

Management Meet Update
Stock Details

Market cap (Rs mn)	:	77598
52-wk Hi/Lo (Rs)	:	479 / 289
Face Value (Rs)	:	10
3M Avg. daily vol (nos)	:	2,259,127
Shares o/s (mn)	:	259

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	108,261	118,735	135,018
Growth (%)	17.2	9.7	13.7
EBITDA	9,650	10,888	13,713
EBITDA margin (%)	8.9	9.2	10.2
PAT	3,158	3,771	5,735
EPS	12.2	14.6	22.2
EPS Growth (%)	(1)	19	52
Book value (Rs/share)	158	170	189
Dividend per share (Rs)	2.4	2.4	2.4
ROCE (%)	8.8	9.4	12.1
ROE (%)	8.1	8.9	12.4
P/E (x)	24.6	20.6	13.6
EV/EBITDA (x)	11.2	9.9	7.8
P/BV (x)	1.9	1.8	1.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

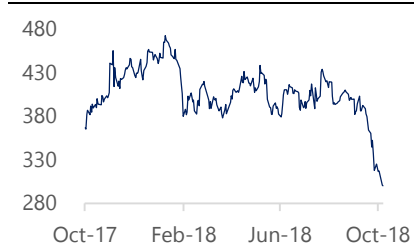
(%)	Jun-18	Mar-18	Dec-17
Promoter	42.9	42.9	42.9
FII	22.4	23.7	27.1
DII	18.6	18.1	13.8
Others	16.1	15.3	16.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Arvind Ltd	(23.9)	(24.7)	(26.4)
Nifty	(11.1)	(5.1)	(0.8)

Source: Bloomberg

Price chart (Rs)


Source: Bloomberg

ARVIND LTD
PRICE Rs.300
TARGET Rs.450
BUY

We recently met the management of Arvind Ltd. The company is positive on all major businesses textiles, Apparels and engineering business. The company expects to complete demerger of branded apparel business and engineering business in the near future. The company has maintained FY19 guidance for all its businesses.

Key Highlights

- The process of demerger of branded apparel business and engineering business is at final stage. The NCLT hearing process is completed and the final decision is reserved by the NCLT court. The company expects announcement of decision by NCLT court in the next hearing expected in the near future.
- Its verticalization strategy through expansion of garment manufacturing business is moving as per plan. It targets to achieve ~50% of garmenting from ~10% in FY18 in the next four to five years. In order to achieve this target, the company is increasing garment manufacturing capacity to 120 mn pcs per annum (~4x of current) in the next 4-5 years.
- The company is expecting strong growth in H2FY19 backed by all major festivals in the month of October and November 2019. The apparel business may grow at moderate rate of mid to low teen in Q2FY19 on weak Onam demand in southern India and major festival demand shifted to Q3FY19.
- The company is positive on improving margins of its branded apparel business based on improvement in operating leverage and all of its brands turning profitable on increased scale.
- The company has maintained guidance for 10% growth in textiles business with flattish margin, 20- 24% yoy growth in brand and retail business with 100 bps improvement in margins and 10-12% growth in engineering business with flattish margin.

Outlook & Valuation

We have revised our growth estimates for branded apparel and textiles business based on our assumption of relatively slower growth rate in H1FY19. We have assumed revenue CAGR of 17% in branded apparel business, 8.9% in textiles business and 17.5% in engineering business with EBITDA margin improvement of 200 bps in branded apparel business, 160 bps in textiles and 90 bps in engineering business in FY18-20E. Based on this, we cut our consolidated EPS estimates for FY19E and FY20E by 10.4% and 11.8% respectively. We maintain buy on the stock with revised SOTP based target price of Rs 450 (earlier Rs.500).

Risks & Concerns

- Major revision in license terms of foreign brands
- Lower export incentive
- Raw material or forex volatility

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Demerger process is at final stage

The process of demerger of branded apparel and engineering business is at final stage. The NCLT hearing process is completed and the decision is reserved by the NCLT court. The company is positive on announcement of decision by NCLT court in next hearing expected in the near future. Earlier, the company expected the demerger approvals in Q2FY19, but it got delayed by 1-2 months. Hence, the listing of demerged apparel and engineering businesses under name Arvind Fashions and Anup Engineering respectively is expected in the next two months.

Denim business facing stiff competition

In textile denim business, the business environment is highly competitive. The industry is facing over supply and also aggression in pricing and higher credit offered by some of the peers (who have surplus capacity) have impacted the volumes in the segment. The situation may continue for some time but the company is positive on its textiles business in the longer run as it produces quality products and looking to consume higher share of denim and fabrics internally based on its verticalization strategy. In Q1FY19, the textiles business grew at slower rate of 2% due to decline in fabric volume led by 15% yoy decline in denim segment, but the company is positive on H2FY19 from growth and margin perspective.

Following asset light model in textiles manufacturing

In textiles manufacturing business, the company is outsourcing capital intensive and low value added manufacturing process like spinning and weaving to dedicated job workers and is focusing only on low capital intensive and higher value added jobs (like dyeing, processing and garmenting in house). The company supplies raw material (like cotton) to dedicated jobworkers in order to have control over raw material and pays job working charges to them under long term agreement.

Expansion of garment business is progressing on expected line

The company has adopted verticalization strategy in order to move up in value chain by increasing focus on garmenting business. Presently, the company is utilizing ~10% of its inhouse fabric capacity for garmenting. It targets to achieve ~50% of garmenting in the next four to five years. In order to achieve this target, the company is increasing garment capacity to 120 mn pcs per annum (~4x of current) in the next 4-5 years. The company is expanding garment manufacturing business by setting up units in states like Jharkhand, AP and Gujarat where government is giving labour subsidy (upto 50% labour cost for initial 5 years) to encourage employment. This will save cost for the company particularly in the initial phase of expansion. It has also setup garmenting unit in Ethiopia where the labour cost is 50% lower and enjoys zero duty for exports to the US and Europe and helps in competing against Bangladesh and Sri Lanka. The company intends to invest Rs 15 bn in order to expand capacity in textiles and advance material businesses in next 3 years. This includes Rs 8 bn investment for expanding garment facilities (Rs 7 bn in India and Rs 1 bn in Ethiopia) ~Rs 2 bn in advance materials, ~Rs 1-1.5 in activewear, ~Rs 1 bn in specialized garment, etc.

Advance materials has huge growth potential

The company has reported strong performance in advance material which was earlier part of textiles and others segment. The segment is expected to grow at faster pace in the longer run and has potential to achieve Rs 15 bn revenue in next 4-5 years from Rs 4.8 bn in FY18. The company is catering to various segments under this division. This includes human protection products (such as

firefighting jackets, bullet proof jackets, etc), composite products for industries (such as railway coaches, automobile industry), belting for industries, etc.

Branded apparel to pick up pace in H2FY19 on festive demand

The company has witnessed 14% growth in apparel business in Q1FY19. The growth was impacted due certain one-offs related to GST and IndAS. On adjusted basis, the growth in the business was 18%. In Q2FY19, the segment is expected to grow at moderate rate of mid to low teen and is expected to be strong in H2FY19 particularly in Q3FY19 due to major festivals in the month of October and November 2019. In addition shift in festive seasons and weak demand in south during the Onam festivals may also affect growth in Q2FY19. The company management is positive on achieving its 20-24% revenue growth guidance for branded apparel business. The company's power brands Arrow, US Polo, Flying Machine, etc are doing well. In addition, GAP and Sephora are doing well. Its retail stores under brand name Unlimited is doing well with high teen growth rate in FY18 and is profitable. The company is positive on the apparel business and targets to achieve Rs 90 bn revenue in the next 4-5 years.

Positive on improving margins and cashflows in apparel business

The company is positive on improving margins in branded apparel business based on improvement in operating leverage and all of its brands turning profitable on increased scale. The company has guided for 20-24% growth in brands and retail business driven by growth across categories. The company expects 100 bps improvement in EBITDA margins every year in the next 2-3 years including FY19. It is focusing on improving working capital cycle with reduction in debtors which currently stands at 60 days. The company's focus on margins and reducing working capital will positively impact its cashflows.

Engineering business to achieve high growth in the longer run

The company has guided for 10-12% growth in revenue in engineering business with margins at similar level of ~20%. The soft growth guidance is based on current order book and near term pipeline. However, in Q1FY19 the company reported a high growth of 54% on a low base. In the long term, the company is positive on the business and targets to achieve Rs 10 bn revenue in the next 5-6 years. It has built up capability to manufacture critical process equipment and caters to marquee clientele in Oil and Gas, Petrochemicals, Fertilizers and Pharma sectors. The segment has grown at a CAGR of 25% in FY13-18 with high margins of 30% and RoCE of ~40%. It has net cash balance sheet and has been generating healthy cash flows.

FY19 guidance maintained

The company has maintained revenue guidance of 10% growth in textiles business backed by 35% growth in garment volume. The margins in textiles business is expected to be flattish in the range of 10-11%, with margins to improve in H2FY19 after a decline in H1FY19. The company has guided for 20-24% yoy growth in brand and retail business driven by Power Brands to maintain momentum, significant expansion planned for Unlimited and Innerwear business to grow at 50%+ on full year basis. The company expects 100 bps improvement in margins of brand and retail business despite increase in marketing investment by about 0.5%. Revenue growth guidance for engineering business is maintained at 10-12% with flattish margins.

Financials (Entity wise)

(Rs mn)	FY18	FY19E	FY20E
Revenue			
Textiles	67,500	72,117	79,402
Branded Apparel	38,520	44,441	52,831
Engineering	2,240	2,576	3,091
Revenue Growth (%)			
Textiles	9.6	6.8	10.1
Branded Apparel	32.9	15.4	18.9
Engineering	25.1	15.0	20.0
EBITDA			
Textiles	6,770	7,356	9,171
Branded Apparel	2,350	3,172	4,290
Engineering	540	618	773
EBITDA Margin (%)			
Textiles	10.0	10.2	11.6
Branded Apparel	6.1	7.1	8.1
Engineering	24.1	24.0	25.0
EBITDA Growth (%)			
Textiles	(17.3)	8.7	24.7
Branded Apparel	62.1	35.0	35.2
Engineering	0.0	14.5	25.0

Source: Company, Kotak Securities - Private Client Research

Outlook

We have revised our growth estimates for branded apparel (Arvind Fashions) and textiles business (Arvind) based on our assumption of slower growth rate in H1FY19. We have assumed revenue CAGR of 17% in branded apparel business, 8.9% CAGR in textiles business and 17.5% CAGR in engineering business (Anup Engineering) with EBITDA margin improvement of 200 bps in branded apparel business, 160 bps in textiles and 90 bps in engineering business in FY18-20E. Based on this, we cut on consolidated EPS for FY19E and FY20E by 10.4% and 11.8% respectively. We maintain buy on the stock with revised SOTP based target price of Rs 450 (earlier Rs.500). We have valued Textiles business at 8x, Apparel business at 15x (Vs 16x earlier, factoring in increased risk on achieving higher growth rates) and engineering business by 12x EV/EBITDA (Vs 13x earlier, factoring in increased risk to cyclicals).

SOTP valuation

Segment	Parameter	FY20E	Multiple	Value	Per Share
Textiles	EV/EBITDA	9171	8	73367	284
Apparels	EV/EBITDA	4290	15	64343	249
Engineering	EV/EBITDA	773	12	9274	36
Net Debt				30730	119
Value				116254	450

Source: Kotak Securities - Private Client Research

Change in estimates

Particulars (Rs Mn)	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	1,21,495	1,39,008	1,18,735	1,35,018	-2.3	-2.9
EBITDA	11,464	14,723	10,888	13,713	-5.0	-6.9
EBITDA margin (%)	9.4	10.6	9.2	10.2	-20 bps	-40 bps
PAT	4,211	6,506	3,771	5,735	-10.4	-11.8
EPS (Rs)	16.3	25.2	14.6	22.2	-10.4	-11.8

Source: Kotak Securities - Private Client Research

Company background

Arvind Ltd, founded in 1931 by Lalbhai family, is a leading textiles company with interest in Textiles, Branded Apparel and Accessories, Engineering, etc. The company manufactures and sells about 300 million meters (mn mtr) of fabrics and over 30 mn pieces of garments (FY18). In branded apparels business, the company's own brands such as Flying Machine, Colt, Ruggers and Excalibur, etc. It also has a portfolio of licensed brands which includes US Polo Association, Arrow, Tommy Hilfiger (TH), Gap, Calvin Klein (CK), Hanes, Gant, Nautica, Izod, Ed Hardy, Elle, Cherokee, The Children's Place, Aeropostale, etc. It also owns the value chain 'Unlimited' and is the franchise partner of the world's largest beauty retailer 'Sephora'. In engineering business, it designs and manufactures critical process equipment for petrochemical, fertilizer, power and other process industries.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	92,355	108,261	118,735	135,018
% change yoy	15.3	17.2	9.7	13.7
Raw Materials	42,094	52,738	57,127	64,962
Employees expenses	10,963	12,647	13,912	15,303
Other Expenses	29,893	33,227	36,808	41,040
Total Expenditure	82,950	98,612	107,847	121,305
EBITDA	9,406	9,650	10,888	13,713
% change yoy	(1.0)	2.6	12.8	26.0
Depreciation	2,943	3,593	3,976	4,327
EBIT	6,463	6,056	6,912	9,386
Other Income	780	626	726	826
Interest	2,884	2,579	2,723	2,723
Profit Before Tax	4,197	3,904	4,942	7,516
% change yoy	(4.8)	(7.0)	26.6	52.1
Tax	997	746	1,171	1,781
as % of EBT	23.7	19.1	23.7	23.7
PAT	3,201	3,158	3,771	5,735
% change yoy	1.2	(1.3)	19.4	52.1
Shares outstanding (mn)	258	259	259	259
EPS (Rs)	12.4	12.2	14.6	22.2
DPS (Rs)	2.4	2.4	2.4	2.4
CEPS (Rs)	23.8	26.1	30.0	38.9
BVPS (Rs)	143.8	158.1	169.8	189.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	4,197	3,904	4,942	7,516
Depreciation	2,971	3,593	3,976	4,327
Change in WC	(3,137)	(4,141)	(1,930)	(4,309)
Other operating activities	1,404	1,833	1,552	942
Operating Cash Flow	5,435	5,189	8,540	8,476
Capex	(4,426)	(5,509)	(4,500)	(4,500)
Free Cash Flow	854	(320)	4,040	3,976
Change in Investments	4,720	-	-	-
Investment cash flow	294	(5,509)	(4,500)	(4,500)
Equity Raised	6,347	3	-	-
Debt Raised/Repaid	(8,536)	2,384	-	-
Dividend	(740)	(726)	(726)	(726)
Interest & Others	(2,885)	(1,156)	(2,723)	(2,723)
CF from Financing	(5,815)	505	(3,449)	(3,449)
Change in Cash	(86)	185	591	527
Opening Cash	296	209	395	985
Closing Cash	209	395	985	1,512

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Equity	37,184	40,881	43,926	48,935
Equity Share Capital	2,584	2,586	2,586	2,586
Other Equity	33,086	35,242	38,287	43,296
Liabilities	49,496	61,703	59,119	62,661
Non-current liabilities	10,207	10,655	10,655	10,655
Financial Liabilities	8,016	8,927	8,927	8,927
Provisions	407	618	618	618
Other non-current liabilities	355	402	402	402
Current liabilities	39,289	51,048	48,464	52,006
Financial Liabilities	37,892	48,800	45,998	49,202
Provisions	168	258	283	322
Other current liabilities	1,229	1,990	2,183	2,482
Total Equities & Liabilities	86,680	102,584	103,045	111,595
Non-current assets	45,846	47,190	47,845	48,154
Property, Plant and Equipmt	34,801	36,255	36,779	36,952
Capital work-in-progress	497	897	897	897
Goodwill, intangible & Others	2,381	3,632	3,632	3,632
Invt & other financial assets	5,183	3,392	3,522	3,659
Deferred Tax Assets (Net)	2,242	2,205	2,205	2,205
Other non-current tax assets (Net)	742	808	808	808
Current assets	40,834	55,394	55,200	63,441
Inventories	23,828	26,194	28,728	33,292
Financial Assets	12,622	22,220	24,678	28,109
Receivable	7,948	17,670	19,379	22,037
Cash & Bank Balance	209	395	985	1,512
Others	4,465	4,156	4,314	4,560
Other current assets	4,384	6,980	1,794	2,040
Total Assets	86,680	102,584	103,045	111,595

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	10.2	8.9	9.2	10.2
EBIT margin (%)	7.0	5.6	5.8	7.0
Net profit margin (%)	3.5	2.9	3.2	4.2
Adjusted EPS growth (%)	1.2	(1.3)	19.4	52.1
Balance Sheet Ratios				
Receivables (days)	31	60	60	60
Inventory (days)	94	88	88	90
Payable (days)	56	72	56	56
Working capital (days)	97	105	102	103
Asset Turnover	2.0	2.2	2.2	2.4
Net Debt/ Equity	0.7	0.8	0.7	0.6
Return Ratios				
RoCE (%)	10.2	8.8	9.4	12.1
RoE (%)	10.0	8.1	8.9	12.4
Valuation Ratios				
P/E (x)	24.3	24.6	20.6	13.6
P/BV (x)	2.1	1.9	1.8	1.6
EV/EBITDA (x)	11.2	11.2	9.9	7.8
EV/Sales (x)	1.1	1.0	0.9	0.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	– We expect the stock to deliver negative returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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