** ABFRL has started investing heavily in digital marketing for existing brands; online sales of brands have reached 3.5-7.0x of peak online sales for these brands. On stores expansion: 200 stores in Madura and 20 stores in Pantaloons.
- **Omni-channel:** Scaled up the omni-channel play. Store managers connecting with customers on whatsapp, sharing the merchandise catalogue over the platform and then dispatching orders. Delivery done within three-four hours.
- **Rentals:** Negotiations are still going on as the lockdown has extended beyond envisaged earlier. Multiple rounds of negotiations are happening with multiple developers as visibility on sales is very limited for both parties. Difficult to quantify the final saving which could fall through.
- **Industry:** ABFRL believes further consolidation in the industry possible; could look at opportunities if found suitable. Believes organic growth for global brands has peaked out, will be difficult hereon. So not worried much about competition.

Financials (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	81,177	87,879	67,919	89,911
Rev. growth (%)	*13.2*	*8.3*	*(22.7)*	*32.4*
EBITDA	5,540	12,118	8,354	13,037
Adjusted Profit	3,212	(1,650)	(3,078)	(767)
Basic shares outstanding (mn)	769	769	860	860
Adjusted diluted EPS (INR)	4.2	(2.1)	(3.6)	(0.9)
EPS Growth (%)	*171.3*	*(151.4)*	*66.8*	*(75.1)*
Diluted P/E (x)	32.9	(63.9)	(38.3)	(153.8)
EV/EBITDA (x)	22.0	10.5	16.0	10.0
ROAE (%)	25.5	(13.1)	(23.5)	(4.7)

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: ADIA BO, B: ABFRL IN)*

CMP	: INR 137
Target Price	: INR 180
52-week range (INR)	: 281 / 96
Share in issue (mn)	: 774.0
M cap (INR bn/USD mn)	: 113 / 1,294
Avg. Daily Vol.BSE/NSE('000)	: 646.4

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	59.1	59.1	59.1
MF's, FI's & BK's	22.1	21.9	21.1
FII's	6.4	8.4	9.4
Others	12.4	10.6	10.4

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	0.4	2.7	3.2
3 months	6.2	10.5	14.2
12 months	(34.6)	(1.0)	1.3

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September 7, 2020

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	7.1	-	6.0
Inflation (Avg)	3.4	5.9	3.5	4.0
Repo rate (exit rate)	6.3	7.5	3.0	4.0
USD/INR (Avg)	70.0	61.1	75.0	73.0
Company				
Revenue growth Pantaloon	11.6	10.0	(24.9)	34.9
Revenue growth Madura	12.6	8.0	(22.5)	32.5
SSSG growth - Pantaloon (%)	1.4	2.7	(25.0)	30.0
SSSG growth EBOs - Madura (%)	5.3	4.0	(20.0)	22.0
Net Store addition - Pantaloon	33.0	34.0	5.0	33.0
Net Store addition - Madura	167.0	273.0	50.0	150.0
Forever 21 (revenue growth %)	(10.1)	(20.4)	(64.9)	230.0
Pantaloons - EBITDA as % of sales	7.2	6.3	(2.6)	1.8
Madura - EBITDA as % of sales	8.0	5.8	22.9	100.0
Tax rate (%)	(115.5)	(401.6)	-	-
Capex (INR mn)	2,792	3,123	1,300	2,300
Debtor days	30	34	35	32
Inventory days	168	185	175	210
Payable days	205	202	215	205
Cash conversion cycle	(7)	17	(5)	37
Dep. (% gross block)	14.3	12.5	12.3	12.2

Income statement (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	81,177	87,879	67,919	89,911
Materials costs	39,250	42,242	33,484	43,427
Gross profit	41,927	45,637	34,435	46,484
Employee costs	9,130	10,805	9,509	10,789
Rent and lease expenses	11,104	4,870	2,988	4,855
Other Expenses	16,153	17,843	13,584	17,802
EBITDA	5,540	12,118	8,354	13,037
Depreciation	2,823	8,853	9,325	10,232
EBIT	2,717	3,265	(971)	2,805
Less: Interest Expense	1,874	4,247	4,658	4,372
Add: Other income	647.79	653.00	2,550.00	800.00
Profit Before Tax	1,491	(329)	(3,078)	(767)
Less: Provision for Tax	(1,721)	1,321	-	-
Reported Profit	3,212	(1,650)	(3,078)	(767)
Adjusted Profit	3,212	(1,650)	(3,078)	(767)
Shares o /s (mn)	769	769	860	860
Diluted shares o/s (mn)	769	769	860	860
Adjusted Diluted EPS	4.2	(2.1)	(3.6)	(0.9)

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Rent and lease expenses	13.7	5.5	4.4	5.4
Materials costs	48.4	48.1	49.3	48.3
EBITDA margins	6.8	13.8	12.3	14.5
Net Profit margins	4.0	(1.9)	(4.5)	(0.9)

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	13.2	8.3	(22.7)	32.4
EBITDA	18.2	118.7	(31.1)	56.1
Adjusted Profit	171.3	(151.4)	86.5	(75.1)
EPS	171.3	(151.4)	66.8	(75.1)

Balance sheet				(INR mn)
As on 31st March	**FY19**	**FY20**	**FY21E**	**FY22E**
Share capital	7,735	7,740	8,649	8,649
Reserves & Surplus	6,554	2,939	6,452	8,185
Shareholders' funds	14,289	10,679	15,101	16,833
Minority Interest	-	199	199	199
Total Borrowings	17,029	23,688	20,000	16,000
Long Term Liabilities	2,889	27,841	29,092	30,405
Sources of funds	**31,573**	**60,530**	**62,514**	**61,561**
Net Block	6,959	29,600	30,465	32,154
Capital work in progress	224	441	441	441
Intangible Assets	18,596	19,831	19,831	19,831
Total Fixed Assets	25,779	49,871	50,736	52,426
Non current investments	42	72	72	72
Cash and Equivalents	574	2,740	4,875	3,670
Inventories	19,213	23,668	20,656	22,903
Sundry Debtors	7,866	8,405	6,400	8,252
Loans & Advances	4,921	5,169	5,169	5,169
Other Current Assets	5,183	5,742	6,029	6,331
Current Assets (ex cash)	37,182	42,983	38,254	42,655
Trade payable	23,986	22,859	19,145	24,985
Other Current Liab	8,018	12,277	12,277	12,277
Total Current Liab	32,004	35,136	31,422	37,262
Net Curr Assets-ex cash	5,178	7,847	6,832	5,393
Uses of funds	**31,573**	**60,530**	**62,514**	**61,561**
BVPS (INR)	18.6	13.9	17.6	19.6

Free cash flow				(INR mn)
Year to March	**FY19**	**FY20**	**FY21E**	**FY22E**
Reported Profit	3,212	(1,650)	(3,078)	(767)
Interest (Net of Tax)	4,038	21,304	4,658	4,372
Others	(3,860)	(15,967)	(2,550)	(800)
Less: Changes in WC	937	6,099	(1,015)	(1,439)
Operating cash flow	5,276	6,440	9,369	14,477
Less: Capex	2,792	3,123	1,300	2,300
Free Cash Flow	**2,484**	**3,318**	**8,069**	**12,177**

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	25.5	(13.1)	(23.5)	(4.7)
ROACE (%)	11.1	11.9	4.5	10.6
Inventory Days	168	185	175	210
Debtors Days	30	34	35	32
Payable Days	205	202	215	205
Cash Conversion Cycle	(7)	17	(5)	37
Current Ratio	1.2	1.3	1.4	1.2
Gross Debt/EBITDA	3.1	2.0	2.4	1.2
Gross Debt/Equity	1.2	2.2	1.3	0.9
Adjusted Debt/Equity	1.2	2.2	1.3	0.9
Interest Coverage Ratio	1.4	0.8	(0.2)	0.6

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	2.6	1.9	1.1	1.4
Fixed Asset Turnover	3.2	2.3	1.4	1.8
Equity Turnover	6.4	7.0	5.2	5.6

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	4.2	(2.1)	(3.6)	(0.9)
Y-o-Y growth (%)	*171.3*	*(151.4)*	*66.8*	*(75.1)*
Adjusted Cash EPS (INR)	7.8	9.4	7.3	11.0
Diluted P/E (x)	32.9	(63.9)	(38.3)	(153.8)
P/B (x)	7.4	9.9	7.8	7.0
EV / Sales (x)	1.5	1.7	2.3	1.8
EV / EBITDA (x)	22.0	10.5	16.0	10.0

POST CONFERENCE NOTES

V-MART RETAIL

Rural focused network

India Equity Research| Retail

Key takeaways

- **Network Ramp-up:** 90% of stores had opened in June. However, lockdown was again introduced in July and August in some parts. For stores, which are open, 70-80% of recovery is visible. On overall basis, this would be around 60%.
- **Buying Trends:** 65% purchases would be need based, balance would be aspirational purchases. Management expects need-based buying to resume once normalcy returns; however, aspirational buying is likely to be impacted. Agri-incomes have been good; hence, consumption too is likely to be good.
- **Inventory:** Inventory management to be a challenge for all retailers. Retailers have reached an understanding that inventory liquidation will not be done via discounting.
- **Design:** Does not do designing; has teams that map designs and work with vendors to create similar clothing. Has KPIs for these design teams to ascertain whether the picking/selection was suitable with demand or not.
- **Competition:** Mixed bag as national players can be aggressive; regional competition to be under pressure.
- **Online:** Expects to go live in a few online marketplaces in coming months. Won't try to gain share via discounting; has been a full price seller in the offline channel and will follow the same philosophy. Expects demand to move gradually to online and hence will be working to strengthen that piece.
- **Expansion:** Will be adding 100 stores over the next two years, 50 each year roughly. But will also need to evaluate locations, returns one can get from these.
- **Assortment:** Will be looking to change the mix with more focus on athleisure and lounge wear. Will be adding some new categories as well.
- **Guidance:** Margin-wise does not see much impact from change in mix. If any, it will largely be due to non-sale of high price items in the near term.

Financials (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	14,337	16,620	12,411	17,737
Rev. growth (%)	*17.3*	*15.9*	*(25.3)*	*42.9*
EBITDA	1,329	2,138	1,477	2,288
Adjusted Profit	714	493	(125)	395
Basic shares outstanding (mn)	18	18	18	18
Adjusted diluted EPS (INR)	39.4	27.2	(7.0)	21.9
EPS Growth (%)	*(8.2)*	*(31.0)*	*(125.6)*	*414.7*
Diluted P/E (x)	45.2	65.5	(256.2)	81.4
EV/EBITDA (x)	23.8	15.1	21.7	13.9
ROAE (%)	18.9	11.4	(2.8)	8.5

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: VMAR.BO, B: VMART IN)*

CMP	: INR 1781
Target Price	: INR 2230
52-week range (INR)	: 2,545 / 1,200
Share in issue (mn)	: 18.2
M cap (INR bn/USD mn)	: 32 / 0
Avg. Daily Vol.BSE/NSE('000)	: 243.4

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	51.2	52.0	52.0
MF's, FI's & BK's	17.2	15.1	10.3
FII's	23.1	23.5	26.0
Others	8.5	9.4	11.7

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	0.3	2.7	3.2
3 months	2.0	10.5	14.2
12 months	(17.1)	(1.0)	1.3

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September 7, 2020

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	7.1	(4.0)	7.0
Inflation (Avg)	3.4	5.9	3.5	4.0
Repo rate (exit rate)	6.3	7.5	3.0	4.0
USD/INR (Avg)	70.0	61.1	75.0	73.0
Company				
SG&A and other costs	7	7	7	7
Same store sales growth (fashion)	3.7	(2.3)	(29.0)	36.0
Kirana stores (YoY growth)	36.8	15.9	8.0	4.0
Total no. of stores	214	266	281	316
New store sales (INR mn)	3,854	5,649	1,500	4,500
Rent exp (% of rev)	4.7	1.0	1.0	1.1
Advertising & Sales Promotion	2.4	2.5	2.0	2.4
COGS (% of revenue)	67.7	67.8	68.8	68.0
Employee expenses (% of revenue)	8.8	9.2	9.1	8.9
Depreciation as % of gross block	11.9	12.0	12.0	12.0
Payable day	59	56	72	55
Capex (INR mn)	451	717	266	511
Tax Rates	34.8	29.0	15.0	25.2
Inventory days	119.6	130.8	183.0	140.0

Income statement **(INR mn)**

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	14,337	16,620	12,411	17,737
Materials costs	9,703	11,263	8,539	12,061
Gross profit	4,635	5,358	3,872	5,676
Employee costs	1,257	1,536	1,129	1,579
Rent and lease expenses	672	166	124	195
Ad. & sales costs	339	416	248	426
Other Expenses	1,037	1,102	894	1,188
Total operating expenses	3,305	3,220	2,395	3,388
EBITDA	1,329	2,138	1,477	2,288
Depreciation	276	939	1,072	1,197
EBIT	1,053	1,198	405	1,091
Less: Interest Expense	16	548	526	583
Add: Other income	59.23	44.8	12.00	20.00
Profit Before Tax	998	695	(109)	528
Less: Provision for Tax	382	202	16	133
Add: Exceptional items	(98)	-	-	-
Reported Profit	616	493	(125)	395
Exceptional Items	(98)	-	-	-
Adjusted Profit	714	493	(125)	395
Shares o /s (mn)	18	18	18	18
Diluted shares o/s (mn)	18	18	18	18
Adjusted Diluted EPS	39.4	27.2	(7.0)	21.9
Dividend per share (DPS)	1.7	-	-	1.3
Dividend Payout Ratio(%)	4.2	-	-	5.0

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Rent and lease expenses	4.7	1.0	1.0	1.1
Materials costs	67.7	67.8	68.8	68.0
Staff costs	8.8	9.2	9.1	8.9
S G & A expenses	7.2	6.6	7.2	6.7
EBITDA margins	9.3	12.9	11.9	12.9
Net Profit margins	5.0	3.0	(1.0)	2.2

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	17.3	15.9	(25.3)	42.9
EBITDA	0.1	60.8	(30.9)	54.9
Adjusted Profit	(8.1)	(30.9)	(125.4)	414.7
EPS	(8.2)	(31.0)	(125.6)	414.7

Balance sheet (INR mn)

As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	181	182	182	182
Reserves & Surplus	3,911	4,408	4,282	4,653
Shareholders' funds	4,093	4,589	4,464	4,835
Long term borrowings	-	-	-	-
Short term borrowings	-	10	25	10
Total Borrowings	-	10	25	10
Long Term Liabilities	111	5,218	5,579	5,993
Def. Tax Liability (net)	(118)	(160)	(160)	(160)
Sources of funds	**4,086**	**9,658**	**9,908**	**10,678**
Gross Block	2,240	2,922	3,138	3,594
Net Block	1,622	6,634	6,962	7,268
Capital work in progress	40	25	25	25
Intangible Assets	33	37	37	37
Total Fixed Assets	1,695	6,695	7,023	7,330
Non current investments	98	33	33	33
Cash and Equivalents	675	96	108	408
Inventories	3,290	4,779	4,281	4,626
Sundry Debtors	-	-	-	-
Loans & Advances	122	119	119	119
Other Current Assets	320	354	354	354
Current Assets (ex cash)	3,733	5,253	4,755	5,100
Trade payable	1,483	1,968	1,684	1,817
Other Current Liab	632	451	326	376
Total Current Liab	2,114	2,419	2,010	2,193
Net Curr Assets-ex cash	1,618	2,834	2,744	2,907
Uses of funds	**4,086**	**9,658**	**9,908**	**10,678**
BVPS (INR)	225.7	252.8	247.3	267.9

Free cash flow (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	616	493	(125)	395
Add: Depreciation	276	939	1,072	1,197
Interest (Net of Tax)	11	389	447	436
Others	130	133	(433)	127
Less: Changes in WC	270	1,091	(89)	162
Operating cash flow	763	863	1,050	1,993
Less: Capex	451	717	266	511
Free Cash Flow	**312**	**146**	**784**	**1,482**

Cash flow metrics

Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	763	863	1,050	1,993
Financing cash flow	(44)	(943)	(712)	(1,040)
Investing cash flow	(734)	5	(254)	(491)
Net cash Flow	(14)	(75)	84	461
Capex	(451)	(717)	(266)	(511)
Dividend paid	(26)	-	-	(20)

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	18.9	11.4	(2.8)	8.5
ROACE (%)	29.4	28.6	9.2	23.8
Inventory Days	120	131	183	140
Debtors Days	-	-	-	-
Payable Days	59	56	72	55
Cash Conversion Cycle	60	75	111	85
Current Ratio	2.1	2.2	2.4	2.5
Gross Debt/EBITDA	-	-	-	-
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	65.3	2.2	0.8	1.9

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	3.8	2.4	1.3	1.7
Fixed Asset Turnover	9.2	4.0	1.8	2.5
Equity Turnover	3.8	3.8	2.7	3.8

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	39.4	27.2	(7.0)	21.9
Y-o-Y growth (%)	*(8.2)*	*(31.0)*	*(125.6)*	*414.7*
Adjusted Cash EPS (INR)	54.6	78.9	52.5	88.2
Diluted P/E (x)	45.2	65.5	(256.2)	81.4
P/B (x)	7.9	7.0	7.2	6.6
EV / Sales (x)	2.2	1.9	2.6	1.8
EV / EBITDA (x)	23.8	15.1	21.7	13.9
Dividend Yield (%)	0.1	-	-	0.1

India Midcaps

POST CONFERENCE NOTES

TCNS CLOTHING

Reclaiming the 'W'ow factor

India Equity Research| Branded Apparel

Edelweiss
Ideas create, values protect

Key Highlights:

- **Ethnic industry**: Entry into the business is easy; however, scaling up this category is difficult. Strong design process and manufacturing are critical to success. Scaling up is an issue also due to regional players not being able to understand consumer perspectives of other geographies.
- **Key success factors**: TCNS has managed to become a pan-India business as it is not occasion wear driven, but more focused on everyday wear. The company does launch festive-specific collections, but that is a small portion of the entire collection. Women are not sticky about labels, but about fit and taste. Fit plays an extremely critical role. *W* has a signature design which resonates well.
- **Covid recovery**: March third week to April end was complete lockdown. Ramp-up in localities which have been operational has been good. Offline is 40% of pre-covid currently and online is back to normal. The covid impact is not homogeneous; some places are back to 70% level and others like Mumbai are much lower. First 15 days of August have been very good because of Eid and Raksha Bandhan. Festivals is a time when India loosens its purse strings. It's after that real demand will be visible.
- TCNS is much more day wear and casual wear. The company does not expect WFH trend to have any significant impact.
- **Design process:** Earlier, the company used to take nine months from design to drop; post covid it is trying to expedite delivery and make supply chain more responsive. TCNS is moving to a six season calendar i.e., drops every two months. Having a smaller MBO share should help TCNS achieve this. Directionally, implementation of this will lead to meaningful savings .
- **Cost saving & working capital:** The company will restate salaries later, but there are a lot of initiatives which will be long term. Covid will also drive lower travel costs. TCNS has space to improve working capital. Supply chain focus will help reduce working capital.
- **Expansion potential:** TCNS can easily open 50-60 net stores over the next four-five years. *Elleven* can easily be a 250 store brand.
- **Guidance:** 15-17% EBITDA margin is sustainable. From Q3FY21, TCNS expects to become cash positive on monthly basis.

Financials (Consolidated)

Year to March	FY19	FY20	FY21E	FY22E
Net revenues (INR mn)	11,480	11,487	7,716	12,251
Revenue growth (%)	*15*	*0*	*(33)*	*59*
EBITDA (INR mn)	1,768	1,862	989	2,414
Adj. diluted EPS (INR)	21.4	11.3	(0.8)	13.5
Diluted P/E (x)	16.8	31.8	NM	26.6
RoACE (%)	30.9	12.7	3.0	12.7

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: TCNS BO, B: TCNSBR IN)*

CMP	: INR 363
Target Price	: INR 486
52-week range (INR)	: 780 / 300
Share in issue (mn)	: 61.5
M cap (INR bn/USD mn)	: 22 / 305
Avg. Daily Vol.BSE/NSE('000)	: 34.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters	32.3	32.3	32.3
MF's, FI's	10.4	4.1	4.1
FII's	13.8	12.2	12.7
Others	43.4	51.4	50.9

** Promoters pledged s (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	1.5	9.9	8.4
3 months	25.3	9.3	(16.0)
12 months	5.4	(44.4)	(49.8)

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Financial Statement

Assumptions

Macro Assumptions	FY19	FY20	FY21E	FY22E
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company Assumptions				
EBO addition (#)	76.0	54.0	(25.0)	60.0
LFS addition (#)	154.0	321.0	0.0	100.0
Revenue per EBO (% YoY)	(22.2)	(8.6)	(45.0)	70.0
Gross Margin (%)	66.0	65.0	62.0	65.0
Balance Sheet Assumptions				
Inventory (% of RM)	70.3	82.1	95.0	70.0
Receivables (% of Revenues)	15.7	15.3	20.0	15.0
Capex (INR mn)	263.1	328.4	200.0	300.0

Income statement (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenues	11,480	11,487	7,716	12,251
Raw material costs	3,899	4,023	2,932	4,288
Employee Benefits Expense	1,438	1,576	1,230	1,559
Other expenses	4,374	4,025	2,565	3,990
Total expenses	9,711	9,624	6,727	9,837
EBITDA	1,768	1,862	989	2,414
Depreciation & amortization	222	1,032	1,052	1,131
EBIT	1,546	831	(63)	1,283
Less: Interest Expense	5	382	386	430
Add: Other income	75	211	385	294
Profit Before Tax	1,616	660	(64)	1,148
Less: Provision for Tax	302	(33)	(16)	287
Reported Profit	1,314	694	(48)	861
Adjusted Profit	1,314	694	(48)	861
No. of Shares outstanding (mn)	61	61	63	64
Adjusted Basic EPS	21.4	11.3	(0.8)	13.5
No. of dil. shares outstand. (mn)	61	61	63	64
Adjusted Diluted EPS	21.4	11.3	(0.8)	13.5
Adjusted Cash EPS	25	28	16	31
Dividend per share	0.0	0.0	0.0	3.4
Dividend Payout Ratio (%)	0.0	0.0	0.0	0.2

Common size metrics - as % of revenues

Year to March	FY19	FY20	FY21E	FY22E
Materials costs	34.0	35.0	38.0	35.0
Staff costs	12.5	13.7	15.9	12.7
S G & A expenses	38.1	35.0	33.2	32.6
Depreciation	1.9	9.0	13.6	9.2
Interest Expense	0.0	3.3	5.0	3.5
EBITDA margins	15.4	16.2	12.8	19.7
Net Profit margins	11.4	6.0	(0.6)	7.0

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	15.1	0.1	(32.8)	58.8
EBITDA	13.8	5.3	(46.9)	144.1
PBT	11.6	(59.1)	NM	NM
Adjusted Profit	34.0	(47.2)	NM	NM
EPS	23.2	(47.3)	NM	NM

Balance sheet				(INR mn)
As on 31st March	**FY19**	**FY20**	**FY21E**	**FY22E**
Share capital	123	123	125	127
Other Equity	6,063	6,477	6,835	7,887
Total shareholders funds	6,186	6,600	6,961	8,015
Long term Borrowings	0	3,620	4,419	5,452
Total Borrowings	0	3,620	4,419	5,452
Long Term Liabilities & Prov.	144	194	154	202
Deferred Tax Liability (net)	(160)	(350)	(350)	(350)
Sources of funds	**6,170**	**10,064**	**11,184**	**13,319**
Net Block	536	397	316	313
Capital work in progress	3	21	21	21
Intangible Assets	56	3,120	3,800	4,801
Total Fixed Assets	595	3,538	4,137	5,135
Cash & bank balances	1,608	1,713	2,770	3,664
Inventories	2,741	3,302	2,786	3,002
Sundry Debtors	1,807	1,756	1,543	1,838
Loans & Advances	636	972	797	1,020
Other Current Assets	312	345	237	274
Total Current Assets (Ex Cash)	5,496	6,375	5,363	6,133
Trade payable	1,150	1,223	891	1,303
Other Current Liab. & ST Prov.	379	340	195	310
Total Current Liab. & Provisions	1,529	1,563	1,086	1,613
Net Current Assets (ex cash)	3,967	4,812	4,276	4,520
Uses of funds	**6,170**	**10,064**	**11,184**	**13,319**
Book value per share (BV) (INR)	101	107	111	126

Free cash flow

Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	1,314	694	(48)	861
Add: Depreciation	222	1,032	1,052	1,131
Interest (Net of Tax)	4	401	290	322
Others	137	(342)	(289)	(186)
Less:Changes in WC	778	475	(496)	195
Operating cash flow	899	1,310	1,501	1,932
Less: Capex	237	315	200	300
Free cash flow	**662**	**994**	**1,301**	**1,632**

Cash flow statement

Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	899	1,310	1,501	1,932
Investments cashflow	(1,434)	(26)	185	(6)
Financing cash flow	383	(971)	(629)	(1,032)
Net cash Flow	(151)	313	1,057	894
Capex	(237)	(315)	(200)	(300)

Profitability & liquidity ratios

Year to March	FY19	FY20	FY21E	FY22E
RoAE (%)	25.6	10.9	(0.7)	11.5
RoACE (%)	30.9	12.7	3.0	12.7
Inventory Days	233	274	379	246
Debtors Days	54	57	78	50
Payble Days	107	108	132	93
Cash conversion cycle (days)	179	223	325	203
Current Ratio	4.6	5.2	7.5	6.1
Gross Debt/EBITDA	0.0	1.9	4.5	2.3
Gross Debt/Equity	0.0	0.5	0.6	0.7
Net Debt/Equity	(0.3)	0.3	0.2	0.2
Interest Coverage Ratio	300.8	2.2	(0.2)	3.0

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total asset turnover(x)	2.1	1.4	0.7	1.0
Fixed asset turnover(x)	19.7	5.6	2.0	2.7
Equity turnover(x)	2.2	1.8	1.1	1.6

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adjusted Diluted EPS (INR)	21.4	11.3	(0.8)	13.5
Y-o-Y growth (%)	*23.2*	*(47.3)*	*NM*	*NM*
Adjusted Cash EPS (INR)	25.1	28.1	16.0	31.3
Diluted P/E (x)	16.8	31.8	(467.4)	26.6
Price/BV (x)	3.6	3.3	3.2	2.9
EV/Sales (x)	1.8	2.1	3.1	2.0
EV/EBITDA (x)	11.5	12.9	24.4	10.2
Dividend yield (%)	0.0	0.0	0.0	0.9

POST CONFERENCE NOTES

SHOPPERS STOP

Lockdown blues

India Equity Research| Retail

Key takeaways

- **Consumer trends:** Decline in footfall partially offset by higher ticket size and increased conversion. Decline in footfall was 80% in June, which has reduced to 70% currently. Customers are coming to stores with specific purpose of knowing what they are looking for. Customer behaviour in terms of shopping is divergent city wise i.e. cities with higher cases are seeing lower footfall. Biggest category contributors are home, beauty, casual, athleisure, children garments and women's ethnic wear.

- **Covid impact and demand scenario:** From a geographical perspective, metros have been the most impacted and from region perspective, Western and Northern regions were more impacted than South and East. Tamil Nadu continues to remain shut in July. Stores in Maharashtra have opened in August.

- **Omni-channel and Amazon:** SSL will have a single view of customer through new loyalty engine. SSL has initiated a digital transformation journey from mid-July with a leading international consulting company on omni to significantly improve customer experience and thereby grow the business. By end of Q2, the company is trying to connect with Amazon interface which will be a significant milestone.

- **Cost and margin:** SSL continues to focus on cost reduction initiatives and reducing monthly cash burn rate. Savings are expected to be circa INR4.5bn for the full year. ~60% will be non-lease rental and 40% would be lease rental related.

- **Private labels:** Private and exclusive brands: 15% contribution versus 12% in FY20. Personal Shoppers have been recommending private brands. Added categories in athleisure, home range, etc. Value consciousness has also helped drive higher share of private labels. Share of e-commerce has increased from 14% to 20% for Private Labels.

Financials (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	35,779	34,639	21,222	32,183
Rev. growth (%)	*(3.2)*	*(3.2)*	*(38.7)*	*51.6*
EBITDA	2,457	5,515	3,608	5,407
Adjusted Profit	650	(1,324)	(1,219)	(731)
Basic shares outstanding (mn)	88	88	88	88
Adjusted diluted EPS (INR)	7.4	(15.0)	(13.9)	(8.3)
EPS Growth (%)	*4,323.2*	*(303.8)*	*7.9*	*40.0*
Diluted P/E (x)	23.8	(11.7)	(12.7)	(21.1)
EV/EBITDA (x)	6.4	2.8	4.2	2.9
ROAE (%)	7.1	(27.0)	(731.9)	115.5

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: SHOP.BO, B: SHOP IN)*	
CMP	: INR 176
Target Price	: INR 168
52-week range (INR)	: 448 / 131
Share in issue (mn)	: 88.0
M cap (INR bn/USD mn)	: 15 / 475
Avg. Daily Vol.BSE/NSE('000)	: 57.3

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	63.9	63.9	63.9
MF's, FI's & BK's	20.8	21.1	22.8
FII's	6.7	7.0	7.0
Others	8.6	8.0	6.4

** Promoters pledged shares (% of share in issue) : 21.8*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	(8.3)	2.7	3.2
3 months	(17.6)	10.5	14.2
12 months	(57.4)	(1.0)	1.3

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Revenue growth (Y-o-Y %)				
SS-deptstore-Totalstores	83	89	91	95
SS depstore-New addition	2	11	2	4
SS - SSS growth (%)	3.9	(3.2)	(40.0)	50.0
EBITDA margin (%)				
Staff costs (% of rev)	9.2	9.7	10.5	9.8
Shoppers-COGS (% of rev)	58.2	61.5	61.3	61.3
A&P as % of sales	2.0	2.5	1.8	2.5
Electricity (% of rev)	2.7	2.7	2.2	2.7
Rent costs (% of rev)	11.3	1.9	1.5	1.8
Financial assumptions				
Capex (INR mn)	824	1,193	506	1,100
Debtor days	5	4	6	6
Inventory days	125	210	300	165
Payable days	158	255	380	220
Dep. (% gross block)	14.0	10.5	10.5	10.5

Income statement (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	35,779	34,639	21,222	32,183
Materials costs	20,783	20,065	12,521	18,731
Gross profit	14,997	14,574	8,701	13,453
Employee costs	3,296	3,346	2,228	3,154
Electricity expenses	970	935	467	869
Rent and lease expenses	4,045	660	318	579
Ad. & sales costs	723	866	382	805
Other Expenses	3,506	3,251	1,698	2,639
Total operating expenses	12,540	9,059	5,093	8,046
EBITDA	2,457	5,515	3,608	5,407
Depreciation	1,406	4,504	3,909	4,281
EBIT	1,051	1,011	(301)	1,126
Less: Interest Expense	138	1,973	2,168	2,237
Add: Other income	186.53	342.3	1,250.00	380.00
Profit Before Tax	1,099	(716)	(1,219)	(731)
Less: Provision for Tax	449	704	-	-
Add: Exceptional items	-	(96)	-	-
Associate profit share	-	-	-	-
Reported Profit	650	(1,419)	(1,219)	(731)
Exceptional Items	-	(96)	-	-
Adjusted Profit	650	(1,324)	(1,219)	(731)
Shares o /s (mn)	88	88	88	88
Diluted shares o/s (mn)	88	88	88	88
Adjusted Diluted EPS	7.4	(15.0)	(13.9)	(8.3)
Dividend per share (DPS)	0.8	(1.6)	(2.1)	(1.2)
Dividend Payout Ratio(%)	10.2	10.0	15.0	15.0

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Rent and lease expenses	11.3	1.9	1.5	1.8
Materials costs	58.1	57.9	59.0	58.2
Staff costs	9.2	9.7	10.5	9.8
S G & A expenses	9.8	9.4	8.0	8.2
EBITDA margins	6.9	15.9	17.0	16.8
Net Profit margins	1.8	(3.8)	(5.7)	(2.3)

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	(3.2)	(3.2)	(38.7)	51.6
EBITDA	16.2	124.5	(34.6)	49.9
Adjusted Profit	4,324.6	(303.8)	7.9	40.0
EPS	4,323.2	(303.8)	7.9	40.0

Balance sheet (INR mn)

As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	440	440	440	440
Reserves & Surplus	8,707	226	(773)	(1,373)
Shareholders' funds	9,147	666	(333)	(933)
Long term borrowings	20	2	2	2
Short term borrowings	802	1,553	2,303	1,653
Total Borrowings	822	1,555	2,305	1,655
Long Term Liabilities	7	20,900	21,900	22,900
Def. Tax Liability (net)	(320)	(2,641)	(2,641)	(2,641)
Sources of funds	**9,657**	**20,481**	**21,231**	**20,981**
Gross Block	8,093	9,093	9,443	10,443
Net Block	5,542	18,354	17,771	18,092
Capital work in progress	306	444	500	500
Intangible Assets	650	653	593	524
Total Fixed Assets	6,498	19,451	18,865	19,115
Non current investments	2,159	365	365	365
Cash and Equivalents	599	1,584	2,565	1,493
Inventories	10,719	12,392	10,291	8,467
Sundry Debtors	472	341	349	529
Loans & Advances	1,357	1,536	1,486	1,486
Other Current Assets	2,632	2,499	2,314	2,534
Current Assets (ex cash)	15,180	16,768	14,440	13,016
Trade payable	12,771	15,219	13,036	11,290
Other Current Liab	2,008	2,468	1,968	1,718
Total Current Liab	14,779	17,687	15,004	13,008
Net Curr Assets-ex cash	401	(919)	(564)	8
Uses of funds	**9,657**	**20,481**	**21,231**	**20,981**
BVPS (INR)	104.0	7.6	(3.8)	(10.6)

Free cash flow (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	650	(1,419)	(1,219)	(731)
Add: Depreciation	1,406	4,504	3,909	4,281
Interest (Net of Tax)	92	-	-	-
Others	(76)	2,061	918	1,857
Less: Changes in WC	(17)	(616)	390	607
Operating cash flow	2,088	5,761	3,217	4,800
Less: Capex	824	1,193	506	1,100
Free Cash Flow	**1,264**	**4,568**	**2,711**	**3,700**

Cash flow metrics

Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	2,088	5,761	3,217	4,800
Financing cash flow	(634)	(4,332)	(3,229)	(4,987)
Investing cash flow	(1,320)	(2,842)	(3,161)	(5,285)
Net cash Flow	134	(1,413)	(3,174)	(5,472)
Capex	(824)	(1,193)	(506)	(1,100)
Dividend paid	(66)	142	183	110

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	7.1	(27.0)	(731.9)	115.5
ROACE (%)	12.2	22.2	45.2	111.8
Inventory Days	125	210	300	165
Debtors Days	5	4	6	6
Payable Days	158	255	380	220
Cash Conversion Cycle	(27)	(40)	(74)	(49)
Current Ratio	1.1	1.0	1.1	1.1
Gross Debt/EBITDA	0.3	0.3	0.6	0.3
Gross Debt/Equity	0.1	2.3	(6.9)	(1.8)
Adjusted Debt/Equity	0.1	2.3	(6.9)	(1.8)
Interest Coverage Ratio	7.6	0.5	(0.1)	0.5

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	3.6	2.3	1.0	1.5
Fixed Asset Turnover	5.5	2.7	1.1	1.7
Equity Turnover	3.9	7.1	127.4	(50.8)

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	7.4	(15.0)	(13.9)	(8.3)
Y-o-Y growth (%)	*4,323.2*	*(303.8)*	*7.9*	*40.0*
Adjusted Cash EPS (INR)	23.4	36.1	30.6	40.3
Diluted P/E (x)	23.8	(11.7)	(12.7)	(21.1)
P/B (x)	1.7	23.2	(46.4)	(16.6)
EV / Sales (x)	0.4	0.4	0.7	0.5
EV / EBITDA (x)	6.4	2.8	4.2	2.9
Dividend Yield (%)	0.4	(0.9)	(1.2)	(0.7)

India Midcaps

POST CONFERENCE NOTES

ARVIND FASHIONS

Journey back to normalcy

India Equity Research| Branded Apparel

Edelweiss
Ideas create, values protect

Key Highlights:

- **Recovery**: Operations were shut for whole of April and half of May. June sales were at 25% of last year. 80% of network was open by end June. End of August clocked 45% of last year's revenue.

- **Working capital**: There is no challenge in meeting interest payments. There is a reduction of INR2.5bn in inventory possible as last year's inventory was inflated due to covid. Also, using inventory collection from last year should help prune working capital.

- **Unlimited**: The company is planning to keep Unlimited's store count at 70. It will only look at expanding once the current format is proven. The company is first eyeing double digit EBITDA margin for this format.

- **Online business**: Arvind wants to pivot the online business to much higher direct control. Future of the business will be where the company shifts from wholesale selling to market places to directly selling and listing. Online share of revenue is not lopsided towards a few brands.

- **Flipkart partnership**: The reason for choosing Flying Machine was that the company wanted to energise and scale-up the brand further. It is perceived as a online youth brand. Flipkart will invest INR2.6bn in Arvind Youth Fashion. It will synergise AFL's strength of building aspirational brands with Flipkart's online expertise. Targeting INR10bn revenue at net sales value.

- **Guidance**: Looking at permanently reducing fixed cost by INR1.2bn. Looking at reducing inventory by INR2.5bn by end of this year. The company exited August at 50% of last year's revenue and there is a 8-10ppt improvement M-o-M.

Financials (INR mn)

Year to March	FY18	FY19	FY20
Net revenues (INR mn)	42,189	46,439	38,663
Revenue growth (%)	*NA*	*10.1*	*(16.7)*
EBITDA (INR mn)	2,492	2,881	2,311
Adj. profit (INR mn)	129	215	(3,387)
EV/EBITDA (x)	6.2	5.6	12.7
RoACE (%)	7.4	7.1	(6.1)

EDELWEISS RATINGS

Absolute Rating	NOT RATED

MARKET DATA *(R: ARVF.BO, B: ARVINDFA IN)*

CMP	: INR 147
Target Price	: NA
52-week range (INR)	: 388 /110
Share in issue (mn)	: 98.7
M cap (INR bn/USD mn)	: 14 / 198
Avg. Daily Vol.BSE/NSE('000)	: 148.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters %	39.7	35.6	35.6
MF's, FI's &	18.1	19.1	19.9
FII's	14.3	12.7	15.6
Others	27.8	32.7	29.0

** Promoters pledged shares (% of share in issue) : NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	1.8	20.9	19.1
3 months	26.8	32.7	5.9
12 months	3.5	(59.0)	(62.5)

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Financial Statements

Income statement (INR mn)

Year to March	FY18	FY19	FY20
Net revenues	42,189	46,439	38,663
Raw material costs	19,789	22,887	21,315
Employee Benefits Expense	3,669	4,078	3,492
Other expenses	16,239	16,593	11,545
Total expenses	39,697	43,557	36,352
EBITDA	2,492	2,881	2,311
Depreciation & amortization	1,390	1,532	4,375
EBIT	1,103	1,350	(2,064)
Less: Interest Expense	1,111	1,262	2,891
Add: Other income	125	41	598
Add: Exceptional items	0	0	(607)
Profit Before Tax	116	129	(4,964)
Less: Provision for Tax	(14)	(86)	(971)
Reported Profit	129	215	(3,994)
Less: Excep. Items (Net of Tax)	0	0	(607)
Adjusted Profit	129	215	(3,387)
No. of Shares outstanding (mn)	58	58	58
Adjusted Basic EPS	2.2	3.7	(58.7)
No. of dil. shares outstand. (mn)	58	58	58
Adjusted Diluted EPS	2.2	3.7	(58.7)
Adjusted Cash EPS	26	30	17

Common size metrics - as % of revenues

Year to March	FY18	FY19	FY20
Materials costs	46.9	49.3	55.1
Staff costs	8.7	8.8	9.0
S G & A expenses	38.5	35.7	29.9
Depreciation	3.3	3.3	11.3
Interest Expense	2.6	2.7	7.5
EBITDA margins	5.9	6.2	6.0
Net Profit margins	0.3	0.5	(8.8)

Growth metrics (%)

Year to March	FY18	FY19	FY20
Revenues	NA	10.1	(16.7)
EBITDA	NA	15.6	(19.8)
PBT	NA	11.2	NM
Adjusted Profit	NA	66.1	NM
EPS	NA	66.8	NM

Balance sheet (INR mn)

As on 31st March	FY18	FY19	FY20
Share capital	232	232	235
Other Equity	10,366	11,062	5,750
Total shareholders funds	10,598	11,294	5,985
Long term Borrowings	806	863	9,934
Short term Borrowings	6,641	7,045	11,353
Total Borrowings	7,447	7,908	21,287
Long Term Liabilities & Prov.	754	883	989
Deferred Tax Liability (net)	(2,362)	(2,692)	(4,401)
Sources of funds	**17,310**	**18,305**	**24,749**
Net Block	3,541	3,731	2,989
Capital work in progress	6	57	14
Intangible Assets	1,778	1,701	9,353
Total Fixed Assets	5,326	5,489	12,356
Non current investments	0	0	0
Cash & bank balances	284	121	116
Inventories	7,273	11,842	13,058
Sundry Debtors	7,845	8,787	7,814
Loans & Advances	2,709	2,980	2,964
Other Current Assets	5,956	3,333	3,804
Total Current Assets (Ex Cash)	23,783	26,942	27,640
Trade payable	10,680	12,390	13,253
Other Current Liab. & ST Prov.	1,404	1,857	2,110
Total Current Liab. & Provisions	12,084	14,247	15,363
Net Current Assets (ex cash)	11,699	12,695	12,277
Uses of funds	**17,310**	**18,305**	**24,749**
Book value per share (BV) (INR)	198	212	119

Free cash flow

Year to March	FY18	FY19	FY20
Reported Profit	129	215	(3,994)
Add: Depreciation	1,390	1,532	4,375
Interest (Net of Tax)	745	846	2,168
Others	(1)	16	(822)
Less:Changes in WC	3,040	857	(329)
Operating cash flow	(778)	1,751	2,057
Less: Capex	1,701	1,534	1,266
Free cash flow	**(2,479)**	**217**	**792**

Cash flow statement

Year to March	FY18	FY19	FY20
Operating cash flow	(778)	1,751	2,057
Investments cashflow	(1,490)	(1,499)	(1,177)
Financing cash flow	2,262	(459)	(854)
Net cash Flow	(6)	(208)	27
Capex	(1,701)	(1,534)	(1,266)

Profitability & liquidity ratios

Year to March	FY18	FY19	FY20
RoAE (%)	1.4	1.8	(35.5)
RoACE (%)	**7.4**	**7.1**	**(6.1)**
Inventory Days	171	152	213
Debtors Days	50	65	78
Payble Days	167	184	220
Cash conversion cycle (days)	53	34	72
Current Ratio	2.0	1.9	1.8
Gross Debt/EBITDA	3.0	2.7	9.2
Gross Debt/Equity	0.6	0.6	3.1
Net Debt/Equity	0.6	0.6	3.1
Interest Coverage Ratio	1.0	1.1	(0.7)

Operating ratios

Year to March	FY18	FY19	FY20
Total asset turnover(x)	2.8	2.6	1.8
Fixed asset turnover(x)	9.7	8.6	4.4
Equity turnover(x)	4.7	3.9	4.1

Valuation parameters

Year to March	FY18	FY19	FY20
Adjusted Diluted EPS (INR)	2.2	3.7	(58.7)
Y-o-Y growth (%)	*NA*	*66.8*	*NM*
Adjusted Cash EPS (INR)	26.2	30.3	17.1
Diluted P/E (x)	63.8	38.3	NM
Price/BV (x)	0.7	0.7	1.2
EV/Sales (x)	0.4	0.3	0.8
EV/EBITDA (x)	6.2	5.6	12.7
Dividend yield (%)	0.0	0.0	0.0

India Midcaps

POST CONFERENCE NOTES

LUX INDUSTRIES

Eyeing the top deck

India Equity Research| Branded Apparel

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Ideas create, values protect

Key Highlights:

- **Covid impact**: Lux faced down trading in Q1FY21; mass to economy segment sales were much higher. Main demand is from rural market; urban demand is weak. The higher economy range is also driven by higher rural share.
- **Channel Inventory**: Channel inventory has reduced significantly and there could be replenishment in coming quarters. Products manufactured was being sold the same day. Channel was working on hand-to-mouth basis.
- **Reach**: There must be a universe of ~0.25mn outlets where it is present. Lux has missed out 20-30% of the market. Lux Venus will be present in 90-95% of these outlets.
- **Working capital**: The company did not have a credit policy in 2018. Implemented one in August 2018 which became effective from March 2019. Lux has reduced working capital by INR800mn in Q1FY21. OCF stood at INR1.3bn for Q1FY21. Credit period across the channel has dipped due to covid, which has helped improved cash flow. Going forward this will normalize.
- **Merger:** On the merger, the company mentioned that the process will be concluded three-four months post approval from the Kolkata bench of NCLT.
- **Guidance:** Over the long term, Lux is guiding for volume growth of 10-11% with revenue growth of 12-13%. Investment in brands to be 4-6% of turnover.

Financials (Consolidated)

Year to March	FY17	FY18	FY19	FY20
Net revenues (INR mn)	9,580	10,775	12,070	12,061
Revenue growth (%)	*1.8*	*12.5*	*12.0*	*(0.1)*
EBITDA (INR mn)	1,196	1,542	1,779	1,862
Adj. diluted EPS (INR)	23.6	30.8	39.1	48.4
Diluted P/E (x)	58.6	44.9	35.4	28.6
RoAE (%)	24.8	27.6	27.1	27.1

Note: FY17,FY18 financials are for standalone entity

EDELWEISS RATINGS

Absolute Rating	**NOT RATED**

MARKET DATA *(R: LUXI.BO, B: LUX IN)*

CMP	: INR 1,351
Target Price	: NA
52-week range (INR)	: 1,680 / 812
Share in issue (mn)	: 25.3
M cap (INR bn/USD mn)	: 34 / 466
Avg. Daily Vol.BSE/NSE('000)	: 74.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters %	69.5	69.5	689.5
MF's, FI's &	4.2	3.8	3.1
FII's	4.0	4.4	4.1
Others	22.3	22.3	22.3
** Promoters pledged shares (% of share in issue)*	:		*NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	1.8	20.0	18.2
3 months	26.8	47.3	20.5
12 months	3.5	32.2	28.7

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Financial Statements

Income statement (INR mn)

Year to March	FY17	FY18	FY19	FY20
Net revenues	**9,580**	**10,775**	**12,070**	**12,061**
Raw material costs	4,204	4,855	5,753	5,268
Employee Benefits Expense	251	375	439	493
Other expenses	3,929	4,004	4,099	4,438
Total expenses	8,384	9,233	10,291	10,199
EBITDA	**1,196**	**1,542**	**1,779**	**1,862**
Depreciation & amortization	71	96	112	127
EBIT	1,125	1,445	1,667	1,735
Less: Interest Expense	220	254	236	138
Add: Other income	16	19	90	38
Profit Before Tax	921	1,210	1,521	1,634
Less: Provision for Tax	325	431	533	410
Reported Profit	596	779	988	1,225
Adjusted Profit	**596**	**779**	**988**	**1,225**
No. of Shares outstanding (mn)	25	25	25	25
Adjusted Basic EPS	23.6	30.8	39.1	48.4
No. of dil. shares outstand. (mn	25	25	25	25
Adjusted Diluted EPS	**23.6**	**30.8**	**39.1**	**48.4**
Adjusted Cash EPS	26	35	44	53
Dividend per share	1.4	2.0	2.0	3.0
Dividend Payout Ratio (%)	0.1	0.1	0.1	0.1

Common size metrics - as % of revenues

Year to March	FY17	FY18	FY19	FY20
Materials costs	43.9	45.1	47.7	43.7
Staff costs	2.6	3.5	3.6	4.1
S G & A expenses	41.0	37.2	34.0	36.8
Depreciation	0.7	0.9	0.9	1.1
Interest Expense	2.3	2.4	2.0	1.1
EBITDA margins	**12.5**	**14.3**	**14.7**	**15.4**
Net Profit margins	6.2	7.2	8.2	10.2

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20
Revenues	**1.8**	**12.5**	**12.0**	**(0.1)**
EBITDA	26.7	28.9	15.4	4.7
PBT	17.1	31.4	25.7	7.4
Adjusted Profit	16.2	30.6	26.9	24.0
EPS	(76.8)	30.6	26.9	23.7

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19	FY20
Share capital	53	53	53	53
Other Equity	2,406	3,133	4,062	4,874
Total shareholders funds	**2,459**	**3,186**	**4,115**	**4,927**
Long term Borrowings	939	204	53	69
Short term Borrowings	2,273	3,242	1,724	1,355
Total Borrowings	**3,212**	**3,446**	**1,777**	**1,424**
Long Term Liabilities & Prov.	17	23	265	334
Deferred Tax Liability (net)	56	62	76	54
Sources of funds	**5,744**	**6,717**	**6,233**	**6,740**
Net Block	1,129	1,253	1,319	1,408
Capital work in progress	114	53	4	8
Intangible Assets	11	11	4	2
Total Fixed Assets	1,254	1,317	1,328	1,418
Non current investments	7	8	45	44
Cash & bank balances	71	22	20	14
Inventories	2,328	2,992	2,534	3,317
Sundry Debtors	2,748	3,891	3,666	3,103
Loans & Advances	311	382	363	494
Other Current Assets	144	108	60	89
Total Current Assets (Ex Cash)	5,529	7,373	6,623	7,002
Trade payable	1,203	1,886	1,633	1,481
Other Current Liab. & ST Prov.	220	272	150	257
Total Current Liab. & Provision:	1,423	2,158	1,783	1,739
Net Current Assets (ex cash)	4,106	5,215	4,840	5,264
Uses of funds	**5,744**	**6,717**	**6,233**	**6,740**
Book value per share (BV) (INR)	97	126	163	195

Free cash flow

Year to March	FY17	FY18	FY19	FY20
Reported Profit	596	779	988	1,225
Add: Depreciation	71	96	112	127
Interest (Net of Tax)	142	164	153	104
Others	84	102	112	(2)
Less:Changes in WC	689	1,164	(533)	492
Operating cash flow	205	(23)	1,899	961
Less: Capex	209	174	124	71
Free cash flow	**(4)**	**(197)**	**1,775**	**890**

Cash flow statement

Year to March	FY17	FY18	FY19	FY20
Operating cash flow	205	(23)	1,899	961
Investments cashflow	(197)	(188)	(122)	(54)
Financing cash flow	(10)	162	(1,779)	(913)
Net cash Flow	(2)	(49)	(2)	(6)
Capex	(209)	(174)	(124)	(71)

Profitability & liquidity ratios

Year to March	FY17	FY18	FY19	FY20
RoAE (%)	24.8	27.6	27.1	27.1
RoACE (%)	**22.2**	**23.8**	**28.1**	**29.0**
Inventory Days	188	200	175	203
Debtors Days	101	112	114	102
Payble Days	101	116	112	108
Cash conversion cycle (days)	188	196	178	197
Current Ratio	3.9	3.4	3.7	4.0
Gross Debt/EBITDA	2.7	2.2	1.0	0.8
Gross Debt/Equity	1.3	1.1	0.4	0.3
Net Debt/Equity	1.3	1.1	0.4	0.3
Interest Coverage Ratio	5.1	5.7	7.1	12.6

Operating ratios

Year to March	FY17	FY17	FY17	FY17
Total asset turnover(x)	1.8	1.7	1.9	1.9
Fixed asset turnover(x)	12.6	9.0	9.3	8.8
Equity turnover(x)	4.0	3.8	3.3	2.7

Valuation parameters

Year to March	FY17	FY18	FY19	FY20
Adjusted Diluted EPS (INR)	23.6	30.8	39.1	48.4
Y-o-Y growth (%)	*(76.8)*	*30.6*	*26.9*	*23.7*
Adjusted Cash EPS (INR)	26.4	34.7	43.6	53.4
Diluted P/E (x)	58.6	44.9	35.4	28.6
Price/BV (x)	14.2	11.0	8.5	7.1
EV/Sales (x)	4.0	3.6	3.0	3.0
EV/EBITDA (x)	31.8	24.9	20.6	19.5
Dividend yield (%)	0.1	0.1	0.1	0.2

India Midcaps

POST CONFERENCE NOTES

DOLLAR INDUSTRIES

Putting things in place

India Equity Research| Branded Apparel

Edelweiss
Ideas create, values protect

Key Highlights:

- **Down trading:** There was huge demand from economy range of products. Interiors have seen lesser impact of covid and consumption of lower priced SKU's is higher in these regions. ASP of regular range is INR35-40/piece. Big Boss ASP came in at INR68/piece.
- **Branding change**: After the brand architecture commando has been grouped under Lehar. All economy range has also been grouped under one.
- Dollar Industries has been largely present in the economy and mid-premium segments through its Dollar Regular and Big Boss (realization ~INR170/piece) brands with 31% and 42% revenue contribution, respectively. The company is focusing on the premium category with its brand Force NXT (realization ~INR400/piece), launched in August 2015; contributed ~2% to FY20 sales.
- **Working capital**: Given that the company derives a good proportion of its sales from the rural belt of India, growth slowdown has impacted channel partners' liquidity, leading to a spurt in receivable days for DIL (FY20: 133 days). Though the company has tried to rationalize its receivables, tepid demand along with an increase in competitive intensity has led to further rise in credit to channel partners.
- **Channel**: DIL is present in DMart and More. The company is not in Shoppers Stop, Pantaloons, etc. DIL has seen a surge in e-commerce. However, it is very difficult to keep entire collection online.
- **Vector Consulting Initiative**: A focused attempt is being made to streamline distribution via tie-up with Vector Consulting. As part of this initiative, DIL wants to reach untapped retailers (through distributors) and increase in throughput for distributors, which would ultimately help DIL reduce credit days without impacting distributors' RoI.
- **Guidance**: Targeting athleisure to touch 5% of revenue; looking at spending INR640-680mn on advertising in FY21. It will depend on revenue.

Financials (Standalone)

Year to March	FY17	FY18	FY19	FY20
Net revenues (INR mn)	8,861	9,256	10,288	9,693
Revenue growth (%)	*7.8*	*4.4*	*11.2*	*(5.8)*
EBITDA (INR mn)	1,008	1,244	1,357	1,046
Adj. profit (INR mn)	435	640	753	595
Adj. diluted EPS (INR)	8.0	16.9	19.9	15.7
Diluted P/E (x)	18.4	8.7	7.4	9.4
RoAE (%)	26.1	23.7	19.5	13.5

EDELWEISS RATINGS

Absolute Rating	**NOT RATED**

MARKET DATA *(R: DLLA.BO, B: DOLLAR IN)*

CMP	: INR 147
Target Price	: NA
52-week range (INR)	: 223 / 94
Share in issue (mn)	: 56.7
M cap (INR bn/USD mn)	: 8 /112
Avg. Daily Vol.BSE/NSE('000)	: 89.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters %	72.2	72.2	60.2
MF's, FI's &	5.6	6.9	7.9
FII's	0.3	0.3	0.3
Others	21.9	20.6	31.6

** Promoters pledged shares (% of share in issue) : NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	1.8	21.4	19.6
3 months	26.8	45.4	18.6
12 months	3.5	(24.4)	(27.9)

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September 7, 2020

Financial Statements

Income statement (INR mn)

Year to March	FY17	FY18	FY19	FY20
Net revenues	8,861	9,256	10,288	9,693
Raw material costs	3,916	4,059	4,335	4,485
Employee Benefits Expense	218	264	336	421
Other expenses	3,719	3,688	4,259	3,742
Total expenses	7,853	8,012	8,931	8,647
EBITDA	**1,008**	**1,244**	**1,357**	**1,046**
Depreciation & amortization	148	122	111	142
EBIT	861	1,122	1,246	904
Less: Interest Expense	207	184	157	153
Add: Other income	14	20	22	47
Add: Exceptional items	0	0	0	0
Profit Before Tax	668	958	1,110	798
Less: Provision for Tax	233	318	358	203
Reported Profit	435	640	753	595
Less: Excep. Items (Net of Tax)	0	0	0	0
Adjusted Profit	**435**	**640**	**753**	**595**
No. of Shares outstanding (mn)	54	38	38	38
Adjusted Basic EPS	8.0	16.9	19.9	15.7
No. of dil. shares outstand. (mn)	54	38	38	38
Adjusted Diluted EPS	8.0	16.9	19.9	15.7
Adjusted Cash EPS	10	20	23	19
Dividend per share	0.0	0.0	0.0	0.0
Dividend Payout Ratio (%)	0.0	0.0	0.0	0.0

Common size metrics - as % of revenues

Year to March	FY17	FY18	FY19	FY20
Materials costs	44.2	43.9	42.1	46.3
Staff costs	2.5	2.9	3.3	4.3
S G & A expenses	42.0	39.9	41.4	38.6
Depreciation	1.7	1.3	1.1	1.5
Interest Expense	2.3	2.0	1.5	1.6
EBITDA margins	**11.4**	**13.4**	**13.2**	**10.8**
Net Profit margins	4.9	6.9	7.3	6.1

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20
Revenues	7.8	4.4	11.2	(5.8)
EBITDA	51.5	23.3	9.1	(22.9)
PBT	63.2	43.5	15.9	(28.1)
Adjusted Profit	65.0	47.2	17.5	(21.0)
EPS	(76.4)	111.1	17.5	(21.0)

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19	FY20
Share capital	108	113	113	113
Other Equity	1,767	3,414	4,063	4,536
Total shareholders funds	1,875	3,527	4,177	4,649
Long term Borrowings	660	450	35	33
Short term Borrowings	1,500	1,391	2,077	2,050
Total Borrowings	**2,160**	**1,841**	**2,112**	**2,083**
Long Term Liabilities & Prov.	19	23	21	94
Deferred Tax Liability (net)	24	4	1	(13)
Sources of funds	**4,078**	**5,395**	**6,310**	**6,813**
Net Block	747	683	701	689
Capital work in progress	0	21	20	141
Intangible Assets	1	1	1	54
Total Fixed Assets	749	705	722	884
Non current investments	3	38	79	106
Cash & bank balances	100	196	215	62
Inventories	2,049	2,829	3,246	3,050
Sundry Debtors	2,267	2,717	3,476	3,601
Loans & Advances	276	474	57	98
Other Current Assets	30	46	304	424
Total Current Assets (Ex Cash)	4,622	6,067	7,084	7,173
Trade payable	953	1,127	1,475	1,203
Other Current Liab. & ST Prov.	443	483	315	209
Total Current Liab. & Provisions	1,396	1,610	1,790	1,412
Net Current Assets (ex cash)	3,226	4,456	5,294	5,761
Uses of funds	**4,078**	**5,395**	**6,310**	**6,813**
Book value per share (BV) (INR)	35	93	110	123

Free cash flow

Year to March	FY17	FY18	FY19	FY20
Reported Profit	435	640	753	595
Add: Depreciation	148	122	111	142
Interest (Net of Tax)	135	123	107	114
Others	86	20	(38)	16
Less:Changes in WC	540	1,216	924	338
Operating cash flow	265	(311)	8	529
Less: Capex	61	78	129	225
Free cash flow	**203**	**(389)**	**(120)**	**304**

Cash flow statement

Year to March	FY17	FY18	FY19	FY20
Operating cash flow	265	(311)	8	529
Investments cashflow	(56)	(108)	(158)	(251)
Financing cash flow	(215)	512	164	(426)
Net cash Flow	(7)	94	14	(148)
Capex	(61)	(78)	(129)	(225)

Profitability & liquidity ratios

Year to March	FY17	FY18	FY19	FY20
RoAE (%)	26.1	23.7	19.5	13.5
RoACE (%)	22.4	24.3	21.8	14.6
Inventory Days	193	219	256	256
Debtors Days	86	98	110	133
Payble Days	92	94	110	109
Cash conversion cycle (days)	187	224	256	280
Current Ratio	3.4	3.9	4.1	5.1
Gross Debt/EBITDA	2.1	1.5	1.6	2.0
Gross Debt/Equity	1.2	0.5	0.5	0.4
Net Debt/Equity	1.1	0.5	0.5	0.4
Interest Coverage Ratio	4.2	6.1	7.9	5.9

Operating ratios

Year to March	FY17	FY18	FY18	FY18
Total asset turnover(x)	2.2	2.0	1.8	1.5
Fixed asset turnover(x)	11.2	12.9	14.8	13.4
Equity turnover(x)	5.3	3.4	2.7	2.2

Valuation parameters

Year to March	FY17	FY18	FY19	FY20
Adjusted Diluted EPS (INR)	8.0	16.9	19.9	15.7
Y-o-Y growth (%)	*(76.4)*	*111.1*	*17.5*	*(21.0)*
Adjusted Cash EPS (INR)	10.4	19.6	22.7	19.5
Diluted P/E (x)	18.4	8.7	7.4	9.4
Price/BV (x)	4.3	1.6	1.3	1.2
EV/Sales (x)	1.1	0.8	0.7	0.8
EV/EBITDA (x)	10.0	5.8	5.4	7.2

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Recent Research

Date	Company	Title	Price (INR)	Recos
07-Sep-20	**Future Retail**	All eyes on integration with RIL; leverage issues persist; *Result Update*	112	Drop Coverage
02-Sep-20	**Jubilant Foodworks**	Covid pangs; robust recovery in store; *Result Update*	2251	Buy
24-Aug-20	**Titan Company**	Annual Report Insights: Shining through clouds;	1138	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
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