



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

16th Feb 2018

ASHAPURA INTIMATES FASHION LTD

Sector: **BRANDED LOUNGEWEAR & INNERWEAR**

NSE : AIFL

BSE: 535467

View - BUY

CMP : Rs. 466

Target Price: Rs 600 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Ashapura Intimates Fashion Limited was incorporated in 2006, listed on the BSE and NSE. AIFL is a brand house of large variety of products catering to all age groups of men, women and children. AIFL produces need-based fashion clothing according to psycho of consumers. AIFL deals in very niche market segments of product categories like Indian ethnic nightwear, Maternity feeding nighties, Trousseau bridal nightwear, loungewear for full family and for all age groups. Design and product range of AIFL gives entry barriers to other players. AIFL provides age-based fashionable clothing on value-based pricing through its pan-India presence with a network of 115 distributors and 15 carrying and forwarding agents catering 10,000 point of sales. AIFL sells its products through various online shopping portals as well as through its own website www.valentineclothes.com, together with EBO's, LFS's, MBO's, SIS and exports. AIFL has created its each product category so powerful where separate brand can be created for each product segment.

INVESTMENT HIGHLIGHTS

Healthy business growth continues in FY18 YTD –

In terms of financial performance for FY17, AIFL has posted a Topline of close to Rs 311.21 crs, EBIDTA margins of 15.09% and a PBT of Rs 30.35 crs followed by a PAT of Rs 20.30 crs on a merged basis.

AIFL has shown consistent growth since last 5 years starting from FY13 onwards when its Topline was Rs 131.24 crs which has now touched Rs 311.21 crs as on FY17 while PBT has improved from 7.28 crs to Rs 30.35 crs in the same period with net margins progressively up to around 7% in Q3FY18.

In the first 9 months of FY18 AIFL has already recorded a Topline of Rs 202.56 crs, a EBIDTA of Rs 39.58 crs and a PAT of Rs 48.65 crs (After Exceptional Income) on a equity base of Rs 25.21 crs after the merger of MAL.

KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		NA
52 WK HI/LOW		568/354
NSE CODE		AIFL
BSE CODE		535467
MARKET CAP	RS	1175 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	54%
BANKS, MFs & DIIs	-	6%
FIIs	-	%
PUBLIC	-	40%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	25	27	25
EBIDTA Gr%	29	34	27
PAT Gr%	38	49	43
EPS Gr%	38	49	43
EPS (Rs)	11.18	16.66	23.80
ROE %	16	19	22
ROCE %	21	27	30
P/E(x)		27	19



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LAUNCH OF NEW MENSWEAR BRAND “TRICCI”

TRICCI, ideated to bring a dedicated brand for menswear and boys wear in India. With the Phenomenal success that the company has received in its flagship “Valentine” brand, which has primarily focused on the women category, a new brand under male category was launched to focus with the same attitude.

The Brand will ensure superior quality and fashionable styles to meet the evolving tastes of today’s men and boys. Men’s wear market is expected to grow at a CAGR of 8.5% over the next five years.

AIFL enjoys a strong product portfolio and distribution reach –

AIFL is a leading player in the fashionable intimate wear business with a strong presence across the entire value chain. AIFL’s products consists of lounge wear, sleep wear, innerwear and sportswear etc. These products are marketed under its own brand ‘Valentine’. AIFL is mainly focused on loungewear and nightwear products, which together contribute 65% of its sales. AIFL is different from other branded innerwear and fashion garment players, as it has created a niche market for loungewear products which is an emerging trend. It has a in house design team which launches 1500 designs in any season. In house design team which launches 1500 designs in any season

AIFL’s promoters expertise of over two decades has helped it to design products and manage distribution effectively. AIFL has a strong network of 115 distributors, including an overseas distributor, 15 C&F agents and over 10,000 point of sales, 35 EBOs, tie-ups with various MBOs along with online presence.

AIFL plans to grow its business aggressively through its Exclusive Brand Outlets (EBO’S). AIFL currently has 35 stores of which 9 are company owned and company operated (COCO), 6 company owned & franchisee operated and 6 franchisee owned & franchisee operated & 14 distributors owned and distributors operated.

AIFL has cleverly built a diversified product basket covering all segments in the markets –

AIFL has a well diversified product portfolio for women, men, teenagers, kids and infants with a wide range of product offerings across various price categories. AIFL enjoys a early mover advantage and hence has a strong presence in loungewear, bridal night wear, bathrobes, night wear, maternity feeding night wear, sports wear, gym wear, yoga wear and intimate wear product segments.

AIFL has cleverly positioned itself as a midmarket product category specialist where product pricing is reasonable and affordable but at the same time it targets middle level aspirational customers who are willing to pay a small premium for quality products enjoying both the look and feel of super premium products. AIFL continues to get a large share of around 65% from the loungewear segment where competition is relatively lower than the innerwear category.

Currently the female category contributes around 60% to the topline for AIFL however going ahead AIFL expects its Mens brand intimate category also to pickup and where revenues are expected to grow strongly going ahead which will create a balanced product portfolio going ahead.

In terms of product mix as on FY17 AIFL got its major revenues from the following products

Product Segment	% of Revenues as FY17
Loungewear	65%
Nighties	10%
Sport & Separates	15%
Others	10%

Source- Company



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Strong product portfolio under own Valentine Brand –

Lounge wear includes products for men, women, teenagers and toddlers. It is a category of clothing designed for leisure wear and includes t-shirts, shorts, hoodies and other comfort wear

Night wear includes bridal night wear and honeymoon sets. It can be made from cotton, silk, satin or nylon and may be decorated with lace appliqués or embroidery

Inner wear for women includes slips, camisoles and lingerie

Others Sportswear and gym wear / yoga wear for both men and women worn for practical, comfort and safety reasons

Designing is the Key Focus Area and a Strong Point of AIFL –

AIFL has set up an inhouse design studio for developing new products and creating new styling trends. AIFL has a team of designers who focus on each product category where the design is critical in lounge wear and single product normally has five to six different colours and fabric patterns. AIFL has a team of 35 designers in its R & D and rolls out over 2000 new designs every year which is the highest in the industry.

AIFL has developed expertise in designing and distribution and outsource its products from selected vendors with stringent quality control. It had a strategic manufacturing tie-up with Momai Apparels Limited for high and complex design products and sources around 60% of its requirements for it. This enables AIFL to focus more on delivery of superior products to its customers through designing, marketing and distribution.

AIFL enjoys a strong distribution network across PAN India –

Since its inception, AIFL has developed a large network of 115 distributors and 10000 point of sales.

AIFL also has strategic tie-ups with LFSs such as Vijay stores, Globus, Central, Chunmun, Big Life and La Lingerie and is planning to add Lifestyle and Reliance Trends.

Apart from e-commerce, however, to ensure a long term sustainability and improve brand visibility, AIFL plans to expand its exclusive brand outlets network aggressively. Apart from brand visibility, EBOs also provide better margin and volume growth. Currently, AIFL has 35 EBOs under its fold which include franchise based EBOs and self operated EBOs. The company plans to take it up to 200 in the next 3 years

AIFL plans to grow its business aggressively through its Exclusive Brand Outlets (EBO'S). AIFL currently has 35 stores of which 9 are company owned and company operated (COCO), 6 company owned & franchisee operated and 6 franchisee owned & franchisee operated & 14 distributors owned and distributors operated.

AIFL plans to increase the number of EBO'S to over 200 primarily focused on Tier 1 cities in next two-three years. In order to make EBO'S remunerative it has developed an entire range of products in the intimate segment.

The intimate wear industry is still largely fragmented and the demand is shifting towards fashionable intimate wear with emphasis on branding. The migration to organised market in lounge wear market segment is expected at higher rate due to lower price difference of 15-30% (40-50% in normal clothing).

EBOs will help AIFL to display wider products, get more customer reach via increased product shelf positioning and create stronger brand along with margins improvement (EBO has 10-12% higher EBITDA margins).



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Hence going ahead the AIFL management is looking at aggressively reaching out to more customers and promote its brand via the Exclusive Business Outlets (EBOs) route and also pushing the Shop-in-Shops (SISs) concept, compared to thrust on existing Multi-Brand Outlet (MBO) model which was followed earlier.

This shift in focus from MBO to EBO and SIS is expected to assist AIFL in building its brand, having better control over stock and inventory, and improving the profit margins. AIFL launched 4 EBOs and 75 SISs during FY17 and it is targeting 200 EBOs and 500 new SIS launches, over the next three years.

Merger of MAL with AIFL is shareholder positive in the long term –

Momai Apparels Limited (MAL) was subsidiary of AIFL manufactures non branded intimate garments and has a installed capacity of 50 lakhs Pieces per annum and has its facility located at Vapi Gujarat. MAL sells 40% of its turnover to AIFL which constitutes around 34% of AIFL's of raw material costs (As per March 2017 figures)

According to the management MAL's merger with AIFL will bring in more transparency, efficiencies and synergies within the merged entity, while removing the hurdles of overlapping and complexities in compliance. Besides, the funds inflow from open-market sale of AIFL's 20% stake in MAL will be effectively utilised to pay-off debts, the impact of which is likely to be reflected in improving profit and return ratios in the coming financial year

As per the terms of this merger which has now got completed, MAL has issued 10 new shares of Rs 10 each in AIFL to the shareholders of Momai Apparels Limited for every 27 shares held by them in MAL. Post merger the shareholding the promoters in AIFL has declined to 54.27% from 67.74% pre merger previously in the merged entity.

AIFL outsources manufacturing of products from MAL and other third party contractors. With the third part contractors the entire raw material price was taken by AIFL, while MAL used to take the raw material price risk for its committed production quantity for AIFL. Now post merger the entire raw material risk will be with AIFL.

However this merger of MAL with AIFL will also provide the following benefits to AIFL which include

a) This merger will benefit greater integration and greater financial strength and flexibility for the amalgamated entity.

b) This merger will improve the company's competitive position of the combined entity in the market.

c) Provide greater efficiency in cash management, by cost reduction and unfettered access to cash flow generated by the combined business which can be deployed more efficiently to fund organic and inorganic growth opportunities, to maximize shareholder value.

d) Provide an opportunity to leverage on brand, goodwill and combined assets, build a stronger sustainable business which will enable optimal utilization of existing resources and provide an opportunity to fully leverage capabilities and experience of both the companies.

e) Also will enable company to access broader markets and improved organizational capability will improve and also provide leadership arising from pooling of human capital that has diverse skills, talent and vast experience to compete successfully in an increasingly competitive industry

f) finally this merger will help reduce regulatory compliance and multi-layer taxation of inter-se transaction



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AIFL is making continuous efforts to Reducing cyclicity and improve its working capital cycle –

The design is critical in lounge wear and single product normally has five to six different colours and fabric patterns. AIFL has around 75% sales from summer season and 25% sales from winter products.

AIFL's working capital cycle had increased significantly in FY15 due to high inventory and debtors from 227 days in FY14 to around 287 days in FY15. AIFL has initiated efforts to correct efforts by following a monthly cycle of design launch instead of a six month cycle earlier.

AIFL has been able to break up the inventory cycle due to seasonality in the business, significantly reducing the working capital requirement of the company going ahead. Earlier AIFL used to develop around 1500 designs every six months ending September and March till 2015, impacting working capital requirement.

AIFL has split summer designs into monthly distribution with 150 designs per month now, reducing inventory and debtor levels. It also helps in managing order flow and increasing customer footfalls. Also AIFL is appointing super distributors who would buy the inventory on virtually zero credit period enabling reduction in debtors days.

The new product manufacturing strategy has removed the element of seasonality from its business. According to the company management, demand for its products never carry seasonality however, supplies from the company were seasonal. Now, as the company has sorted out the issue, we expect a substantial decline in AIFL's inventory days post reduction in seasonality.

Currently, AIFL is streamlining its MBO model by adding super distributors to the distribution chain. Super distributor is a C&F agent who is responsible for timely recovery of payments from distributors on commission basis. AIFL will either convert its current distributors to super distributors rank or it would appoint new super distributors. The company management expects timely collection would reduce receivables days to around 60 days

Post these changes having effected after FY2015, the working capital days stood reduced to 250 days in FY16. Going ahead AIFL has started converting distributors into super-distributors, resulting in its receivables cycle declining in the past two years to 80 days, which in turn has reduced its working capital cycle reduction to 139 days (on a standalone basis) as on March 31, 2017.

The AIFL management has also initiated centralized pre-booking of orders from countrywide dealers, contrary to existing practice of booking at the season's onset, to better forecast demand, plan production and prevent opportunity losses from supply shortfalls. This we believe will further positively impact the working capital issue more positively going ahead.

AIFL plans to aggressively expand through EBOs, SISs and Online to improve profit margins –

AIFL plans to grow its business aggressively through its Exclusive Brand Outlets (EBO'S), Shop in shop (SISs) and online. AIFL currently has 35 stores of which AIFL currently has 35 stores of which 9 are company owned and company operated (COCO), 6 company owned & franchisee operated and 6 franchisee owned & franchisee operated & 14 distributors owned and distributors operated.

AIFL plans to increase the number of EBO'S to over 200 and SISs to 500, primarily focused on Tier 1 cities in next two-three years. In order to make EBO'S and SISs remunerative it has developed an entire range of products in intimate segment.

The intimate wear industry is still largely fragmented, and the demand is shifting towards fashionable intimate wear with emphasis on branding. The migration to organised market in lounge ware is expected at higher rate due to lower price difference of 15-30% (40-50% in normal clothing). EBOs will help the company to display wider products and create stronger brand along with margins improvement (EBO has 10-12% higher EBITDA margins).



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MBO and EBO Financial Matrix –

Rs Per Piece	MBO	EBO	EBO
		Owned	Franchised
MRP level Average Realisations	1000	1000	1000
Distributor/Dealer cost, franchisee cost. Taxes	425	100	250
Average Realisations	575	900	750
Raw Material Costs	400	400	400
Gross Profit	175	500	350

Source – Company Our Estimates

AIFL is also selling its product through own e-commerce portal (www.valetineclothes.com). Besides marketing through own portal AIFL products are also available on 30+ other e-commerce market places like Amazon, Myntra, Jabong, Flipkart, E-bay, etc

AIFL has launched two new product segments which has strong long-term potential going ahead –

AIFL has launched two new product segments namely the launch of a new male-oriented brand, TRICCI, and new product category, airportwear. These will further strengthen the company's product portfolio and also open up new revenue streams in the fast-growing men apparel segment and rapidly growing aviation industry in India.

In FY 2016-17, the female segment accounted for 65-70% of AIFL's sales, which means around 30-35% of sales came from men's and kids' segment combined, in spite of the fact that men's apparel segment is estimated at \$ 28.9 bn in CY 2017 and is the largest segment in India. Besides, the men's segment is even the fastest growing segment estimated to grow at a compounded rate of 8.53% during 2016 to 2020, a huge untapped opportunity. According to the management TRICCI is expected to account for 40-50% of its overall revenues in the next 2-3 years.

AIFL also visualizes a significant upside potential for its newly launched airport wear category considering the fact that India's air passenger traffic has witnessed upwards of 10% growth in recent years.

Clearly the headwinds operating in this industry space look encouraging with the International Air Transport Association expects India to be amongst the five-fastest growing markets adding 337 million new passengers during 2016 to 2036. Besides, with only a handful of international players operating in this segment, whose prices are way higher, AIFL believes this to be a high growth segment where it can offer quality at a reasonable premium to customers in a market which is large and growing rapidly.

Hence going ahead over the next 2 years AIFL expects that around 15% of its topline will come from the Airport Wear Category which was non existent earlier.

Implementation of GST is positive for organized brands & for AIFL going ahead –

The AIFL management believes that the industry is 80% unorganized and expects shift to happen from unorganized to organized in the longer run after implementation of GST. There is no much difference in GST as AIFL was operating in an organized chain and all its customers were adhering to state VAT. Earlier VAT on readymade garments was 6% and now GST is 5% for products below Rs 1000 and 12% for products above Rs 1000 so overall there is no major effect in operations.

But since AIFL is into retail and it is taking various services for its operations where in earlier tax structure service tax was 15% which was totally expensed out but now in GST companies like AIFL have the opportunity to get credit of GST on various services, which is an overall benefit to the company.



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According to AIFL GST will be the key catalyst for the entire textile industry. It will reduce the competitive advantages enjoyed by the unorganised sector, providing more room to brand-named operators and accelerate the shift from the unorganised sector to the formal one.

The market is gradually moving toward brand-named national operators and GST is expected to speed up that process and eventually GST will reduce the competitiveness of unorganised players and benefit branded organised players like AIFL.

Overall the LoungeWear, Innerwear Market & Kids Segments are likely to grow at a healthy pace in the next 3-5 years –

With rising consumerism, the Indian consumers are in the middle of a transitional phase. The new age Indian customer is radically different from what one could have imagined only a few years ago. The changes are reflected in both the core value system, the general lifestyle as well as the purchase choices.

And this change has also trickled down to intimate wear, a category earlier perceived as 'hidden'. The new age customers of intimate wear are indulgent and include everyone from 'pocket-money to pension'. These consumers belong to the aspirational class, a segment constantly striving for a better lifestyle and upper class, those who have high disposable incomes and can afford better products & lifestyle.

With the Indian consumer becoming more and more aware and conscious about choosing the right attire and outfit for every purpose, the intimate apparel market in India is seeing an emergence of new categories like sleepwear, shapewear, active wear, swimwear etc. Some of these new categories which have a huge untouched potential include sleepwear, loungewear and thermals.

In the Indian intimate wear market, the sleepwear market is emerging quickly as an essential fashion segment, and has, over the last decade, observed organized players entering this segment. The segment is growing fast with manufacturers investing heavily in R&D to raise the range and functions of designs.

From the basic kurta pajamas, the category is moving towards fashionable sleepwear like stylish shorts, tees, capris etc. The fabrics used include cotton blends in varied prints like geometrical, superhero prints, camouflage, stripes etc and still a large part of this segment is catered by unorganized players who sell sleepwear through unorganized retail outlets.

Unlike the past scenario which was dominated by women consumers, men have also started to make significant purchases and own stylish, better quality sleepwear.

Nightwear is now becoming more cozy and multi-functional. This has led to nightwear moving to the next higher level with the extension of nightwear to loungewear which has taken space in some households due to its extended functionalities of usage like workouts, morning walks, etc.

This fashion awareness amongst consumers is increasing in every part of the country and there is still a lot of unexploited potential in cities other than the metros. The growth in this segment is leading to an increased demand for man-made fibers such as modal fiber. Loungewear brings with it a great potential in the segment as consumers want to relax in luxury dressing.

The branded apparel segment is gaining considerable traction in an otherwise fragmented market. This is reflected in the top-15 brands registering a 24% CAGR over 2011-15 (versus 6.5% CAGR for the industry); and the organised value-retail segment (as opposed to unorganised retail or independent stores) gaining considerable traction.



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With growth in population, increase in disposable income and growing awareness among Indian consumers, there is increasing preference towards branded apparels. Due to these factors, domestic branded readymade garments market is expected to grow at 12-15% over next 5-7 years period.

The Indian Casual Market is also flourishing with the flourishing consumer sector which is driven by growth in per capita income, change in fashion trends, consumer behavior and the entry of foreign players.

Casual wear brands in India have shown potential in all segments of the market premium, medium, lower and are going beyond the boundaries of urban markets in major metros.

Casual wear is picking up pace in mini metros, Tier II and III cities as well. The market is dominated by popular product categories such as shirts and trousers. The size of men's wear market was USD 26.6 bn in 2016 and is expected to grow to USD 39.9 bn by 2020. The menswear segment has grown at 10% CAGR over FY10-FY15 and is expected to grow at 8.6% CAGR over FY13-FY23.

The women's casual wear market size was USD 24.0 bn in 2016 and is expected to grow to USD 33.3 by 2020. The women wear segment has grown at 9.5% CAGR over FY10-FY15 and is expected to grow at 9.6% CAGR over FY13-23. The growth of this market is more rapid than the menswear market due to the relatively lower penetration of brands, and the growing sentiments of women. Hence, this segment has become the focus of many Indian and international brands.

The Indian innerwear market is currently estimated at Rs. 24,000 crs. The segment has grown at 15% during the period from 2010 to 2015. During this period, the share of intimate wear in the total apparel market increased from 6.4% to 7.1%.

Indian intimate wear market is dominated by women's segment which currently forms over 60% of the overall market and is valued at Rs. 14,500 crs. This segment has outperformed the overall market as well as men's segment, which currently holds 35% of the total market. Kid's intimate wear market merely has a 4% share in total market.

The men's innerwear market is currently valued at around Rs. 8,500 crore. It has grown at a CAGR of 14% since 2010. With increasing disposable income and changing consumers' attitude towards the category, the segment is expected to maintain the growth to reach Rs 16,500 crs by 2020

Almost 65% of this market is unorganized as the market is very fragmented, with large number of smallscale players operating in this segment. A lot of manufacturers have been very local area centric and supplying only in their vicinity. However, the market structure is evolving and gradually moving towards the organized retail structure

With the changing social dynamics and buying power, men and woman both are becoming conscious of brands in intimate apparels too. While they still shop with mom and pop stores, they have also started exploring newer avenues like brand EBOs, LFS and online platforms. This paradigm shift in this sector can be attributed to aggressive marketing techniques of intimate innerwear brands targeted at the aspiring and open-minded young middle class population. With increasing disposable incomes, they have shifted from need based shopping to splurging on styles. Many fashion brands have expanded their brand labels in womans inner wear & mens inner wear to both men's and womans outerwear as well.

The consumer trends show that price is no more the most important criteria that is looked upon while buying quality outerwear. For evolving consumers, looking good has become an important aspect of life therefore, spending on apparel, personal care & grooming is on the rise.



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Growth Drivers Ahead –

The high growth of the inner wear, Lounge Wear and Kids Wear category is driven by the transition from a utility-based product to an aspirational one. Indian consumer spend on all these segments of products is significantly lower than other Asian peers.

This trend is visible across both men's and women's segments with gaps of over 90% against countries like Thailand and China. This suggests that there is significant room for growth driven by rising per capita spending on such products.

The main growth drivers of demand for Lounge Wear, innerwear & Kids Segments are –

Increasing income levels and high spending power

Preference for recognizable brands

Growing urbanization

Growth in penetration of organized retail

Increasing penetration of electronic media leading to greater preference for branded products

Consumption demand led recovery

Gradual normalization of Business conditions after GST and DeMon

What is AIFL's strategy and approach to tap this huge market opportunity ?

AIFL is different from other branded innerwear and fashion garment players, as it has created a niche market for loungewear products which is an emerging trend.

AIFL's strategy going forward shall be to continue operating in niche segments, and focus on branding and premiumisation. Product designing and quality control shall remain the key differentiating factors for AIFL as it will continue to target attracting more consumers with consistent launch of trendsetting products.

These initiatives shall charter its road map towards brand premiumisation while at the same generate more brand loyalty and ring-fencing its business from competition and enabling it to increase market share.

AIFL has set up an inhouse design studio for developing new products and creating new styling trends. AIFL has a team of designers who focus on each product category where the design is critical in lounge wear and single product normally has five to six different colours and fabric patterns. AIFL has a team of 35 designers in its R & D and rolls out over 2000 new designs every year which is the highest in the industry.

AIFL has developed expertise in designing and distribution and outsource its products from selected vendors with stringent quality control. It had a strategic manufacturing tie-up with Momai Apparels Limited for high and complex design products and sources around 60% of its requirements for it. This enables AIFL to focus more on delivery of superior products to its customers through designing, marketing and distribution

AIFL has cleverly positioned itself as a midmarket product category specialist where product pricing is reasonable and affordable but at the same time it targets middle level aspirational customers who are willing to pay a small premium for quality products enjoying both the look and feel of super premium products



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AIFL has a well diversified product portfolio for women, men, teenagers, kids and infants with a wide range of product offerings across various price categories. AIFL enjoys a early mover advantage and hence has a strong presence in loungewear, bridal night wear, bathrobes, night wear, maternity feeding night wear, sports wear, gym wear, yoga wear and intimate wear product segments.

AIFL has rightly focussed on the 4Ps for positioning its products effectively with its customers. These include

Product – By focussing on the latest designs AIFL offers one of the largest product baskets in the industry catering to all categories of customers for daily requirements.

Price- AIFL's integrated operations and ability to effectively manage cost enables us to offer brand, premium design & quality and trust at the most competitive prices.

Place – AIFL's products are available in every corner of the country and even in some Middle Eastern and Asian countries

Promotion – AIFL promotes its brand vibrantly through newspapers, magazines, social media, hoardings, and festival sponsoring ad branding. This has also created strong visibility with its customers.

E-Commerce to emerge as a new growth driver –

AIFL launched a website to market its products. Apart from its own website the company also markets its products through large ecommerce portals such as Flipkart, Myntra, Jabong and Snapdeal. The company has entered in agreement with large logistic providers to ensure timely delivery of its products to customers.

What are AIFL's key USPs and strong competitive edge vis a vis other players

AIFL is the only listed company in the loungewear and intimate apparel industry with products having good brand loyalty and brand equity.

AIFL's promoter has huge experience in the industry and is highly respected in the industry. The brands were originally owned by Mr. Harshad Thakkar and the same was transferred to AIFL at zero cost. Mr. Harshad Thakkar does not receive any royalty for the same.

Designing is the Key Focus Area and a Strong Point of AIFL

AIFL has a well diversified product portfolio for women, men, teenagers, kids and infants with a wide range of product offerings across various price categories.

Also AIFL enjoys a first mover advantage and hence has a strong presence in loungewear, bridal night wear, which contributes 65% to its topline and where competition is relatively lower than the innerwear category.

AIFL has been the first to create new benchmarks in the industry and going ahead it plans to make its business even more asset light and brand driven which is the global delivery business model abroad.

More importantly it is putting systems and processes which will make the company's business less cyclical and more profitable and where results are expected to be realized over the next 2-3 years.



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AIFL plans to reduce its long term debt –

As of March 2017, long term debt stood at Rs 42.17 crs and it plans to repay all these loans by end of FY18. AIFL has recently sold treasury stock worth Rs 38.27 crs arising out of sale of 28.89 lac equity shares of Rs 10 each. Hence the management believes that it will be using this cash to repay the long term debts as stated above by end of this financial year.

Going ahead AIFL has also lined up concrete plans to dispose off its property in Dadar 3rd floor in FY19 and the management expects to complete this transaction by September 2018. Hence going ahead AIFL plans to further reduce its short term debt on the balance sheet which currently stands at Rs 63 crs as on March 2017.

When this happens we expect AIFL to reduce its interest cost quite significantly as overall interest burden is around Rs 13-14 crs annually. Hence going ahead we expect the interest costs to come down to Rs 10 crs in FY19 and Rs 5 crs in FY20.

AIFL enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

In terms of financial performance for FY17, AIFL has posted a Topline of close to Rs 311.21 crs, EBIDTA margins of 15.09% and a PBT of Rs 30.35 crs followed by a PAT of Rs 20.30 crs on a merged basis.

AIFL has shown consistent growth since last 5 years starting from FY13 onwards when its Topline was Rs 131.24 crs which has now touched Rs 311.21 crs as on FY17 while PBT has improved from 7.28 crs to Rs 30.35 crs in the same period with net margins progressively up to around 7% in Q3FY18. In the first 9 months of FY18 AIFL has already recorded a Topline of Rs 202.56 crs, a EBIDTA of Rs 39.58 crs and a PAT of Rs 48.65 crs (After Exceptional Income) on a equity base of Rs 25.21 crs after the merger of MAL.

Last 5 years AIFL has seen its PAT multiplying from Rs 4.73 crs in FY13 to Rs 48.66 crs as on date while Total Net Debt on the BS as on Dec 2017 has remained at 109 crs. The net D:E currently as on Dec 2017 stands at 0.72:1.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 40-50% and with capex being funded largely from internal accruals and hence going ahead we believe that net cash flows generated will remain healthy going ahead.

Peer Comparison

Company	Market Cap	FY17A	FY18E	FY19E	FY20E
	Rs	P/E	P/E	P/E	P/E
AIFL	1175 crs	55	40	26	18
Page Industries	24818 crs	90	68	53	47
Dollar Industries	1188 crs	51	36	26	21
Rupa & Co	3395 crs	49	44	37	32
Lux Industries	4481 crs	71	61	48	37
Arvind Limited	10082 crs	28	19	15	13
Average		57	45	34	28

Source – Consensus Estimates, Our Estimates

While there is no direct comparison with AIFL, we believe that AIFL enjoys a far superior business model as compared to all the above mentioned players as it has cleverly positioned itself as a middle level quality player catering to the Loungewear space where margins continue to remain attractive & growth going ahead is strong.



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DU PONT Analysis –

DuPont Analysis	FY2017	FY2018E	FY2019E	FY20E	FY21E
Return on Equity %	13.49	15.90	18.87	22.34	23.46
Return on Assets %	16.80	21.09	27.08	30.92	33.28
Financial Leverage	0.72	0.38	0.16	0.13	0.11
Operating Return on Sales %	15.09	15.60	16.50	16.80	17.00
Asset Turnover	15.56	15.56	17.64	19.30	21.66

Source – Annual Reports, Our Estimates

During the last financial year which is the first year after the merger, AIFL has reported a ROE and ROA of 13.50% and 16.80% respectively. Going ahead with debt reduction likely to happen significantly the ROE is expected to improve to over 22% in FY20 while operationally also ROA is also expected to improve to over 30% by FY20, This is a key positive for AIFL. The other two key drivers of ROA which are ROE and financial leverage are also expected to fare well in this 2 year period, and between operating return on sales and ATO, which are the two drivers of ROA, we see that ROS is driving ROA. This implies the company is generating strong revenue growth with higher levels of operating profitability

Further, going ahead we expect incremental topline growth to be faster as new products and product segments & services are added over the next 2 to 3 years.

Going ahead we expect AIFL to benefit from sustainable EBITDA margins of around 15 to 17% which will lead to higher ROCE in coming years. Hence on the ROA side we see with better asset utilisation, lower capex needs which will enable a ROA to cross 30% by FY20E which is another key positive and a strong financial indicator for AIFL.

AIFL enjoys a Strong Pomoter led Management Team –

Mr. Harshad Thakkar Chairman & Managing Director

Mr. Harshad Thakkar began has over 2 decades of experience. Started his own venture in 1999 and opened his own manufacturing unit in 2006. Associated with AIFL since incorporation and thus is familiar with all its aspects.

Mr. Dinesh Sodha, Director- Marketing Head

In the intimate garments business for 16 years. Responsible for day to day management of the centralised warehousing facility Joined the Board of Directors in 2012

Mr. Hitesh Punjani , Additional Director Experience in the intimate garments business for about 12 years In-charge of ensuring quality production process, timely delivery of goods and quality output.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 389 crs.

On the bottomline level we expect the company to record a PAT of Rs 28.18 crs in FY18E before exceptional income & Rs 53.57 crs after exceptional income. Thus on a conservative basis, AIFL should record a operational EPS of Rs 11.18 for FY18E. For FY19E & FY20E our expectation is that earnings traction for AIFL will continue to remain attractive wherein we expect a operational EPS of Rs 16.60 and Rs 24 respectively..

AIFL is different from other branded innerwear and fashion garment players, as it has created a niche market for loungewear products which is an emerging trend. AIFL's strategy going forward shall be to continue operating in niche segments, and focus on branding and premiumisation. Product designing and quality control shall remain the key differentiating factors for AIFL as it will continue to target attracting more consumers with consistent launch of trendsetting products.

These initiatives shall charter its road map towards brand premiumisation while at the same generate more brand loyalty and ring-fencing its business from competition and enabling it to increase market share

Designing is the Key Focus Area and a Strong Point of AIFL. AIFL has a well diversified product portfolio for women, men, teenagers, kids and infants with a wide range of product offerings across various price categories.

Also AIFL enjoys a first mover advantage and hence has a strong presence in loungewear, bridal night wear, which contributes 65% to its topline and where competition is relatively lower than the innerwear category.

AIFL has been the first to create new benchmarks in the industry and going ahead it plans to make its business even more asset light and brand driven which is the global delivery business model abroad. More importantly it is putting systems and processes which will make the company's business less cyclical and more profitable and where we expect these initiatives to show results over the next 2-3 years

The management is confident that it can grow its Topline over the next 3 years by 30-35% pa and maintain EBIDTA margins of 17-18% with net margins of 8 to 10%.

AIFL has recently sold treasury stock worth Rs 38.27 crs arising out of sale of 28.89 lac equity shares of Rs 10 each. Hence the management believes that it will be using this cash to repay the long term debts as stated above by end of this financial year. Going ahead AIFL has also lined up concrete plans to dispose off its property in Dadar 3rd floor in FY19 and the management expects to complete this transaction by September 2018. Hence going ahead AIFL plans to further reduce its short term debt on the balance sheet which currently stands at Rs 63 crs as on March 2017.

When this happens we expect AIFL to reduce its interest cost quite significantly as overall interest burden is around Rs 13-14 crs annually. Hence going ahead we expect the interest costs to come down to Rs 10 crs in FY19 from Rs 5 crs in FY18. This is expected to boost earnings growth significantly over the next 2 years which will see AIFL also report a higher ROE and ROCE of 22% and 31% in FY20 from 13% and 17% in FY17.

AIFL has always enjoyed high discounting of around 45 to 55x in the last 4 years (between FY14 to FY17) considering its future long term prospects and strong headwinds in the branded apparel space. With EPS growth now expected to remain strong over the next 2-3 years we believe the stock is likely to surprise markets positively ahead.

Hence we believe that the AIFL stock should be purchased at the current price for a price target of around Rs 600 over the next 12 to 18 months.

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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E	FY21E
Net Sales	311.21	389.01	494.05	617.56	790.47
EBIDTA	46.96	60.69	81.52	103.75	134.38
EBIDTA %	15.09	15.60	16.50	16.80	17.00
Interest	14.20	16.33	10.00	5.00	5.00
Depreciation	3.50	3.30	3.60	3.9	4.20
Non Operational Other Income	1.09	38.90	30.00	1.00	1.00
Profit Before Tax (Without Excep)	30.35	42.06	68.92	95.85	126.18
Profit Before Tax (After Excep)	30.35	79.96	97.92	95.85	126.18
Profit After Tax (After Excep)	20.30	53.57	65.60	60.00	78.00
Diluted EPS (Rs) (After Excep)	8.05	21.25	26.02	23.80	30.94
Profit After Tax (Without Excep)	20.30	28.18	42.00	60.00	78.00
Diluted EPS (Rs) Without Excep	8.05	11.18	16.66	23.80	30.94
Equity Capital	25.21	25.21	25.21	25.21	25.21
Reserves	125.20	178.77	215.77	270.77	343.77
Borrowings	109.00	67.00	37.00	37.00	37.00
GrossBlock	20.00	25.00	28.00	32.00	36.50
Investments	0.00	0.00	0.00	0.00	0.00

Our Estimates

KEY CONCERNS

Slower than expected volume growth

Weak consumer sentiments

Slower than expected improvement in working capital cycle

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