

**Arvind Ltd**

₹ 87

**Fab Rich****Buy**

Nov 16, 2012

**Company Background**

Arvind Ltd (Arvind) is well poised as India's leading manufacturer of super-fine fabrics for the domestic market. It has successfully integrated diverse business processes, services & products. Arvind's foray into the sector of new-age fabrics has seen the company emerge as one of the largest denim manufacturers in the world. It has also brought them global recognition for the manufacture of shirting, khaki and knitted fabrics. Arvind's growing presence in the domain of ready-made garments - jeans, shirts & knits has further put it on the top as a one-stop solution provider for leading apparel brands. Finally, the Company's most recent and aggressive ventures in the branded apparel, retail and fabric retail businesses, infrastructure and the initiative of growing cotton the organic way have consolidated its presence throughout the apparel value chain.

**Key Highlights**

- ➔ Arvind Lifestyle Brands, subsidiary of Arvind Ltd, one of the largest players in the apparel brands and retail space, announced the acquisition of the business operations of British fashion retailers Debenhams and Next and American Lifestyle Brand Nautica in India from Planet Retail.
- ➔ Arvind has sold about 27,000 sq mtrs of land situated at Khokhra, near Maninagar in the eastern part of Ahmedabd at total value of Rs. 90 Crs. to B Safal, a renowned real estate developer of Ahmedabad. Arvind will receive the cash flow of Rs. 90 Crs. over a period of next 12 months.
- ➔ The Company recently allotted 34,10,528 equity shares of Rs. 10 each fully paid up of the Company to the shareholders of erstwhile Arvind Products Limited pursuant to the Scheme of arrangement in the nature of de-merger and transfer of investment division of Asman Investments Limited to Arvind Limited and Amalgamation of Arvind Products Limited with Arvind Limited.
- ➔ The Company has made foray in Bangladesh retail market for shirting fabric and has received very encouraging response in the short time. The Company is also witnessing strong growth in women's wear segment. Retailing the shirting fabrics under the brand name of "Arvind" shows lot of potential for the growth. The outlook for Shirting fabric business continues to remain positive.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	23,864.3	27,351.6	39,237.6
Rev. growth (%)	(3.62)	14.61	43.46
EBITDA (INR mn)	3,791.2	4,451.5	9,611.5
Net profit (INR mn)	520.0	1,348.0	4,342.3
Shares outstanding (mn)	232.0	254.4	254.6
EPS (INR)	2.2	5.3	17.1
EPS growth (%)	(202.54)	136.39	221.84
P/E (x)	15.1	13.0	4.8
RONW (%)	3.4	7.3	20.2
ROCE (%)	1.3	3.2	9.6

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**Info Codes**

Reuters	: ARMI.BO
Bloomberg	: ARVIND@IN
NSE	: ARVIND
BSE	: 500101

**Market Data**

52 Wk Range (₹)	: 107 / 59
Shares in Issue (mn)	: 254.6
Mkt. Cap (₹ bn)	: 21.97
BSE 2 Wk Avg Vol	: 271000

**Share Holding Pattern (%)**

Promoters	: 42.53
DII's	: 18.68
FII's	: 14.90
Others	: 23.89

**Investment Theme**

Arvind has carved out an aggressive strategy to verticalize its operations by setting up-scale garmenting facilities and offering a one-stop shop service, by offering garment packages to global and domestic customers. With Lee, Wrangler, Arrow and Tommy Hilfiger and its own domestic brands of Flying Machine, Newport, Excalibur and Ruf & Tuf, Arvind set its vision of becoming the largest apparel brands company in India. Arvind caters to all segments of consumers - mass market, premium market and bridge to luxury market. Its presence in luxury market will grow too, with the latest acquisition of brands (in India), particularly Nautica, its portfolio in bridge to luxury market will strengthen. Debenhams will enable Arvind to foray into bridge to luxury department stores and Next will facilitate entry into apparel specialty retail chain.

**With Growth in its Jeans !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	23063.9	26666.9	15.62	35242.0	32.16
Other Income	817.8	707.0	(13.55)	4178.4	491.00
Change in Stocks	(187.8)	879.4	(568.26)	(41.4)	(104.71)
Raw Material Con.	11712.6	14829.8	26.61	18197.7	22.71
Employee Exp.	2407.3	2739.0	13.78	3605.1	31.62
Indirect Taxes	47.7	56.5	18.45	234.3	314.69
Other Exp.	5735.1	6176.5	7.70	7730.4	25.16
Operating Exp.	20090.5	22922.4	14.10	29808.9	30.04
Operating Profit	2973.4	3744.5	25.93	5433.1	45.10
Total Interest	2133.2	1873.3	(12.18)	3246.4	73.30
Gross Profit	1658.0	2578.2	55.50	6365.1	146.88
Net Dep.	1138.0	1230.2	8.10	1484.2	20.65
Total Taxation	0.0	0.0	-	538.6	-
Net Profit/Loss	520.0	1348.0	159.23	4342.3	222.13

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>32,032.1</b>	<b>32,183.8</b>	<b>33,054.4</b>	<b>35,071.3</b>
Equity Share capital	2,189.8	2,319.8	2,544.0	2,546.3
Share Application Money	0.0	0.0	0.0	34.1
Preference Share Capital	198.0	0.0	0.0	0.0
Reserves & Surplus	9,372.7	11,148.8	12,374.4	14,773.3
Secured Loans	19,241.2	17,296.7	17,661.9	17,165.0
Unsecured Loans	1,030.4	1,418.5	474.1	552.6
<b>USES OF FUNDS</b>	<b>32,032.1</b>	<b>32,183.8</b>	<b>33,054.4</b>	<b>35,071.3</b>
Gross Block	30,568.0	30,024.5	31,510.3	35,575.5
Less : Revaluation Reserves	245.2	731.4	3,036.7	2,848.2
Less : Accumulated Depreciation	10,145.1	10,843.4	11,660.4	12,884.9
Net Block	20,177.7	18,449.7	16,813.2	19,842.4
Capital Work in Progress	815.8	468.6	807.8	1,791.0
Investments	1,000.6	3,002.9	3,263.4	3,371.1
Current Assets	16,363.9	15,259.5	19,353.2	19,951.8
Less : Current Liabilities	6,426.6	4,996.9	7,183.2	9,885.0
Total Net Current Assets	9,937.3	10,262.6	12,170.0	10,066.8
Misc. Expenses not written	100.7	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	935.5	2,906.7	3,113.8	3,231.4
Mkt Val. Quoted Investments	65.1	96.2	149.6	183.7
Contingent Liabilities	2,420.8	3,239.4	6,716.6	6,576.7
Dividend (%)	0	0	0	10

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	8,313.70	8,479.00	8,520.70	9,590.50
Cost Of Sales	7,182.60	7,511.50	7,311.20	8,179.90
Operating Profit	1,131.10	967.50	1,209.50	1,410.60
Recurring Income	1,998.00	271.60	86.10	173.90
Adjusted PBDIT	3,129.10	1,239.10	1,295.60	1,584.50
Financial Expenses	634.10	575.00	629.20	674.00
Depreciation	328.10	326.90	361.80	373.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	2,166.90	337.20	304.60	537.10
Tax Charges	0.00	0.00	6.90	0.00
Adjusted PAT	2,166.90	337.20	297.70	537.10
Non Recurring Items	332.20	288.00	156.90	110.90
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	2,499.10	625.20	454.60	648.00

## 52 Week Index Relative Percentage Appreciation



## Arvind vs SENSEX

## Points to Ponder

The Company is witnessing strong demand in the international markets especially for Denim. At the same time the brands like Arrow & US Polo continues to show lot of promise for growth. The Company is expecting revenue growth of about 12-14% for the year 2012-13. The Textiles business may achieve volume 14-16%, where as Brands & Retail business may clock volume growth of 15% to 18%. The Revenue growth will be lower as products prices have been reduced following reduction in input cost. The Company has made foray in Bangladesh retail market for shirting fabric and has received very encouraging response in the short time. The Company is also witnessing strong growth in women's wear segment. Retailing the shirting fabrics under the brand name of "Arvind" shows lot of potential for the growth. The outlook for Shirting fabric business continues to remain positive.

## Risks Associated

Domestic retail market is sluggish which is likely to keep demand for woven fabrics muted. The sluggish retail demand may affect the growth of MEGAMART. The sharp rupee depreciation could lead to pressure on fabric prices and since the Company has hedged FX exposure around ₹ 51 to USD. Sharp depreciation of INR against USD may put downward pressure on unit price realisation in USD terms affecting the margins adversely. The depreciation of currency, freeing of exports and increase in minimum support price may push up cotton prices and yarn prices.

**In a Nutshell**

Arvind Limited is one of the India's leading vertically integrated textile companies with the presence of almost 8 decades in this industry. It is among the largest denim manufacturers in the world. It also manufactures a range of cotton shirting, denim, knits and bottom weights (Khakis) fabrics and Jeans and Shirts Garments. Arvind, through its subsidiary company is marketing in India the branded apparel under various brands and is also licensee in India for various international brands. The brands portfolio of the company includes International brands like Arrow, US Polo, Izod, Elle, Cherokee etc. Through another subsidiary company, Arvind Retail Limited, Arvind operates apparel Value Retail stores MEGAMART. Arvind also has the presence in Telecom business directly and through joint venture companies. Arvind's pursuit of multi - brand, multi - price point and multi - channel strategy over the last 5 years has paid rich dividend and has grown the business at a CAGR of 38%. Arvind is the only company in the fashion industry which has presence from Value to the Bridge to Luxury Segments. Arvind is targetting revenues of Rs. 5000 crs from its brands & retail businesses in the next 5 years by strongly leveraging its strength in production, marketing and distribution. While Rs. 3000 cr would come from growing the business organically at a CAGR of 20%, the rest would come through acquisitions, new brands launches and JVs. The acquisition of the Debenhams, Next & Nautica is the first step in the company's inorganic growth strategy to cross the Rs. 2000 cr revenue mark in the next 5 years. The company also has one of the strongest distribution networks in Indian apparel sector with over 1.3 mn sq ft of retail space pan - India to its brands across 730 retail stores spread over 150 towns.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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