

Arvind Mills

Relative to sector: **Underperformer**

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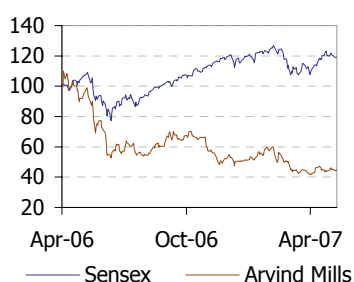
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 209mn
Market cap	: Rs.9.5bn
52 week high/low	: Rs.99/ Rs.42
Avg. daily vol. (6mth)	: 2.1mn shares
Bloomberg code	: ARVND IN
Reuters code	: ARMI.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 33.9	0.0
FIIs	: 18.5	(2.8)
MFs / UTI	: 4.3	(0.6)
Banks / FIs	: 10.2	0.2
Others	: 33.1	3.2

NO REPRIEVE IN THE INTERIM TERM

Arvind Mills (AML) reported standalone revenues of Rs 4.8bn (↑ 35%YoY and ↑ 10% excluding the impact of the Arvind brands merger), EBIDTA of Rs 672mn (↓ 26%) and adj. PAT of Rs 40mn (↓ 85%), in Q4FY07. Lower denim volume off-take (↓ 9%) and higher operational costs resulted in a contraction of EBIDTA margin by 12 percentage points to 14% in Q4FY07. With a continuing supply glut in the denim markets & higher cotton costs expected next season, the management has guided for further margin contraction in H2FY08.

FY07 (consolidated)- Highlights

- **Supply glut continues:** Volumes declined by 15% YoY to 81mn meters and realizations were down by 5% YoY to Rs 94/ mtr for FY07. Realizations improved to Rs 100 /mtr (up 6%) in Q4FY07, as the management opted out of the CENVAT scheme. We expect the supply overhang to continue and have forecasted denim realizations at Rs 93/ mtr in FY08E.
- **Pressure on margins to persist:** Depleting low cost cotton inventory (covered at ave. Rs 42.5/ kg till Aug-07) and higher cotton costs in the next season are expected to exert pressure on margins in H2FY08. The management also expects rupee appreciation to impact margins by 2-3% in FY08E.
- **Apparel retail thrust:** The apparel retail segment grew by 18% YoY to Rs 3.3bn, excluding the VF brands hive-off. There are plans to increase exclusive branded outlets from 122 in FY07 to 193 by FY08E. The apparel discount chain "Megamart" (~Rs 1bn sales in FY07) will also be extended from 55 (owned & franchised) stores to 100 stores in 2 years.
- **Apparel exports gaining momentum.** Apparel exports grew by 71% to Rs 2.8bn (13% of FY07 revenue), this was largely due to improvement in productivity and additional jeans capacity.

At CMP (Rs 45), the stock trades at 23x FY08E EPS of Rs 1.9 and 12x FY09E EPS of Rs 3.8. We reiterate our sector **Underperformer** rating on the stock.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	21,169	873	-	4.2	(39)	24.1	6.3	7.5	10.1	1.0
2007	21,822	271	-	1.3	(69)	34.9	1.8	5.6	8.4	1.0
2008E	23,555	408	4.9	1.9	50	23.2	2.6	5.7	8.0	1.0
2009E	25,673	790	4.7	3.8	94	12.0	5.0	6.7	7.0	1.0

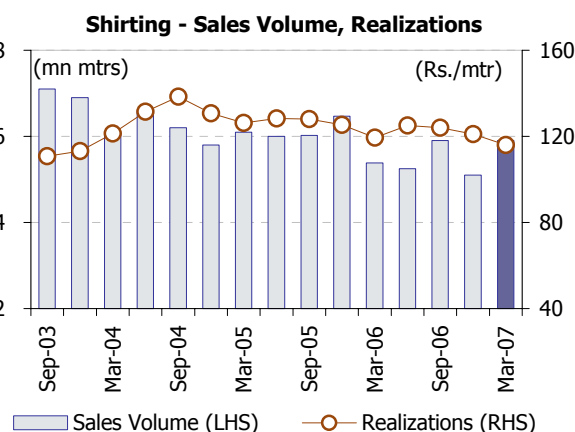
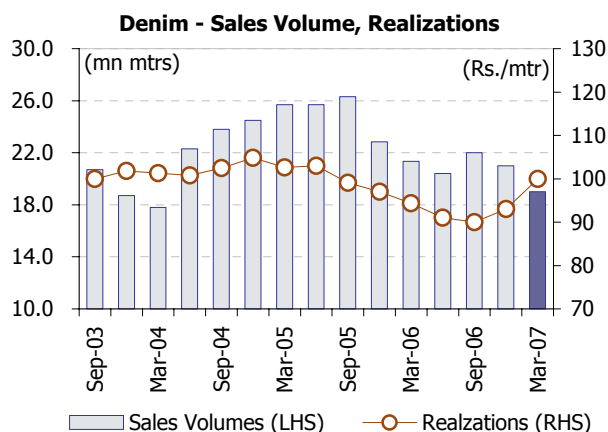
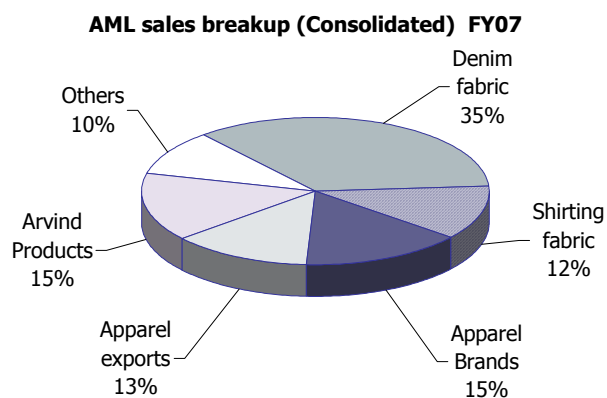
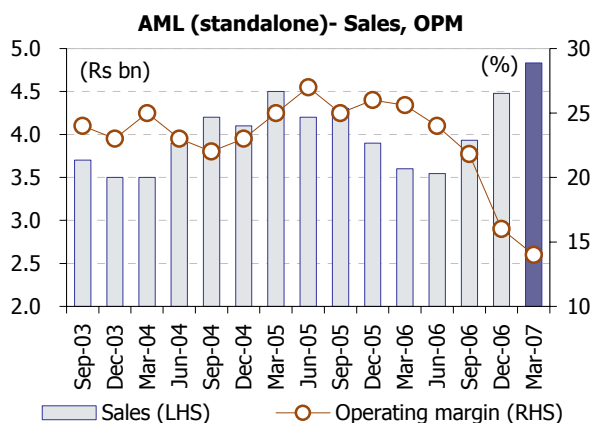
Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended (Standalone)					Y/E (Consolidated)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	4,831	3,578	35.0	4,479	7.9	23,555	21,822	7.9
EBIDTA	672	914	(26.5)	766	(12.3)	3,710	3,647	1.7
Other income	81	60	34.3	27	204.2	129	194	(33.6)
PBIDT	753	974	(22.7)	793	(5.0)	3,839	3,842	(0.1)
Depreciation	302	394	(23.3)	347	(13.0)	1,802	1,791	0.6
Interest	407	330	23.4	399	2.2	1,576	1,712	(8.0)
PBT	44	251	(82.6)	47	(7.2)	461	338	36.4
Tax	4	(15)	(128.6)	10	(58.8)	23	34	(31.8)
Minority Interest	-	-	-	-	-	30	33	(9.1)
Adjusted PAT	40	266	(85.1)	37	7.0	408	271	50.4
Extra ordinary income/ (exp.)	15	(53)	-	1,011	(98.6)	-	942	-
Reported PAT	54	213	(74.6)	1,048	(94.8)	408	1,213	-
No. of shares (mn)	209	209	-	209	-	209	209	-
EBIDTA margins (%)	13.9	25.6	-	17.1	-	15.8	16.7	-
PBIDT margins (%)	15.6	27.2	-	17.7	-	16.3	17.6	-
EPS - annualized (Rs.)	0.8	5.1	(85.1)	0.7	7.0	1.9	1.3	50.4

Source: Company, ENAM Research

Key variables



Source: Company reports, ENAM Research

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