April 28, 2020

Aditya Birla Fashion and Retail Limited: Long-term rating placed on watch with negative implications; rated amount enhanced; short term rating of [ICRA]A1+ assigned to enhanced commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	27.96	27.96	[ICRA]AA@; placed on watch with negative implications
Long-term, Fund-based / Non-fund Based Facilities	1,041.00	2,291.00	[ICRA]AA@; placed on watch with negative implications; assigned
Long-term, Unallocated	181.04	181.04	[ICRA]AA@; placed on watch with negative implications
Non-Convertible Debenture Programme	300.00	300.00	[ICRA]AA@; placed on watch with negative implications
Non-Convertible Debenture Programme	700.00	-	[ICRA]AA@; placed on watch with negative implications and withdrawn
Commercial Paper Programme	1,250.00	2,000.00	[ICRA]A1+; assigned / outstanding
Total	**3,500.00**	**4,800.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action follows the impact of the novel coronavirus (COVID-19) outbreak on the Indian retail industry and is in line with ICRA's negative outlook for the sector following the Government-mandated shutdown of malls as well as non-essential stores across the country. ICRA expects an adverse impact on revenues and profitability; and, therefore, on the credit profile of the Indian retail industry in the short-term. ICRA, however, also takes into account the invocation of the force majeure clause by most retailers, including Aditya Birla Fashion and Retail Limited (ABFRL) and the on-going negotiations to convert existing rental arrangements to variable (as a percentage of revenues), which should help reduce their rental costs during this period of lockdown.

Following the pan-India 21-day lockdown announced by the Government of India (GoI) on March 24, 2020, ABFRL announced shut-down of all of its retail stores and production facilities. This has been subsequently extended by around three weeks till May 3, 2020. In case of any further extension in the shutdown or slower ramp-up in operations after the lockdown ends, the revenues and the profitability of the company will be adversely impacted. ICRA would continue to monitor the developments in this regard and will conclude the rating action, once greater clarity emerges.

The financial profile of the company is moderate, as evinced by Net debt/OPBDITA of 3.2 times as on December 31, 2019. ABFRL's net debt increased to Rs. 2,468 crore as on March 31, 2020 from Rs. 2,200.2 crore as on

September 30, 2019 amid reduced sales due to shutdown of retail stores from mid-March 2020, capital expenditure (capex) towards store additions and funding to its Employee Stock Option Programme (ESOP) Trust. Given the expected slowdown in discretionary spending and as per its discussion with ABFRL management, ICRA expects the revenues and profits of the company to witness a YoY decline in H1 FY2021, which will necessitate additional funding requirements. This is expected to lead to an increase in debt levels over the short-term. ICRA, however, takes note of the management's stated guidance of curtailing investments towards store additions, acquisitions and promotional spends during FY2021, which should help it reduce its debt levels in H2 FY2021, subject to revival in discretionary spends.

The company is exposed to refinancing risks, with repayments (includes interest, repayment of letter of credit and commercial paper obligations) of Rs. 1,506.3 crore (excluding Rs. 528 crore of NCD repayment, including accrued interest, which was redeemed on April 20, 2020) due over April to June 2020 . ICRA, however, draws comfort from the demonstrated track record of the company in timely refinancing its debt obligations as well as its strong parentage, which also lends superior financial flexibility. The company also had significant un-utilised bank lines of Rs. 941 crore and Rs. 252 crore of unencumbered cash and liquid investments as on March 31, 2020.

ABFRL, being a part of the Aditya Birla Group, also receives operational support from the Group. Furthermore, the extensive experience of the management team facilitates superior execution capabilities. ABFRL enjoys a leadership position within the domestic branded apparel industry, supported by its diverse product portfolio and extensive multi-channel reach across India.

ICRA notes the high competitive intensity in the fashion segment in which ABFRL operates, characterised by domestic as well as international brands along with a few, but well-established retail players. Furthermore, the business remains vulnerable to any economic slowdown.

ICRA has placed the long-term rating of [ICRA]AA (pronounced ICRA double A) assigned to the Rs. 700 crore NCD programme of ABFRL on watch with negative implications and withdrawn the same, as there is no amount outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Strong parentage of the Aditya Birla Group and extensive experience of the management – ABFRL, being a part of the Aditya Birla Group, enjoys financial flexibility and receives operational support from the Group. Furthermore, the extensive experience of the management team facilitates superior execution capabilities, thereby driving growth in revenues and profitability.

Largest branded apparel player in India with a diverse product portfolio and extensive multi-channel reach – ABFRL is the largest branded apparel player 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 and the Pantaloons division is one of the leading players in the value fashion segment as well as the largest branded womenswear retailer in India. As on December 31, 2019, the company operated 2,656 stores under the Madura division and 343 stores under the Pantaloons division.

Credit challenges

Moderate financial risk profile – The financial profile of ABFRL is moderate, as evinced by Net debt/OPBDITA of 3.6 times and TOL/TNW of 4.5 times as on September 30, 2019. ABFRL's net debt increased to Rs. 2,468 crore as on March 31, 2020 from Rs. 2,200.2 crore as on September 30, 2019 amid lost sales from shutdown of retail stores, capex towards store additions and funding to ESOP Trust. Given the expected slowdown in discretionary spending and as per its discussion with ABFRL management, ICRA expects the revenues and profits of the company to witness a YoY decline in H1 FY2021, which will necessitate additional funding requirements. This is expected to lead to an increase in debt levels over the short-term. ICRA, however, takes note of the management's stated guidance of curtailing investments towards store additions, acquisitions and promotional spends during FY2021, which should help it reduce its debt levels in H2 FY2021, subject to revival in discretionary spends. The company also has high debt repayments (includes interest, repayment of letter of credit and commercial paper obligations) of Rs. 1,506.3 crore (excluding Rs. 528 crore of NCD repayment, including accrued interest, which was redeemed on April 20, 2020) due over April to June 2020. ICRA, however, draws comfort from the demonstrated track record of the company in timely refinancing its debt obligations as well as in its strong parentage, which also lends superior financial flexibility. The company also had significant un-utilised bank lines of Rs. 941 crore as well as Rs. 252 crore of unencumbered cash and liquid investments as on March 31, 2020.

Shutdown of retail stores due to COVID-19 outbreak is expected to adversely impact the revenues and operating profit margins, given the high operating leverage – In line with the Government directives, all the retail outlets of ABFRL have been closed from March 23, 2020 till May 03, 2020. In case of any further extension in the shutdown or slower ramp-up in operations following lifting of the lockdown, the revenues and the profitability of the company will be adversely impacted. ICRA would continue to monitor the developments in this regard.

Continued operating losses (though reduced in 9M FY2020) in Forever-21 brand and Van Heusen's range of innerwear – Madura business' margin expansion is restricted by the continued losses in the Forever-21 brand (acquired during July 2016) and the gestation phase of Van Heusen's range of innerwear. ICRA, however, notes that the losses in these segments have reduced in 9M FY2020.

Highly competitive nature of the fashion business; revenues and profitability additionally remain vulnerable to economic slowdown – The fashion segment, in which the company operates, is highly competitive, marked by domestic and international brands as well as well-established retail players. Furthermore, the business remains vulnerable to economic slowdown on account of the discretionary nature of spending on these products.

Liquidity position: Adequate

The liquidity position of the company is **adequate.** The company has unutilised fund-based limits of ~Rs. 941 crore as on and unencumbered cash and liquid investments of Rs. 252 crore as on March 31, 2020. While the company has significant upcoming repayments (includes interest, repayments of letter of credit and commercial paper obligations) of of Rs. 1,506.3 crore (excluding Rs. 528 crore of NCD repayment, including accrued interest, which was redeemed on April 20, 2020) due over April to June 2020, ICRA draws comfort from the demonstrated track record of the company in timely refinancing its debt obligations as well as in its strong parentage, which also lends superior financial flexibility.

Rating sensitivities

Positive triggers – The outlook may be revised to Stable if the company is able to successfully ramp-up its operations along with an improvement in profitability, once operations resume. Refinancing of debt with longer maturities will help ease the liquidity pressure over the near-term and would be a positive factor.

Negative triggers – Negative pressure on ratings could arise in case of an extended shut-down of retail stores or slower ramp-up in ABFRL's operating performance once operations resume, resulting in an impact on its earnings profile and thus a further moderation in its credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Indian Textiles Industry - Apparels Rating Methodology for Entities in the Retail Industry Corporate Credit Rating Methodology ICRA Policy on Withdrawal and Suspension of Credit Rating
Parent / Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the company's standalone financial profile.

About the company

Aditya Birla Fashion and Retail Limited (ABFRL) is a result of consolidation/merger of branded apparel business of the Aditya Birla Group comprising Aditya Birla Nuvo Limited's (ABNL's, now Grasim Industries Limited) Madura Fashion division, ABNL's subsidiary, Pantaloons Fashion and Retail Limited (PFRL), and Madura Lifestyle, the luxury branded apparel retailing division of Madura Garments Lifestyle Retail Company Limited (MGLRCL; then subsidiary of ABNL), in May 2015. Following the consolidation, PFRL was renamed as ABFRL. This scheme of arrangement became effective from January 9, 2016, with effect from the appointed date of April 1, 2015.

ABFRL has two divisions at present—Madura Fashion and Lifestyle (Madura) and Pantaloons. 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 (the company holds perpetual license to manufacture and sell these brands in India) like Louis Philippe, Van Heusen, Allen Solly and Peter England. The Fast Fashion segment comprises the People brand and the Forever 21 brand (which was acquired in July 2016). The Madura division also includes other fashion formats like Planet Fashion, The Collective, Hackett London, and Van Heusen's innerwear range for men. The Pantaloons format operates in the lifestyle retail segment across varied categories like casual wear, ethnic wear, formal wear, party wear and sportswear for men, women and children. It also operates in the non-apparel segment, which primarily comprises beauty products, fashion jewellery, footwear, and accessories. It is one of the leading value fashion retailers and the largest branded women's wear retailer in India.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7,172.1	8,117.7
PAT (Rs. crore)	117.8	321.2
OPBDIT/ OI (%)	7.1%	7.3%
RoCE (%)	8.9%	12.5%
Total Outside Liabilities/Tangible Net Worth (times)	4.2	3.5
Total Debt/OPBDIT (times)	3.6	2.9
Interest Coverage (times)	2.4	2.6
DSCR	2.4	1.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2017
					28-Apr-20	31-May-19	27-Apr-18	31-Mar-17
1	Term Loans	Long-term	27.96	23.0	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based / Non-fund Based	Long-term	2,291.00	-	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long-term	181.04	-	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-convertible Debenture Programme	Long-term	300.00	300.00	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5.	Non-convertible Debenture Programme	Long-term	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6.	Non-convertible Debenture Programme	Long-term	-	-	[ICRA]AA@, withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7.	Commercial Paper Programme	Short-term	2,000.00	893.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**As on March 31, 2020*

@: Rating on watch with Negative Implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	August 2008	9.45%	March 2022	7.96	[ICRA]AA@; placed on watch with negative implications
NA	Term Loan	March 2018	8.55%	March 2025	20.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility	-	-	-	163.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility	-	-	-	645.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility	-	-	-	33.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility	-	-	-	100.00	[ICRA]AA@; placed on watch with negative implications
NA	Fund-based / Non-fund Based Facility - Unallocated	-	-	-	1,250.00	[ICRA]AA@; placed on watch with negative implications
NA	Unallocated Facility	-	-	-	181.04	[ICRA]AA@; placed on watch with negative implications
INE647O08 040	NCD	May 2016	8.73%	May 2019	-	[ICRA]AA@; placed on watch with negative implications and withdrawn
INE647O08 057	NCD	October 2016	8.20%	April 2020	-	[ICRA]AA@; placed on watch with negative implications and withdrawn
INE647008 073	NCD	September 2018	8.96%	August 2021	300.00	[ICRA]AA@; placed on watch with negative implications
NA	Commercial Paper Programme	September 2007	-	-	2,000.00	[ICRA]A1+

Source: Aditya Birla Fashion and Retail Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Amit Naik
+91 22 6114 3435
amit.naik@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
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