

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	ARMI.BO
Bloomberg code	ARVND IN
Market cap. (US\$ mn)	164
6M avg daily turnover (US\$ mn)	3.6
Issued shares (mn)	226.5
Target price (Rs)	22

Performance (%) 1M 3M 12M

Absolute	(15)	28	151
Relative	(8)	22	43

Valuation Ratios (Consolidated)

Yr end 31 Mar	FY10E	FY11E
EPS (Rs)	1.9	2.8
+/- (%)	NA	47.6
PER (x)	18.1	12.3
PBV (x)	0.6	0.6
EV/Sales (x)	1.1	1.1
EV/EBITDA	8.3	7.3

Major shareholders (%)

Promoters	38
FII's	2
MF's	3
BFSI's	9
Public & Others	48

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	5,989	5,998	0.2	11,444	11,769	2.8	27,367	24,314	(11.2)	24,899	2.4
EBITDA	645	836	29.7	1,194	1,669	39.8	3,015	3,273	8.6	3,620	10.6
EBITDA Margin (%)	10.8	13.9	-	10.4	14.2	-	11.0	13.5	-	14.5	-
Other Income	34	30	(12.3)	143	78	(45.4)	375	149	(60.3)	124	(16.4)
Interest	363	432	18.9	685	928	35.5	2,823	1,798	(36.3)	1,906	6.0
Depreciation	293	283	(3.7)	588	575	(2.2)	1,606	1,163	(27.6)	1,117	(4.0)
PBT	22	152	584.2	63	244	285.4	(1,039)	461	-	722	56.7
Tax	6	-	-	8	-	-	73	35	(51.3)	94	166.0
Prior period adjustment	-	-	-	-	-	-	17	-	-	-	-
Minority interest	-	-	-	-	-	-	100	-	-	-	-
Reported PAT	16	152	826.2	55	244	344.5	(994)	426	-	628	47.6
Adjusted PAT	16	152	826.2	55	244	344.5	(1,012)	426	-	628	47.6
Adjusted PAT Margin (%)	0.3	2.5	-	0.5	2.1	-	(3.7)	1.8	-	2.5	-
Adjusted EPS (Rs)	0.1	0.7	795.5	0.3	1.1	329.8	(4.6)	1.9	-	2.8	47.6
P/E (x)	-	-	-	-	-	-	-	18.1	-	12.3	-

Note: The quarterly and half yearly numbers are standalone and yearly numbers are consolidated.

Arvind

Price: Rs 34

BSE Index: 15,896

31 October 2009

Maintain SELL

2QFY10 Result – Improvement in operations

The standalone results for the quarter were in line with our expectation. During the quarter, the sales from the fabric segment improved by 37.9% to Rs 3,930 mn, where the denim fabric increased by 27.5% to Rs 2,542 mn, increase in shirting fabric by 68.6% to Rs 1,248 mn and increase in knit and grey fabrics by 20.3% to Rs 140 mn in the quarter. The garment segment improved by 36% to Rs 1,542 mn with increase in shirts by 55.8% to Rs 436 mn, increase in jeans by 51.5% to Rs 794 mn and knitted garments declined by 5.6% to Rs 312 mn in the quarter due to lower off take by customers. Fabric business contributes 65% to the total sales, garment business contributes 26% and the rest 9% is from electronics and other services. The power and fuel cost reduced by 25% to Rs 558 mn, as the company has a tie-up with GAIL for 9 years, to procure gas required for its captive power plant. During 2QFY10 there was profit on sale of fixed assets of Rs 48 mn, and foreign exchange loss of Rs 31 mn which is included in other income. The stock trades at 18.1x FY10E EPS of Rs 1.9 and 12.3x FY11E EPS of Rs 2.8. At the target price of Rs 22, we maintain Sell.

Highlights

- The company demerged the branded apparel business into wholly owned subsidiary 'Arvind Lifestyle Brands Ltd.' and retail business into wholly owned subsidiary 'Arvind Retail Ltd.' with effect from 01 April 2009, hence the 2QFY10 and 1HFY10 figures are not directly comparable on YoY basis
- Excluding branded apparel and retail business the sales improved by 25% to Rs 5,998 mn and EBITDA improved by 44% to Rs 836 mn, in the quarter on YoY basis.

Income Statement (Consolidated)

Yr end 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Net sales	25,787	27,170	24,314	24,899
Growth (%)	42.3	5.4	(10.5)	2.4
Operating expenses	(23,259)	(24,352)	(21,042)	(21,278)
Operating profit	2,528	2,818	3,273	3,620
Other operating income	953	197	-	-
EBITDA	3,481	3,015	3,273	3,620
Growth (%)	17.6	(13.4)	8.6	10.6
Depreciation	(1,754)	(1,606)	(1,163)	(1,117)
Other income	105	375	149	124
EBIT	1,832	1,784	2,259	2,628
Interest paid	(1,566)	(2,823)	(1,798)	(1,906)
Pre-tax profit	266	(1,039)	461	722
(before non-recurring items)				
Pre-tax profit	266	(1,039)	461	722
(after non-recurring items)				
Tax (current + deferred)	(74)	(73)	(35)	(94)
Net profit (before Minority Interest, Pref. Dividend, etc.)	192	(1,112)	426	628
Interest, Pref. Dividend, etc.)				
Prior period adjustments	(5)	17	-	-
Minority interests	(31)	100	-	-
Reported PAT	155	(994)	426	628
Adjusted net profit	161	(1,012)	426	628
Growth (%)	(36.4)	(729.1)	NA	47.6

Balance Sheet (Consolidated)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and marketable sec.	234	397	561	1,019
Other current assets	15,153	14,476	17,243	18,424
Investments	169	83	83	83
Net fixed assets	25,057	24,736	22,027	20,911
Total assets	40,613	39,759	39,982	40,504
Current liabilities	4,222	5,733	6,500	6,760
Total debt	22,147	23,096	19,892	19,527
Other non-current liabilities	255	256	128	128
Total liabilities	26,625	29,086	26,521	26,414
Share capital	2,520	2,388	2,265	2,265
Reserves & surplus	11,343	8,278	11,182	11,810
Less: Misc. expenditure	(95)	(102)	(95)	(95)
Shareholders' funds	13,768	10,564	13,351	13,980
Minorities interests	220	110	110	110
Total equity & liabilities	40,613	39,759	39,982	40,504
Capital employed	34,866	35,208	33,754	33,613

Cash Flow Statement (Consolidated)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	266	(1,039)	461	722
Depreciation	3,640	1,430	(1,485)	1,117
Chg in working capital	615	1,070	(631)	(921)
Total tax paid	(19)	979	(1,532)	(94)
Other operating activities	(5)	17	-	-
Cash flow from oper. (a)	4,497	2,457	(3,187)	824
Capital expenditure	(7,533)	(1,110)	4,193	-
Chg in investments	312	86	(1)	-
Others	(4,376)	1,014	2,823	-
Cash flow from inv. (b)	(11,598)	(10)	7,016	-
Free cash flow (a+b)	(7,101)	2,448	3,830	824
Equity raised/(repaid)	4,680	(3,205)	(1,111)	-
Chg in minorities	189	(10)	-	-
Debt raised/(repaid)	2,804	949	(3,204)	(366)
Dividend (incl. tax)	(29)	(20)	-	-
Other financing activities	(532)	-	650	-
Cash flow from fin. (c)	7,112	(2,285)	(3,665)	(366)
Net chg in cash (a+b+c)	11	162	165	458

Key Ratios (Consolidated)

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	0.7	(4.6)	1.9	2.8
Growth	(39.2)	(729.1)	NA	47.6
Book NAV/share (Rs)	63.9	48.7	58.9	61.7
Dividend/share (Rs)	0.1	0.1	-	-
Dividend payout ratio	18.0	(1.9)	-	-
Tax	27.9	(7.0)	7.7	13.0
EBITDA margin	13.0	11.0	13.5	14.5
EBIT margin	6.9	6.5	9.3	10.6
RoCE	5.3	5.1	6.7	7.8
Net debt/Equity	156.7	212.7	145.6	133.2

Valuations (Consolidated)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	46.4	NA	18.1	12.3
PCE	3.9	12.6	4.9	4.4
Price/Book	0.5	0.7	0.6	0.6
Yield (%)	0.3	0.2	-	-
EV/Net sales	1.1	1.1	1.1	1.1
EV/EBITDA	8.5	10.1	8.3	7.3

Du Pont Analysis - ROE (Consolidated)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	0.6	(3.7)	1.8	2.5
Asset turnover	0.7	0.7	0.6	0.6
Leverage factor	2.8	3.3	3.3	2.9
Return on equity (%)	1.2	(8.2)	3.5	4.6

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