

ARVIND

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	180
12 month price target (INR)	215
52 Week High/Low	195/77
Market cap (INR bn/USD bn)	49/0.6
Free float (%)	0.0
Avg. daily value traded (INR mn)	258.8

SHAREHOLDING PATTERN

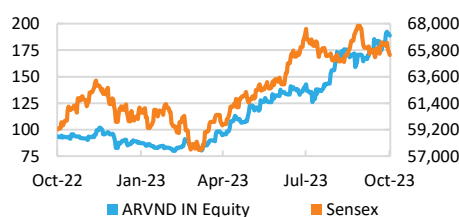
	Mar-23	Dec-22	Sep-22
Promoter	41.16%	41.25%	41.25%
FII	9.63%	11.14%	12.05%
DII	8.58%	9.08%	9.85%
Pledge	7.39%	7.39%	7.39%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	83,825	94,489	110,837	118,976
EBITDA	8,000	8,930	11,152	12,054
Adjusted profit	4,167	3,384	4,705	5,310
Diluted EPS (INR)	15.9	12.9	18.0	20.3
EPS growth (%)	71.9	(18.8)	39.0	12.9
RoAE (%)	13.2	9.6	12.0	12.0
P/E (x)	11.3	13.9	10.0	8.9
EV/EBITDA (x)	7.5	5.7	4.2	3.4
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Steady quarter; momentum to continue

Arvind's Q2FY24 EBITDA grew 2% YoY/14% QoQ to INR2bn (18% above consensus) led by strong AMD, partially offset by the textile segment.

Overall sales fell 11% YoY to INR19bn (+4% QoQ) led by a 17% YoY dip in textile (+3% QoQ), partially offset by 13% YoY/4% QoQ growth in AMD. AMD margin rose 335bp YoY/30bp QoQ on the back of high operating leverage. Demand revival is likely from H2 led by inventory correction bottoming out across key customers and upcoming festive season demand. The company is guiding for 20% revenue growth in AMD (for next two years each) and 10–12% overall revenue growth. Our estimates are unchanged, but TP rises 35% to INR215 on an uptick in target EV/EBITDA to 6x (from 5x) and rollover to Q2FY26E EBITDA.

Textile performance modest; sustained momentum in AMD segment

Textile revenue fell 17% YoY to INR15bn on account of price deflation in tandem with lower input costs. It, however, rose 3% QoQ led by improved volumes QoQ. woven/denim/garments volume grew 3%/2%/3% QoQ. Textile EBITDA margin edged up 45bp YoY/93bp QoQ on softening cotton prices. AMD revenue increased 13% YoY/47% QoQ to INR3.6bn led by 37%/14% YoY growth in composites/Human protection segment partially offset by a 7% YoY fall in the Industrial segment. AMD EBITDA margin improved 335bp YoY/30bp QoQ on high operating leverage. Margin expanded across portfolio amid low RM prices backed by 20% YoY volumes growth,

Demand to rebound from H2; operational leverage to drive margins

Green shoots are visible in export markets led by Inventory correction bottoming out among key export customer. Besides, the upcoming festival season is likely to give demand a push across domestic and export markets. Softening cotton prices and lower freight rates shall marginally aid textile margins in the near term. Management is focused on growing the AMD division, and guiding for 20% revenue growth each over the next couple of years while maintaining margins at ~15%. The company is targeting 7–8% revenue growth in the textile segment too. We bake in an overall revenue CAGR of 12% over FY23–26E and EBITDA margins of 9.5–10%.

Long-term debt reduction plan on track; maintain 'BUY'

Arvind reported OCF before WCI of INR5bn in H1FY24 (flat YoY). Overall, long-term debt reduction plan is on track. Long-term debt reduced by INR1.8bn to INR5bn in H1 from the March levels. Management has guided for INR6bn in capex over the next two years (INR2.4bn incurred), of which one-third is earmarked for AMD. We Keep estimates unchanged. We raise the target multiple to 6x EV/EBITDA from 5x on strong outlook and rollover to Q2FY26E EBITDA which lifts the TP by 35% to INR215.

Financials

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Net Revenue	19,217	21,698	(11.4)	18,533	3.7
EBITDA	2,059	2,018	2.1	1,803	14.2
Adjusted Profit	800	1,250	(36.0)	659	21.5
Diluted EPS (INR)	3.1	4.8	(36.0)	2.5	21.5

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	83,825	94,489	110,837	118,976
Gross profit	39,116	47,055	55,197	59,250
Employee costs	8,676	9,457	10,308	11,235
Other expenses	22,440	28,669	33,737	35,960
EBITDA	8,000	8,930	11,152	12,054
Depreciation	2,530	2,750	3,000	3,000
Less: Interest expense	1,642	1,658	1,658	1,658
Add: Other income	445	508	508	508
Profit before tax	4,285	5,051	7,022	7,925
Prov for tax	706	1,667	2,317	2,615
Less: Other adj	588	0	0	0
Reported profit	4,167	3,384	4,705	5,310
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,167	3,384	4,705	5,310
Diluted shares o/s	262	262	262	262
Adjusted diluted EPS	15.9	12.9	18.0	20.3
DPS (INR)	0	0	0	0
Tax rate (%)	16.5	33.0	33.0	33.0

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
Denim cap (mn mts)	54.0	54.0	64.8	75.6
Wovens cap (mn mts)	131.4	144.0	161.5	161.5
Denim util (%)	50.0	50.0	60.0	70.0
EBITDA margin (%)	9.5	9.5	10.1	10.1
Net profit margin (%)	5.0	3.6	4.2	4.5
Revenue growth (% YoY)	4.3	12.7	17.3	7.3
EBITDA growth (% YoY)	1.5	11.6	24.9	8.1
Adj. profit growth (%)	72.5	(18.8)	39.0	12.9

Assumptions (%)

Year to March	FY23A	FY24E	FY25E	FY26E
GDP (YoY %)	8.7	6.4	5.8	5.8
Repo rate (%)	4.0	6.0	5.5	5.5
USD/INR (average)	74.5	80.0	78.0	78.0
Wovens util (%)	73.0	80.0	85.0	85.0
Denim EBITDA (%)	10.0	11.7	11.7	11.7
Wovens EBITDA (%)	14.0	14.5	14.5	14.5
Garment EBITDA (%)	5.0	5.5	5.5	5.5

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	11.3	13.9	10.0	8.9
Price/BV (x)	1.4	1.3	1.1	1.0
EV/EBITDA (x)	7.5	5.7	4.2	3.4
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Share capital	2,615	2,615	2,615	2,615
Reserves	30,841	34,225	38,930	44,240
Shareholders funds	33,456	36,840	41,545	46,855
Minority interest	586	586	586	586
Borrowings	14,038	21,100	21,101	21,101
Trade payables	12,376	18,898	22,167	23,795
Other liabs & prov	5,608	6,309	7,383	7,918
Total liabilities	68,975	89,402	99,267	107,146
Net block	33,946	34,196	34,196	34,196
Intangible assets	332	332	332	332
Capital WIP	787	787	787	787
Total fixed assets	35,065	35,315	35,315	35,315
Non current inv	2,486	2,486	2,486	2,486
Cash/cash equivalent	770	17,116	21,111	26,066
Sundry debtors	9,659	10,888	12,771	13,709
Loans & advances	301	301	301	301
Other assets	20,695	23,297	27,284	29,269
Total assets	68,975	89,402	99,267	107,146

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	4,167	3,384	4,705	5,310
Add: Depreciation	2,530	2,750	3,000	3,000
Interest (net of tax)	1,232	1,243	1,243	1,243
Others	71	1,553	2,204	2,502
Less: Changes in WC	(625)	6,150	(711)	(354)
Operating cash flow	6,669	13,413	8,123	9,085
Less: Capex	(2,837)	(3,000)	(3,000)	(3,000)
Free cash flow	3,833	10,413	5,123	6,085

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	13.2	9.6	12.0	12.0
RoCE (%)	12.4	12.5	14.2	14.5
Inventory days	157	135	132	138
Receivable days	45	40	39	41
Payable days	140	120	135	140
Working cap (% sales)	14.9	9.6	9.6	9.6
Gross debt/equity (x)	0.4	0.6	0.5	0.4
Net debt/equity (x)	0.4	0.1	0	(0.1)
Interest coverage (x)	3.3	3.7	4.9	5.5

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	71.9	(18.8)	39.0	12.9
RoE (%)	13.2	9.6	12.0	12.0
EBITDA growth (%)	1.5	11.6	24.9	8.1
Payout ratio (%)	0	0	0	0

Exhibit 1: EBITDA up 2% YoY/14% QoQ on strong AMD, beats consensus by 18%

Arvind Ltd	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ	Consensus	Deviation (%)
Revenues (INR mn)	19,217	21,698	(11.4)	18,533	3.7	19,192	0.1
EBITDA (INR mn)	2,059	2,018	2.1	1,803	14.2	1,746	17.9
Adj. PAT (INR mn)	840	1,250	(32.8)	659	27.6	676	24.3
EBITDA margins (%)	10.7	9.3	141.6	9.7	98.5	9.1	161.8
PAT margins (%)	4.4	5.8	(139.0)	3.6	81.8	3.5	85.0

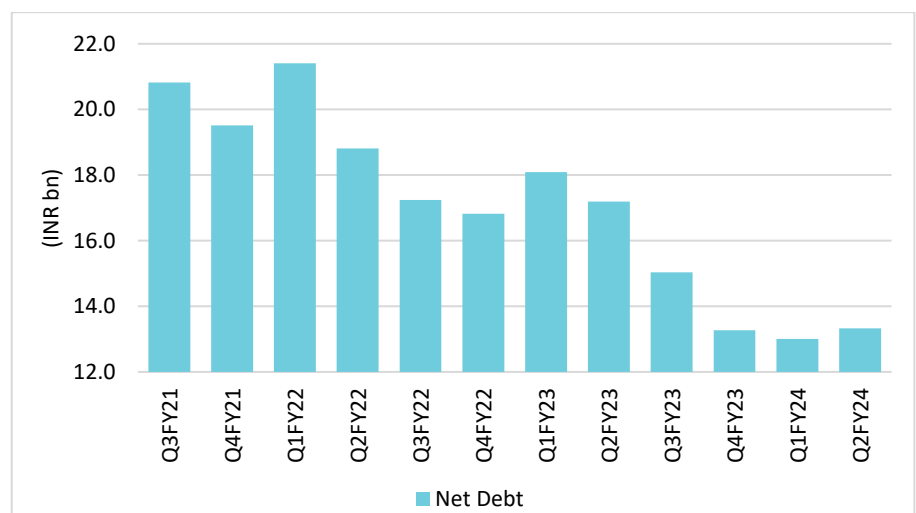
Source: Company, Nuvama Research

Exhibit 2: Key operational highlights

Segment highlights	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ
Revenue (INR mn)					
Textile	14,553	17,590	(17.3)	14,181	2.6
AMD	3,545	3,134	13.1	3,420	3.7
Others	1,353	1,161	16.5	1,147	17.9
EBITDA (INR mn)					
Textile	1,480	1,710	(13.5)	1,310	13.0
AMD	560	390	43.6	530	5.7
Others	20	40	NA	-40	NA
EBITDA Margins (%)					
Textile	10.2	9.7	44.8	9.2	93.2
AMD	15.8	12.4	335.4	15.5	29.8

Source: Company, Nuvama Research

Exhibit 3: Net debt inches up QoQ, LT gross debt down INR1.8bn versus March



Source: Company, Nuvama Research

Q2FY24 management call takeaways

Developments in the Garmenting segments

The management has indicated that the current demand environment is challenging and the company is yet to achieve 100% utilization. The company expects a single digit margins in the near term and double digit margins in the next few quarters. Further, the company has just kicked off its investment cycle to automate existing plants.

Anchor customers supporting the orderbook

The company operates across various segments 1) Denims 2) Knits 3) Woven and has ~3-4 anchor customers across segments.

Capacity utilization to improve going forward

The company currently has a 80% utilization in denims, a 75% utilization in garments excluding innerwear (producing 42Mn units) and almost 100% utilization in the woven segment (producing 130Mn units).

Capex to aid volumes

The company has plans for a capital expenditure of ~INR 6Bn. ~1/3rd of this would be in the AMD segment to ensure its strong growth momentum continues. Currently, the company has incurred ~INR 2.5Bn and is investing across all segments. Further, the company aims to expand the garments capacity to 60Mn (currently 40Mn), is also investing to enhance its capabilities in the woven segment and aims to grow vertically.

Demand outlook going ahead

The management indicated that the demand environment is improving but there is still pressure on demand. The pressure on demand is mainly on the mass market side and the premium segment of the marketing is doing well. The company has a wide customer mix across categories and geographies which will help soften the blow of the poor demand environment

Exhibit 4: Quarterly financial snapshot (consolidated)

Year to March (INR mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY24E	FY25E	FY26E
Net revenues	19,217	21,698	(11.4)	18,533	3.7	94,489	110,837	118,976
Direct costs	9,127	11,952	(23.6)	8,992	1.5	47,433	55,640	59,726
Employee expenses	2,443	2,047	19.3	2,382	2.5	9,457	10,308	11,235
Other expenses	5,589	5,681	(1.6)	5,355	4.4	28,669	33,737	35,960
EBIDTA	2,059	2,018	2.1	1,803	14.2	8,930	11,152	12,054
Depreciation & Amortisation	672	621	8.2	649	3.5	2,750	3,000	3,000
EBIT	1,387	1,397	(0.7)	1,154	20.2	6,180	8,152	9,054
Less: Interest Expense	387	423	(8.5)	365	6.1	1,658	1,658	1,658
Add: Other income	117	114	2.7	119	(1.1)	508	508	508
Add: Exceptional items	13	405	NM	10	21.2	-	-	-
Profit before Tax	1,130	1,493	(24.3)	918	23.1	5,031	7,002	7,905
Less: Provision for Tax	290	224	29.1	222	30.3	1,667	2,317	2,615
Add: Share of profit from associates	2	4		1		20	20	20
Less: Minority Interest	42	22	87.4	38	9.1	-	-	-
Reported Profit after minority	800	1,250	(36.0)	659	21.5	3,384	4,705	5,310
Adjusted Profit	788	845	(6.8)	648	21.5	3,384	4,705	5,310
No. of Diluted shares outstanding (mn)	261	261	-	261	-	262	262	262
Adjusted Diluted EPS	3.0	3.2	(6.8)	2.5	21.5	12.9	18.0	20.3
As % of net revenue								
Direct costs	47.5	55.1		48.5		50.2	50.2	50.2
Employee expenses	12.7	9.4		12.9		10.0	9.3	9.4
Other expenses	29.1	26.2		28.9		30.3	30.4	30.2
EBIDTA	10.7	9.3		9.7		9.5	10.1	10.1
Net profit	4.1	3.9		3.5		3.6	4.2	4.5
Tax rate	25.6	15.0		24.2		33.1	33.1	33.1

Source: Company, Nuvama Research

Company Description

Incorporated in 1931, Arvind Ltd, is the largest textile company in India and is a part of the Lalbhai group. Arvind was the pioneer in the denim space in India and entered the export market for Denims in 1987-88. Currently it is the leader in the denim manufacturing space and supplies to customers like GAP, Lee, Wrangler, Levi's etc. Apart from denim, the company has also emerged as a leading manufacturer in the woven space (with customers like Madura Garments, Marks & Spencers etc.) and is now enhancing its presence in the garmenting segment (which has customers like GAP, Tommy Hilfiger, Calvin Klein etc.).

Investment Theme

Mature textile business to provide base for growth: Arvind is the largest cotton textile manufacturer in India. With capacity of 108mn meters, it is one of the largest denim manufacturers globally. Similarly, it is the leader in the woven segment in India and is also scaling up garmenting capacities to forge an integrated business model. Along with calibrated capacity addition, the company is steadily focussing on value addition.

Key Risks

Raw materials, mainly cotton/cotton yarn, constitute ~45% of the company's overall cost base. Any significant increase in raw material prices (FY11 saw spike in cotton prices) can adversely impact Arvind's profitability

Additional Data

Management

MD & CEO	Sanjay S. Lalbhai
CFO	Jayesh Shah
Exec. Director	Punit Lalbhai
Exec. Director	Kulin Lalbhai
Auditor	Deloitte Haskins & Sells

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	4.65	LIC	1.56
AURA BUSINESS	3.02	ZEN	1.18
AML EMPLOYEES	2.44	FundRock	1.11
TT Internationa	1.68	Dimensional Fun	1.04
Atul Ltd	1.59	Acadian AMC	1.01

*Latest public data

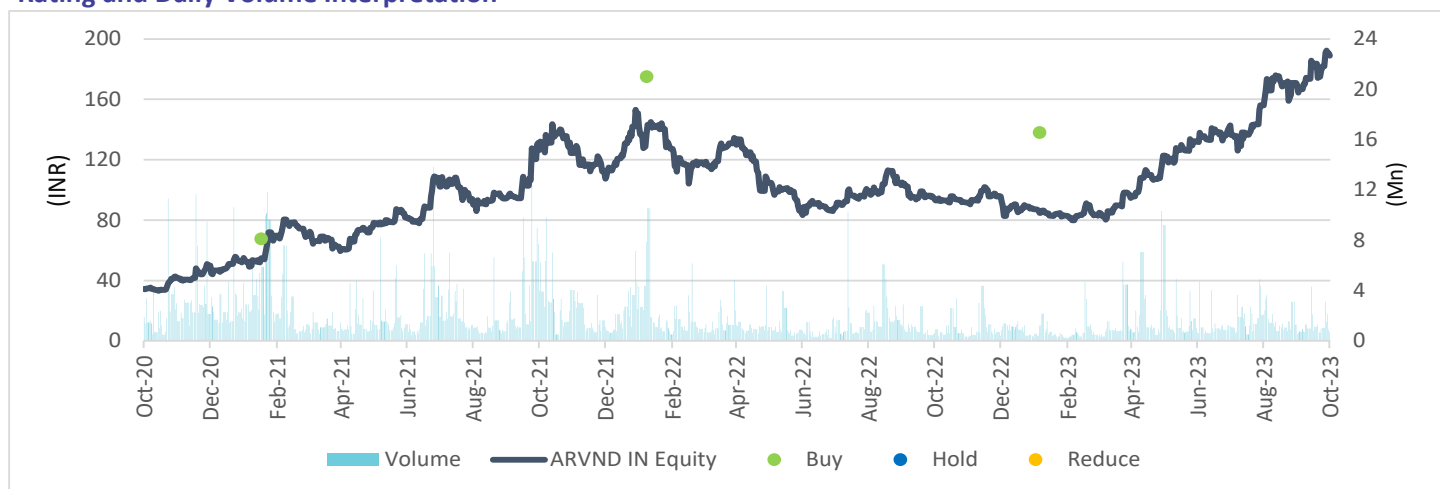
Recent Company Research

Date	Title	Price	Reco
27-Jul-23	Navigating uncertainties; <i>Result Update</i>	126	Buy
19-May-23	Holding on amid weak environment; <i>Result Update</i>	122	Buy
25-Jan-23	Holding on in a weak environment; <i>Result Update</i>	85	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
25-Oct-23	Welspun India	Record quarterly sales; margins intact; <i>Result Update</i>
31-Jul-23	Welspun India	Tables are turning; <i>Result Update</i>
27-Apr-23	Welspun India	Tell-tale green shoots ; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	206
Hold	<15% and >-5%	60
Reduce	<-5%	17

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