

Arvind Ltd

Sector: Textile /Mid-Cap | Earnings Update – 1QFY19

BUY

9 August 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, TCP, Cherokee, GANT, Hanes, GAP, Wonderbra, Ed Hardy, Geoffrey Beene, Nautica etc. Company has a strong distribution network of 1,336 stores with a retail space of ~2.19mn sq.ft. (Brands: 1,201 stores with ~1.07mn sq.ft retail space & Unlimited: 99 stores with ~0.98mn sq.ft. retail space and Specialty Retail: 36 stores with 0.14mn sq.ft).

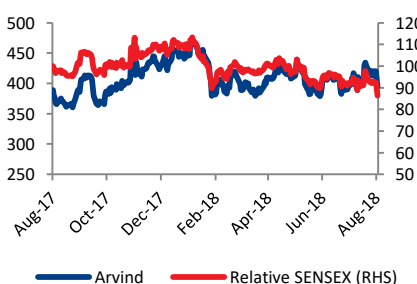
Sensex	38,027
Nifty	11,471
Price	INR 396
Target Price	INR 480
Recommendation	BUY
52 Week High/Low	INR 478/358
Bloomberg / Reuters	ARVND IN / ARVN.BO
Equity (shares in mn)	258.62
Mkt. Cap in bn	INR 102.4/\$ 1.49
Avg. Daily Vol. ('000)	1,758
Avg. Daily Vol. (mn)	INR 696.2/\$ 10.1

Shareholding	Jun 17	Mar 18	Jun 18
Promoters (%)	42.94	42.92	42.92
FII (%)	25.38	23.21	21.94
DII (%)	13.83	18.08	18.54
Others (%)	17.85	15.79	16.60
Pledge (% of promoter holding)	5.00	10.54	10.54

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	108.0	123.4	140.7
EBITDA	9.6	11.8	14.4
Adj PAT	3.1	4.2	5.8
Adj EPS	11.9	16.4	22.1
% growth	-1.7	37.8	34.7
PE	33.3	24.1	17.9
P/ BV	2.7	2.5	2.3
EV/EBITDA	13.2	11.6	9.4
EV/Sales	1.3	1.1	0.9
Div Yield (%)	0.6	0.9	1.1
ROE (%)	8.4	10.9	13.9

Performance %	1M	3M	12M
Arvind	-0.3	-5.9	3.6
Sensex	6.3	7.6	18.4



Margins below expectation

- Revenue up 10.3% YoY (-7.6% QoQ) at INR 28.6bn, in line with our estimate of INR 28.4bn. Textile revenue which accounts for 54.6% of the cons. revenue grew by 2% to INR 15.6bn. Brand and Retail business which accounts for 35.5% of the cons. revenue grew 14% YoY to INR 10.16bn. Engineering grew 54.3% YoY to INR 370mn. Advance material revenue grew 10.2% YoY to INR 1.28bn.
- In 4QFY18, Denim revenue de-grew by 15.3% YoY to INR 4.69bn (volume down 17.9% YoY), Woven revenue grew 9.7% YoY to INR 6bn (volume grew 17.2% YoY), Garments revenue grew 21.9% YoY to INR 3.4bn, Others (Voiles, knits & fabric retail) revenue grew by 3.4% YoY to INR 1.51bn.
- Brand & Retail (incl. TH & CK) revenue grew 13.8% YoY in 1QFY19 to INR 10.16bn. In 1QFY19, company has adapted IND AS 115 and changed revenue recognition principle from “transfer of risk & reward” to “transfer of control” and applied to principle retrospectively for comparison. Due to this revenue for 1QFY19 & 1QFY18 were higher by INR 1.05bn and INR 580mn respectively. Power brand revenue grew 14.7% YoY (adj. GST 18% YoY) to INR 5.6bn, Unlimited grew 19.4% YoY to INR 2bn and other brands were flat at INR 2bn. On SSS basis, B&R de-grew 5.8% YoY due to advancement of EOSS in base quarter.
- EBITDA at INR 2.46bn, up 17.7% YoY, is below our estimate of INR 2.64bn. EBITDA margin improved by 50bps YoY to 8.6%; textile margin declined by 240bps YoY owing to lower denim volume and reduced drawback rates. Brand and Retail margin increased by 190bps YoY to 3.7%. Power brand margin improved by 297bps YoY to 10.3%. Reported PAT grew by 11.3% YoY to INR 665mn. Adj. PAT grew by 12.7% YoY to INR 751mn.
- Management has guided for a revenue growth of ~10% for textile business led by 35%+ growth in garmenting; brand & retail business (20-24%) and Engineering business is expect to grow 10-12%. Management has guided for a flat margin in textile & Engineering business and 100bps improvement in the brand and retail business. Company expects demerger approvals in early 2QFY19.

Valuation: At CMP the stock is quoting at EV/EBITDA of 11.6X FY19E and 9.4X FY20E respectively. We rate Arvind as a **BUY** with a target price of INR 480 per share based on FY20E estimates, indicating an upside of 21.2%. **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 1QFY19

Y/E March (INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
Revenue	28,610	25,942	10.3%	30,950	-7.6%
EBITDA	2,463	2,092	17.7%	2,917	-15.5%
Depreciation	917	863	6.3%	964	-4.8%
Other Income	136	141	-3.1%	141	-3.5%
PBT	863	686	25.7%	1,412	-38.9%
Tax	222	135	64.3%	262	-15.1%
PAT	665	597	11.3%	1,090	-39.0%
Adjusted PAT	751	666	12.7%	1,098	-31.6%
EBITDA Margin	8.6%	8.1%		9.4%	
Tax Incidence	25.8%	19.7%		18.5%	
PAT Margin	2.6%	2.6%		3.5%	

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