

# Arvind Ltd

Sector: Textile /Mid-Cap | Earnings Update – 4QFY19

**BUY**

27 June 2019

**Background:** Arvind Ltd is the flagship company of the Lalbhai Group, established in 1931. Arvind's business is broadly classified into Textiles, Brand & Retail and others. Textiles, Brand & retail and others which accounts for 55%, 39% and 6% of the revenue respectively. In India, Arvind sells international brands such as Arrow, US Polo Associate, Tommy Hilfiger (JV brand), Calvin Klein (JV brand), IZOD, Elle, TCP, Cherokee, GANT, Hanes, GAP, Wonderbra, Ed Hardy, Geoffrey Beene, Nautica etc. Company has a strong distribution network of 1,336 stores with a retail space of ~2.19mn sq.ft. (Brands: 1,201 stores with ~1.07mn sq.ft retail space & Unlimited: 99 stores with ~0.98mn sq.ft. retail space and Specialty Retail: 36 stores with 0.14mn sq.ft).

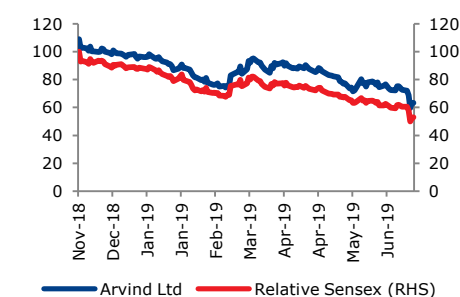
Sensex	39,586
Nifty	11,842
Price	INR 66
Target Price (12 Months)	INR 81
Recommendation	BUY
52 Week High/Low	INR 149/57
Bloomberg / Reuters	ARVND IN /ARVN.BO
Equity (shares in mn)	258.62
Mkt. Cap in bn	INR 17.1/\$ 0.2
Avg. Daily Vol. ('000)	3031.8
Avg. Daily Vol. (mn)	INR 200.3/\$ 2.9

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	42.92	43.10	43.10
FII (%)	23.19	20.84	20.07
DII (%)	18.10	13.17	15.12
Others (%)	15.79	22.89	21.71
Pledge (% of promoter holding)	0.00	0.00	0.00

### Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Revenue	71.4	77.2	84.2
EBITDA	7.2	7.9	8.7
Adj PAT	2.7	2.8	3.2
Adj EPS	10.5	11.0	12.5
% growth	N/A	4.0	14.2
PE	9.9	6.0	5.3
P/ BV	0.6	0.6	0.5
EV/EBITDA	5.9	5.4	4.9
EV/Sales	0.6	0.6	0.5
Div Yield (%)	0.6	3.5	3.9
ROE (%)	7.0	9.5	9.5

Performance %	1M	3M	12M
Arvind	-17.9	-29.6	N/A
Sensex	0.6	2.1	10.6



### Low off-take in denim impairs growth; Optimistic guidance ahead

- In 4QFY19, Revenue grew a meager 1% YoY to INR 18.6bn. Revenue growth was impacted due to lower off-take in denim by 3mn meters YoY, although were higher sequentially. This was offset by 52% YoY increase in Advanced Materials business. Management has guided for 7-8% YoY revenue growth, most of which to be realized in 2HFY20E as newer facilities start delivering significant volumes 3QFY20E onwards.
- In 4QFY19, Denim revenue de-grew by 6% YoY to INR 4.4bn as volume de-grew by 6% YoY to 21mn meters, Woven revenue grew by 7% YoY to INR 6.1bn even though volumes were flat at 35mn meters, Garments revenue grew 4% YoY to INR 3.5bn, Others (Voiles, knits & fabric retail) revenue de-grew by 46% YoY to INR 830mn.
- Overall EBITDA at INR 1.8bn was up 5% YoY and Overall EBITDA margin rose 34bps YoY to 9.9%. Textile EBITDA Margins fell to 10.5% from 13.1% in 4QFY18 due to lower denim off-take, higher pre-operating expenditure pertaining to new garmenting plant, write-off in Arvind stores as company decided to convert all the retail stores into franchise operated and higher cotton prices during the quarter. APAT grew by 15% YoY to INR 685mn.
- Advance materials grew 52% YoY to INR 2bn. Advance materials business reported a margin of 12.5% due to operating leverage and higher value added mix. Peak margin for advance material could be in the range of 15-16%. The company backs the business to cross over INR 8bn in revenues in FY20E clocking more than 30% YoY growth and be profitable as well.
- Management expects EBITDA to de-grow in 1HFY20E on account of losses in new garments facilities due to lower efficiencies and higher base. They also anticipate EBITDA margins to increase in the latter half of FY20E as efficiencies of these plants increase.
- The company incurred a capex of INR 4.7bn in FY19 and the management has guided for a Capex of INR 3.75-4.25bn for FY20E.

**Valuation:** At CMP the stock is quoting at 6XFY20E and 5XFY21E earnings respectively. We rate Arvind as a **BUY** with a target price of INR 81 per share based on 7X FY21E earnings, indicating an upside of 23%.

**Risks:** Unfavorable currency movement; adverse cotton price movement; delay in capacity expansion; slowdown in domestic and export markets.

### Results Summary 4QFY19

Y/E March ( INR mn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
<b>Revenue</b>	18,594	18,428	0.9%	16,803	10.7%
<b>EBITDA</b>	1,836	1,757	4.5%	1,496	22.7%
<b>Depreciation</b>	628	608	3.2%	583	7.6%
<b>Other Income</b>	196	202	-2.7%	266	-26.2%
<b>PBT</b>	746	864	-13.6%	423	76.4%
<b>Tax</b>	83	211	-60.7%	19	335.3%
<b>PAT</b>	640	588	8.9%	403	59.0%
<b>Adjusted PAT</b>	685	596	14.8%	598	14.6%
<b>PAT (Discontinued Operations)</b>	0	497	-100.0%	-2	-100.0%
<b>EBITDA Margin</b>	9.9%	9.5%		8.9%	
<b>Tax Incidence</b>	11.1%	24.4%		4.5%	
<b>PAT Margin</b>	3.7%	3.2%		3.6%	

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<b>RESEARCH</b>			
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Keerthi S	Fundamental Analyst	+91-44 - 4004 7363	keerthi@chola.murugappa.com
Sai Lavanya K	Fundamental Analyst	+91-44 - 4004 7266	saik@chola.murugappa.com
Sahil Jain	Fundamental Associate	+91-44 - 4004 7360	sahilj@chola.murugappa.com
<b>INSTITUTIONAL SALES</b>			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesk Katariya	Mumbai	+91-9860297739	bhaveskgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
Balaji H	Compliance Officer	044 – 4004 7226	balajih@chola.murugappa.com

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