

Arvind Ltd

Sector: Textile /Mid-Cap | Earnings Update – 3QFY18

BUY

2 February 2018

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, Cherokee, GANT, Hanes, Billabong, Wonderbra, Ed Hardy, Geoffrey Beene, Nautica etc. Company has a strong distribution network of 1,262 stores with a retail space of ~2.02mn sq.ft. (Brands: 1,137 stores with ~1.01mn sq.ft retail space & Unlimited: 93 stores with ~0.87mn sq.ft. retail space and Speciality Retail: 32 stores with 0.13mn sq.ft).

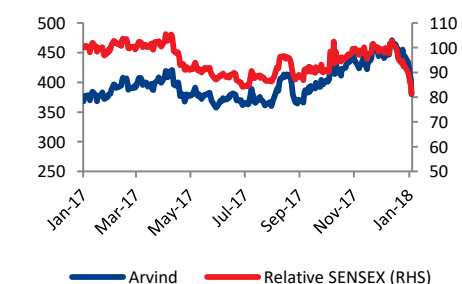
Sensex	35,066
Nifty	10,761
Price	INR 379
Target Price	INR 480
Recommendation	BUY
52 Week High/Low	INR 478/354
Bloomberg / Reuters	ARVND IN / ARVN.BO
Equity (shares in mn)	258.62
Mkt. Cap in bn	INR 98.2/\$ 1.53
Avg. Daily Vol. ('000)	1,896.36
Avg. Daily Vol. (mn)	INR 718.7/\$ 11.2

Shareholding	Dec 16	Sep 17	Dec 17
Promoters (%)	43.77	42.94	42.92
FII (%)	22.09	26.57	26.57
DII (%)	16.42	14.09	13.77
Others (%)	17.72	16.40	16.74
Pledge (% of promoter holding)	4.91	5.00	5.00

Valuation Summary (INR bn)

Y/E March	2018E	2019E	2020E
Revenue	105.6	119.9	136.8
EBITDA	9.5	12.3	15.1
Adj PAT	3.3	4.9	6.6
Adj EPS	12.6	19.2	25.8
% growth	7.9	52.6	34.4
PE	30.2	19.8	14.7
P/ BV	2.6	2.3	2.1
EV/EBITDA	14.1	10.9	8.9
EV/Sales	1.3	1.1	0.9
Div Yield (%)	0.7	0.9	1.1
ROE (%)	8.9	12.1	14.9

Performance %	1M	3M	12M
Arvind	-13.8	-6.5	0.8
Sensex	6.2	6.9	27.6



Strong B&R performance, margin pressure in Textile business continues

- Revenue up 15.9% YoY (+2.9% QoQ) at INR 27,058 mn. Textile revenue which accounts for 57% of the cons. revenue grew by 9% to INR 15.39bn. Brand and Retail business which accounts for 36% of the cons. revenue grew 24% YoY to INR 9,610mn.
- In 3QFY18, Denim revenue grew by 6% YoY to INR 4.59bn (volume grew by 13.6% YoY), Woven revenue grew 3% YoY to INR 6.05bn (volume grew 6% YoY), Garments revenue grew 16% YoY to INR 3.19bn, Others (Voiles, knits & fabric retail) revenue grew by 37.7% YoY to INR 1.57bn.
- Brand & Retail (incl. TH & CK) revenue grew 24% YoY in 3QFY18 to INR 9.6bn aided by strong growth in Power brands and consolidation of TH & CK, adjusting for the consolidation and GST, B&R grew 15% YoY; Unlimited had a negative (-4.3%) SSS owing to high base effect. Power Brands revenue grew 13% YoY to INR 5.32bn (SSS:+7.9%).
- EBITDA at INR 2,484mn, up 5.3% YoY (+17% QoQ). EBITDA margin fell by 92bps YoY to 9.2%; due to 332bps YoY fall in the textile margin owing to currency appreciation, reduction in export incentives and increase in cotton price. Brand and Retail margin increased by 355bps YoY to 6.9% due to margin improvement in Unlimited, Power brand and Speciality Retail. Power brand margin improved by 310bps YoY to 12.2%.
- Tax expense fell by 59.9% YoY to INR 112mn and ETR stood at 12.5%. Other income grew by 12% YoY to INR 122mn. Reported PAT grew by 4.5% YoY to INR 790mn. Adj. PAT grew by 14.3% YoY to INR 895mn.
- Management has guided for a revenue growth of ~11-12% for FY18, led by strong growth in brand & retail business (15-17%) and Textile business is expect to grow 6-7%. However, margins are expected to be marginally lower due to change in business mix and investment in internet business.

Valuation: We introduce FY20E estimates Revenue/EPS 14% / 34.7% YoY. At CMP the stock is quoting at EV/EBITDA of 10.9X FY19E and 8.9X FY20E respectively. We roll over our valuation to FY20E; We rate Arvind as a **BUY** with a target price of INR 480 per share based on FY20E estimates, indicating an upside of 27%. **Risks:** Delay in Turning around of new business; unfavorable currency movement; adverse cotton price movement; delay in capacity expansion; slowdown in domestic and export markets.

Results Summary 3QFY18

Y/E March (INR mn)	3QFY18	3QFY17	YoY Growth	2QFY18	QoQ Growth
Revenue	27,058	23,355	15.9%	26,285	2.9%
EBITDA	2,484	2,359	5.3%	2,123	17.0%
Depreciation	933	734	27.2%	833	12.0%
Other Income	122	109	12.0%	256	-52.2%
PBT	897	1,032	-13.0%	881	1.8%
Tax	112	280	-59.9%	237	-52.6%
PAT	790	756	4.5%	618	27.9%
Adjusted PAT	895	783	14.3%	662	35.2%
EBITDA Margin	9.2%	10.1%		8.1%	
Tax Incidence	12.5%	27.1%		26.8%	
PAT Margin	3.3%	3.4%		2.5%	

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