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Arvind Ltd. - Buy

Arvind, earlier known as Arvind Mills was founded way back in 1931 by three brothers Kasturbhai, Narottambhai and Chimanbhai Lalbhai to produce high-end superfine fabrics. Arvind holds the position of third largest producer of denim in the world with an export network encompassing 70 countries worldwide.

It is one of India's leading super-fine fabric manufacturers and the company has largest portfolio of International brands such as Lee, Wrangler, Nautica, Jansport, Kipling, Tommy, Arrow, US Polo, Pierre Cardin, Palm Beach, Cherokee, hart Schaffner Marx. Its own domestic brands of Flying Machine, Newport, Excalibur and Ruf & Tuf, is setting its vision of becoming the largest apparel brands company in India.

Management

The management of the company is led by R P Singh- Chairman and Managing Director; while other directors include Saran Kumar and Rishi Bhan.

Business Overview

Arvind's adoption of new-age fabrics has seen the Company emerge as one of the largest denim manufacturers in the world. The company caters to a diverse array of customers with its different offerings.

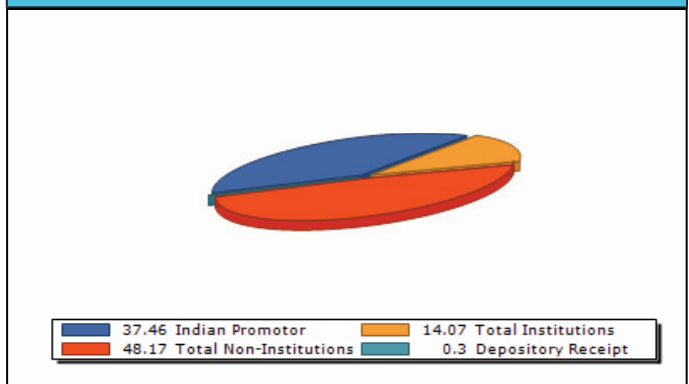
Denim- An annual capacity of 110 million meters; the position of 3rd largest producer of denim in the world; and an export network of 70 countries worldwide. Prominent products in this category include ring denim, indigo voiles, organic denim, bi-stretch denim and fair trade certified denim. This is apart from regular light, medium and heavy weight denims. They come in various shades of indigo, sulphur, yarn-dyeds, in 100% cotton and various blends.

Shirtings- It is one of the most well-known products of Arvind Group, selling at a premium in the international market. It has an astonishing annual capacity of 34 million meters. Prominent products within this category include fabrics with non-iron properties, mechanical finishes, printed fabrics apart from the cotton and cotton blends in Linen, Lycra, Polyester, Modal, Silk etc. with varieties in yarn dyeds and solids.

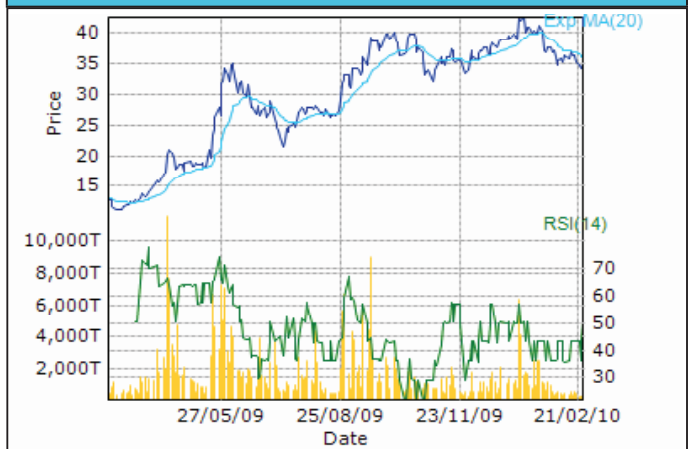
Further, Arvind has a unique plant for manufacturing very light weight indigo dyed fabrics in yarn dyed and solids for top weights. Arvind Shirting has a liquid ammonia based fabric processing plant and a state-of-the-art print house

Stock Data		02/03/2010
Current Mkt Price (Rs)		34.70
52 Week High		43.70
52 Week Low		10.60
Mkt Cap (Rs. in Million)		8049.62
Return in last one Month (%)		-7.96

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	23677.90	22133.20	6.98
Other Income	988.80	880.40	12.31
Total Expenditure	21658.90	19831.70	9.21
Operating Profit	3007.80	3181.90	-5.47
Interest	2141.60	1456.40	47.05
Profits After Tax	-488.20	273.60	-278.44
Reserve & Surplus	0.00	0.00	-21.43
Reported EPS(Rs)	-2.28	1.14	-300.67
Core EBITDA Margin (%)	8.52	10.39	-18.00



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a first for India and one of the few in Asia. The clientele for the product include names like Polo, Ralph Lauren, ESPRIT, GAP, FCUK, Zara, Pull & Bear, Louis Philippe, Van Heusen, Allen Solly, Color Plus, Parx and Park Avenue.

Khaki- The division provides the finest fabrics in the variants of 100% Cotton, Cotton Rich Polyester Blend, Cotton Lycra, Cotton Tencel, Cotton Linen, etc.

Knits - Arvind's knits department has an annual knitting capacity of 10,000 tons. Apart from the basic knitting capabilities (jersey, pique, rib, and interlock), Arvind has mastered specialty knitting techniques such as yarn-dyed autostripers, jacquards, and stretch fabric. The knits vertical has a fabric dyeing capacity of 6500 tons per annum and yarn dyeing capacity of 3500 tons per annum.

Voils- Arvind is the uncontested market-leader in the manufacture of voiles, with a production capacity of 33 million meters per annum. Arvind's voiles are primarily used as blouse material and are sold in the domestic market through an impressive network of 150 dealers, reaching over 5000 retail outlets throughout India.

Latest result analysis

- The company came into profit for the quarter ended December 31, 2009 and its profit stood at Rs 12.25 crore compared to a loss of Rs 33.17 crore in corresponding previous quarter.
- The net sale of the company was down by 4.23% to Rs 566.37 crore compared to Rs 591.40 crore in the same quarter last year.
- The total income of the company decreased by 4.92% to Rs 567.58 crore compared to Rs 595.49 crore.
- Other income of the company witnessed heavy decline of 70.42% to Rs 1.21 crore compared to Rs 4.09 crore in the December 2008 quarter.
- The operating profit margin of the company increased 130 basis points y-o-y to 14.04% in the third quarter of FY10.
- Other Operating Income for the quarter is net of gain on Derivatives of Rs 14.56 crore.
- The company demerged its Brands & Retail business into separate 100% owned subsidiary companies with effect from 1st April 2009 so the results are not comparable.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	5663.70	5914.00	-4.23
Expenditure	4880.50	5177.90	-5.74
Other Income	12.10	40.90	-70.42
EBITDA	795.30	777.00	2.36
Interest	381.20	772.00	-50.62
Net Profit	122.50	-331.70	-136.93
EBITDA Margin (%)	0.14	0.13	6.88
NPM (%)	0.02	-0.06	-138.56
EPS	0.53	-1.53	-134.64

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	23677.90	22133.20	6.98
Total Income	24666.70	23013.60	7.18
Total Expenditure	21658.90	19831.70	9.21
Operating Profit	3007.80	3181.90	-5.47
Profits After Tax	-488.20	273.60	-278.44

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	2387.80	2519.80	-5.24
Reserve & Surplus	9404.70	11970.50	-21.43
Total Liabilities	32245.10	33428.10	-3.54
Investments	1000.60	1049.90	-4.70
Current Liabilities	4632.90	3605.40	28.50
Net Current Assets	10033.30	10887.90	-7.85
Total Assests	32245.10	33428.10	-3.54

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	-2.28	1.14
Core EBITDA Margin (%)	8.52	10.39
EBIT Margin (%)	7.05	7.91
ROA (%)	-1.49	0.82
ROE (%)	-3.88	2.04
ROCE (%)	5.14	5.31
Price/Book (x)	0.26	0.60
Net Sales Growth (%)	6.98	20.50
EBIT Growth (%)	-4.59	-38.23
PAT Growth (%)	-278.44	-77.12
Total Debt/Mcap (%)	6.90	2.27



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Industry Scenario

Indian textile industry is one of the oldest industries of the country having its roots from the pre-independence era; It has expanded from domestic small-scale industry to the status of supremacy it currently holds. The Indian textile industry is the second largest in the world -- second only to China. The industry account for 38% of the country's total exports and is, therefore, a very important industry. The textile industry contributes about 4% to the GDP, 14% to industrial production, and 16% to India's export earnings apart from this it also provides direct employment to more than 35 million people.

The apparel industry is largest foreign exchange earning sector, contributing 12% of the country's total exports so it will always be attracting concentration from the government either it be policy making, or protecting its rights overseas.

This sector is likely to grow faster than the broader market because of a increase in worldwide demand for Indian textiles and garments and the reduction in the government restrictions on the import of the used capital goods and easy availability of cost and work efficient textile manufacturing equipments. As a result of various initiatives taken by the government, there has been new investment of Rs.50,000 crore in the textile industry in the last five years the cotton production of the country too has increased by 57% over the last five years.

The Indian textile industry has faced a difficult year in 2009. After being hit severely by the global economic downturn in the last quarter of 2008, the industry is currently in recovery mode. Exports, which went down sharply in wake of the global crisis and resulting decline in demand from key trading partners, have begun to stabilise. The industry has also got a strong support from domestic demand which has remained largely robust to the downturn except for a brief period in second half of last fiscal.

Textile exports that have been declining through most of the last year have got some respite in last couple of months. While the overall level of exports in FY2010 so far remains in red, we expect the monthly figures to improve going forward. The industry has been actively trying to diversify both, the direction as well as the basket of exports. Riding on the sops provided by the government under the Market Linked Focus Product

Scheme the industry has been looking to export into new, relatively under tapped markets like Japan and also looking to export new products. This should help textile producers to increase export numbers going forward.

Investment Rationale

The company has been witnessing overall business growth due to robust demand for all product categories. Its fabric business, in the recent past has outperformed the expectations. The company expects to see decent growth in volume as well as improvement in operating margins in near future on favorable exchange rate scenario.

The company has chalked an aggressive strategy directed at the still nascent rural markets by means of direct selling to the consumers, where it expects to get the first mover advantage in reaching the interiors with a differentiated product offering. Through its rural outreach it aims to help enrich the lives of those who have not yet experienced the highest quality of products, a part of its innovative product portfolio.

Wal-Mart has placed a very big order for organic denim with the textile major around three months back. The call of the global consumer to let fashion go organic has driven the denim heavyweight Arvind to manufacture organic denims. Currently, it has a capacity to manufacture around 110 million meters of denim per annum, of which close to half-a-million meters is organic denim. The company now plans to scale up capacity to meet the ever-growing demand from global retailers. This development will not only help the company to complete the order effectively but will also help it to prepare for the future orders of similar kind.

The company is showing growth not only at the domestic level but on the global front too and has reported 16% growth in export volume and 54% growth in domestic volume with its aggressive market share acquisition plan in domestic market.

At CMP of Rs 34.70, the stock is trading at an EV/EBITDA of 8.99 and a P/E multiple of 54.10. The company's net sales is likely to grow at a CAGR of 4% to the year 2011. We would recommend a BUY in the stock with a price target of Rs 48, keeping in view the continuous better performance in all product category and expected growth in volume as well as improvement in operating margins in near future.



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