Stock Update

Cuts in duty drawback to affect earnings in the short run

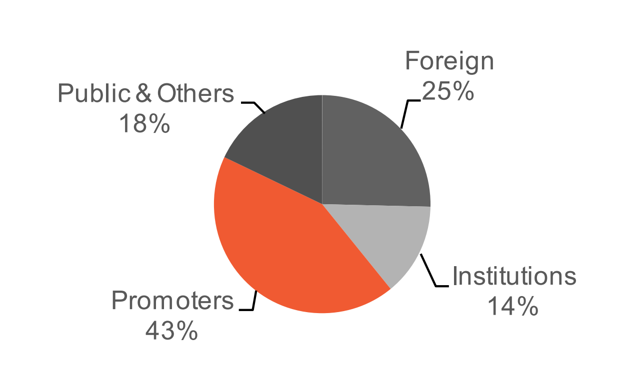
Arvind

Reco: Buy | CMP: Rs366

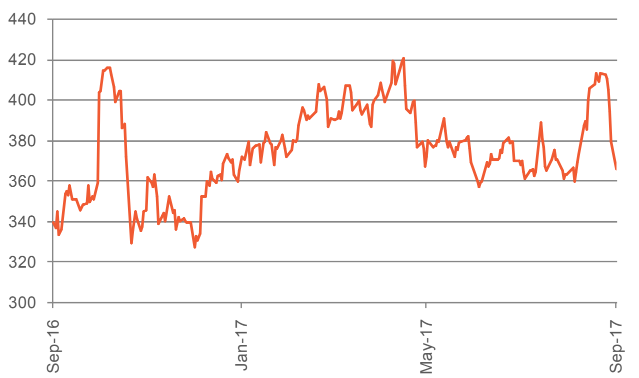
Company details

Price target:	Rs465
Market cap:	Rs9,462 cr
52-week high/low:	Rs426/320
NSE volume: (No of shares)	13.9 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	8.1	3.9	-0.7	19.3
Relative to Sensex	4.3	-0.1	-10.4	3.7

Key points

- **Event - Duty drawback rate cut from 7.5-7.7% earlier to 2%:** The Central Board of Excise and Customs (CBEC) modified duty drawback rates for exporters, which will be effective from 1st October 2017. The drawback rate announced for garments has been lowered to 2% as against 7.5-7.7% earlier. However, the decision on the 3.9% Rebate of State Levies (ROSL, effective from 23rd March 2017) is still pending. Under the new tax regime, the cut in duty drawback was expected by the industry, as exporters are entitled to get input tax credit (which is still not received due to the initial emerging issues under GST). However, this cut to 2% has been higher than expected, and it also coincides with macro headwinds such as rise in cotton prices, rupee appreciation and increasing oversees competition.

- **Revised downwards earnings by 3% for FY2018/FY2019:** The effect of this reduction in duty drawback rate will be felt mostly in Arvind Limited's (Arvind) garment division, which contributes 10-12% to the consolidated revenue. Though the decision on reducing ROSL has not been taken, we have considered an overall impact of 5% (2.7-3% impact due to duty drawback and balance due to ROSL) in our earnings estimates for FY2018 and FY2019, which are reduced by 3% each.

- **Outlook - Maintain Buy with a revised price target of Rs.465:** Though recent events such as rupee appreciation and cut in duty drawback rate will impact Arvind's profitability in the short term, the company's faster shift from B2B to B2C will improve the growth prospects in the long run. According to management, July was weak in terms of volume growth due to GST transition impact, but pickup in sales was visible from August 2017 (especially in the branded and retail business). Arvind is playing big on its lifestyle brands and specialty retail brands which will help it in achieving strong revenue growth in the coming years. Further, revamped retail business would improve margin prospects over the next two to three years. Thus, in view of the longer term growth story being intact, we maintain our Buy recommendation with a revised price target of Rs.465 (in line with reduction in earnings estimates).

Valuation (Consolidated) **Rs cr**

Particulars	FY16	FY17	FY18E	FY19E
Total Operating Income	8010.6	9235.5	10941.4	12671.5
Adjusted Profit After Tax after MI	314.8	332.7	376.4	626.7
OPM (%)	11.9	10.0	9.2	10.8
EPS (Rs.)	12.2	12.9	14.6	24.3
P/E (x)	30.0	28.4	25.1	15.1
EV/EBITDA	12.9	12.5	11.4	8.3
Debt/Equity(x)	1.5	0.9	0.8	0.6
RoNW (%)	11.7	10.7	10.1	15.1
RoCE (%)	10.8	9.1	9.9	14.6

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