

Stock Update

Strong revenue performance; Demerger to enhance shareholders' value

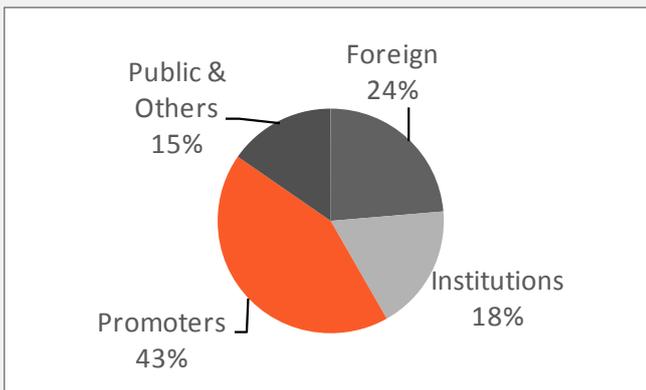
Arvind Limited

Reco: Buy | CMP: Rs439

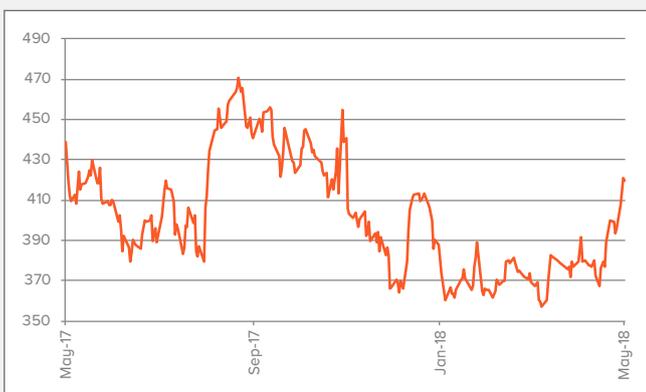
Company details

Price target:	Rs500
Market cap:	Rs11,353 cr
52-week high/low:	Rs478/354
NSE volume: (No of shares)	15.8 lakh
BSE code:	500101
NSE code:	ARVIND
Sharekhan code:	ARVIND
Free float: (No of shares)	14.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	4.3	1.4	1.7
Relative to Sensex	-2.5	1.8	-4.5	-14.6

Key points

- Robust revenue performance in Q4FY2018 with strong double-digit growth in branded and retail and engineering businesses and 9% growth in textile:** During Q4FY2018, Arvind Limited (Arvind) reported 21.3% y-o-y revenue growth to Rs. 2,990 crore. Revenue from the textile segment grew by 9.3% y-o-y to Rs. 1,596.4 crore mainly led by 13% volume growth in the garment segment and 14% revenue growth in the woven segment. Fabric volume also improved from 56 million metres to 60 million meters despite the decline in denim domestic volumes. The branded and retail (B&R) business registered strong revenue growth of ~28% y-o-y to Rs. 1071.2 crore, led by 13% growth in power brands. Revenue of the engineering business (under Anup Engineering) grew by 31% y-o-y to Rs. 83.9 crore. Gross margin declined by ~240 BPS y-o-y to 49% mainly on account of lag effect of firm cotton prices. However, significant cost efficiencies led to 61 BPS y-o-y rise in OPM to 9.8% during the quarter. Operating profit grew by 29.3% y-o-y to Rs. 291.7 crore. Despite lower other income and higher tax rate, adjusted PAT grew by ~8% to Rs. 115 crore.
- Textile margins maintained despite stronger rupee and reduced duty drawback rate while B&R margins saw good improvement despite negative SSSG:** In the textile segment, Arvind recorded growth of 9.3% y-o-y to Rs. 1,596.4 crore, driven by volume growth in its garments and fabric segments. EBITDA margin was maintained (at 12.6%) despite reduction in average realisation due to sharp appreciation of rupee against major foreign currencies and reduced duty drawback rate by the government. However, the B&R business recorded revenue growth of ~28% y-o-y to Rs. 1,071.2 crore, driven by power brands. The power brand portfolio (*Tommy Hilfiger, US Polo Assn., Arrow and Flying Machine*) grew by 13% y-o-y to Rs. 679 crore. EBITDA for the power brand portfolio grew by ~39% y-o-y to Rs. 97 crore, with margin coming at 14.3% up by ~270 BPS y-o-y. *Unlimited* registered negative same store sales growth (SSSG) of 2% in Q4FY2018 due to very high base of last year and early EOSS in December 2017. For power brands also, SSSG declined by

8% after weak growth in January and February (advancement of EOSS in December) but March 2018 turned out to be a strong month as SSSG for *Unlimited* came in at 13% and that for power brands came in at 7%. Though SSSG declined, performance of other emerging brands supported margin growth during the quarter. Overall, B&R EBITDA margin improved by ~180 BPS y-o-y to 8.3% in Q4FY2018 (one of the highest since many quarters). The engineering business's EBITDA margin came in at 30.2% in Q4FY2018 as against 22.7% in Q4FY2017.

- ♦ **Outlook – Textile business to grow in high single digit; Branded and retail to grow in strong double digits:** Management is expecting the textile business to grow by 8-9% in FY2019, which will largely be driven by higher volumes in the garment segment. With rupee depreciation against key currencies and cotton prices correcting from its high, OPM of the textile business is expected to remain flat on a y-o-y basis. The branded and retail business is expected to grow by above 20% with improving SSSG in power brands and *Unlimited* stores in the coming quarters. Margin of the branded and

retail business is expected to improve by about 100 BPS as emerging brands will be profitable in the current fiscal and better SSSG is expected in power brands and its retail business.

- ♦ **Stable performance ahead; Demerger to enhance shareholders' value:** We have broadly maintained our earnings estimates for FY2019 and FY2020. FY2018 performance of Arvind was impacted by lower textile business margins (largely affected by rupee appreciation and reduced duty drawback rates) and implementation of GST affecting the branded and retail business. Performance is expected to improve in FY2019 with double-digit revenue growth and margin expansion in key business verticals. Further, demerger of businesses such as B&R and Anup Engineering into separate verticals would enhance shareholders' value in the near future. Thus, we maintain our Buy recommendation on the stock with an unchanged price target of Rs. 500.
- ♦ **Key risk to our estimates:** Any increase in cotton prices or disruption in sales of key businesses would act as key risk to our earnings estimates.

Valuations (Consolidated)

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Total Operating Income	8010.6	9236.6	10826.1	12548.1	14674.0
Adjusted Profit After Tax	314.8	334.3	338.5	599.2	844.0
OPM (%)	11.9	10.1	8.9	10.5	11.1
EPS (Rs.)	12.2	12.9	13.1	23.2	32.7
P/E (x)	35.9	33.9	33.4	18.9	13.4
EV/EBITDA	14.7	14.3	14.5	10.7	8.6
Debt/Equity(x)	1.5	0.9	1.0	0.8	0.7
RoNW (%)	11.7	10.8	9.2	14.8	18.0
RoCE (%)	8.3	7.2	6.2	9.0	11.0

Results (Consolidated)				Rs cr	
Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Total revenues	2990.0	2465.9	21.3	2705.8	10.5
Raw material cost	1524.0	1198.0	27.2	1318.4	15.6
Employee cost	310.7	258.5	20.2	320.5	-3.0
Other expenses	863.7	784.0	10.2	818.5	5.5
Total operating cost	2698.3	2240.4	20.4	2457.3	9.8
Operating profit	291.7	225.5	29.3	248.4	17.4
Other income	14.1	33.4	-57.8	12.2	15.5
Interest & other financial cost	67.4	58.5	15.3	67.1	0.5
Depreciation	96.4	82.7	16.5	93.3	3.3
Profit before tax	142.0	117.8	20.6	100.3	41.6
Tax	26.2	12.3	113.4	19.6	33.6
Extraordinary item	-0.5	8.9	-	2.2	-
Minority Interest (MI)	-0.8	1.1	-	0.6	-
Adjusted PAT after tax after MI	115.0	106.6	7.9	81.3	41.5
Reported PAT	115.5	97.7	18.2	79.1	46.0
Adj. EPS (Rs)	4.45	4.13	7.8	3.14	41.5
			BPS		BPS
GPM (%)	49.0	51.4	-239	51.3	-224
OPM (%)	9.8	9.1	61	9.2	57

Segmental performance				Rs cr	
Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Segment Revenue					
Textiles	1596.4	1460.5	9.3	1536.9	3.9
Branded & Retail	1071.2	839.9*	27.5	957.7	11.8
Segment Results (EBITDA)					
Textiles	200.0	186.0	7.5	215.0	-7.0
Branded & Retail	89.0	55.0	61.8	67.0	32.8
EBITDA Margins (%)			BPS		BPS
Textiles	12.6	12.7	-8	14.0	-133
Branded & Retail	8.3	6.5	176	7.0	131

*Excluding TH & CK revenue

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