

Q1FY21 result review
and earnings revision

Branded Apparels

Target price: Rs130

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 5.8	↓ 1.6
EBITDA	NA	↓ 2.7

Target price revision

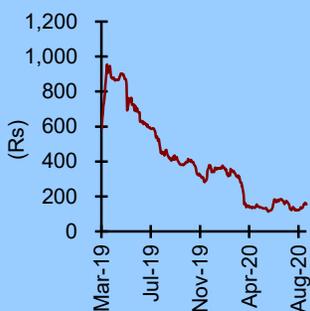
Rs130 from Rs150

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	35.6	35.6	35.6
Institutional investors	36.7	36.5	32.8
MFs and others	17.2	17.7	16.7
FIs and Banks	1.6	1.5	1.7
Insurance Cos.	0.7	0.7	0.7
FII	17.2	16.6	13.7
Others	27.7	27.9	31.6

Source: BSE

Price chart



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Arvind Fashions Ltd

REDUCE

Maintained

Rs144

Leverage to remain high despite fund raise

Key takeaways from Arvind Fashions' (ARVINDFA) Q1FY21 result: 1) 77% network is operational in Aug'20 with overall sales at 46% of same month last year; 2) expects 8-10% improvement in sales recovery every month; 3) online channel consumer offtake increased by 30%; 4) targeting structural cost reduction of Rs1.2bn-1.5bn p.a.; 5) expects EBITDA and cash breakeven in Q3FY21 and Q4FY21 respectively on exit-month basis; and 6) net debt declined by Rs3.3bn in QTD to Rs9.7bn as of Aug'20-end post fund raise of Rs6.6bn. However, net debt to EBITDA is still likely to remain high at ~4x even in FY22E, in our view. Factoring slower demand recovery, we cut our FY21-22E revenue by 2-6%. Maintain **REDUCE** with DCF-based revised target price of Rs130/share (earlier: Rs150).

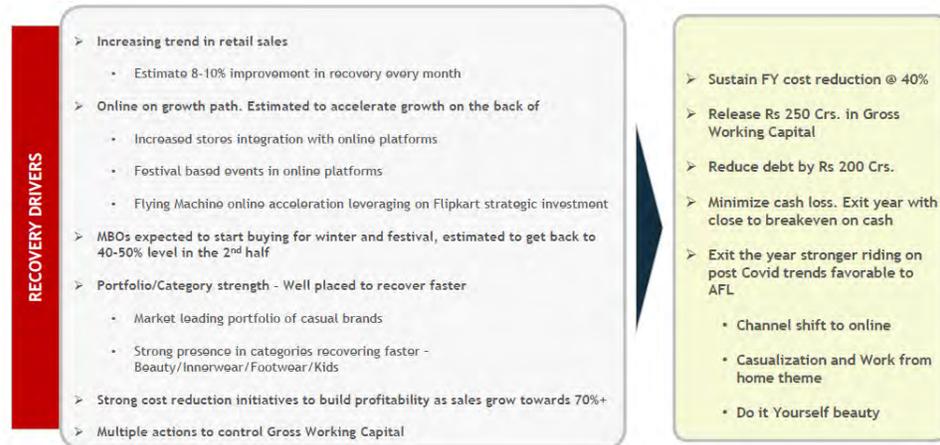
- ▶ **Revenue declined 89% YoY to Rs1bn owing to Covid-19 lockdown**, while post IndAS 116 EBITDA loss (including other income) stood at Rs533mn in Q1FY21. Currently, 77% of network is operational in Aug'20 with overall sales at 46% of same month last year with stores sales at 50% while department stores sales at 34% of same month last year in Aug'20. Management estimates 8-10% improvement in sales recovery MoM over the next few months. Overall, online channel consumer offtake has increased by 30% with nearly 3.5x growth in own website (NNNow.com). Store expansion would largely be restricted to power brands and Sephora during FY21 and company is unlikely to add any *Unlimited* store till the time it achieves reasonable margins.
- ▶ **Management is targeting structural cost reduction of Rs1.2bn-1.5bn p.a.** by optimising store operating cost and closing tail stores (10% reduction between occupancy and store operating cost), warehouse consolidation (35% reduction), 20% reduction in headcount and overall overheads control (15% reduction). In Q1FY21, cost reduced by 63% and 57% on YoY and QoQ basis respectively and targeting 35-40% reduction in fixed costs in FY21. Management expects EBITDA and cash breakeven in Q3FY21 and Q4FY21, respectively on exit month basis. Despite various cost initiatives, ARVINDFA is still likely to report EBITDA losses in FY21E and PAT loss even in FY22E, in our view.
- ▶ **Focus on preserving cash** by cutting down capex, reducing inventory levels, controlling immediate buys (AW'20 buys down 60%) and bringing strategic flexibility in the buying process. Gross working capital reduced by Rs1.3bn during Q1FY21 and the company targets to reduce the same by Rs2.5bn in FY21. However, with similar reduction in creditors, net working capital may not decline in our view.
- ▶ **Net debt to EBITDA still likely to remain high at ~4x even in FY22E** despite fund raise of Rs6.6bn, as the same would get utilised to fund FY21 operating losses and reduce creditors. Management expects net debt to remain at ~Rs10bn till FY21-end.

Market Cap	Rs14.2bn/US\$195mn
Bloomberg	ARVINDFA IN
Shares Outstanding (mn)	58.7
52-week Range (Rs)	615/110
Free Float (%)	64.4
FII (%)	13.7
Daily Volume (US\$'000)	471
Absolute Return 3m (%)	(4.9)
Absolute Return 12m (%)	(67.4)
Sensex Return 3m (%)	16.2
Sensex Return 12m (%)	5.9

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	46,439	38,663	24,891	41,185
EBITDA (Rs mn)	2,881	(1,171)	(1,044)	2,294
Net Income (Rs mn)	166	(3,521)	(3,088)	(507)
% Chg YoY	NA	NA	NA	NA
P/E (x)	50.3	NA	NA	NA
CEPS (Rs)	29.3	(32.3)	(16.5)	10.6
EV/E (x)	7.7	NA	NA	10.1
Dividend Yield (%)	-	-	-	-
RoCE (%)	6.8	(13.2)	(11.2)	0.2
RoE (%)	1.5	(38.4)	(35.1)	(4.9)

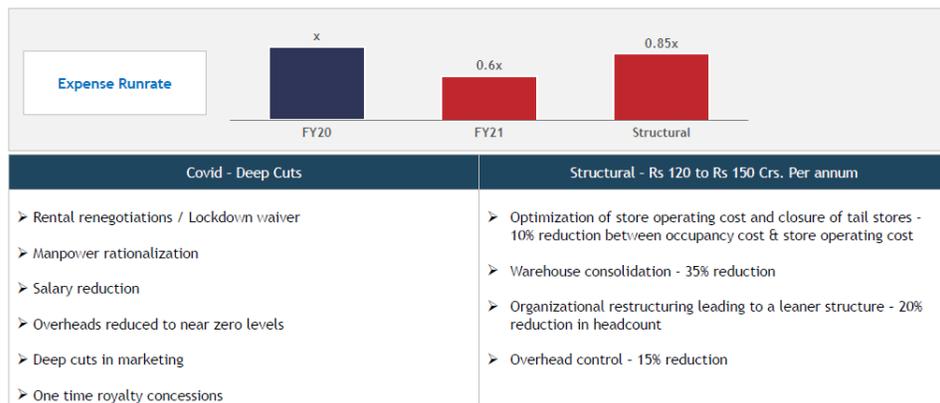
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Chart 1: FY21 outlook



Source: Company data, I-Sec research

Chart 2: Targeting structural cost reduction of Rs1.2bn-1.5bn p.a.



Source: Company data, I-Sec research

Chart 3: Management targeting 35-40% reduction in fixed cost in FY21



Source: Company data, I-Sec research

Chart 4: Targeting inventory reduction in FY21 vs FY20

Key actions to deliver reduction in Inventory in Mar-21 compared to Mar-20

<p>1. Covid related actions to minimize inventory</p>	<ul style="list-style-type: none"> ➤ Repurpose SS20 inventory to AW20. Cancellation of 60% of AW20 order to release cash ➤ Spring Summer 21 buy based on sales trends
<p>2. Flexible and agile sourcing</p>	<ul style="list-style-type: none"> ➤ Power brands <ul style="list-style-type: none"> • Built in flexibility of in-season buy triggers • Option to vary 20% orders based on in-season sales trends ➤ 'Once in two months' buy vs 'Seasonal' buy in Unlimited
<p>3. Brand exits to result reduction in inventory</p>	

Source: Company data, I-Sec research

Chart 5: Gradual store opening post lockdown



Source: Company data, I-Sec research

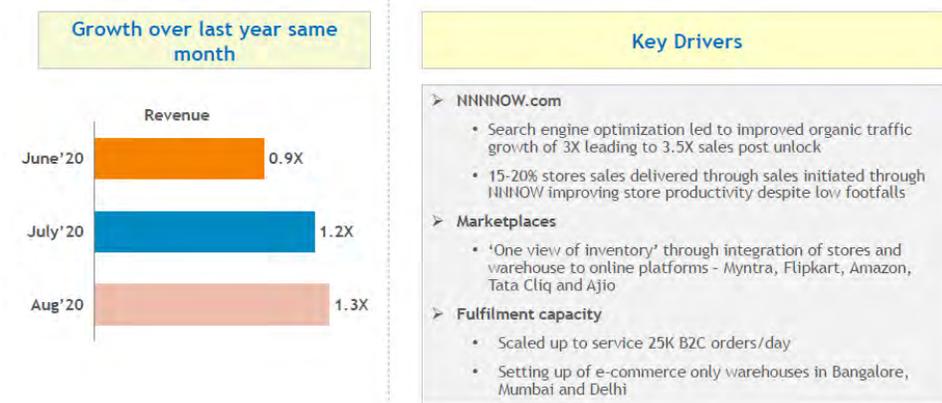
Chart 6: Overall sales trend post lockdown





Source: Company data, I-Sec research

Chart 7: Online channel sales trend post lockdown



Source: Company data, I-Sec research

Chart 8: Some categories are recovering faster



Source: Company data, I-Sec research

Table 1: Q1FY21 result review – reported*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
Net sales	1,041	9,009	(88.5)	7,105	(85.4)
Raw materials	768	4,893	(84.3)	3,825	(79.9)
Employee cost	489	1,013	(51.7)	766	(36.2)
Others	978	2,905	(66.3)	2,612	(62.6)
Total Expenses	2,234	8,811	(74.6)	7,203	(69.0)
EBITDA	(1,194)	198	NA	(99)	NA
Interest	685	684	0.1	720	(4.9)
Depreciation	796	963	(17.3)	1,032	(22.9)
Other income	660	9	NM	418	58.1
Recurring pre-tax income	(2,014)	(1,440)	NA	(1,434)	NA
Extraordinary income/(expense)	-	-	NA	(607)	NA
Taxation	117	(486)	NA	41	NA
Minority interest	(164)	22	NA	(38)	NA
Reported Net Income	(1,968)	(976)	NA	(2,043)	NA
Recurring Net Income	(1,968)	(976)	NA	(1,436)	NA
Ratios (%)					
Gross margin	26.2	45.7		46.2	
EBITDA margin	(114.7)	2.2		(1.4)	
Net profit margin	(189.1)	(10.8)		(20.2)	

Source: Company data, I-Sec research

Table 2: Segmental performance – reported

	Q1FY21	Q1FY20	% YoY
Revenues			
Power	530	5,180	(89.8)
Emerging	120	1,090	(89.0)
Specialty	390	2,740	(85.8)
Total	1,040	9,010	(88.5)
EBITDA			
Power	(350)	610	NA
Emerging	(200)	(600)	NA
Specialty	-	190	NA
Total	(550)	200	NA
EBITDA margin (%)			
Power	(66.0)	11.8	
Emerging	(166.7)	(55.0)	
Specialty	-	6.9	
Blended	(52.9)	2.2	

Source: Company data, I-Sec research

Table 3: Key assumptions*

	FY18	FY19	FY20	FY21E	FY22E
Revenues (Rs mn)					
Power brands	25,660	27,970	23,800	15,470	25,835
Emerging brands	7,010	7,370	4,450	2,759	4,690
Specialty retail	9,530	11,100	10,410	6,662	10,660
Total revenues	42,200	46,440	38,660	24,891	41,185
% YoY					
Power brands		9.0	(14.9)	(35.0)	67.0
Emerging brands		5.1	(39.6)	(38.0)	70.0
Specialty retail		16.5	(6.2)	(36.0)	60.0
Total revenues		10.0	(16.8)	(35.6)	65.5
EBITDA (Rs mn)					
Power brands	2,790	3,420	930	101	2,638
Emerging brands	(340)	(120)	(1,340)	(540)	(155)
Specialty retail	(150)	(430)	(760)	(605)	(190)
Total EBITDA	2,300	2,870	(1,170)	(1,044)	2,294
Margin (%)					
Power brands	10.9	12.2	3.9	0.7	10.2
Emerging brands	(4.9)	(1.6)	(30.1)	(19.6)	(3.3)
Specialty retail	(1.6)	(3.9)	(7.3)	(9.1)	(1.8)
Total	5.5	6.2	(3.0)	(4.2)	5.6

Source: Company data, I-Sec research; *excluding Ind-AS 116 impact

Table 4: Earnings revision*

(Rs mn)

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	24,891	26,438	(5.8)	41,185	41,867	(1.6)
EBITDA	(1,044)	(766)	NA	2,294	2,357	(2.7)

Source: I-Sec research; *excluding Ind-AS 116 impact

Table 5: DCF-based target price of Rs130/share

	FY22E
10 Year EBITDA CAGR growth (%)	9.0
WACC (%)	12.6
Terminal growth rate (%)	5.0
PV of 10 yrs FCF (Rs mn)	6,662
PV of terminal value (Rs mn)	15,104
DCF value (Rs mn)	21,765
Net debt –FY22 (Rsmn)	8,921
Equity value (Rsmn)	12,845
No. of shares	99
Target price	130

Source: I-Sec research

Financial summary – pre-IndAS116

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	46,439	38,663	24,891	41,185
Operating Expenses	43,557	39,833	25,935	38,891
EBITDA	2,881	(1,171)	(1,044)	2,294
% margin	6.2	(3.0)	(4.2)	5.6
Depreciation & Amortisation	1,532	1,627	1,460	1,551
Gross Interest	1,262	1,794	1,677	1,489
Other Income	41	72	92	103
Recurring PBT	129	(4,520)	(4,088)	(644)
Add: Extraordinaries	-	(607)	-	-
Less: Taxes	(86)	(1,019)	(1,022)	(161)
Minority interest	49	20	22	24
Net Income (Reported)	166	(4,128)	(3,088)	(507)
Recurring Net Income	166	(3,521)	(3,088)	(507)

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	27,062	27,756	25,436	29,628
Current Liab. & Prov.	14,796	16,029	11,716	15,741
Net Current Assets	12,266	11,727	13,719	13,888
Investments of which				
Strategic/Group	-	-	-	-
Marketable	-	-	-	-
Net Fixed Assets*	5,489	5,019	4,059	3,407
of which				
Capital Work-in-Progress	57	14	14	14
Deferred tax assets	2,692	3,622	3,622	3,622
Total Assets	20,447	20,368	21,400	20,917
of which cash & cash equivalents	121	116	1,681	1,006
Liabilities				
Borrowings	8,241	12,427	9,927	9,927
Minority Interest	912	889	910	934
Equity Share Capital*	232	235	395	395
Face value per share (Rs)	4	4	4	4
Reserves & Surplus	11,062	6,818	10,168	9,661
Net Worth	11,294	7,052	10,562	10,055
Total Liabilities	20,447	20,368	21,400	20,917

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	11,194	11,355	7,105	1,041
% growth (YoY)	(7.4)	(9.8)	(39.2)	(88.5)
Recurring EBITDA	107	254	(922)	(1,194)
Margin (%)	1.0	2.2	(13.0)	(114.7)
Other income	6	16	41	660
Extraordinaries Inc / (Loss)	-	-	(607)	-
Recurring Net Income	(472)	(495)	(1,769)	(1,968)

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,434	(3,304)	(1,676)	990
Working Capital changes	(857)	329	(427)	(843)
Capital Commitments	(1,534)	(1,201)	(500)	(900)
Net Operating FCF	(957)	(4,175)	(2,603)	(754)
Investing Activities	11	(3)	2,692	103
Issue of Share Capital	119	8	3,998	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	619	4,197	(2,500)	-
Dividend paid	-	-	-	-
Others	-	-	(22)	(24)
Extraordinary Items				
Chg. in Cash & Bank	(208)	27	1,565	(675)

Source: Company data, I-Sec research

Table 10: Key ratios

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	2.9	(70.3)	(31.3)	(5.1)
Diluted Recurring EPS	2.9	(60.0)	(31.3)	(5.1)
Diluted Recurring CEPS	29.3	(32.3)	(16.5)	10.6
Dividend per share	-	-	-	-
Book Value	195	120	107	102
Growth Ratios (% YoY)				
Operating Income	10.1	(16.7)	(35.6)	65.5
EBITDA	25.6	NA	NA	NA
Recurring Net Income	14.8	NA	NA	NA
Diluted Recurring EPS	14.6	NA	NA	NA
Diluted Recurring CEPS	10.5	NA	NA	NA
Valuation Ratios (x)				
P/E	50.3	NA	NA	NA
P/CEPS	4.9	NA	NA	13.6
P/BV	0.7	1.2	1.3	1.4
EV / EBITDA	7.7	NA	NA	10.1
EV / Operating Income	0.5	0.7	0.9	0.6
Operating Ratios (%)				
Raw Material / Sales	49.3	55.1	56.0	56.0
SG&A expenses / Sales	24.6	26.1	26.4	19.4
Other Income / PBT	32.1	NA	NA	NA
Effective Tax Rate	(66.8)	22.5	25.0	25.0
NWC / Total Assets	0.6	0.6	0.6	0.6
Inventory (x)	5.4	3.4	2.0	3.2
Receivables (days)	65	78	106	65
Payable (days)	91	121	170	103
D/E Ratio (x)	0.7	1.7	0.8	0.9
Profitability Ratios (%)				
Rec. Net Income Margins	0.4	(9.1)	(12.4)	(1.2)
RoCE	6.8	(13.2)	(11.2)	0.2
RoNW	1.5	(38.4)	(35.1)	(4.9)
Dividend Payout	-	-	-	-

Source: Company data, I-Sec research

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