Stock Update

Better margin prospects ahead; Retain Buy

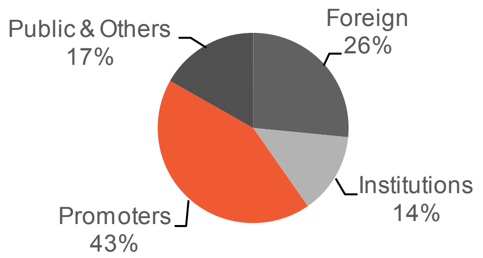
Arvind Ltd

Reco: Buy | CMP: Rs402

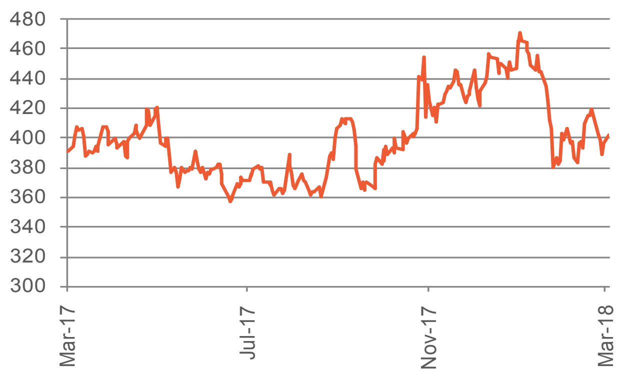
Company details

Price target:	Rs500
Market cap:	Rs10,396 cr
52-week high/low:	Rs479/353
NSE volume: (No of shares)	17.7 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	-2.4	-9.7	-4.4	-0.4
Relative to Sensex	-0.4	-9.9	-9.3	-14.6

Key points

- **Recent correction provides good entry opportunity; demerger to create value for investors:** Arvind's stock price has corrected ~12% in last 30 trading days (16% correction from its recent high) and is providing decent opportunity for investors to enter the stock. The company has planned to demerge its branded & retail (B&R) business (~Rs. 2,900 crore revenue with OPM of 5% in FY2017) and engineering business (Rs. 179 crore revenue with OPM of 30% in FY2017) in to separate entities to unlock value for its shareholders. Further, demerging of the company in separate entities (by September 2018) will help create value for the businesses by enhancing focus with separate leadership and defining strategies best for the business.
- **Textile business margins to improve gradually; B&R business margins to reach 8-9% by FY2020:** The company's textile business EBITDA margins are expected to improve 80-130 basis points (bps) in FY2019 to 14.5-15% (as against 13.7% in 9MFY2018) with cotton prices correcting from its high and rupee stabilising against dollar. During Q3FY2018, the company made marginal profit from Phase I of its Ethiopian garmenting unit while dispatches had started from its Hawasa plant (Phase II). Further, the impact of reduction in cotton seeds prices and the consequential impact on the production and prices would be minimal for the company's textile business in FY2020. On B&R front, the company targets 8-9% OPM (up by ~125-150 bps) over the next two years (as most brands are becoming profitable and better revenue mix and better operating leverage of *Unlimited* stores will kick in).
- **Strong and steady B&R business:** Demand environment in the domestic market has picked momentum and all brands are showing consistent strong performance. The Power brands have been growing steadily and most of the emerging brands (except one or two) are on the verge of becoming profitable by end of the current fiscal. For two emerging brands, including *GAP*, domestic sourcing has been implemented, which will in turn push revenue growth in the coming years. For *GAP*, the company is setting up 17 shop-in-shop stores through multi-brand retailers in the next six months and has a target of setting up 8-9 standalone stores annually. The company believes that FY2019 will be an

important year for *GAP's* performance. Also, its retail format under *Unlimited* has been performing very well and we believe that it has the potential to grow in high single-digits going ahead.

- **Retain Buy:** Sustained double-digit revenue growth and better margin in the B&R business will drive Arvind's consolidated performance in the near term. The engineering business under Anup Engineering has delivered robust performance in 9MFY2018 and the company is confident of completing FY2018 with 23-25% EBITDA margin. Setting up of manufacturing units under the textile business along with the focus on garmenting, knitted fabrics and technical textile will help the textile business achieve good performance in the coming years. However, we re-iterate our stance of value-unlocking for shareholders through demerger in separate entities. We maintain our Buy recommendation on the stock with unchanged price target of Rs. 500.
- **Risk:** Volatile currency or sharp increase in cotton prices would act as key risk to our earnings estimates in the near future.

Valuations (consolidated) **Rs cr**

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Total Operating Income	8010.6	9235.5	10603.1	12419.9	14800.4
Adjusted Profit After Tax after MI	314.8	332.7	317.1	617.9	856.6
OPM (%)	11.9	10.0	8.6	10.9	11.3
EPS (Rs.)	12.2	12.9	12.3	23.9	33.2
P/E (x)	33.0	31.2	32.8	16.8	12.1
EV/EBITDA	13.8	13.4	13.3	9.0	7.3
Debt/Equity(x)	1.5	0.9	0.8	0.6	0.5
RoNW (%)	11.7	10.7	8.6	15.1	18.1
RoCE (%)	8.3	7.2	6.8	10.7	12.9

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