

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	374
12 month price target (INR)	431
52 Week High/Low	403/127
Market cap (INR bn/USD bn)	98/1.2
Free float (%)	0.0
Avg. daily value traded (INR mn)	351.9

SHAREHOLDING PATTERN

	Jun-24	Mar-24	Dec-23
Promoter	39.61%	41.13%	41.14%
FII	17.56%	15.15%	12.63%
DII	16.3%	14.79%	14.24%
Pledge	7.24%	6.97%	6.97%

FINANCIALS

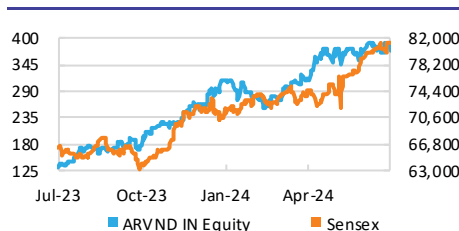
(INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	83,825	77,378	88,250	1,08,911
EBITDA	8,000	8,452	11,245	13,985
Adjusted profit	4,167	3,526	5,203	7,038
Diluted EPS (INR)	15.9	13.5	19.9	26.9
EPS growth (%)	71.9	(15.4)	47.5	35.3
RoAE (%)	13.2	10.2	13.7	15.9
P/E (x)	23.5	27.7	18.8	13.9
EV/EBITDA (x)	13.7	13.0	9.1	7.0
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	88,250	1,08,911	-3.0%	1.0%
EBITDA	11,245	13,985	4.4%	8.5%
Adjusted profit	5,203	7,038	6.5%	11.6%
Diluted EPS (INR)	19.9	26.9	6.5%	11.6%

PRICE PERFORMANCE



Weak quarter but a blip

Arvind reported a weak Q1FY25, after a strong showing in Q4FY24, driven by mainly the labour strike in Santej, which lasted 21 days. This impacted operation and the company could not fulfil some orders. Potential revenue/EBITDA loss was to the tune of INR2bn/600mn. The impact of the strike is one-off—a blip in the smooth running of operations. Despite this hit, management is confident of achieving the guided growth of double-digit revenue growth for the year driven by the AMD and Garments segments.

Factoring in the one-off impact (from strike), we are adjusting FY25E/26E revenue by -3/+1%; this along with a rollover to Q1FY27E yields a revised TP of INR431 (INR375 earlier) at 7.5x EV/EBITDA

Growth takes a backstep amid strike; guidance unchanged

Textile revenue contracted 5% YoY/10% QoQ to INR13.5bn on account of a one-off labour strike in May–June. The strike lasted 21 days and was called off by the court. Overall, denim volumes contracted 3% YoY in Q1FY25. Meanwhile garment volumes posted robust volume growth of 25% YoY, but the ASP declined 18% YoY on account of changing product mix towards more of knitwear, which is more of a seasonal impact. Woven sub segment volumes also contracted 6% YoY. Current order book continues to show healthy demand. AMD revenue contracted 4% YoY. Management maintained the double-digit overall top-line growth for FY25 driven by 20%-plus growth in Advanced Materials Division on the back of robust demand.

Margins suffer from loss of productive days, likely to bounce back

Overall EBITDA margin contracted 150bp YoY/350bp QoQ driven by the loss of productive hours due to strike of 21 days in Santej. The company is taking steps to address worker grievances, improve communication and increase automation to reduce labour dependency. The monetary impact of strike in the form of potential revenue/EBITDA for the company was INR2bn/60mn. Management did point out that orders could not be fulfilled amid the strike.

Key takeaways from conference call

i) EBITDA margin has the dual impact of low productivity due to strike plus elections, and also there is increased cost of air freight of about INR110mn to ensure timely deliveries. ii) Guidance of double-digit growth maintained for FY25. AMD at 20% plus growth plus Textile in early double-digits. iii) The company reduced gross debt by INR550mn. iv) The AMD segment aims to achieve 20%+ growth and potentially reach INR20bn in a couple of years.

Financials

Year to March	Q1FY25	Q1FY24	% Change	Q4FY24	% Change
Net Revenue	18,306	18,533	(1.2)	20,745	(11.8)
EBITDA	1,498	1,803	(16.9)	2,428	(38.3)
Adjusted Profit	393	659	(40.3)	990	(60.3)
Diluted EPS (INR)	1.5	2.5	(40.5)	3.8	(60.4)

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Total operating income	83,825	77,378	88,250	1,08,911
Gross profit	39,116	40,590	43,949	54,237
Employee costs	8,676	9,636	10,308	11,235
Other expenses	22,440	22,502	22,396	29,017
EBITDA	8,000	8,452	11,245	13,985
Depreciation	2,530	2,658	2,800	2,800
Less: Interest expense	1,642	1,593	1,208	1,208
Add: Other income	445	408	508	508
Profit before tax	4,285	4,608	7,765	10,504
Prov for tax	706	1,107	2,562	3,466
Less: Other adj	588	25	0	0
Reported profit	4,167	3,526	5,203	7,038
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,167	3,526	5,203	7,038
Diluted shares o/s	262	262	262	262
Adjusted diluted EPS	15.9	13.5	19.9	26.9
DPS (INR)	0	0	0	0
Tax rate (%)	16.5	24.0	33.0	33.0

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Denim cap (mn mts)	53.0	48.0	59.4	75.6
Wovens cap (mn mts)	126.7	122.5	142.5	161.5
Denim util (%)	49.1	44.4	55.0	70.0
EBITDA margin (%)	9.5	10.9	12.7	12.8
Net profit margin (%)	5.0	4.6	5.9	6.5
Revenue growth (% YoY)	4.3	(7.7)	14.1	23.4
EBITDA growth (% YoY)	1.5	5.7	33.0	24.4
Adj. profit growth (%)	72.5	(15.4)	47.5	35.3

Assumptions (%)

Year to March	FY23A	FY24A	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 (%)	70.4	68.1	75.0	85.0
Denim EBITDA (%)	10.0	13.4	15.0	15.0
Wovens EBITDA (%)	14.0	15.0	16.5	17.0
Garment EBITDA (%)	5.0	5.5	7.0	7.0

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted P/E (x)	23.5	27.7	18.8	13.9
Price/BV (x)	2.9	2.8	2.4	2.1
EV/EBITDA (x)	13.7	13.0	9.1	7.0
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Share capital	2,615	2,616	2,616	2,616
Reserves	30,841	32,811	38,014	45,052
Shareholders funds	33,456	35,428	40,630	47,668
Minority interest	586	780	780	780
Borrowings	14,038	14,217	14,217	14,217
Trade payables	12,376	14,016	18,709	23,089
Other liabs & prov	5,608	6,207	5,441	6,681
Total liabilities	68,975	72,450	84,181	97,870
Net block	33,946	32,982	34,432	34,632
Intangible assets	332	1,237	1,237	1,237
Capital WIP	787	1,168	1,168	1,168
Total fixed assets	35,065	35,387	36,837	37,037
Non current inv	2,486	1,967	1,967	1,967
Cash/cash equivalent	770	758	8,058	12,906
Sundry debtors	9,659	10,698	12,201	15,057
Loans & advances	301	40	40	40
Other assets	20,695	23,600	25,078	30,863
Total assets	68,975	72,450	84,181	97,870

Free Cash Flow (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Reported profit	4,167	3,526	5,203	7,038
Add: Depreciation	2,530	2,658	2,800	2,800
Interest (net of tax)	1,232	1,195	906	906
Others	71	1,073	2,336	3,240
Less: Changes in WC	(625)	(2,032)	3,548	(1,990)
Operating cash flow	6,669	5,314	12,231	8,528
Less: Capex	(2,837)	(3,577)	(4,250)	(3,000)
Free cash flow	3,833	1,737	7,981	5,528

Key Ratios

Year to March	FY23A	FY24A	FY25E	FY26E
RoE (%)	13.2	10.2	13.7	15.9
RoCE (%)	12.4	12.6	16.9	19.8
Inventory days	157	180	165	151
Receivable days	45	48	47	46
Payable days	140	131	135	140
Working cap (% sales)	14.9	18.0	14.7	14.7
Gross debt/equity (x)	0.4	0.4	0.3	0.3
Net debt/equity (x)	0.4	0.4	0.1	0
Interest coverage (x)	3.3	3.6	7.0	9.3

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	71.9	(15.4)	47.5	35.3
RoE (%)	13.2	10.2	13.7	15.9
EBITDA growth (%)	1.5	5.7	33.0	24.4
Payout ratio (%)	0	0	0	0

Q1FY25 conference call highlights

Q1FY25

- EBITDA margin has dual impact of low productivity due to strike plus elections and there was an increased cost of airfreight of about INR110mn to ensure timely deliveries.
- Strike had an impact of INR2bn in Revenue and INR600mn in EBITDA.
- Company reduced gross debt by INR550mn
- Currently Bangladesh situation does not have much impact on the company.
- For higher volume growth, the reason was change in product mix, the full garment knit business witnessed strong growth.
- Capacity of garmenting business is around 45mn pieces
- The strike was called illegal by the court as the union was not taken in confidence before calling in the strike.
- Employee expenses were lower as there are many variable benefits attached to the salary, which are paid out only after achieving the agreed budgeted output.
- Guidance of double-digit growth maintained for FY25. AMD at 20% plus growth plus Textile in early double digits.
- The shift towards knitwear impacted realizations in the garment segment, but this is expected to normalize over time.
- The company is taking steps to address worker grievances, improve communication, and increase automation to reduce labor dependency.
- The garment segment is expected to be the primary driver of overall growth for the textile business

AMD business

- **Strong growth in new verticals:** Mobility solutions and defense segments within AMD are experiencing significant growth, with defense expected to cross INR 200 crore.
- **Focus on deeper customer relationships:** AMD is focusing on increasing its share of wallet with existing large customers.
- **New product capabilities:** The addition of new product capabilities like monofilament and PTFE phase is expected to contribute to revenue growth in the second half of the year.
- **Growth target:** AMD aims to achieve 20%+ growth and potentially reach INR 2000 crore in a couple of years.

Outlook

- Capex guidance maintained at INR4-4.5bn for FY25
- 140 retail stores currently, 40-50 store additions in guidance.
- Annualised- volume growth guidance of 25% for garments sub segment is maintained.

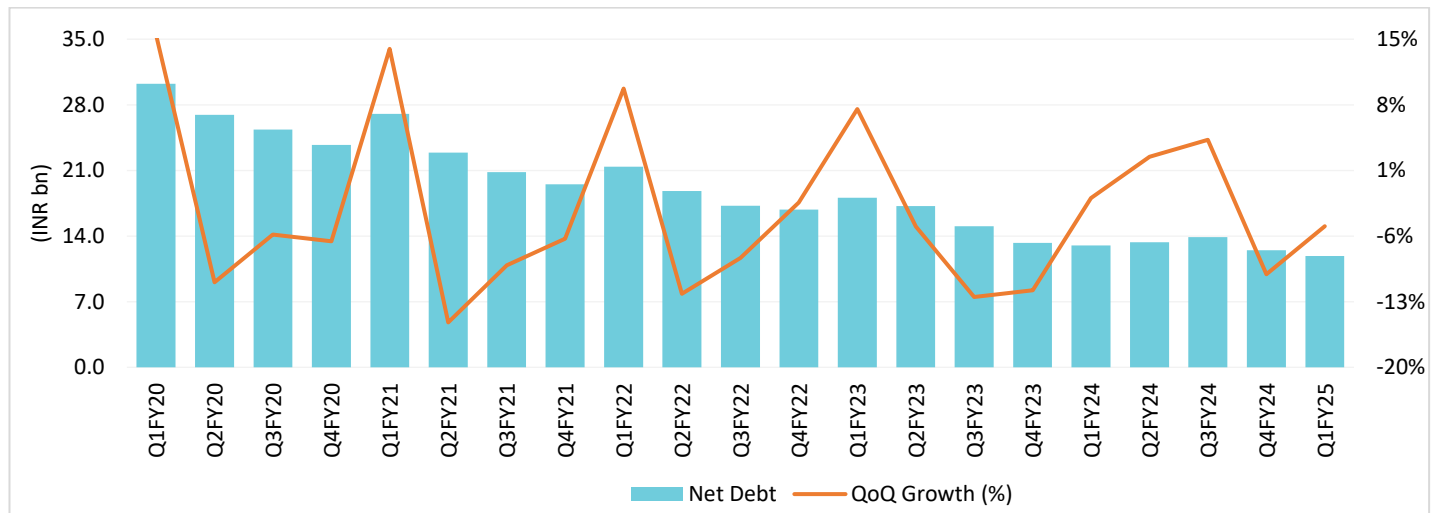
- Towards second half shall cross 10mn in volumes on a quarterly basis from the current 9mn in Garments.
- Debt will remain in the range of +/-10% of FY24.
- The company aims to increase garmenting capacity from 45 million to 60 million.
- The company maintains a positive outlook for the remaining quarters due to strong demand and order book.

Exhibit 1: Segmental highlights

Segment highlights	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ
Revenue (INR mn)					
Textile	13,500	14,181	(4.8)	15,044	(10.3)
AMD	3,288	3,420	(3.9)	3,866	(15.0)
Others	1,715	1,147	49.5	2,046	(16.2)
EBITDA (INR mn)					
Textile	990	1,310	(24.4)	1,730	(42.8)
AMD	460	530	(13.2)	610	(24.6)
EBITDA Margins (%)					
Textile	7.3	9.2	(190.4)	11.5	(416.7)
AMD	14.0	15.5	(150.8)	15.8	(178.6)

Source: Company, Nuvama Research

Exhibit 2: Net debt trajectory



Source: Company, Nuvama Research

Exhibit 3: Quarterly snapshot

Year to March (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY25E	FY26E
Net revenues	20,745	18,808	10.3	18,882	9.9	77,378	88,250	1,08,911
Direct costs	9,860	9,449	4.4	8,809	11.9	36,788	44,302	54,673
Employee expenses	2,398	2,180	10.0	2,413	(0.6)	9,636	10,308	11,235
Other expenses	6,058	5,271	14.9	5,500	10.2	22,502	22,396	29,017
EBIDTA	2,428	1,908	27.3	2,161	12.4	8,452	11,245	13,985
Depreciation & Amortisation	673	659	2.2	664	1.4	2,658	2,800	2,800
EBIT	1,755	1,249	40.5	1,497	17.2	5,794	8,445	11,185
Less: Interest Expense	453	382	18.4	388	16.6	1,593	1,208	1,208
Add: Other income	78	123	(36.5)	94	(16.8)	408	508	508
Add: Exceptional items	-	91	NM	2	NM	25	-	-
Profit before Tax	1,381	1,081	27.8	1,205	14.6	4,634	7,745	10,484
Less: Provision for Tax	338	158	114.6	257	31.8	1,107	2,562	3,466
Add: Share of profit from associates	2	1		(5)		(1)	20	20
Less: Minority Interest	54	3	1,696.7	26	105.7	-	-	-
Reported Profit after minority	990	970	2.1	917	8.0	3,526	5,203	7,038
Adjusted Profit	990	879	12.6	915	8.2	3,526	5,203	7,038
No. of Diluted shares outstanding (mn)	261	261	-	261	-	262	262	262
Adjusted Diluted EPS	3.8	3.4	12.6	3.5	8.2	13.5	19.9	26.9
As % of net revenue								
Direct costs	47.5	50.2		46.6		47.5	50.2	50.2
Employee expenses	11.6	11.6		12.8		12.5	11.7	10.3
Other expenses	29.2	28.0		29.1		29.1	25.4	26.6
EBIDTA	11.7	10.1		11.4		10.9	12.7	12.8
Net profit	4.8	4.7		4.8		4.6	5.9	6.5
Tax rate	24.5	14.6		21.3		23.9	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
Quant money man	5.76	Dimensional Fun	1.57
HDFC AMC	4.31	IDFC Mutual Fun	1.15
Aura Business V	2.66	Polunin Capital	1.06
Vanguard group	2.10	Acadian AMC	1.03
Mirae asset glo	1.79	JM Financial AM	0.79

*Latest public data

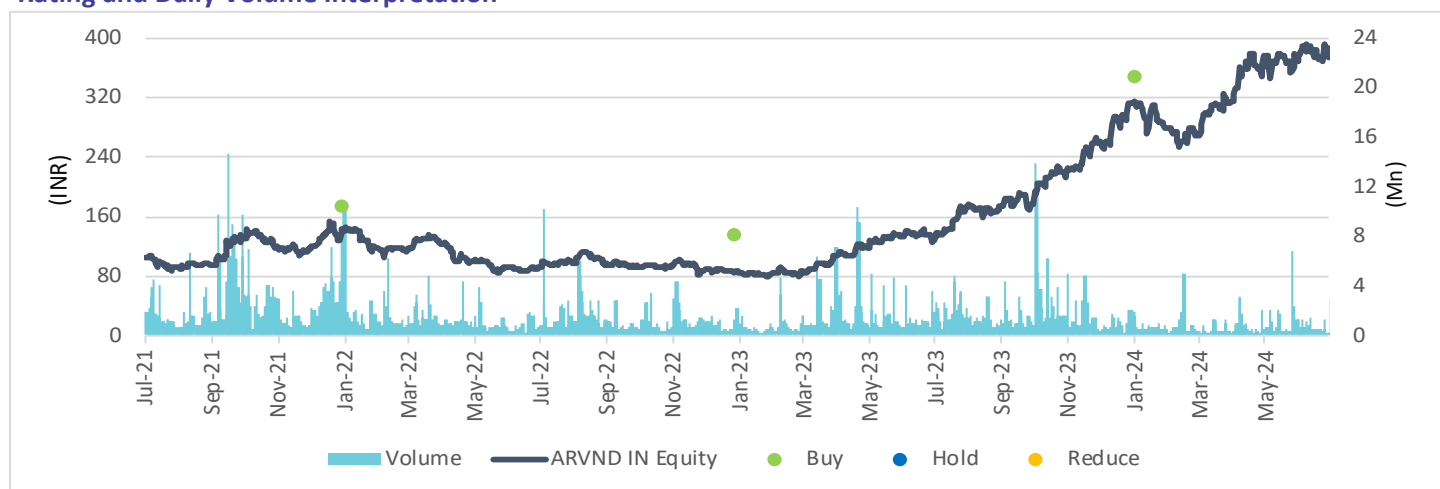
Recent Company Research

Date	Title	Price	Reco
06-May-24	Strong performance; guidance intact; <i>Result Update</i>	333	Buy
30-Jan-24	Modest quarter; guidance intact; <i>Result Update</i>	310	Buy
31-Oct-23	Steady quarter; momentum to continue; <i>Result Update</i>	180	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
25-Jul-24	Welspun Living	Strong visibility; maintains guidance; <i>Result Update</i>
25-Apr-24	Welspun Living	Strong quarter; margin guidance intact; <i>Result Update</i>
31-Jan-24	Welspun Living	Strong showing; margins guidance intact; <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%	216
Hold	<15% and >-5%	62
Reduce	<-5%	25

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