

Incorporated in 1930, Arvind Ltd. is one of the major textile companies in India with an installed capacity of over 200 million meters per annum. It is also one of the prominent branded apparels & retail company with an array of strong global and Indian brands.

## Key Developments

### Arvind's major brands:

Arvind Ltd. has many brands across price points and categories including 4 Power brands (having revenue of more than Rs. 200 Crores) like Arrow, US Polo, Tommy Hilfiger and Flying Machine (account for ~57% of overall Brand & Retail revenue in FY15).

### Strategic shift from B2B to B2C business:

Over the past few years, Arvind has made a definitive move to change its business profile significantly with a thrust on brand and retail (transformed itself from a pure B2B player to significant B2C player). The revenue contribution from the brand and retail business is consistently on an uptrend (grown at a CAGR of 23% over FY11-15) led by its multiband (across price points) and multichannel strategy. The brand and retail business contributed 23% to the overall revenues in FY11 and grew to contribute 30% to the company's revenues in FY15.

### Megamart restructuring:

With completion of restructuring of Megamart stores, Arvind has now repositioned Megamart as a value retailer (from erstwhile discount retailer). The company has scaled down the no. of stores below 100 reflecting its intent to improve profitability.

### Foray into e-commerce space:

In order to ride the growing penetration of e-commerce in India, Arvind is looking to develop multiple 'Differentiated Online Formats' and tying-up with large e-commerce players. The company has already created a subsidiary – Arvind Internet Ltd. for its e-commerce initiatives. Further, it has launched an online clothing brand – Creyate to sell customised clothing.

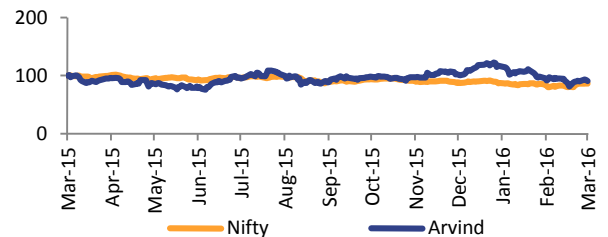
## Market Data

<b>CMP (Rs.)</b>	<b>277</b>
Face Value	10.0
52 week H/L (Rs.)	366/216
Adj. all time High (Rs.)	366
Decline from 52WH (%)	24.2
Rise from 52WL (%)	28.1
Beta	1.6
Mkt. Cap (Rs. Cr)	7,155
Enterprise Value(Rs. Cr)	10,339

## Fiscal Year Ended

	FY13	FY14	FY15
<b>Total revenue (Rs. cr)</b>	5,293	6,862	7,851
<b>Adj. Net Profit (Rs. cr)</b>	248	370	395
<b>Share Capital (Rs. Cr)</b>	258	258	258
<b>Adj. EPS (Rs.)</b>	9.6	14.3	15.3
<b>P/E (x)</b>	8.0	12.1	17.1
<b>P/BV (x)</b>	0.9	1.7	2.5
<b>ROE (%)</b>	11.6	15.3	14.9

## One year Price Chart



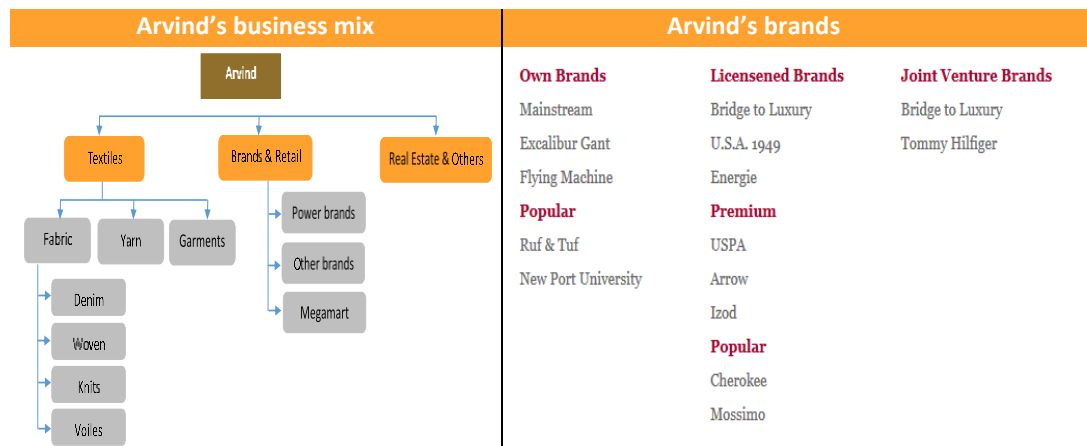
Shareholding	Dec15	Sep15	Diff.
<b>Promoters (%)</b>	43.8	43.8	0.0
<b>Public (%)</b>	56.2	56.2	0.0
<b>Others (%)</b>	-	-	-

Arvind Ltd. is India's major textile company with an installed fabric capacity of over 200 million meters per annum.

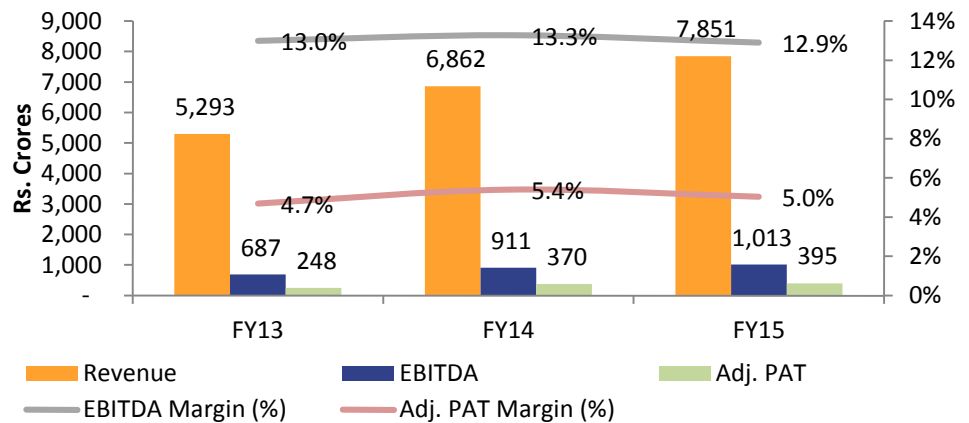
### Arvind Ltd: Business overview

Incorporated in 1930, Arvind Ltd. is a part of the Lalbhai group and is India's major textile company. Over the years, Arvind has gained the reputation of being India's prominent cotton textiles manufacturer (with an installed fabric capacity of over 200 million meters per annum) and also as one of the major denim fabric manufacturers in the world (with an installed capacity of over 110 million meters per annum). It operates under four segments that includes Textiles (fabric, yarn and garments), Brands & Retail (retailing of branded garments), Real Estate (real estate development) and Others (electronics, technical textile, construction and project activity). Arvind has carved a niche for itself with brand names like Arrow, Flying Machine, USPA, New Port, Mega Mart and The Arvind Store.

The company is constantly reinventing itself from a fabric manufacturer to a formidable player in brands and retail. This has put Arvind as India's major one-stop solution provider for leading global and domestic apparel brands. Top international brands under its portfolio include GAP, USPA, Tommy Hilfiger, Calvin Klein, Arrow, GAP, Nautica, Hanes, etc. while its own brands include Flying Machine, Excalibur, Newport etc. Further, the company has forayed into retailing with Megamart. Besides, it has also ventured into Technical Textiles on its own and in joint venture with leading global players.

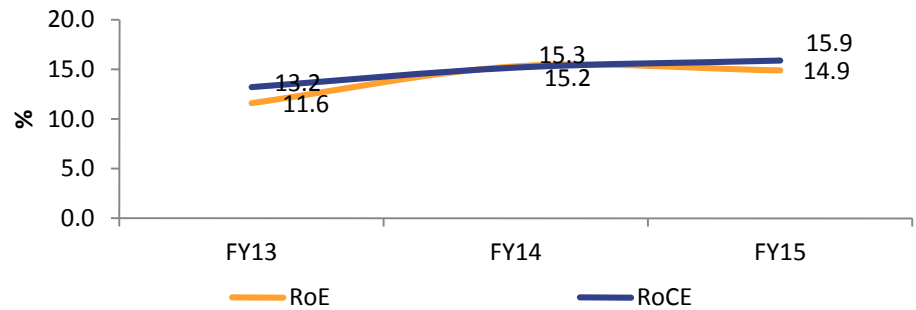


### Financial snapshot of Arvind Ltd.



The revenue contribution from the brand and retail business is consistently on an uptrend (grown at a CAGR of 23% over FY11-15).

### Return ratios trend



Source: Company, In-house research

### Brands & Retail business of Arvind Ltd.

The brand & retail business of Arvind operates through Arvind Brand & Retail (ARBL), a wholly-owned subsidiary of Arvind. The brand business of the company has a portfolio of owned & licensed brands with presence spanning across value, premium and bridge to luxury brands. The revenue contribution from the brand and retail business is consistently on an uptrend (grown at a CAGR of 23% over FY11-15).

On the retail front, the company has completed the restructuring of Megamart stores. Further, the company has adopted a strategy of branding its large format Megamart stores of more than 10,000 sq ft as “Unlimited” to overcome its discount format image.

### Portfolio of owned & licensed brands and retail formats



Source: Company, In-house research

### Distribution reach with multichannel strategy

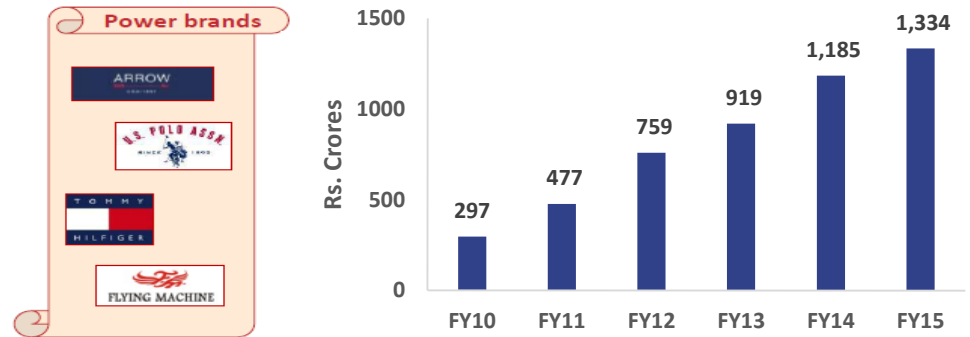
The company is constantly making category extension of its existing brands and is rapidly expanding its distribution footprint. Arvind has a robust distribution network across retail, departmental stores, multi-brand outlets (MBOs) and other channels. As on Q3FY16, the total store count stood at 998 - MegaMart (95) and others (903). Among its distribution reach, the contribution from exclusive brand outlets (EBOs) and departmental stores stands at ~30-35% each followed by MBOs (~30%) and e-commerce (~5%), thus enabling it to target large audience.

Currently, the company has 4 power brands under its portfolio having dominance in the respective space.

## Increasing share of power brands

Arvind has clearly articulated the definition of power brands as brands having revenue of more than Rs. 200 crores coupled with double digit margins, positive free cash flow and ROCE of more than 20%. Currently, the company has 4 power brands under its portfolio including Arrow, US Polo, Tommy Hilfiger and Flying Machine (contributed ~57% of overall Brand & Retail revenue in FY15). The revenue from power brands has grown steadily over FY10-FY15 at a CAGR of 35% and EBITDA margins grew from 7.4% in FY10 to 11.4% in FY15.

Revenue from power brands grew at 35% CAGR over FY10-15



Source: Company, In-house research

## Category expansion and extension

After establishing its presence in the menswear segment, the company diversified into womenswear and kids-wear segment with brands like Elle, Next, Cherokee, etc. Further, the company has positioned Cherokee (unisex brand) at lower end and US Polo at mid segment and GANT at top end to capture the entire spectrum in kids wear. Further, with Nautica the company has also entered into sportswear. Moreover, it has forayed into the high growth innerwear segment with the acquisition of Hanes brand and has further consolidated its presence in the innerwear segment with brands such as CK, US Polo and Tommy Hilfiger.

The company has leveraged its brand strength to expand its range of offerings to consolidate its market share. For example; under the Arrow brand, the company has extended its offerings from only mens-wear earlier to sportswear and women's wear categories. Similarly, under the US Polo brand it strengthened its portfolio by introducing women's wear, footwear, luggage and kid's garments.

Strong portfolio that straddles across consumer segments and price points

Price Point	Menswear (Rs. 96k Cr mkt)			Kidswear (Rs. 48k Cr mkt)		Innerwear (Rs. 18k Cr mkt)	
	Formal	Casual	Denim	Brands	Retail	Men	Women
"Premium / Bridge"	Calvin Klein	Calvin Klein GANT TOMMY HILFIGER NAUTICA	Calvin Klein	GANT TOMMY HILFIGER NAUTICA	next GAP	Calvin Klein	Calvin Klein
"Mainstream"	ARROW	GAP US POLO ASSN IZOD	Gap US POLO ASSN FLYING MACHINE	US POLO ASSN ELLE	PLACE	US POLO ASSN	Hanes
"Entry Price"	GEORGE Y BENE EXCALIBUR SUNSHINE	CHEROKEE KINGDOM	CHEROKEE COLT NEWPORT	CHEROKEE		Hanes	Hanes

megamart (Retail)

Source: Company, In-house research

*Arvind has a denim capacity of 108 million metres and that for wovens and garmenting the capacity stand at 132 million metre and 25 million pieces respectively in FY15.*

### **Textiles business: On a firm footing**

The textile division of the company comprises of five sub-segments - denim, woven, garment, knits and voiles. It contributes ~65% to the overall revenue of the company. Arvind is a vertically integrated textile company in India and has gained the reputation of being one of the major manufacturers of denim globally with a rich marquee clientele including; GAP, Lee, Wrangler, Levi's, among others. The company has a denim capacity of 108 million metres and that for wovens and garmenting the capacity stand at 132 million metre and 25 million pieces respectively in FY15. The textile business of the company is a cash cow, generating free cashflow and steady returns.

The company has a garmenting capacity of 25 million pieces in FY15. The current captive consumption of fabrics for garments is just ~5%. Revenue of the textile division in FY15 stood at Rs. 5,069 Crores.

### **Foray into e-commerce space**

In order to ride through the growing penetration of e-commerce in India, Arvind is betting big on the e-commerce space. Arvind is looking to develop multiple 'Differentiated Online Formats' and tying-up with e-commerce players to play in this attractive space. The company has already created a subsidiary – Arvind Internet Ltd. for its e-commerce initiative. Further, it has launched an online clothing brand – Creyate to sell customised clothing.

## Balance Sheet (Consolidated)

(Rs. Cr)	FY13	FY14	FY15
Share Capital	258	258	258
Reserve and surplus	1,996	2,325	2,466
<b>Net Worth</b>	<b>2,254</b>	<b>2,583</b>	<b>2,724</b>
Minority Interest	11	24	35
Total Debt	2,286	2,794	3,095
Other non-current liabilities	24	48	54
<b>Total Equity &amp; Liabilities</b>	<b>4,574</b>	<b>5,450</b>	<b>5,907</b>
Net Fixed Assets (incl. CWIP)	2,902	3,027	3,308
Investments	68	129	59
<b>Net current assets</b>	<b>1,220</b>	<b>1,771</b>	<b>1,968</b>
--Net CA	1,034	1,605	1,885
--Cash	186	166	83
Deferred tax assets (net)	(6)	(43)	(47)
Other non-current assets	390	565	619
<b>Total Assets</b>	<b>4,574</b>	<b>5,450</b>	<b>5,907</b>

## Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY13	FY14	FY15
<b>Net profit/loss before tax &amp; extraordinary items</b>	<b>248</b>	<b>407</b>	<b>445</b>
Net cashflow from operating activities	<b>457</b>	<b>388</b>	<b>558</b>
Net cash used in investing activities	<b>(331)</b>	<b>(573)</b>	<b>(587)</b>
Net cash used from financing activities	<b>(6)</b>	<b>147</b>	<b>(49)</b>
<b>Net inc/dec in cash and cash equivalents</b>	<b>121</b>	<b>(38)</b>	<b>(77)</b>

## Financial performance snapshot

Net sales of the company stood at Rs. 7,851 Crores in FY15, a growth of 14.4% as compared to Rs. 6,862 Crores in FY14. The operating expenses of the company increased by 14.9% YoY to Rs. 6,839 Crores from Rs. 5,951 Crores during the year. The company's EBITDA grew by 11.2% YoY to Rs. 1,013 Crores in FY15 from Rs. 911 Crores in FY14. EBITDA margins contracted by 37 bps to 12.9% in FY15 from 13.3% in FY14. Adjusted profit increased by 6.8% to Rs. 395 Crores in FY15 from Rs. 370 Crores in FY14. The NPM contracted by 36 bps to 5.0% from 5.4% during the above period.

## Profit & Loss Account (Consolidated)

(Rs. Cr)	FY13	FY14	FY15
<b>Net revenue</b>	<b>5,293</b>	<b>6,862</b>	<b>7,851</b>
Expenses	4,605	5,951	6,839
<b>EBITDA</b>	<b>687</b>	<b>911</b>	<b>1,013</b>
Depreciation	204	225	212
<b>EBIT</b>	<b>483</b>	<b>686</b>	<b>801</b>
Interest cost	315	331	395
Other Income	81	69	93
<b>Profit Before Tax</b>	<b>248</b>	<b>424</b>	<b>499</b>
Tax	0	55	107
<b>Profit After Tax</b>	<b>248</b>	<b>369</b>	<b>392</b>
Minority Interest	(0)	(1)	(3)
P/L from Associates	-	-	-
<b>Adjusted PAT</b>	<b>248</b>	<b>370</b>	<b>395</b>
E/o expense / (income)	-	(16)	(54)
<b>Reported Profit</b>	<b>248</b>	<b>354</b>	<b>341</b>

## Key Ratios (Consolidated)

	FY13	FY14	FY15
EBITDA Margin (%)	13.0	13.3	12.9
EBIT Margin (%)	9.1	10.0	10.2
Adj. NPM (%)	4.7	5.4	5.0
ROCE (%)	13.2	15.2	15.9
ROE (%)	11.6	15.3	14.9
Adj. EPS (Rs.)	9.6	14.3	15.3
P/E (x)	8.0	12.1	17.1
BVPS(Rs.)	87.4	100.0	105.5
P/BVPS (x)	0.9	1.7	2.5
EV/EBITDA (x)	6.0	7.8	9.7



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