

## RESULT UPDATE

### Share Data

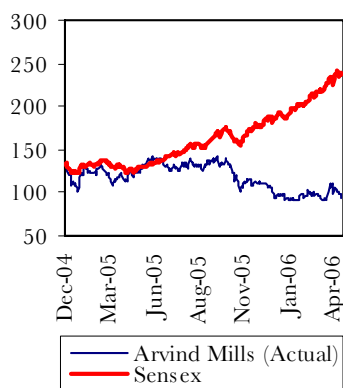
Reuters code	ARMI.BO
Bloomberg code	ARVND IN
Market cap. (US\$ mn)	460

Performance (%)	1m	3m	12m
Absolute	1	1	(23)
Relative	(6)	(15)	(59)

### Major shareholders (%)

Promoters	34
FII's	25
MF's	7
ADR's/GDR's/Other Foreign	1
Institutions	9
Public & Others	24

### Relative performance



## Arvind Mills Ltd.

Maintain BUY

Price: Rs. 94

BSE Index: 11835

28<sup>th</sup> April 2006

### 4QFY06 Results

The revenues for the quarter stood at Rs. 3,577 mn as against Rs. 4,390 mn in the corresponding quarter last year; a drop of 18% y-o-y. This was basically on account of a 10% y-o-y decline in denim realisations and 17% y-o-y fall in denim fabric volumes. The average realisation for the quarter stood at Rs. 94.38 per mtr as against Rs. 102.56 per mtr in the corresponding quarter last year and the volumes for the denim fabric stood at 21.33 mn mtr as against 25.67 mn mtr in the corresponding quarter last year.

The operating profits for the quarter stood at Rs. 864 mn as against Rs. 1,200 mn in the corresponding quarter last year; a drop of 18% y-o-y; led by the falling denim price realisation and the denim volumes.

Profit after tax stood at Rs. 210 mn as against Rs. 530 mn in the corresponding quarter last year; a drop of 60% y-o-y. The drop in the y-o-y is significant on account of the high tax right back in the corresponding quarter last year and a forex loss of Rs. 50 mn for the current quarter as against nil for the corresponding quarter last year.

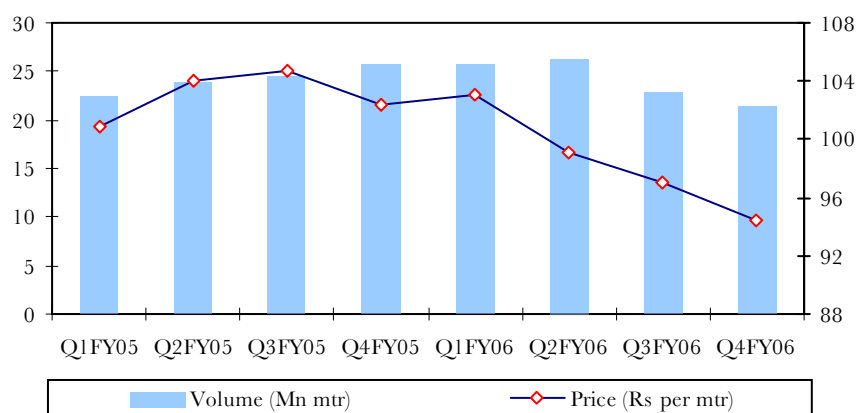
### Developments

1. Arvind Mills Ltd. (AML) has decided to merge Arvind Brands Limited and Arvind Fashions Limited; 100% subsidiaries in itself. Arvind Brands Limited has brought forward loss of approximately Rs. 2,500 mn which essentially results in a tax savings of Rs. 700 mn. In other words, AML shall continue to remain under MAT up to FY09E.
2. AML has also proposed to increase its jeans manufacturing operations at Bangalore to 9 mn pieces per annum (operational by January 2007) from 3 mn pieces per annum currently. Further, AML is also contemplating setting up a 1.5 mn piece per annum new trouser facility at Ahmedabad and also add 1 mn piece per annum to its existing knit garmenting operation.
3. The total outlay for the garment expansion is expected to be approximately Rs. 500 mn which shall be funded through internal accruals and debt (TUF).

### Outlook

The outlook on the denim fabric prices remain sub due on account of the supply glut. However, in the near term, situation is unlikely to improve but the dependence on the denim fabric as a percentage of total turnover is expected to come down, as the garmenting division starts contributing to the turnover. We expect the contribution to reduce to 40% of total turnover by FY08E from currently 60%.

## Volume and price realisation



**We shall be coming up with a detailed update on AML incorporating the expansion plans and the merger of Arvind Brands Limited and Arvind Fashions Limited which is a 100% subsidiary of Arvind Brands Limited.**

## Valuations

At the current market price, AML trades at 10x FY07E and 9x FY08E. However, we shall be revising our numbers to factor in the expansion plans and the merger of Arvind Brands Limited. We continue to maintain our positive outlook on AML and reiterate BUY.

## Financial highlights

(Rs mn)	4QFY05	4QFY06	Y-o-Y (%)	FY05	FY06	Y-o-Y (%)	FY07E	Y-o-Y (%)	FY08E	Y-o-Y (%)
Net sales	4,450	3,577	(19.6)	16,788	15,920	(5)	18,280	(13)	19,564	7
EBITDA	1,118	864	(22.7)	3,887	3,990	3	4,707	(15)	5,162	10
EBITDA margin(%)	25	24	–	23	25	–	26	–	26	–
Other Income	50	60.0	(80.1)	76	225	1,100	0	–	–	–
Interest	317	330	4.2	1,179	1,300	10	873	49	806	(8)
Depreciation	382	394	3.2	1,491	1,551	4	1,750	(11)	1,803	3
PBT	470	200	(57.4)	1,293	1,364	6	2,084	(35)	2,553	23
Tax	60*	10	–	20	92	373	250	(63)	660	164
PAT	530	210	(60.4)	1,273	1,272	(0)	1,834	(31)	1,893	3
EPS(Rs.)	2.5	1.0	(60.5)	6.3	6.0	(4.8)	8.6	(30)	10.5	22
P/E(x)	–	–	–	–	–	–	10	–	9	–

\*Tax right back.

**Income Statement**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Net sales	16,788	16,749	18,280	19,564
Growth (%)	17.0	(0.2)	9.1	7.0
Operating expenses	(12,878)	(12,626)	(13,663)	(14,493)
Operating profit	3,911	4,123	4,617	5,072
Other operating income	76	81	90	90
<b>EBITDA</b>	<b>3,987</b>	<b>4,204</b>	<b>4,707</b>	<b>5,162</b>
Growth (%)	8.6	5.5	12.0	9.7
Depreciation	(1,490)	(1,612)	(1,750)	(1,803)
Other income	(23)	-	-	-
<b>EBIT</b>	<b>2,474</b>	<b>2,592</b>	<b>2,957</b>	<b>3,358</b>
Interest paid	(1,179)	(1,014)	(873)	(806)
Pre-tax profit	1,295	1,578	2,083	2,552
(before non-recurring items)				
Pre-tax profit	1,295	1,578	2,083	2,552
(after non-recurring items)				
Tax (current + deferred)	(20)	(174)	(250)	(330)
Net profit	1,275	1,404	1,833	2,222
<b>Adjusted net profit</b>	<b>1,234</b>	<b>1,369</b>	<b>1,804</b>	<b>2,202</b>
Growth (%)	39.5	10.9	31.8	22.0
Preference dividend	(41)	(35)	(29)	(21)
<b>Net income</b>	<b>1,234</b>	<b>1,369</b>	<b>1,804</b>	<b>2,202</b>

**Balance Sheet**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Current assets	16,016	14,587	14,662	15,500
Investments	1,530	2,547	2,516	2,964
Net fixed assets	14,849	14,376	14,187	13,914
<b>Total assets</b>	<b>32,395</b>	<b>31,510</b>	<b>31,366</b>	<b>32,378</b>
Current liabilities	2,713	2,794	3,042	3,174
Total debt	16,824	13,280	11,431	10,498
Other non-current liabilities	46	46	46	46
<b>Total liabilities</b>	<b>19,582</b>	<b>16,119</b>	<b>14,518</b>	<b>13,718</b>
Share capital	2,614	2,684	2,580	2,441
Reserves & surplus	10,199	12,706	14,269	16,220
<b>Shareholders' funds</b>	<b>12,813</b>	<b>15,390</b>	<b>16,849</b>	<b>18,661</b>
<b>Total equity &amp; liabilities</b>	<b>32,395</b>	<b>31,509</b>	<b>31,367</b>	<b>32,379</b>

**Cash Flow Statement**

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Pre-tax profit	1,295	1,578	2,083	2,552
Depreciation	1,448	1,612	1,750	1,803
Chg in working capital	(4,344)	1,492	292	(291)
Total tax paid	1	(194)	(250)	(330)
<b>Cash flow from oper. (a)</b>	<b>(1,601)</b>	<b>4,488</b>	<b>3,876</b>	<b>3,735</b>
Capital expenditure	(1,326)	(1,139)	(1,561)	(1,530)
Chg in investments	(67)	(1,017)	31	(448)
Other investing activities	2	(62)	(30)	(39)
<b>Cash flow from inv. (b)</b>	<b>(1,391)</b>	<b>(2,218)</b>	<b>(1,560)</b>	<b>(2,017)</b>
<b>Free cash flow (a+b)</b>	<b>(2,992)</b>	<b>2,270</b>	<b>2,316</b>	<b>1,718</b>
Equity raised/(repaid)	(35)	1,470	(104)	(139)
Debt raised/(repaid)	3,270	(3,544)	(1,849)	(933)
Dividend (incl. tax)	(242)	(235)	(242)	(232)
<b>Cash flow from fin. (c)</b>	<b>2,993</b>	<b>(2,309)</b>	<b>(2,195)</b>	<b>(1,304)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1</b>	<b>(39)</b>	<b>121</b>	<b>414</b>

**Key Ratios**

Yr. ended 31 Mar (%)	FY05	FY06E	FY07E	FY08E
EPS (Rs.)	6.3	6.5	8.6	10.5
EPS growth	35.6	3.5	31.8	22.0
EBITDA margin	23.6	25.0	25.6	26.3
EBIT margin	14.7	15.4	16.1	17.1
ROCE	9.0	8.9	10.4	11.7
Net debt/Equity	130.3	85.7	66.6	52.9

**Valuations**

Yr. ended 31 Mar. (x)	FY05	FY06E	FY07E	FY08E
PER	15.6	15.1	11.4	9.4
PCE	7.1	6.9	5.8	5.2
Price/Book	1.5	1.3	1.2	1.1
Yield (%)	1.0	0.9	1.0	1.0
EV/Net sales	2.1	1.9	1.7	1.5
EV/EBITDA	9.0	7.7	6.5	5.6

**Du Pont Analysis – ROE**

Yr. ended 31 Mar. (x)	FY05	FY06E	FY07E	FY08E
Net margin (%)	7.4	8.2	9.9	11.3
Asset turnover	0.6	0.5	0.6	0.6
Leverage factor	2.4	2.3	2.0	1.8
Return on equity (%)	10.0	9.7	11.2	12.4

**Bhargav Buddhadev**  
**bhargav.buddhadev@bksec.com**  
**Tel. No. +91-22-4007 6202**

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**B & K SECURITIES INDIA PRIVATE LTD.**

**Equity Market Division:** 12/14, Brady House, 2nd Floor, Veer Nariman Road, Fort, Mumbai-400 001, India. Tel.: 91-22-2289 4000, Fax: 91-22-2287 2767.

**Registered Office:** Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

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