

Stock Update

Textile business to remain under stress

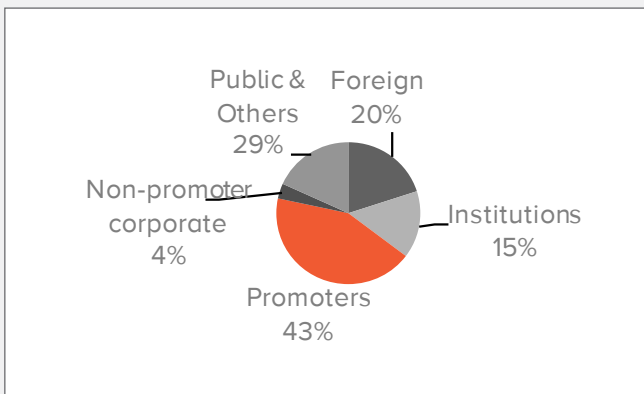
Arvind Limited

Reco: Hold | CMP: Rs74

Company details

| | |
|----------------------------|------------|
| Price target: | Rs95 |
| Market cap: | Rs1914 cr |
| 52-week high/low: | Rs154 / 70 |
| NSE volume: (No of shares) | 44.4 lakh |
| BSE code: | 500101 |
| NSE code: | ARVIND |
| Sharekhan code: | ARVIND |
| Free float: (No of shares) | 14.7 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-------|-------|-------|-------|
| Absolute | -20.2 | -7.1 | -36.0 | -51.4 |
| Relative to Sensex | -16.2 | -11.1 | -39.4 | -54.6 |

Key points

- Under pressure denim business affected top-line; OPM rose y-o-y:** For Q4FY2019, Arvind Limited's revenue came in flat at Rs. 1,859 crore as compared to Rs. 1,843 crore in Q4FY2018. (in line with our estimates) because of a decline in the revenue of the textile business (that contributes 80% of revenue) due to a dip in denim volumes. Revenue includes Rs. 54 crore from the sale of raw materials to ancillary units for conversion, which is bought back; excluding which textile revenue would be lower by 7% y-o-y. On the other hand, the advanced materials (that fetch ~10% of revenue) business grew by 52% y-o-y during the quarter. Gross margin expanded by 474 bps y-o-y due to a 9% reduction in raw material costs. Operating margin (OPM) improved by 34 bps y-o-y to 9.9% mainly driven by better performance of advanced materials and operating efficiencies. Operating profit grew by 5% y-o-y to Rs. 183.6 crore. Despite higher finance cost, adjusted PAT before exceptional items grew by 5.8% to Rs. 70.3 crore due to lower incidence of tax that dropped by ~56%. The reported PAT came in at Rs. 66.7 crore.
- Textile continues to perform weakly; the advance materials business shines:** The textile business saw revenues decline by 3.3% to Rs. 1,484 crore. Within the textiles business, denim segment revenue fell by 6% to Rs. 444 crore due to softer demand and decline in exports leading to lower volumes (down by 4 million meters). Revenue from woven segment grew by 7% y-o-y to Rs. 608 crore, while revenue from garments segment grew by 4% y-o-y to Rs. 350 crore. Operating margin of the textile business fell from 13.1% in Q4FY2018 to 10.5% in Q4FY2019 due to lower sales volume, higher pre-operative costs in new manufacturing plants and the write-off in Arvind Stores as the company decided to convert all the retail stores to franchisee operations. Performance of the advanced material business was robust, with revenues rising by 52% y-o-y to Rs. 198 crore. EBITDA for this business came in at Rs. 25 crore in Q4FY2019 as against loss of Rs. 9 crore in Q4FY2018 because of operating leverage as

the mature part of portfolio has started scaling along with improved realisation from higher value-added products.

- ◆ **Outlook: Revenue to grow in single digits; OPM to remain slightly low:** Revenue performance was muted in FY2019 mainly on account of lower volumes in the denim business that was affected due to inventory corrections done by some export customers. Further, margins were flat y-o-y owing to lower sales volume in the textile business and volatile cotton prices. Denim volumes are expected to remain under pressure for another 6-9 months, which will continue to put pressure on the textile business. Volumes for the woven segment are expected to increase by 3-5% and the garments segment is expected to grow in high double digits, driven by capacity enhancement. The advanced materials business is expected to grow in double-digits in the next two years. Overall, we expect revenue to grow by 6.5% in FY2020 (the management has guided for topline growth of 7-8%). OPM would remain under stress in H1FY2020 due to losses in new garment facilities on lower efficiencies

and muted sales volumes in the textile business. However, profitability is expected to improve in H2FY2020 on account of higher sales volume in the garmenting business. Overall, OPM is expected to remain flat or marginally decline in the FY2020. The company intends to incur a capex of Rs. 375-425 crore in FY2020 for enhancing capacity in the garmenting business. The capex will be funded largely through internal accruals as cash flows are expected to improve on the back of better working capital management.

- ◆ **Maintain Hold with an unchanged PT of Rs. 95:** We have marginally reduced our earnings estimates for FY2020 to factor in lower volumes in the textile business but broadly maintain the estimates for FY2021. Revenue and PAT are expected to clock a CAGR of 8% each over FY2019-21. We maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 95. Any significant improvement in margins from current levels would be a key re-rating trigger for the stock.

Valuation (Consolidated)

| Particulars | Rs cr | | | |
|------------------|--------|--------|--------|--------|
| | FY18 | FY19 | FY20E | FY21E |
| Revenue | 6793.7 | 7142.2 | 7608.1 | 8271.5 |
| Operating Profit | 674.1 | 716.7 | 741.8 | 827.2 |
| OPM (%) | 9.9 | 10.0 | 9.8 | 10.0 |
| Adjusted PAT | 288.6 | 265.8 | 272.3 | 308.3 |
| EPS (Rs.) | 10.5 | 8.9 | 10.5 | 11.9 |
| P/E(x) | 6.6 | 7.2 | 7.0 | 6.2 |
| EV/EBITDA (x) | 5.9 | 5.5 | 5.5 | 5.1 |
| RoE (%) | 22.5 | 10.0 | 9.5 | 10.0 |
| RoCE (%) | 21.0 | 10.7 | 10.4 | 10.7 |

Result (with demerger - Consolidated)

| Particulars | Rs cr | | | | |
|---------------------------------|---------------|---------------|-------------|---------------|-------------|
| | Q4FY19 | Q4FY18 | YoY (%) | Q3FY19 | QoQ (%) |
| Total revenues | 1859.4 | 1842.8 | 0.9 | 1680.3 | 10.7 |
| Raw material cost | 832.4 | 912.3 | -8.8 | 807.1 | 3.1 |
| Employee cost | 214.5 | 216.6 | -1.0 | 219.5 | -2.3 |
| Other expenses | 628.9 | 538.3 | 16.8 | 504.0 | 24.8 |
| Total operating cost | 1675.8 | 1667.2 | 0.5 | 1530.6 | 9.5 |
| Operating profit | 183.6 | 175.7 | 4.5 | 149.6 | 22.7 |
| Other income | 19.6 | 20.2 | -2.7 | 26.6 | -26.2 |
| Interest & other financial cost | 61.4 | 47.9 | 28.2 | 56.1 | 9.5 |
| Depreciation | 62.8 | 60.8 | 3.2 | 58.3 | 7.6 |
| Profit before tax | 79.1 | 87.1 | -9.3 | 61.8 | 27.9 |
| Tax | 9.2 | 21.2 | -56.8 | 5.8 | 57.4 |
| Adjusted PAT after tax | 69.9 | 65.9 | 6.1 | 56.0 | 24.9 |
| Extraordinary item | 3.6 | 0.6 | 455.0 | 15.6 | -77.2 |
| Minority Interest (MI) | 0.3 | 0.5 | -24.4 | 0.2 | 70.0 |
| Reported PAT | 66.7 | 65.7 | 1.5 | 40.6 | 64.3 |
| Adj. EPS (Rs) | 2.70 | 2.55 | 6.1 | 2.17 | 24.9 |
| | | | bps | | bps |
| GPM (%) | 55.2 | 50.5 | 474 | 52.0 | 327 |
| OPM (%) | 9.9 | 9.5 | 34 | 8.9 | 97 |

Source: Company

Segmental Revenue

| Particulars | Rs cr | | |
|-------------------|--------|--------|-----------|
| | Q4FY19 | Q4FY18 | Y-o-Y (%) |
| Textiles | 1484 | 1535 | -3.3 |
| Advanced Material | 198 | 130 | 52.3 |
| Others | 179 | 181 | -1.1 |

Source: Company

Segmental EBITDA

| Particulars | Rs cr | | |
|-------------------|--------|--------|-----------|
| | Q4FY19 | Q4FY18 | Y-o-Y (%) |
| Textiles | 156 | 201 | -22.4 |
| Advanced Material | 25 | -9 | - |
| Others | 19 | 12 | 58.3 |

Source: Company

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