

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	313
12 month price target (INR)	350
52 Week High/Low	318/77
Market cap (INR bn/USD bn)	82/1.0
Free float (%)	0.0
Avg. daily value traded (INR mn)	429.6

SHAREHOLDING PATTERN

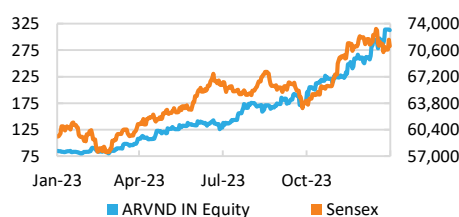
	Jan-00	Jan-00	Jan-00
Promoter	41.16%	41.25%	41.25%
FII	9.63%	11.14%	12.05%
DII	8.58%	9.08%	9.85%
Pledge	7.39%	7.39%	7.39%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	83,825	76,998	90,935	107,885
EBITDA	8,000	8,275	10,770	12,889
Adjusted profit	4,167	3,284	4,789	6,209
Diluted EPS (INR)	15.9	12.6	18.3	23.7
EPS growth (%)	71.9	(21.2)	45.8	29.7
RoAE (%)	13.2	9.4	12.2	13.9
P/E (x)	19.5	24.7	16.9	13.1
EV/EBITDA (x)	11.7	10.0	7.3	5.7
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Modest quarter; guidance intact

Arvind's Q3 EBITDA grew 16% YoY/5% QoQ to INR2bn (consensus miss 6%) on high volumes in woven/AMD partially offset by price deflation.

Highlights: i) Overall sales fell 5% YoY/2% QoQ to INR19bn due to an 8% YoY/2% QoQ dip in textile sales driven by price deflation partially offset by 5% YoY/ 12% QoQ growth in woven volumes. ii) While AMD sales are largely flat both YoY and QoQ at INR3.5bn, margin rose 150bp YoY on high operating leverage (-70bp QoQ). iii) Guidance: AMD revenue growth of 20% each for next two years and 10–12% overall revenue growth. We are hiking FY26E EBITDA by 7%, rolling over to FY26E and raising target EV/EBITDA to 7x from 6x given deleveraging. Our TP hence increases by 62% to INR350 (from INR215); retain 'BUY'.

Modest textiles; sustained momentum in AMD segment

Textile revenue fell 8% YoY/2% QoQ to INR14bn on account of price deflation in tandem with lower input costs. This was partially offset by 5% YoY/ 12% QoQ growth in woven volumes due to inventory restocking and new customer addition. While garment volumes stayed largely flat both YoY and QoQ, Denim volumes decreased 5% YoY/19% QoQ due to a seasonally weak quarter. Textile EBITDA margin, however, inched up 140bp YoY/ 79bp QoQ on better operational efficiency and customer mix. AMD revenue is largely flat YoY/QoQ at INR3.5bn led by 10–30% price deflation despite 20% volume uptick across segments. AMD EBITDA margin however rose 150bp YoY (-70bp QoQ) on high operating leverage and low input prices.

Cautiously optimistic demand; margin guidance in-tact

Management indicated that demand is improving on a soft base, albeit caution prevails. While cotton prices are likely to remain range-bound and higher container shipping cost (Red Sea disruption) shall likely weigh on margins in the near term. Management is focused on growing the AMD division and guided for 20% revenue growth for the next couple of years while maintaining margins at ~15%. They also guided for a 10–12% EBITDA margin in the textile division. We are baking in a 10% CAGR in overall revenue growth over FY23–26E with EBITDA margins of 11–12%.

Long-term debt reduction plan continues; maintain 'BUY'

Overall, long-term debt reduction plans are on track. Arvind paid down long-term debt by INR2bn to INR4bn in Q3 from March levels. It guided for INR6bn in capex over the next two years (INR2.4bn incurred), of which one-third shall be incurred across AMD. We are raising FY26E EBITDA by 7% and the target EV/EBITDA to 7x (from 6x) given a deleveraging balance sheet. Rolling over valuation to FY26E EBITDA and net debt to FY25E lifts the TP by 62% to INR350 (from INR215); retain 'BUY'.

Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	18,882	19,798	(4.6)	19,217	(1.7)
EBITDA	2,161	1,861	16.1	2,059	5.0
Adjusted Profit	917	841	9.0	800	14.6
Diluted EPS (INR)	3.5	3.2	9.0	3.1	14.6

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	83,825	76,998	90,935	107,885
Gross profit	39,116	38,345	45,286	53,727
Employee costs	8,676	9,457	10,308	11,235
Other expenses	22,440	20,614	24,208	29,602
EBITDA	8,000	8,275	10,770	12,889
Depreciation	2,530	2,750	3,000	3,000
Less: Interest expense	1,642	1,151	1,151	1,151
Add: Other income	445	508	508	508
Profit before tax	4,285	4,902	7,147	9,267
Prov for tax	706	1,618	2,359	3,058
Less: Other adj	588	0	0	0
Reported profit	4,167	3,284	4,789	6,209
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,167	3,284	4,789	6,209
Diluted shares o/s	262	262	262	262
Adjusted diluted EPS	15.9	12.6	18.3	23.7
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	59.4	70.2
Wovens cap (mn mts)	131.4	126.0	133.0	142.5
Denim util (%)	50.0	50.0	55.0	65.0
EBITDA margin (%)	9.5	10.7	11.8	11.9
Net profit margin (%)	5.0	4.3	5.3	5.8
Revenue growth (% YoY)	4.3	(8.1)	18.1	18.6
EBITDA growth (% YoY)	1.5	3.4	30.2	19.7
Adj. profit growth (%)	72.5	(21.2)	45.8	29.7

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	70.0	70.0	75.0
Denim EBITDA (%)	10.0	14.0	18.0	18.0
Wovens EBITDA (%)	14.0	15.0	15.0	15.7
Garment EBITDA (%)	5.0	5.5	6.0	6.0

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	19.5	24.7	16.9	13.1
Price/BV (x)	2.4	2.2	2.0	1.7
EV/EBITDA (x)	11.7	10.0	7.3	5.7
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	34,126	38,915	45,123
Shareholders funds	33,456	36,741	41,530	47,738
Minority interest	586	586	586	586
Borrowings	14,038	15,138	15,138	15,138
Trade payables	12,376	16,323	19,278	22,872
Other liabs & prov	5,608	4,631	5,451	6,448
Total liabilities	68,975	78,214	87,473	99,119
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	12,210	16,464	22,022
Sundry debtors	9,659	8,872	10,478	12,431
Loans & advances	301	301	301	301
Other assets	20,695	19,030	22,430	26,564
Total assets	68,975	78,214	87,473	99,119

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	4,167	3,284	4,789	6,209
Add: Depreciation	2,530	2,750	3,000	3,000
Interest (net of tax)	1,232	863	863	863
Others	71	1,377	2,118	2,818
Less: Changes in WC	(625)	7,306	(535)	(651)
Operating cash flow	6,669	13,963	7,876	9,181
Less: Capex	(2,837)	(3,000)	(3,000)	(3,000)
Free cash flow	3,833	10,963	4,876	6,181

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	13.2	9.4	12.2	13.9
RoCE (%)	12.4	12.0	15.1	17.2
Inventory days	157	149	132	132
Receivable days	45	44	39	39
Payable days	140	136	142	142
Working cap (% sales)	14.9	9.2	9.1	9.1
Gross debt/equity (x)	0.4	0.4	0.4	0.3
Net debt/equity (x)	0.4	0.1	0	(0.1)
Interest coverage (x)	3.3	4.8	6.8	8.6

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	71.9	(21.2)	45.8	29.7
RoE (%)	13.2	9.4	12.2	13.9
EBITDA growth (%)	1.5	3.4	30.2	19.7
Payout ratio (%)	0	0	0	0

Exhibit 1: EBITDA up 16% YoY/5% QoQ on strong volumes across woven and AMD divisions, price deflation offsets though

Arvind Ltd	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ	Consensus	Deviation (%)
Revenues (INR mn)	18,882	19,798	(4.6)	19,217	(1.7)	21,365	(11.6)
EBITDA (INR mn)	2,161	1,861	16.1	2,059	5.0	2,299	(6.0)
Adj. PAT (INR mn)	949	841	12.8	800	18.5	1,003	(5.4)
EBITDA margins (%)	11.4	9.4	204.7	10.7	73.1	10.8	68.4
PAT margins (%)	5.0	4.2	77.4	4.2	86.0	4.7	33.1

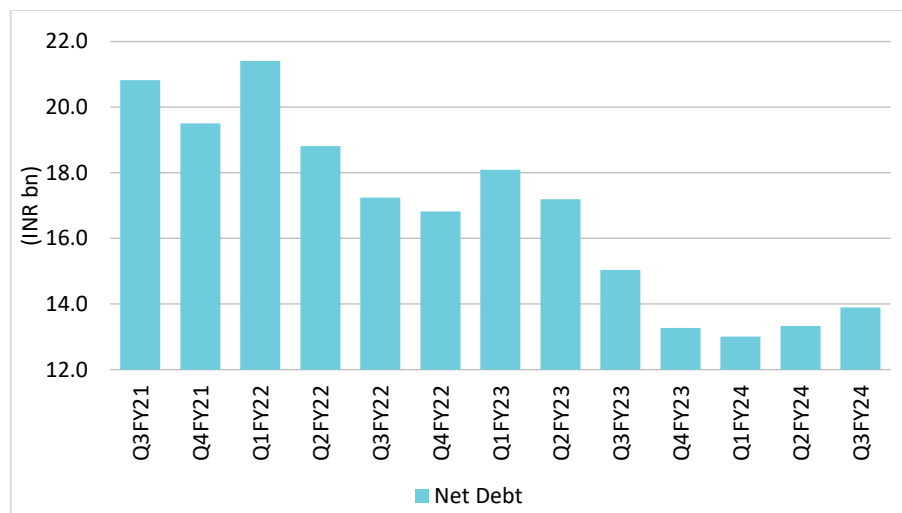
Source: Company, Nuvama Research

Exhibit 2: Key operational highlights

Segment highlights	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ
Revenue (INR mn)					
Textile	14,255	15,495	(8.0)	14,553	(2.0)
AMD	3,446	3,379	2.0	3,545	(2.8)
Others	1,386	1,153	20.2	1,353	2.5
EBITDA (INR mn)					
Textile	1,680	1,610	4.3	1,600	5.0
AMD	520	460	13.0	560	(7.1)
EBITDA Margins (%)					
Textile	11.8	10.4	139.5	11.0	79.1
AMD	15.1	13.6	147.6	15.8	(70.7)

Source: Company, Nuvama Research

Exhibit 3: Net debt inches up on slight increase in short term borrowings



Source: Company, Nuvama Research

Q3FY24 management call takeaways

Key operational highlights

Denim volume witnessed a seasonal decline and clocked about 10.3mn meters, which was offset by strong growth in the woven section, which sold about 32.9mn meters during the quarter. Fully formed garments during the quarter were about 7.7mn pieces. Furthermore, the company signed an MoU with the Indian Navy to supply advanced uniforms. Management views this as a step towards scaling up supplies of high quality and innovative products to India's armed forces.

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 2Bn and is investing across all segments and plans an outlay of 0.5bn in Q4FY24.

Target to lower long-term debt

The company has a total debt of INR 1.39bn as on Dec'23 out of which INR 4bn is long term debt. The management indicated that it would like to lower long term debt to INR 4bn by the end of Q4 and reduce it further going ahead. The company has been very conservative and focused on reducing debt. Now, they have started investing in the business.

Margin improvement in Q3 and guidance

Textile margins inched closer to 12% mark and stood close to 11.8% in Q3. EBITDA margin improved by 140 basis points YoY. Improvement in margins was mainly driven by operating efficiency (more production for the same labor pool, better throughputs on your machinery, negotiate your cost down better than competition etc) and lower raw material prices.

Outlook going ahead

The management indicated that the demand environment is improving on a soft base. US demand was good while UK/EU demand was better than anticipated during the holiday season. On the input cost side, cotton and input prices continue to move towards the lower end of the spectrum. Looking forward, the company will look out for prices of crude oil and derived products and will monitor the development in the Red Sea area as a significant part of their exports go through Suez Canal (currently had a small revenue loss of ~INR0.25bn), and disruption there has already driven container prices and shipping times up. Based on the current order book and momentum, the company is confident that Q4 four will show further improvement, and help deliver a very strong second half of FY24.

Signs an MoU with Gujarat government for investment of INR~30bn

This is the group level investment and not all of this is going to happen through Arvind Limited. Other group companies that will also be doing investments, and this is for a much longer time horizon as well. The company has planned a ~INR6bn investment over two years and has additional plans to deploy INR4bn going ahead.

AMD growth trajectory to remain strong

Advanced material division continued its growth trajectory and delivered a volume growth of 20%-plus during the quarter (expects a CAGR of 20% in the AMD business to continue). Although the revenue growth was limited to 2% on account of sharp price deflation in the raw material prices, particularly in industrial sections. Further, the company is working on improving AMD; and I is making investments to get better efficiency, better margin, more differentiation.

Garment division highlights

Fully formed garments were about 7.7mn pieces. The company is focused on improving operating parameters. Few of the first factories have started showing efficiency improvements, which is very encouraging. The company has a good order pipeline in the garmenting segment. Furthermore, it is in the process of building a garmenting ecosystem so as to be competitive with other countries as well as aims to increase their garmenting capacity. There is a strong intent from customers to source products from the garmenting division of the company.

Exhibit 4: Quarterly financial snapshot (consolidated)

Year to March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY24E	FY25E	FY26E
Net revenues	18,882	19,798	(4.6)	19,217	(1.7)	76,998	90,935	107,885
Direct costs	8,809	10,362	(15.0)	9,127	(3.5)	38,653	45,649	54,158
Employee expenses	2,413	2,183	10.5	2,443	(1.2)	9,457	10,308	11,235
Other expenses	5,500	5,392	2.0	5,589	(1.6)	20,614	24,208	29,602
EBIDTA	2,161	1,861	16.1	2,059	5.0	8,275	10,770	12,889
Depreciation & Amortisation	664	628	5.8	672	(1.2)	2,750	3,000	3,000
EBIT	1,497	1,233	21.4	1,387	7.9	5,525	7,770	9,889
Less: Interest Expense	388	432	(10.2)	387	0.2	1,151	1,151	1,151
Add: Other income	94	123	(23.6)	117	(19.8)	508	508	508
Add: Exceptional items	2	92	NM	13	(87.3)	-	-	-
Profit before Tax	1,205	1,016	18.6	1,130	6.6	4,882	7,127	9,247
Less: Provision for Tax	257	150	71.2	290	(11.5)	1,618	2,359	3,058
Add: Share of profit from associates	(5)	4		2		20	20	20
Less: Minority Interest	26	29	(9.0)	42	(37.3)	-	-	-
Reported Profit after minority	917	841	9.0	800	14.6	3,284	4,789	6,209
Adjusted Profit	915	749	22.2	788	16.2	3,284	4,789	6,209
No. of Diluted shares outstanding (mn)	261	261	-	261	-	262	262	262
Adjusted Diluted EPS	3.5	2.9	22.2	3.0	16.2	12.6	18.3	23.7
As % of net revenue								
Direct costs	46.6	52.3		47.5		50.2	50.2	50.2
Employee expenses	12.8	11.0		12.7		12.3	11.3	10.4
Other expenses	29.1	27.2		29.1		26.8	26.6	27.4
EBIDTA	11.4	9.4		10.7		10.7	11.8	11.9
Net profit	4.8	3.8		4.1		4.3	5.3	5.8
Tax rate	21.3	14.7		25.6		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 & Spencer 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

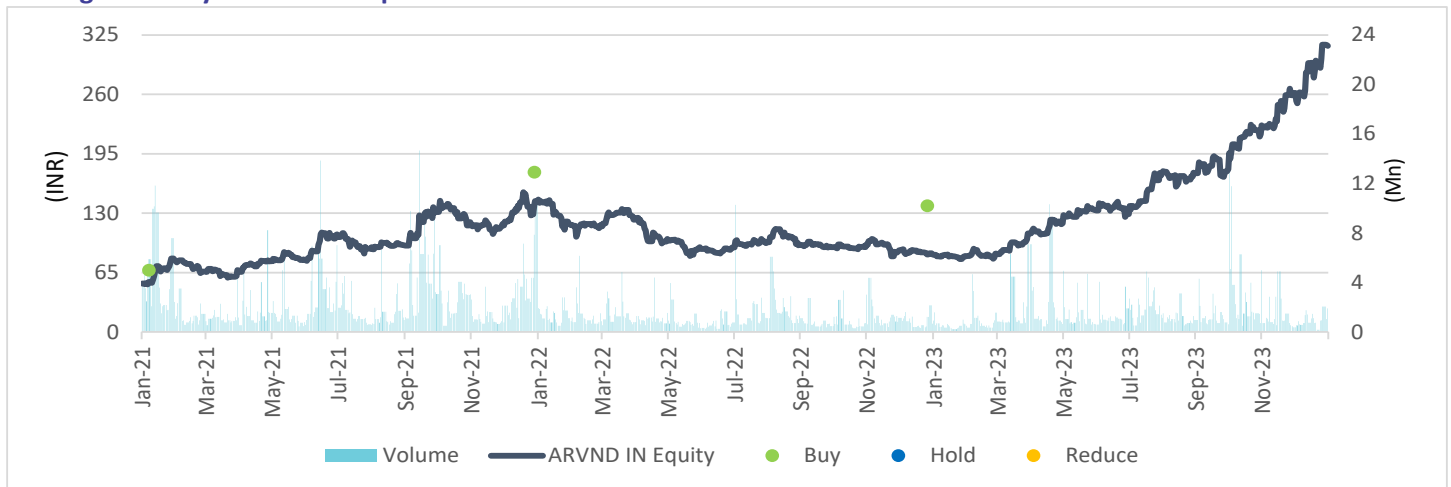
Recent Company Research

Date	Title	Price	Reco
31-Oct-23	Steady quarter; momentum to continue; <i>Result Update</i>	180	Buy
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

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%	202
Hold	<15% and >-5%	63
Reduce	<-5%	21

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