

Sector: Textile

BUY

Upside: 18.2%

Stock Data

Sensex:	26,6697
52 Week h/l (Rs):	424/ 235
Market cap (Rs Cr) :	8,946
BSE code:	500101
NSE code:	ARVIND
FV (Rs):	10
Div yield (%):	0.68

Shareholding Pattern

	Mar-16	Jun-16	Sep-16
Promoters	43.8	43.8	43.7
DII+FII	39.0	39.0	38.7
Individuals	17.2	17.2	17.6

Source: www.bseindia.com

Share Price Trend



Prices as on 13/12/2016

Analyst-Saurabh Rathi
research@indiainfoline.com

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Textile value chain verticalization & improving product mix to surge margins

Arvind's textile business is a cash cow business with a cash flow of Rs. ~465 cr in FY16. The segment revenue has grown ~14% CAGR over FY12-FY16 & is expected to register ~7% revenue CAGR over FY16-FY19E. Better product mix in denim & woven fabric products will help improve realizations. In addition higher revenues from garment business will drive higher textile revenues. The company is also building two higher margin garment units in Ethiopia with a revenue potential of ~Rs1,000 cr annually. The demonetization drive will affect its revenue for FY17E to some extent, as domestic market accounts for ~50% of the textile revenue. The fabric sold as garment presently stands at ~6%, which it intends to scale up to ~20% over next few years. This move is intended to capture the entire textile value chain benefits, which will aid in scaling up margins. We believe textile business (~61% of consol revenues) EBITDA margins to surge by ~174 bps to 18.6% over FY16-FY19E.

Brand & Retail business to register ~20.7% revenue CAGR over FY16-FY19E

B&R division revenue is expected to grow by ~20.7% CAGR over FY16-FY19E. Power & emerging brands growth in addition to restructuring of Megamart stores will help drive revenue growth. It has strong distribution network with ~1200 retail stores in various format. Also as the emerging brands mature it will foresee better operating leverage. Moreover going ahead the specialty retail brands like GAP, Sephora, The Children's place & Aeropostale the manufacturing would be done indigenously. The management also intends to improve the B2C business mix from ~32% to ~40% over FY16-FY19E. These aforesaid factors will improve EBITDA margins of brands and retail business by ~214 bps to ~8.6% over FY16-FY19E. We expect the B&R business to generate sufficient cash flows for its expansion by FY18E. Further, its recently launched OMNI channel initiative is less capital intensive. The OMNI channel will boost sales as a result it will accrue operating leverage benefits. Focus on asset light model for promoting revenue growth is the prime factor which will improve RoCE by 424 bps over FY16-FY19E to ~17.5%.

ALBL stake sale fetches higher valuation to brands & retail business

Arvind sold 10% stake in 100% subsidiary Arvind Brands and Retail Ltd (ALBL) for Rs 740 cr. This deal pegs ALBL with an EV of Rs 8,000 cr at 20x FY19E EBITDA against estimates of Rs 5,400 cr earlier. This deal is significantly positive for the stock and will re-rate the valuation of brands & retail business. The proceeds from the stake sale would used for retiring debt.

Outlook & Valuation

We have positive outlook on the stock due to 1) improving share of B2C revenues 2) rising share of fabrics sold as % of garments and focus on value added products in textile value chain 3) operating leverage benefits 4) reducing debt to improve cash flows. We have assigned 5x to FY19E EV/EBITDA to textile business and 20x to FY19E EV/EBITDA to ALBL business. We have a BUY rating on the stock with 12 months target price of Rs 408.

Financial Summary

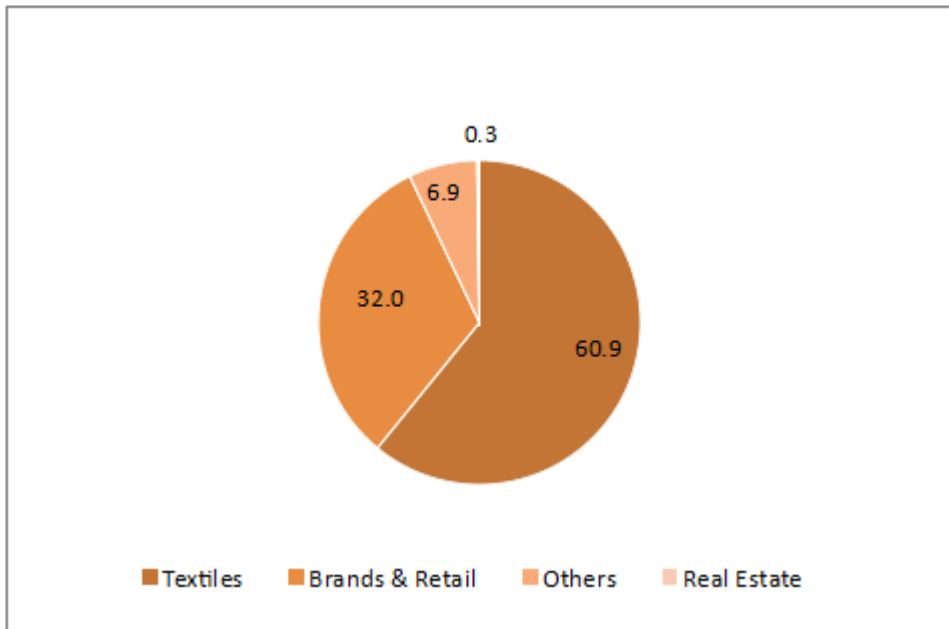
Rs Cr	FY15	FY16	FY17E	FY18E	FY19E
Total Revenue	7,851	8,459	9,338	10,521	11,988
EBITDA	1,027	1,093	1,151	1,343	1,603
EBITDA Margin %	13.1	12.9	12.3	12.8	13.4
Net profit	341	363	400	527	697
EPS Rs	13.2	14.0	15.5	20.4	27.0
P/E (x)	26.1	24.6	22.3	16.9	12.8
ROE (%)	12.5	12.5	12.4	14.3	16.2
ROCE (%)	13.7	13.3	13.5	15.5	17.5

Source: Company, IIFL Research

Category wise brands & revenue share

Category	Brands	Revenue Share %
Power brands	US polo association, Arrow, Flying Machine, Tommy Hilfiger	59
Emerging brands	Calvin Klein, Gant, Ed Hardy, Nautica, Izod, Hanes	15
Speciality retail	Unlimited, The Arvind Store GAP, The children's place, Sephora, Aeropostale	26

Revenue contribution segment wise for FY16



SOTP Valuation

Fig Rs Cr.	FY19E EBITDA	Multiple	FY19E Value
Textile division	1,186	5.0	5,932
Arvind lifestyle brands ltd	375	20.0	7,499
Firm Value			13,431
Less: Debt			2,962
Add: Cash			60
Enterprise Value			10,529
No. of shares (Cr)			26
Value per share (Rs)			408
CMP (Rs)			345
Upside %			18.2

Recommendation Parameters for Fundamental Reports:

- Buy – Absolute return of over +10%
- Accumulate – Absolute return between 0% to +10%
- Reduce – Absolute return between 0% to -10%
- Sell – Absolute return below -10%

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For Research related queries, write at research@indiainfoline.com

For Sales and Account related information, write to customer care: cs@indiainfoline.com or call on 91-22 4007 1000