



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Q1FY19 Result Update@ Dalal&Broacha

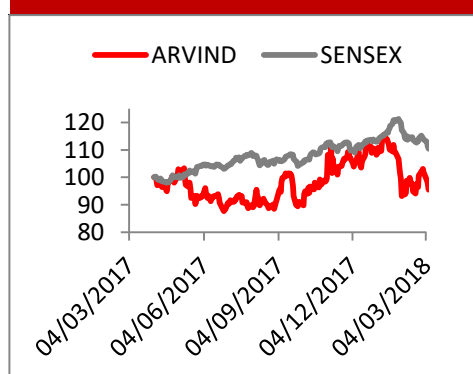
### BUY

Current Price	420
Target Price	549
Upside	31%
52 Week Range	358/477

### Key Share Data

Market Cap (Rs.bn)	104.5
Market Cap (US\$ bn)	1.6
No of o/s shares (mn)	258.6
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	773
BSE Code	500101
NSE Code	ARVIND
Bloomberg	ARVIND IN

### Price performance



### % Shareholding

	Mar-18	Dec-17
Promoters	42.92	42.92
Public	41.29	40.33
Others	15.79	16.73
<b>Total</b>	<b>100</b>	<b>100</b>

### Q1FY19 performance in-line with estimates, driven by B&R segment

-Arvind reported 10% yoy increase in topline to Rs28.6bn (est. Rs26.6bn). Textile segment grew 2% yoy and B&R grew 14%yoy.

- EBITDA increased 18% yoy to Rs2.5bn (est. Rs2.4bn). EBITDA margin improved by 50bps to 8.6%.

-PAT improved by 19% yoy to 69cr (est. Rs64cr)

### Other highlights

**Textile: de-growth in denim, garments grew 20%yoy:** Topline improved by 2% yoy. Sales of denim declined 15% yoy due to high base of Q1FY18 on pre-GST buying. Wovens sales increased 10% yoy and garments volume increased 20% yoy to 7.9mn garments. Reduced drawback rates, high RM cost and weak denim volumes impacted EBITDA margin by 240bp for textile division. Margin gone down from 14.3% to 11.9%.

**B&R: Growth driven by power brands and Unlimited:** B&R segment reported 14% yoy growth (18% adjusted for GST). Power brands grew 16% yoy while Unlimited grew 20% yoy. Other brands's sales remained flat. B&R reported LTL de-growth of 4.8% yoy due to high base of Q1FY18 on the back of pre-buying of GST and EOSS. However, for July 18 Arvind reported 10% yoy LTL growth. US Polo innerwear doubled sales during the quarter and expected to grow to Rs1.5bn in FY19E. EBITDA margin for B&R segment improved from 1.8% to 3.7% yoy. EBITDA % for power brands increased by 170bps to 10.5%. Advertising spend has gone up by 25% yoy.

**Other segments:** Engineering segment reported 54% yoy topline growth and 39% increase in EBITDA. EBITDA % increased from 19.8% to 21.9%. Advance material segment reported 10% yoy increase in topline. The segment turned profitable at EBIT level reporting EBIT of Rs5.6 as against loss of Rs1.1cr in Q1FY18. Other segments like Arvind Internet 197% yoy topline growth and turned profitable reporting EBIT of Rs2cr.

### Outlook:

**Textile:** Management is confident of improving sales by 10% yoy during FY19E. The company has expanded its garment facility and benefit is likely to be seen in H2. Margin for the segment is likely to be maintain at 14-15%.

**B&R:** Power brands are likely to grow at a CAGR of 15-18%. Amongst other brands- Aeropostale, GAP and Sephora are focus brands for the company. These brands are likely to grow higher double digit. Unlimited is likely to continue to post higher double digit growth. With ramp-up in sales margin for the division is likely to improve. Therefore, B&R segment is likely to post 20-24% topline CAGR. Overall dealer network has been increased from 3500 to 5000 dealers. The company has 300stores under US Polo and opening 15-20 stores p.a.

**Other segments:** Online sales are picking up and have posted 150% yoy growth. Other segments like engineering and advanced materials are likely to grow double digit.

**Debt:** Arvind has maintained its debt level at Rs34.5bn. The company is likely to incur capex of Rs15bn in textile division over next three years and Rs1.5bn in B&R segment p.a. As capex will be funded through internal accruals management is confident of maintaining debt at current level.

**Valuation:** Textile segment is likely to deliver 12% CAGR topline growth over FY18-20E and 22% CAGR bottom line growth. We value Arvind's textile business at 7x FY20E EV/EBITDA and brands and retail segment at 20x FY20E EV/EBITDA. Engineering segment is valued at 10x FY20E EV/EBITDA. Thus, we arrive at target price of Rs549. We recommend 'BUY'.

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%
FY16	80,105.7	2.0	9,498.0	11.9%	3,142.6	(7.9)	12.2	32.8	12%
FY17	92,355.4	15.3	9,405.7	10.2%	3,138.4	(0.1)	12.1	32.9	10%
FY18	108,887.5	17.9	10,275.8	9.4%	3,711.8	18.3	14.4	27.8	10%
FY19E	120,423.2	10.6	12,058.1	10.0%	4,319.2	16.4	16.7	23.9	11%
FY20E	139,841.7	16.1	14,371.0	10.3%	5,613.6	30.0	21.7	18.4	12%



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### Arvind Ltd. Q1FY19 Result Highlights

Particulars (Rs Mn)	Q1FY19	Q1FY18	Y-o-Y%	Q4FY18	Q-o-Q %
<b>Net Sales</b>	28,609.6	25,942.1	<b>10%</b>	30,949.8	<b>-8%</b>
<b>Expenses</b>					
Cost of Materials Consumed	14,850.3	8,526.7	<b>74%</b>	13,661.1	
Changes in inventory of FG	(1,337.9)	2,807.1	<b>-148%</b>	1,566.5	
Total Raw Material Cost	13,512.4	11,333.8	<b>19%</b>	15,227.6	<b>-11%</b>
Gross Profit	15,097.2	14,608.3	<b>3%</b>	15,722.2	<b>-4%</b>
Employee benefit Expense	3,430.2	3,101.6	<b>11%</b>	3,107.0	<b>10%</b>
Other Expenses	9,203.9	9,414.5	<b>-2%</b>	9,698.7	<b>-5%</b>
Total Expenses	26,146.5	23,849.9	<b>10%</b>	28,033.3	<b>-7%</b>
<b>EBITDA</b>	<b>2,463.1</b>	<b>2,092.2</b>	<b>18%</b>	<b>2,916.5</b>	<b>-16%</b>
Depreciation	917.2	863.2	<b>6%</b>	963.7	<b>-5%</b>
<b>EBIT</b>	<b>1,545.9</b>	<b>1,229.0</b>	<b>26%</b>	<b>1,952.8</b>	<b>-21%</b>
Finance Costs	733.2	614.2	<b>19%</b>	674.0	<b>9%</b>
PBT	<b>862.9</b>	<b>686.4</b>	<b>26%</b>	<b>1,489.1</b>	<b>-42%</b>
Tax Expense	222.3	135.3	<b>64%</b>	261.8	<b>-15%</b>
<b>PAT</b>	<b>640.6</b>	<b>551.1</b>	<b>16%</b>	<b>1,227.3</b>	<b>-48%</b>
<b>EPS</b>	2.5	2.2		4.8	
Segmental Performance	Q1FY19	Q1FY18	Y-o-Y%	Q4FY18	Q-o-Q %
<b>Segment Revenue</b>					
Textiles	15,614.7	15,261.0	<b>2%</b>	15,385.5	<b>1%</b>
Brand & Retail	10,163.7	8,926.1	<b>14%</b>	11,752.2	<b>-14%</b>
Advanced Material	1,274.2	1,163.0	<b>10%</b>	1,300.8	<b>-2%</b>
Engineering	368.3	243.3	<b>51%</b>	839.0	<b>-56%</b>
Others	1311.4	438	<b>199%</b>	1782.9	<b>-26%</b>
<b>EBIT</b>					
Textiles	1,425.7	1,815.2	<b>-21%</b>	1,519.3	<b>-6%</b>
Brand & Retail	40.8	(140.9)	<b>NM</b>	502.1	<b>NM</b>
Advanced Material	56.3	-11	<b>Nm</b>	-101.9	<b>NM</b>
Engineering	62.6	44.5	<b>41%</b>	251.7	<b>-75%</b>
Others	20.3	-230	<b>NM</b>	83.3	<b>NM</b>





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