

Arvind Ltd.

₹ 81

Growth - Ready Made**Accumulate**

May 17, 2013

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's net sales grew by Rs 1,324 crore (8.6% YoY) for Q3FY13 as against Rs 1,218.7 crore in Q3FY12 led by robust volume growth (33% YoY) in shirting/khaki fabrics and improved realisations in denim division. EBITDA margins, at 13.6%, rose by 160 bps YoY and 120 bps QoQ partially attributable to lower cotton cost and gas prices. Brands & Retail business margins also improved during the quarter from 6% in Q2FY13 to 6.6% in Q3FY13. Net profit grew by ~16.4% QoQ to Rs 75.2 cr.
- ➔ Top-line for brands and retail business grew by 18.9% YoY to Rs 384 crore led by a combination of 5% YoY volume growth and improved product mix. As of Q3FY13, number of distribution stores stands at 661 (v/s 627 in Q2FY13) and 374 (v/s 371 in Q2FY13) respectively. During the quarter, the company has added ~1,10,277 sq feet under brands & retail business (~83,050 sq ft; 21.4% QoQ – brands & ~27,227 sq ft; 3.9% QoQ – retail).
- ➔ Revenues from textile business by 14.6% YoY from Rs 824 crore to Rs 944 crore driven by capacity addition in shirting / khaki division (Rs 391 crore v/s Rs 286 crore; +36.7% YoY). Volumes for denim in the current quarter were down by 10.2% YoY from 23.6 mn metres to 21.2 mn meters on account of company's conscious effort to maintain margins.

Key Financials

Year Ended 31 st	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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Previous Report Data

Date	: Nov 16, 2012
Recommended	: Buy @ 87
Target	: 104.4
Target Recahed	: Jan 2, 2013

Market Data

52 Wk Range (₹)	: 59 / 108
Shares in Issue (mn)	: 254.6
Mkt. Cap (₹ bn)	: 20.97
BSE 2 Wk Avg Vol	: 287000

Share Holding Pattern (%)

Promoters	: 43.94
DII's	: 18.94
FII's	: 16.51
Others	: 20.61

Investment Theme

During Q3FY13, Arvind's margins improved and it is likely to post similar margins in Q4FY13 due to volume growth in textiles & low cotton prices. Arvind's management is also bullish about a 8-10% revenue growth due to capacity addition in shirting / khaki division. The company has also increased its branded retail presence, it currently has 661 key account centres and added 1.1 mn space for retail and brand business. The Denims segment in which the company has its own speciality are poised to grow at 10 to 15%, which will benefit the company. It is also expected to receive regular income through a land sale deal which the company entered into some time back. On the back of improved prospects for brands & retail business, sustainable textile volumes and land monetization, we reiterate Arvind Ltd as a good stock to Accumulate.

A Re-tale !

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 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	32,032.1	32,183.8	33,054.4	35,071.3
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
Long Term Loans	12,207.4	10,535.4	10,076.1	8,762.4
Short Term Loans	8,064.2	8,179.8	8,059.9	8,955.2
USES OF FUNDS	32,032.1	32,183.8	33,054.4	35,071.3
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
NOTE				
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	6,478.2	5,986.7
Dividend (%)	0	0	0	10

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	8,479.00	8,520.70	9,825.60	9,780.50
Cost Of Sales	7,511.50	7,311.20	8,415.00	8,293.70
Operating Profit	967.50	1,209.50	1,410.60	1,486.80
Recurring Income	271.60	86.10	173.90	190.80
Adjusted PBDIT	1,239.10	1,295.60	1,584.50	1,677.60
Financial Expenses	575.00	629.20	674.00	703.60
Depreciation	326.90	361.80	373.40	383.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	337.20	304.60	537.10	591.00
Tax Charges	0.00	6.90	0.00	0.00
Adjusted PAT	337.20	297.70	537.10	591.00
Non Recurring Items	288.00	156.90	110.90	67.50
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	625.20	454.60	648.00	658.50

52 Week Index Relative Percentage Appreciation



Arvind vs SENSEX

Points to Ponder

- 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.
- 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 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% Y-o-Y. Textiles business may achieve growth of 14-16%, where as Brands & Retail business may grow at 15-18%.

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 Textile sector as a whole.
- 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.

Arvind Ltd

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

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

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