nuvama institutional equities

ARVIND LTD

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	360
12 month price target (INR)	443
52 Week High/Low	421/174
Market cap (INR bn/USD bn)	94/1.1
Free float (%)	0.0
Avg. daily value traded (INR mn)	290.0

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	39.59%	39.61%	41.13%
FII	18.33%	17.56%	15.15%
DII	17.18%	16.3%	14.79%
Pledge	7.24%	7.24%	6.97%

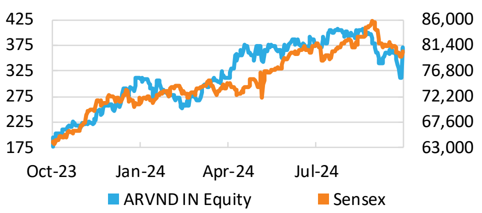
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	77,378	85,109	1,00,648	1,16,708
EBITDA	8,452	9,065	11,987	14,294
Adjusted profit	3,526	3,658	5,495	6,915
Diluted EPS (INR)	13.5	14.0	21.0	26.4
EPS growth (%)	(15.4)	3.7	50.2	25.8
RoAE (%)	10.2	9.8	13.1	14.4
P/E (x)	26.7	25.7	17.1	13.6
EV/EBITDA (x)	12.6	11.2	8.3	6.7
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	85,109	1,00,648	-3.6%	-7.6%
EBITDA	9,065	11,987	-19.4%	-14.3%
Adjusted profit	3,658	5,495	-29.7%	-21.9%
Diluted EPS (INR)	14.0	21.0	-29.7%	-21.9%

PRICE PERFORMANCE



Strong results, bright outlook

Arvind reported a pickup in growth in Q2, with revenue up 14% YoY, but growth for H1FY25 has been slow at 6% due to a strike in a factory in May. Building in for a slow H1, we are tweaking FY25E/26E revenue downwards by 4%/8%. However, given the muted productivity due to the business lost in H1FY25, we are cutting FY25E/26E EBITDA by 20%/15%. That said, the demand outlook remains strong on global apparel inventory restocking and domestic festive demand pick-up.

We are revising the multiple upwards from 7.5x EV/EBITDA to 9x EV/EBITDA to reflect the better operating metrics of the advanced materials segment. Our revised TP, rolling forward to H1FY27, comes in at INR443 (earlier INR431); maintain 'BUY'.

Growth picks up; guidance maintained for the year

Textile revenue growth picked up this quarter with the segment reporting 12% YoY/21% QoQ to INR16.3bn. Overall Denim volumes inched up 3% YoY in Q2FY25. Meanwhile, garment volumes posted robust volume growth of 21% YoY, but ASP decreased 8% YoY; this is mainly due to the reduction of raw material prices. Woven sub-segment volumes growth was 11.2% YoY. Current order book continues to show healthy demand. AMD segment revenue growth was at 9.6% YoY, with the composites segment growing higher at 15% YoY. The human protection business reported some softness due to slow demand from one of the key customers, but the company has made up for this in the current quarter. Management has maintained the double-digit overall topline growth for FY25, driven by around 18–20% growth in the Advanced Materials division due to robust demand.

Margins soft YoY; capex plan on track for the year

Overall, EBITDA margins fell ~60bp YoY due to higher freight costs and annual salary increments being processed in current quarter. On an annual basis, margin guidance has been maintained. Margins for the advanced materials segment were 15.5%, whereas that for Textiles was strong at 10.3%. Capex projects of INR4bn-plus, as guided for the year, are on track, and Arvind has already incurred ~40% from them.

Key takeaways from conference call

Takeaways: i) Arvind clocked ~15% volume growth across categories, but prices corrected a bit due to softening RM prices, resulting in lower realisations. ii) Of the capex already done, one-third is for AMD, one-third for garments, and the balance for automation and fabric differentiation. iii) The garment division is a 90%-plus export business and the outlook there is good. iv) Green shoots have been there in demand on the domestic front aided by festivities.

Financials

Year to March	Q2FY25	Q2FY24	% Change	Q1FY25	% Change
Net Revenue	21,883	19,217	13.9	18,306	19.5
EBITDA	2,210	2,059	7.3	1,498	47.5
Adjusted Profit	597	800	(25.4)	393	51.9
Diluted EPS (INR)	2.3	3.1	(25.6)	1.5	51.9

Ashish Vanwari
AshishK.Vanwari@nuvama.com

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	77,378	85,109	1,00,648	1,16,708
Gross profit	40,590	42,384	50,122	58,121
Employee costs	9,636	10,503	11,448	12,479
Other expenses	22,502	22,817	26,687	31,348
EBITDA	8,452	9,065	11,987	14,294
Depreciation	2,658	2,800	2,800	2,800
Less: Interest expense	1,593	1,333	1,514	1,702
Add: Other income	408	508	508	508
Profit before tax	4,608	5,460	8,201	10,321
Prov for tax	1,107	1,802	2,706	3,406
Less: Other adj	25	0	0	0
Reported profit	3,526	3,658	5,495	6,915
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,526	3,658	5,495	6,915
Diluted shares o/s	262	262	262	262
Adjusted diluted EPS	13.5	14.0	21.0	26.4
DPS (INR)	0	0	0	0
Tax rate (%)	24.0	33.0	33.0	33.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	2,616	2,616	2,616	2,616
Reserves	32,811	36,469	41,964	48,879
Shareholders funds	35,428	39,085	44,580	51,495
Minority interest	780	780	780	780
Borrowings	14,217	15,681	17,814	20,019
Trade payables	14,016	18,043	21,337	24,742
Other liabs & prov	6,207	5,253	6,185	7,149
Total liabilities	72,450	83,090	95,720	1,10,009
Net block	32,982	34,182	35,382	36,582
Intangible assets	1,237	1,237	1,237	1,237
Capital WIP	1,168	1,168	1,168	1,168
Total fixed assets	35,387	36,587	37,787	38,987
Non current inv	1,967	1,967	1,967	1,967
Cash/cash equivalent	758	6,829	11,449	17,500
Sundry debtors	10,698	11,766	13,915	16,135
Loans & advances	40	40	40	40
Other assets	23,600	25,900	30,562	35,380
Total assets	72,450	83,090	95,720	1,10,009

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Denim cap (mn mts)	48.0	59.4	64.8	70.2
Wovens cap (mn mts)	122.5	133.0	142.5	152.0
Denim util (%)	44.4	55.0	60.0	65.0
EBITDA margin (%)	10.9	10.7	11.9	12.2
Net profit margin (%)	4.6	4.3	5.5	5.9
Revenue growth (% YoY)	(7.7)	10.0	18.3	16.0
EBITDA growth (% YoY)	5.7	7.2	32.2	19.2
Adj. profit growth (%)	(15.4)	3.7	50.2	25.8

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	3,526	3,658	5,495	6,915
Add: Depreciation	2,658	2,800	2,800	2,800
Interest (net of tax)	1,195	1,000	1,136	1,276
Others	1,073	1,607	2,557	3,303
Less: Changes in WC	(2,032)	2,148	(1,808)	(1,868)
Operating cash flow	5,314	9,411	7,473	9,020
Less: Capex	(3,577)	(4,000)	(4,000)	(4,000)
Free cash flow	1,737	5,411	3,473	5,020

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.4	5.8	5.8	5.8
Repo rate (%)	6.0	5.5	5.5	5.5
USD/INR (average)	80.0	78.0	78.0	78.0
Wovens util (%)	68.1	70.0	75.0	80.0
Denim EBITDA (%)	13.4	12.5	15.0	15.0
Wovens EBITDA (%)	15.0	14.0	15.0	15.0
Garment EBITDA (%)	5.5	5.0	7.0	8.0

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	10.2	9.8	13.1	14.4
RoCE (%)	12.6	12.8	16.3	17.7
Inventory days	180	176	168	169
Receivable days	48	48	47	47
Payable days	131	137	142	144
Working cap (% sales)	18.0	16.8	16.7	16.7
Gross debt/equity (x)	0.4	0.4	0.4	0.4
Net debt/equity (x)	0.4	0.2	0.1	0
Interest coverage (x)	3.6	4.7	6.1	6.8

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	26.7	25.7	17.1	13.6
Price/BV (x)	2.7	2.4	2.1	1.8
EV/EBITDA (x)	12.6	11.2	8.3	6.7
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	(15.4)	3.7	50.2	25.8
RoE (%)	10.2	9.8	13.1	14.4
EBITDA growth (%)	5.7	7.2	32.2	19.2
Payout ratio (%)	0	0	0	0

Q2FY25 conference call highlights

Q2FY25

- Apart from logistics cost, a hike in salaries was given effect to in this quarter.
- Spent about INR1.67bn on capex, which is 40% of the plan in H1FY25.
- The company is signing an agreement to invest in and increase its renewable energy use to 80%, which will help reduce costs and fulfil its sustainability initiatives.
- The company had almost 15% volume growth across categories, but prices corrected a bit due to softening RM prices, resulting in lower realisations.
- Human Protection: The company's performance was lower this quarter due to slow demand from one of the key customers; it compensated for this in Q3FY25.
- For AMD, expansion will majorly be in Gujarat only
- For shorter term, there is no change on order shifting on the Bangladesh issue. India is on many brands sourcing matrix list, however India needs to add capacity to cater to this.
- Vietnam and Bangladesh are already approaching saturation for many customers as too many eggs in one basket.
- Q3 is a low season for Denim volumes and best quarter for Woven clothes mix
- Of the capex already done, one-third is for AMD, one-third is for garments, and the balance is for automation and fabric differentiation.
- Depreciation is on a lower trend because of the write-off of Ethiopian assets but will pick up with the current capacity additions going live.
- Railway component falls in the composite division
- About 10% of the overall composite volume would be of the railways
- Defence is embedded in the human protection division. The company is doing several categories for Indian Navy and Army and some on-and-off orders with the Air Force
- The garment division is a 90% plus export business and the outlook there is good
- AMD business 75% contribution is from US

Outlook

- There have been green shoots in demand on the domestic front aided by festivities
- The company will consider Madhya Pradesh and Odisha for capacity addition perspective on account of labour cluster availability there in the longer term.
- On the garments division, the company will be a bit shy of achieving the 40mn pieces volume guidance given earlier but is committed to 60mn volume guidance for FY27. Q3 would be a bit higher than Q2 in volume, and Q4 will be 10mn plus volume
- Woven capacities will go towards 135–140mn

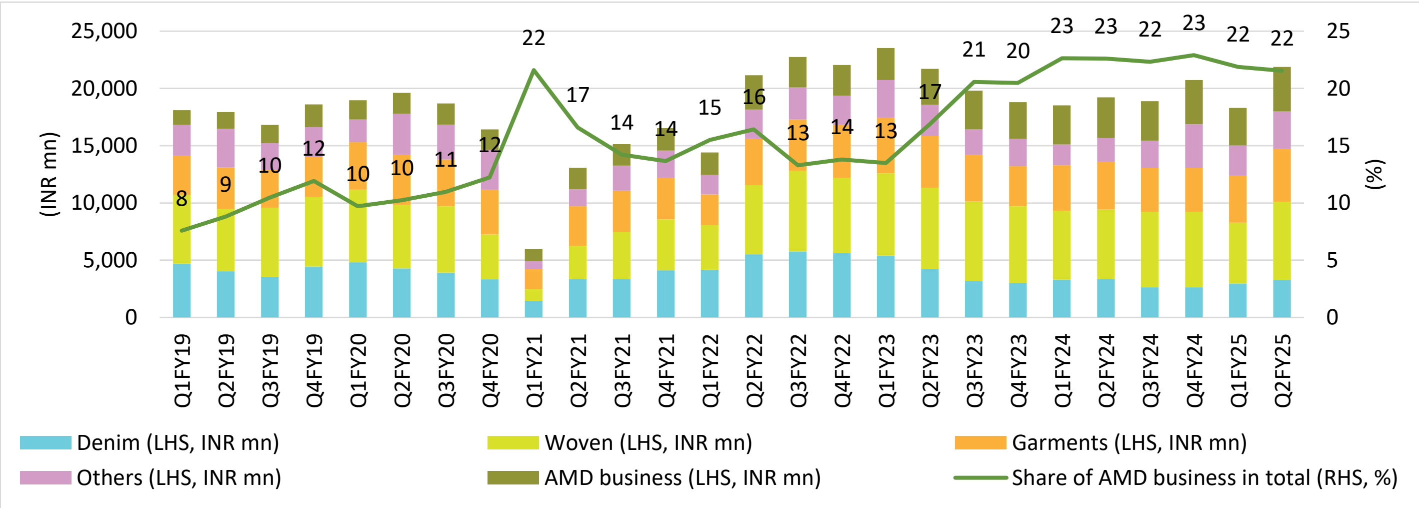
- End of the year term loan debt will revert back to INR4bn.
- On Denim capacity addition, the company is going to add more denim garment capacity through verticalisation, and no fabric capacity will be added. The garments division has better realisations, and the company has better control over the supply chain there. This would also facilitate reduced dependency on Bangladesh for fabric sales.

Exhibit 1: Segment highlights

Segment highlights	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ
Revenue (INR mn)					
Textile	16,330	14,553	12.2	13,500	21.0
AMD	3,879	3,545	9.4	3,288	18.0
Others	1,881	1,353	39.0	1,715	9.6
EBITDA (INR mn)					
Textile	1,680	1,600	5.0	990	69.7
AMD	600	560	7.1	460	30.4
EBITDA Margins (%)					
Textile	10.3	11.0	(70.6)	7.3	295.5
AMD	15.5	15.8	(33.0)	14.0	147.7

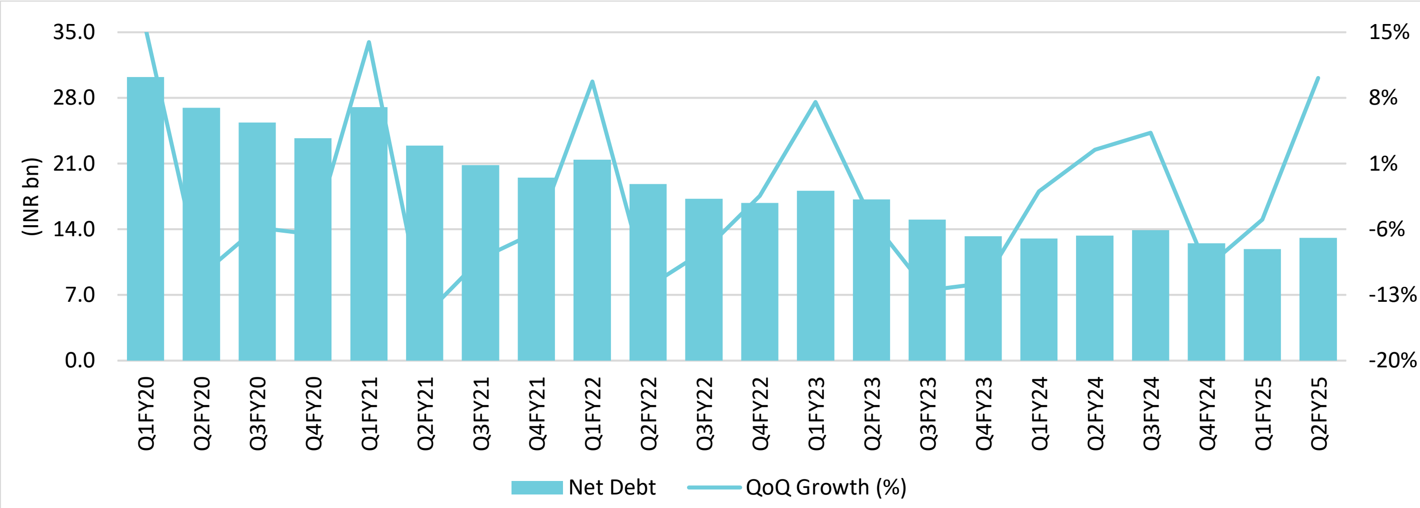
Source: Company, Nuvama Research

Exhibit 2: Breakdown by segment time series



Source: Company, Nuvama Research

Exhibit 3: Net debt trajectory



Source: Company, Nuvama Research

Exhibit 4: Valuation summary

EBITDA	13,141
EV/EBITDA (x)	9
EV	1,18,265
Net Debt - FY27	2,519
Equity value	**1,15,746**
NOSH (mn)	262
Equity value (INR/Share) - Sep'25	**443**
CMP	360
Upside (%)	23%

Source: Company, Nuvama Research

Exhibit 5: Quarterly snapshot

Year to March (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY25E	FY26E
Net revenues	20,745	18,808	10.3	18,882	9.9	77,378	85,109	1,00,648
Direct costs	9,860	9,449	4.4	8,809	11.9	36,788	42,725	50,525
Employee expenses	2,398	2,180	10.0	2,413	(0.6)	9,636	10,503	11,448
Other expenses	6,058	5,271	14.9	5,500	10.2	22,502	22,817	26,687
EBIDTA	2,428	1,908	27.3	2,161	12.4	8,452	9,065	11,987
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	6,265	9,187
Less: Interest Expense	453	382	18.4	388	16.6	1,593	1,333	1,514
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	5,440	8,181
Less: Provision for Tax	338	158	114.6	257	31.8	1,107	1,802	2,706
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	3,658	5,495
Adjusted Profit	990	879	12.6	915	8.2	3,526	3,658	5,495
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	14.0	21.0
As % of net revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Direct costs	47.5	50.2		46.6		47.5	50.2	50.2
Employee expenses	11.6	11.6		12.8		12.5	12.3	11.4
Other expenses	29.2	28.0		29.1		29.1	26.8	26.5
EBIDTA	11.7	10.1		11.4		10.9	10.7	11.9
Net profit	4.8	4.7		4.8		4.6	4.3	5.5
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	1.51
Aura Business V	2.66	JM Financial AM	1.11
Mirae asset fin	2.24	Polunin Capital	1.04
Vangurd group	2.15	Acadian Emergin	1.03

Latest public data

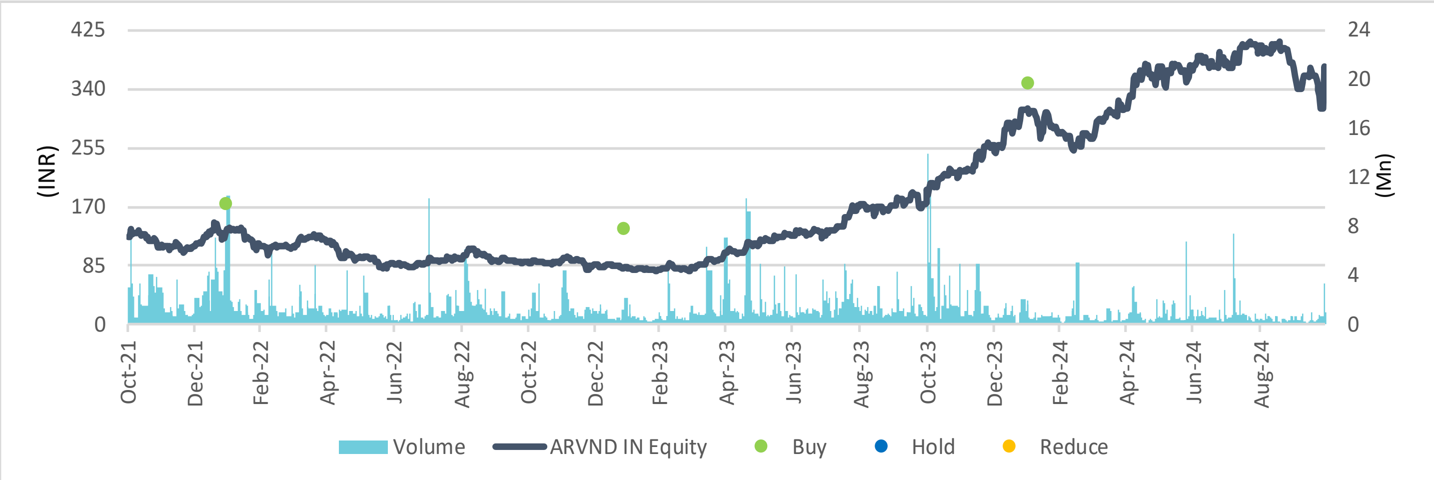
Recent Company Research

Date	Title	Price	Reco
29-Jul-24	Weak quarter but a blip; *Result Update*	374	Buy
06-May-24	Strong performance; guidance intact; *Result Update*	333	Buy
30-Jan-24	Modest quarter; guidance intact; *Result Update*	310	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
25-Jul-24	Welspun Living	Strong visibility; maintains guidance; *Result Update*
25-Apr-24	Welspun Living	Strong quarter; margin guidance intact; *Result Update*
31-Jan-24	Welspun Living	Strong showing; margins guidance intact; *Result Update*

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%	221
Hold	<15% and >-5%	66
Reduce	<-5%	24

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Abneesh Roy
Head of Research Committee
Abneesh.Roy@nuvama.com

ABNEESH KUMAR ROY

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