



# DEMERGER

## A TRENDING PHENOMENON

What is it that is leading companies into the demerger drive? Is it for the sake of achieving independence or is it to increase the valuation? Here's the inside story by **Sunil Pol**

**D**oes independence create an enormous amount of benefit while unleashing the animal spirit of a company both through internal alignment and external flexibility? This is a question uppermost in the current trend of demergers of fashion entities undertaken by leading textile and apparel retailers like Arvind Ltd. and Mandhana Industries. These group companies seem to have understood that manufacturing has a different mentality and

retail calls for a particular mindset. Therefore, in their view, instead of having confusion and cluster in the parent company, the demerged identities could operate better.

### WHAT DRIVES DEMERGERS?

Whether it is value unlocking or corporate strategic realignment, the ongoing trend of demerging signifies that these companies want to operate independently. They want to earn their own recognition and valuations after being under the banner of their parent company for

long years. Arvind Ltd. is one example that has demerged its brands and engineering businesses from the parent company. It demerged the brand apparel business into Arvind Fashions to list on the bourses. "Arvind Fashions has the strength of its balance-sheet to stand on its own. We believe that independence spins many benefits," says Kulin Lalbhai, Executive Director, Arvind Limited.

Similarly, Salman Khan's Being Human Clothing, which was operating as a retail division of Mandhana In-

dustries from 2012-2016, demerged from the company to form Mandhana Retail Ventures (MRVL) in April 2016. "The demerger has helped get us independent valuation," says Manish Mandhana, CEO, Mandhana Retail Ventures Ltd. and Being Human. On similar lines, in 2013, after gauging the revenue generation strength of its fashion division, Future Group hived off its fashion interests into a separate entity called Future Fashion, which is now called Future Lifestyle, and sold its Pantaloons branded stores to Aditya

Birla Nuvo.

Further, Aditya Birla Nuvo renamed Pantaloon Fashion & Retail as Aditya Birla Fashion and Retail Ltd. in 2016. Post restructuring, Future Lifestyles has grown to become one of the largest apparel retailers with a focus on brands as well as retail channels. With a total retail space of 5.5 million sq. feet across 90 cities, it has a diversified portfolio of over 40 brands across men, women and kids segments. "Proper realisation of market capital may make things happen better. Demerger is not just about growth but also about having a clear focus about the business," says Pankaj Jaju, founder and CEO, Metta Capital Advisors LLP.

#### *FINANCIALS POST DEMERGER*

Arvind Fashions hopes to achieve more than Rs 1,000 crore of EBITDA over the next five years

while Arvind Ltd. aims to be an Rs 9,000 crore net sales value company with a healthy CAGR of 25%. Under its Retail 3.0 plan, Tathastu Future Group will blend technology with brick-and-mortar retail. Its retail strategy is aimed at making Future Group Asia's largest integrated consumer company by 2047. "Our business model will not change. We are in three categories of business — food, fashion and home. We have manufacturing, we manage our own supply chains we have our own stores and we have our own data," says Kishore Biyani.

The group will rapidly expand its fashion portfolio at FBB, Brand

Factory and Central by not only opening smaller and more stores but also by simply selling more clothes. Currently, Brand Factory has 57 stores across 21 cities, posting a turnover of Rs 1,000 crore. By the end of this fiscal, it would have grown to 80-85 stores and to 200 stores by 2020. FBB now has 60 standalone stores and will grow to 100 by March 2018 and around 1,000 (stand-alone and shop-in-shop) in the next four to five years. It currently has a presence in 250 Big Bazaar outlets and will cross 310 stores by March 2018.

Central, meanwhile, will add another 13 stores this year to reach 50 stores by March. In

FY17, Central clocked a revenue of Rs 2,400 crore and it is expected to earn another Rs 3,000-3,500 crore this fiscal. The overall investment for Future Retail and Future Lifestyle, which will cover all formats, will be Rs 250 crore for the current fiscal. According to Biyani, the revenue for Future Retail and Future Lifestyle will be Rs 26,000-27,000 crore for FY18, compared with Rs 22,000 crore for FY17.

MRVL which has around 61 stores of Being Human is aiming to have 100 exclusive stores in the next four years. It will be adding 12-13 stores annually.

According to a survey by AT Kearney, the Indian fashion and lifestyle market is expected to touch Rs 3,94,000 crore over the next five years, growing at a compounded annual growth rate of 12%. Currently, the market is estimated at Rs 2,21,000 crore. **IE**