



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

Analyst: Abhilasha Satale (022) 67141435

## Q2FY19 Result Update@ Dalal&Broacha

### BUY

Current Price	345
Target Price	438
Upside	27%
52 Week Range	358/477

### Key Share Data

Market Cap (Rs.bn)	86.52
Market Cap (US\$ bn)	1.2
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

### Q2FY19 performance in-line with estimates, driven by B&R (Brand & Retail) segment

-Arvind reported 12% yoy increase in topline to Rs14.9bn. Textile segment grew 6% yoy and B&R grew 13%yoy.  
- EBITDA increased 24% yoy to Rs. EBITDA margin improved by 110bps to 9.1%.  
-Interest up 10% yoy. PBT before exceptional items and discontinued operations +24% yoy.

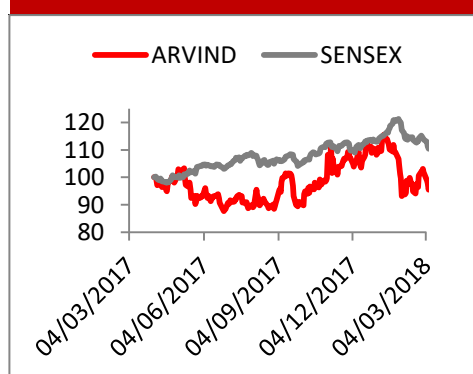
### Other highlights

**Textile: 3% increase in denim, garments grew 15%yoy:** Topline improved by 6% yoy. Sales of denim increased 3% yoy. Wovens sales increased 14% yoy and garments volume increased 15% yoy to 7.9mn garments. Reduced drawback rates, high RM cost and weak denim volumes impacted EBITDA margin by 70bp for textile division. Margin gone down from 13.1% to 12.4%.

**B&R: Growth driven by power brands and Unlimited:** B&R segment reported 13% yoy growth. Power brands grew 13% yoy while Unlimited grew 4% yoy. Unlimited growth remained tepid as company closed Megamart stores and entered new market like Punjab. Management expects growth to pick up to 20%.Other brands's sales increased 20% yoy. LTL was good in August while tepid in August and negative in September. As Diwali season is postponed management expects LTL to be around 12% for the season. EBITDA margin for B&R segment improved 60bps yoy to 6.2%. EBITDA % for power brands reduced by 30bps to 12.4%

**Other segments:** Other segments reported 160% yoy topline growth. Advance material segment reported 16% yoy increase in topline. Other segments reported EBIT of Rs133mn as against loss of Rs234mn. Advanced material segment topline improved by 16% yoy and EBIT improved from negative Rs30mn to Rs94.6mn yoy.

### Price performance



### Outlook:

**Textile( 48% of sales):** Management is confident of improving sales by 10% yoy during FY19E. Core textile division is likely to grow at 6% while advanced material division is likely to grow at better pace improving overall growth to 10% for the division.

**B&R (40% of sales):** 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 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% 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.

**Debt:** Arvind has maintained its debt level at Rs34.5bn. Company is likely to incur capex of Rs15bn in textile division over next three years and Rs1.5bn in B&R segment p.a.

**De-merger update:** A certified order for NCLT is expected in the first week of November. The demerger is likely to be effective by end-November. 29th November is likely to be the record date for allotment of shares of Arvind Fashions & Anveshan (name to be changed to Anup). Arvind Fashions & Anup is likely to be listed in early-February 2019. Arvind Ltd. will have textile and advance materials.

### % Shareholding

	Sep-18 <sup>1</sup>	Jun-18
Promoters	42.98	42.92
Public	18.68	40.33
Others	38.34	38.40
<b>Total</b>	<b>100</b>	<b>100</b>

**Valuation:** Textile segment is likely to deliver 10% CAGR topline growth over FY18-20E and 22% CAGR bottom line growth. We expect topline to grow at 13% CAGR and bottomline to grow at 24% CAGR over FY18-20E. At CMP the stock is trading at 24x FY19E and 17x FY20E earnings. EV/EBITDA is at 12x FY19E and 9x FY20E EV/EBITDA. We value Arvind's textile business at 6x FY20E EV/EBITDA and brands and retail segment at 18x FY20E EV/EBITDA.. Thus, we arrive at target price of Rs438. 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. Q2FY19 Result Highlights**

Particulars (Rs Mn)	Q2FY19	Q2FY18	Y-o-Y%	Q1FY19	Q-o-Q %
<b>Net Sales</b>	17,929.1	15,857.2	13%	18,096.2	-1%
<b>Expenses</b>					
Cost of Materials Consumed	8,406.2	7,808.2	8%	8,546.6	
Changes in inventory of	(549.1)	(494.1)	11%	(191.3)	
Total Raw Material Cost	7,857.1	7,314.1	7%	8,355.3	-6%
Gross Profit	10,072.0	8,543.1	18%	9,740.9	3%
Employee benefit Expense	2,327.5	2,255.9	3%	2,331.6	0%
Other Expenses	5,921.7	4,881.6	21%	5,397.6	10%
Total Expenses	16,106.3	14,451.6	11%	16,084.5	0%
<b>EBITDA</b>	<b>1,822.8</b>	<b>1,405.6</b>	<b>30%</b>	<b>2,011.7</b>	<b>-9%</b>
Depreciation	587.6	530.5	11%	551.9	6%
<b>EBIT</b>	<b>1,235.2</b>	<b>875.1</b>	<b>41%</b>	<b>1,459.8</b>	<b>-15%</b>
Finance Costs	538.8	418.7	29%	487.6	11%
PBT	792.7	645.6	23%	1,030.3	-23%
Tax Expense	233.9	161.0	45%	279.8	-16%
<b>PAT</b>	<b>558.8</b>	<b>484.6</b>	<b>15%</b>	<b>750.5</b>	<b>-26%</b>
<b>EPS</b>	<b>2.1</b>	<b>1.8</b>		<b>3.0</b>	
Segmental Performance	Q2FY19	Q2FY18	Y-o-Y%	Q1FY19	Q-o-Q %
<b>Segment Revenue</b>					
Textiles	14,897.3	13,977.2	7%	15,614.7	-5%
Brand & Retail	12,738.0	11,904.1	7%	10,163.7	25%
Advanced Material	1,451.0	1,247.7	16%	1,274.2	14%
Others	1693	649.1	161%	1311.4	29%
<b>EBIT</b>					
Textiles	1,352.4	1,481.8	-9%	1,425.7	-5%
Brand & Retail	605.7	492.6	23%	40.8	1385%
Advanced Material	94.6	-30.2	NM	56.3	NM
Others	133.2	-234.3	NM	20.3	NM



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P&L (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	68,621.2	78,514.0	80,105.7	92,355.4	108,887.5	120,423.2	139,841.7	Net Profit	3,512.1	3,341.4	3,127.9	3,243.7	3,150.2	3,712.2	4,976.7
Raw Materials	31,241.2	34,938.8	34,666.1	41,965.2	52,595.2	51,420.7	59,712.4	Add. Dep. & Amort	(2,252.1)	(2,123.5)	(2,391.3)	(2,942.7)	(3,593.4)	(3,417.8)	(3,735.5)
Employee Cost	6,793.2	8,022.8	8,980.9	10,962.6	12,647.4	-	-	Cash profits	1,260.0	1,217.9	736.6	301.0	(443.2)	294.4	1,241.1
Other Expenses	3,638.2	4,322.1	5,336.4	6,372.4	7,913.2	-	-	(Inc)/Dec in							
Operating Profit	9,107.3	10,128.5	9,498.0	9,405.7	10,277.0	11,239.7	13,558.3	-Sundry debtors	2,546.6	1,565.0	(3,976.6)	457.4	9,530.9	(4,802.7)	1,691.7
Depreciation	2,252.1	2,123.5	2,391.3	2,942.7	3,593.4	3,417.8	3,735.5	-Inventories	2,152.5	2,168.9	754.2	4,623.5	2,365.8	573.1	4,316.2
PBIT ( Excl O. Income)	6,855.2	8,005.0	7,106.7	6,463.0	6,683.6	7,821.9	9,822.7	-Loans/advances	2,855.8	1,318.6	(3,062.9)	(1,662.5)	17.4	411.6	470.0
Other income	694.0	932.0	820.5	780.0	-	800.0	800.0	-Current Liab and Provisions	(2,035.2)	(452.2)	2,046.7	(2,862.5)	(10,189.5)	7,087.6	(3,824.2)
Interest	3,312.0	3,946.0	3,586.3	2,884.1	2,578.5	3,318.7	3,513.2	Change in working capital							
PBT	4,237.2	4,991.0	4,340.9	4,368.9	4,105.1	5,303.2	7,109.5	CF from Oper. activities	5,031.1	3,441.5	(5,199.1)	3,042.9	2,325.1	2,021.0	2,890.5
Exceptionals	(164.0)	(543.3)	13.7	(180.6)	(227.2)	-	-	Capex	3,504.5	4,932.4	4,161.8	4,397.1	6,355.7	5,643.4	6,000.0
Profit before tax (post exceptional)	4,073.2	4,447.7	4,354.6	4,178.3	3,877.9	5,303.2	7,109.5	CF from Inv. activities	808.1	(707.8)	3,664.9	(1,479.4)	(639.4)	639.4	-
Provision for tax	547.7	1,071.5	1,245.2	996.8	727.7	1,591.0	2,132.9	CF from Fin. activities	(3,353.0)	(976.9)	4,147.7	2,407.6	2,096.4	(1,089.2)	904.8
Reported PAT	3,525.5	3,376.2	3,108.4	3,181.5	3,150.2	3,712.2	4,976.7	Cash generated/ utilised	609.6	3,073.7	20,485.5	5,751.6	8,153.7	6,422.2	8,625.8
MI	(13.4)	(34.8)	19.5	62.2	-	-	-	Cash at start of the year	1,548.7	1,663.3	833.2	609.1	538.8	654.9	499.8
Net Profit	3,512.1	3,341.4	3,127.9	3,243.7	3,150.2	3,712.2	4,976.7	Cash at end of the year	1,663.3	833.2	609.1	538.8	654.9	499.8	709.0
Adjusted Profit ( excl Exceptionals)	3,680.8	3,823.4	3,132.8	3,276.1	3,334.8	3,712.2	4,976.7								
Balance Sheet (Rs Mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity capital	2,581.7	2,582.4	2,582.4	2,583.6	2,586.2	2,586.2	2,586.2	OPM	13.3	12.9	11.9	10.2	9.4	9.3	9.7
Reserves	23,248.1	24,656.4	23,893.9	33,112.8	35,242.3	38,777.1	42,957.5	NPM	5.1	4.2	3.9	3.5	2.9	3.1	3.5
Net worth	25,829.8	27,238.8	26,476.3	35,696.4	37,828.5	41,363.3	45,543.7	Tax rate	13.4	24.1	28.6	23.9	18.8	30.0	30.0
MI	242.4	347.6	556.1	1,514.3	3,052.8	556.8	746.5	Growth Ratios (%)							
Non Current Liabilities	30,172.4	34,293.5	38,866.8	30,460.5	31,967.0	34,574.9	36,574.9	Net Sales	29.7	14.4	2	15.3	17.9	10.6	16.1
Current Liabilities	16,952.8	17,405.0	15,358.3	18,220.8	28,410.3	21,322.7	25,146.9	Operating Profit	0.3	11.2	(6.2)	(1.0)	9.3	9.4	20.6
CAPITAL EMPLOYED	73,197.4	79,284.9	81,257.5	85,892.0	101,258.6	97,817.7	108,012.0	PBIT	55.8	16.8	(11.2)	(9.1)	3.4	17.0	25.6
Non Current Assets	35,492.0	38,800.6	39,085.6	41,090.4	45,376.6	45,536.4	48,336.7	PAT	42.1	3.9	(18.1)	4.6	1.8	11.3	34.1
Fixed Assets	28,926.8	32,082.3	33,384.9	35,349.3	37,907.2	40,795.2	43,059.6	Per Share (Rs.)							
CWIP	1,346.7	1,000.1	1,468.0	968.0	1,182.4	500.0	500.0	Net Earnings (EPS)	13.6	12.9	12.1	12.6	12.2	14.4	19.2
Deferred Tax Asset	(434.9)	(470.8)	(675.2)	(816.6)	(707.5)	(816.6)	(816.6)	Cash Earnings (CPS)	4.9	4.7	2.9	1.2	(1.7)	1.1	4.8
Long Term Loans and Advances	5,599.6	6,104.1	31.8	27.7	25.7	-	-	Dividend	2.6	8.7	9.3	10.9	13.0	15.7	20.0
Other Non-current assets	53.8	84.9	4,876.1	5,572.0	6,988.8	5,057.8	5,593.7	Book Value	100.0	105.5	102.5	138.2	145.3	159.9	176.1
Current Assets	37,705.4	40,485.1	42,171.9	44,301.6	55,882.0	52,281.3	59,675.3	Free Cash Flow	(1.4)	(0.7)	33.0	1.7	1.3	4.8	6.7
Investments	1,293.3	585.5	5,450.2	3,964.5	2,476.4	3,115.8	3,115.8	Valuation Ratios							
Inventories	16,281.4	18,450.3	19,204.5	23,828.0	26,193.8	26,796.9	31,083.2	PE(x)	29.3	30.8	32.9	31.8	32.8	27.8	20.7
Trade Receivables	10,093.1	11,658.1	7,881.5	8,138.9	17,669.8	12,867.1	14,558.9	PIB(x)	4.0	3.8	3.9	2.9	2.7	2.5	2.3
Cash and Bank Balances	1,663.3	833.2	609.1	538.8	654.9	499.8	709.0	EWEDBTA(x)	11.8	10.8	11.6	11.8	10.9	10.0	8.3
Short Term Loans and Advances	5,025.0	6,343.6	3,280.7	1,618.2	1,635.6	2,047.2	2,517.2	Div. Yield(%)	0.7	2.2	2.3	2.7	3.3	3.9	5.0
Other Current Assets	3,349.3	2,614.4	5,945.9	6,713.2	7,251.5	6,984.5	7,691.3	FCF Yield(%)	(0.3)	(0.2)	8.3	0.4	0.3	1.2	1.7
CAPITAL DEPLOYED	73,197.4	79,285.7	81,257.5	85,892.0	101,258.6	97,817.7	108,012.0	Return Ratios (%)							
								ROE	16.9%	15.8%	12.1%	10.4%	9.0%	9.3%	11.3%
								ROCE	13.2%	11.9%	9.0%	8.1%	7.6%	8.0%	9.2%



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