

21 May 2024

India | Equity Research | Q4FY24 results review

Arvind Fashions

Branded Apparel

Walking the talk; delivering on core promises

The strategy of delivering profitable revenue growth stood the test of time for ARVIND. Having said that, the LTL for the quarter at 4% is tad better vs other brands/retailers (SHOP, GoFashion etc.) in the current (tough) market condition. Improvement in operating profit margins by 150bps YoY despite higher re-investments in the brands (Ad-Spends: +100bps YoY) is encouraging. We believe, having completed the last leg of portfolio reorientation in 3QFY24, ARVIND now has a clear mandate to drive retail expansion (~50% contribution from EBOs) led by healthy SSSG (7%+) and operating cash flow. Its continued aspiration to add 200 (largely FOFO) EBOs p.a. is prudent. **ADD**.

Decent revenue print

Revenue grew 4% YoY at INR 11bn driven by healthy 4% LTL growth in retail channel. Revenue growth from kids wear accelerated to 20% YoY (vs 15% YoY in 3QFY24). Retail channel grew by 10%YoY while it added 24 EBOs during Q4FY24 (added 146 EBOs FY24). Revenue contribution from retail channel and online expanded 300bps and 700bps YoY to 41% and 25% respectively. However, revenue share from wholesale and department stores declined to 35% (from 44%) YoY. Revenue from online D2C business (market place and NNNOW) grew 50%YoY. However, revenue from online B2B business declined due to seasonality (shift in sales from Q4FY24 to Q1FY25).

Channel mix and cost efficiency drives margin expansion

Gross margin contracted by 203bps YoY to 51.2%. However, EBITDA margin improved by 162bp YoY to 12.4% led by cost efficiency and operating leverage benefits despite the quarter witnessing higher marketing ad spends (+100bps YoY). EBITDA margin of power brands expanded 150bps YoY to 13.5%. Gross working capital remained stable (debtor days lower by 2 days), stock turn stood at healthy 4x. Adjusted PAT was up 25% YoY to INR 402mn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	40,695	42,591	47,776	54,332
EBITDA	4,230	5,105	6,076	7,197
EBITDA Margin (%)	10.4	12.0	12.7	13.2
Net Profit	590	625	1,237	1,664
EPS (INR)	4.5	4.7	9.3	12.6
EPS % Chg YoY	(204.9)	3.2	62.3	24.9
P/E (x)	59.5	57.6	35.5	28.4
EV/EBITDA (x)	16.3	13.3	11.2	9.5
RoCE (%)	11.7	12.5	18.9	23.6
RoE (%)	7.1	6.5	12.3	16.3

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Market Data

Market Cap (INR)	65bn
Market Cap (USD)	786mn
Bloomberg Code	ARVINDFA IN
Reuters Code	ARVF BO
52-week Range (INR)	534 /264
Free Float (%)	52.0
ADTV-3M (mn) (USD)	1.3

Price Performance (%)	3m	6m	12m
Absolute	6.6	16.8	76.3
Relative to Sensex	5.3	4.2	56.5

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.9)	(1.9)
EBITDA	(0.8)	(0.9)
EPS	(1.6)	(1.1)

Previous Reports

14-02-2024: [Q3FY24 results review](#)

08-11-2023: [Q2FY24 results review](#)

Other Highlights

(1) US Polo continues to dominate casual lifestyle segment with an expectation to reach INR 20bn revenue in medium term. (2) premiumization continued to be a key differentiator aiding to strong sell through despite tough market conditions (3) focus towards opening larger size iconic stores (4) continued strong traction in the adjacent category of US Polo; especially footwear, kids wear and women wear (5) Arrow brand witnessed steady revenue growth across channels; premiumization through 1851 line had strong sell-thru; significant investment in marketing through new campaigns featuring Hrithik Roshan. (6) expanding new retail identity in Arrow with focus on faster EBO expansion. (7) in Flying Machine; launched new brand identity through new logo, design and brand positioning. Footwear category extension is gaining good traction. (8) Calvin Klein continues to enjoy market leadership in bridge to luxury segment in Jeans, Tees and Innerwear segments

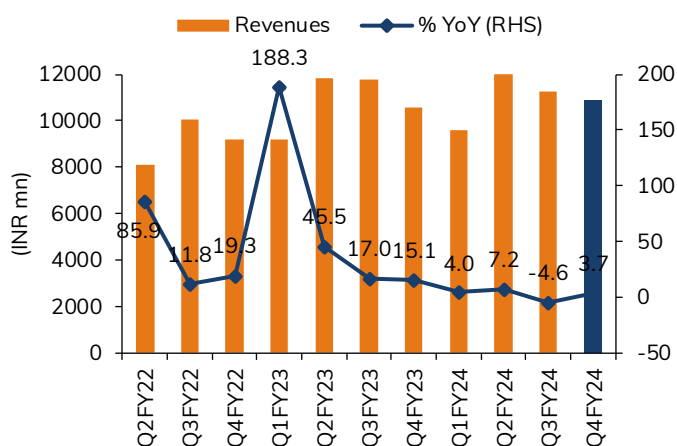
Valuations and risks

We marginally cut our revenue/EBITDA/PAT estimates by ~1-2% for FY25-26E. We model revenue / EBITDA CAGRs of 13/19 (%) over FY24-FY26E. Maintain **ADD** with a revised DCF-based target price of INR 530 (was INR 485). Key downside risks: increase in competitive intensity from online/offline players, and slower than expected improvement in profitability of emerging businesses.

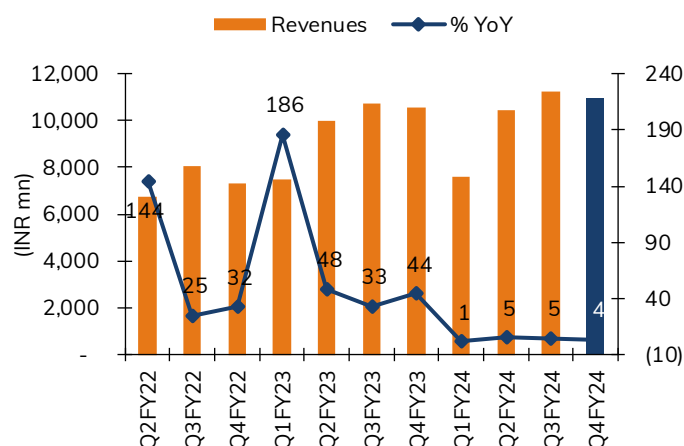
Exhibit 1: Q4FY24 results review

(INR m)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenues	10,939	10,552	3.7	11,251	-2.8	42,591	40,695	4.7
COGS	5,342	4,939	8.1	5,248	1.8	20,371	20,667	-1.4
Gross profit	5,597	5,613	-0.3	6,002	-6.8	22,220	20,028	10.9
Gross Margin (%)	51.2	53.2	-203 bps	53.3	-218 bps	52.2	49.2	296 bps
Employee expenses	713	657	8.6	655	8.9	2,601	2,440	6.6
% of net sales	6.5	6.2	30 bps	5.8	70 bps	6.1	6.0	11 bps
Other Expenses	3,532	3,824	-7.6	3,916	-9.8	14,514	13,358	8.7
% of net sales	32.3	36.2	-395 bps	34.8	-251 bps	34.1	32.8	125 bps
EBITDA	1,351	1,132	19.4	1,431	-5.6	5,105	4,230	20.7
EBITDA Margin (%)	12.4	10.7	162 bps	12.7	-37 bps	12.0	10.4	159 bps
Depreciation	591	546	8.3	615	-3.9	2,301	2,031	13.3
EBIT	760	587	29.6	816	-6.84	2,805	2,199	27.5
Other Income	130	136	-4.6	69	88.0	337	503	-33.0
Interest Expenses	354	341	4.1	383	-7.4	1,442	1,210	19.2
PBT	536	382	40.2	503	6.6	1,700	1,493	13.9
Taxes	134	61	118.1	140	-4.2	573	401	42.9
Adjusted PAT	402	321	25.3	363	10.8	1,128	1,092	3.2
Extra-ordinary items	0	0		62		62	0	
Minority Interest	154	176	-12.8	139	10.8	565	503	-12.4
Reported PAT	249	145	71.7	163	52.9	501	590	-15.1
EPS	1.88	1.1	71.7	1.2	52.7	3.78	4.46	-15.1

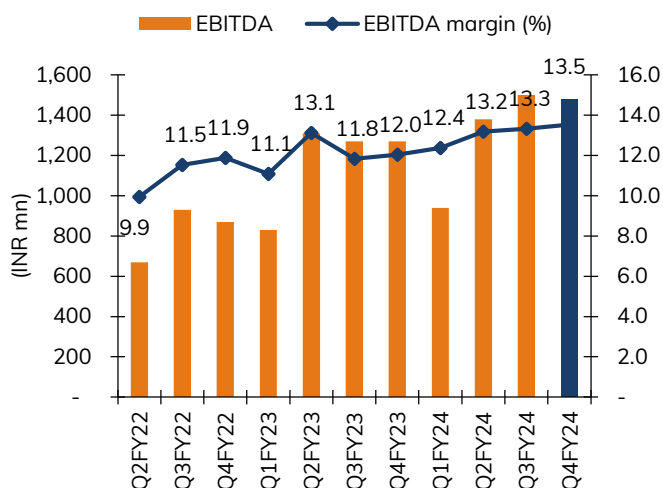
Source: Company data, I-Sec research

Exhibit 2: Revenue

Source: Company data, I-Sec research

Exhibit 3: Power Brands - Revenue

Source: Company data, I-Sec research

Exhibit 4: Power Brands – EBITDA

Source: Company data, I-Sec research

Exhibit 5: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	36.8	36.8	36.8
Institutional investors	24.7	25.1	26.4
MFs and others	7.2	7.2	9.5
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.1	0.1
FIIIs	17.4	17.8	16.8
Others	38.5	38.1	36.8

Source: Bloomberg

Exhibit 6: Price chart

Source: Bloomberg

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	40,695	42,591	47,776	54,332
Operating Expenses	36,465	37,486	41,701	47,135
EBITDA	4,230	5,105	6,076	7,197
EBITDA Margin (%)	10.4	12.0	12.7	13.2
Depreciation & Amortization	2,031	2,301	2,484	2,825
EBIT	2,199	2,805	3,591	4,372
Interest expenditure	1,210	1,442	1,505	1,695
Other Non-operating Income	503	337	354	372
Recurring PBT	1,493	1,700	2,441	3,049
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	401	573	610	762
PAT	1,093	1,128	1,830	2,287
Less: Minority Interest	503	565	593	623
Extraordinaries (Net)	-	62	-	-
Net Income (Reported)	1,093	1,189	1,830	2,287
Net Income (Adjusted)	590	625	1,237	1,664

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	28,051	27,071	27,644	28,905
of which cash & cash eqv.	2,003	1,680	441	318
Total Current Liabilities & Provisions	14,972	14,558	16,164	17,670
Net Current Assets	13,079	12,513	11,480	11,235
Investments	-	-	-	-
Net Fixed Assets	8,670	8,999	9,818	11,021
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	21,750	21,512	21,298	22,256
Liabilities				
Borrowings	5,977	4,661	3,661	3,661
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	6,677	6,818	7,471	8,297
Equity Share Capital	9,096	10,033	10,165	10,298
Reserves & Surplus	-	-	-	-
Total Net Worth	9,096	10,033	10,165	10,298
Minority Interest	-	-	-	-
Total Liabilities	21,750	21,512	21,298	22,256

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	9,572	12,669	11,251	10,939
% growth (YOY)	4.0	7.2	(4.6)	3.7
EBITDA	1,053	1,471	1,431	1,351
Margin %	11.0	11.6	12.7	12.4
Other Income	109	45	69	130
Extraordinaries	-	-	-	-
Adjusted Net Profit	(164)	217	163	249

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,173	4,342	3,517	4,610
Working Capital Changes	(955)	(31)	(205)	121
Capital Commitments	-	-	(3,304)	(4,028)
Free Cashflow	3,173	4,342	213	583
Other investing cashflow	(285)	319	(696)	(858)
Cashflow from Investing Activities	(285)	319	(4,000)	(4,886)
Issue of Share Capital	-	23	0	0
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	959	(1,316)	(1,000)	-
Dividend paid	-	-	-	-
Others	(2,886)	(3,570)	223	449
Cash flow from Financing Activities	(1,927)	(4,862)	(777)	449
Chg. in Cash & Bank balance	961	(202)	(1,261)	173
Closing cash & balance	2,003	1,751	441	614

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	8.2	8.5	13.8	17.3
Adjusted EPS (Diluted)	4.5	4.7	9.3	12.6
Cash EPS	19.8	22.1	28.1	33.9
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	68.7	75.8	76.8	77.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	33.2	4.7	12.2	13.7
EBITDA	134.8	20.7	19.0	18.5
EPS (INR)	(204.9)	3.2	62.3	24.9
Valuation Ratios (x)				
P/E	59.5	57.6	35.5	28.4
P/CEPS	24.8	22.2	17.5	14.5
P/BV	7.1	6.5	6.4	6.3
EV / EBITDA	16.3	13.3	11.2	9.5
P / Sales	1.6	1.5	1.4	1.2
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	49.2	52.2	52.2	52.2
EBITDA Margins (%)	10.4	12.0	12.7	13.2
Effective Tax Rate (%)	26.8	33.7	25.0	25.0
Net Profit Margins (%)	2.7	2.6	3.8	4.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.4	0.3	0.3	0.3
Net Debt / EBITDA (x)	0.9	0.6	0.5	0.5
Profitability Ratios				
RoCE (%)	11.7	12.5	18.9	23.6
RoE (%)	7.1	6.5	12.3	16.3
RoIC (%)	14.3	14.0	20.8	25.6
Fixed Asset Turnover (x)	5.3	4.8	5.1	5.2
Inventory Turnover Days	101	80	86	86
Receivables Days	57	57	55	55
Payables Days	104	82	89	89

Source Company data, I-Sec research

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