

Capital restructuring to aid in navigating uncertainties

Arvind Fashion's (AFL) strategy of focusing on its core profitable brands and strengthening the balance sheet is expected to aid profitable growth while maintaining leverage at reasonable levels. According to the management, the latest capital raising (₹ 439 crore) from 17 marquee investors and promoters is the final leg of its restructuring phase. The management has indicated that this preferential allotment would enable it to significantly deleverage its b/s and adequately fund its future growth aspirations. We believe that restructuring of brand portfolio and b/s are steps in the right direction. We expect profitable growth with prudent capital allocation to result in debt/EBITDA ratio (pre-Ind-AS) declining to 2.5x by FY23E.

Fund raising of ~ ₹ 1450 crore in last two years to support b/s

Arvind Fashions has approved preferential allotment of equity shares aggregating to ₹ 439 crore to various investors including promoters at a price of ₹ 218.5/share. The management indicated that the fundraising completes the capital requirement needed for growth and to navigate near term uncertainties. With the latest fund raise, the company has raised capital worth ₹ 1450 crore in the last two years (two right issues worth ₹ 600 crore, strategic sale of minority stake in Flying Machine to Flipkart for a consideration of ₹ 260 crore and sale of assets of its loss making 'Unlimited' retail business to V-Mart for ₹ 150 crore). The company's gross debt had ballooned from ₹ 670 crore in FY18 to ₹ 1210 crore in FY20 (cumulative negative FCF: ~₹ 1000 crore in FY19-21). Of total ₹ 1450 crore, ₹ 860 crore has been utilised towards debt reduction and funding WC requirements (gross debt: ₹ 913 crore as on June-2021).

Restructured model to generate FCF

The company has restructured its business model through discontinuing loss making brands (GAP, Hanes, New Port, The Children's Place) and selling its loss making format 'Unlimited'. Furthermore, it has exited long credit cycle customers in power brands to enhance the cash cycle. AFL's key focus now remains on strengthening its six high conviction brands (power brands: US Polo Assn., Tommy Hilfiger, Flying Machine, Arrow, emerging brands: Calvin Klein, Sephora & others). On a steady state basis, power brands and CK yield early double digit margins whereas margins for Sephora are in mid-single digits. The company expects overall blended margins to be in the range of 8-10%. On the store addition front, AFL is aiming to add 150 store each in FY22E, FY23E (mainly through the franchise route). Capex for the same is expected to be ~₹ 50 crore annually.

Valuation and Outlook

We expect gross debt to reduce from ₹ 903 crore in FY21 to ₹ 500 crore by FY23E. The management's focus on prudent capital allocation, stringent working capital policy is expected to translate to positive FCF by FY23E, with pre Ind-AS 116 EBITDA margin of ~7%. We change our stance from REDUCE to **HOLD** owing to strengthened b/s. Better capital allocation towards profitable brands with improvement in margin profile, debt reduction would be key monitorables. We value AFL at ₹ 270, i.e. 8.5x FY23E EV/EBITDA (~20x FY23E EV/EBITDA pre Ind-AS 116).

Key Financial Summary

₹ crore	FY20	FY21	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3,866.3	2,201.2	2,543.8	3,103.4	-7.1%
EBITDA	231.1	-7.0	287.4	481.0	27.7%
PAT	-400.8	-579.8	-109.5	32.7	
EV/Sales (x)	0.7	1.8	1.6	1.3	
EV/EBITDA (x)	11.8	-551.5	13.9	8.2	
RoCE (%)	-8.1	-12.7	5.4	14.9	
RoE (%)	-67.0	-111.1	-11.6	3.3	

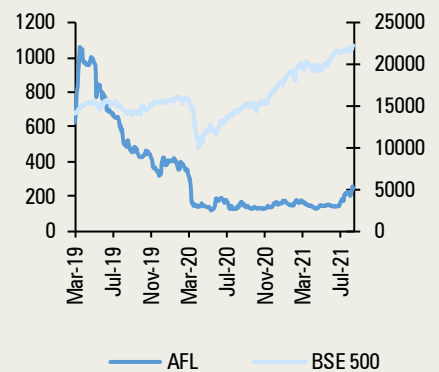
Source: ICICI Direct Research, Company

ARVIND FASHIONS

Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,970.2
Total Debt (FY21) (₹ crore)	903.4
Cash (FY21) (₹ crore)	18.9
EV (₹ crore)	3,854.7
52 Week H / L	272 / 117
Equity Capital (₹ crore)	42.4
Face Value (₹)	4.0

Price Chart



Key Risks

- Extended lockdown can lower sales, delay debt reduction plans
- Improved profitability of emerging brands can lead to higher margins

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Financial summary

Exhibit 1: Profit & loss statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	3,866.3	2,201.2	2,543.8	3,103.4
Growth (%)	(16.7)	(43.1)	15.6	22.0
Total Raw Material Cost	2,131.5	1,287.0	1,322.8	1,582.7
Gross Margins (%)	44.9	41.5	48.0	49.0
Employee Expenses	349.2	229.1	228.9	248.3
Other Expenses	1,154.5	692.1	704.6	791.4
Total Operating Expenditure	3,635.2	2,208.2	2,256.3	2,622.4
EBITDA	231.1	(7.0)	287.4	481.0
EBITDA Margin	6.0	(0.3)	11.3	15.5
Interest	289.1	224.9	181.2	183.8
Depreciation	437.5	302.7	260.9	280.2
Other Income	59.8	128.3	60.0	20.0
Exceptional Expense	(60.7)	(147.9)	(65.0)	-
PBT	(496.4)	(406.3)	(94.7)	37.0
Total Tax	(97.1)	41.9	(40.2)	9.3
Profit After Tax	(399.4)	(448.1)	(54.5)	27.7
Profit After Tax (after minority)	(400.8)	(579.8)	(109.5)	32.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	-400.8	-579.8	-109.5	32.7
Add: Depreciation	437.5	302.7	260.9	280.2
Add: Finance cost	289.1	224.9	181.2	183.8
Net Increase in Current Assets	-241.2	758.8	41.8	-221.6
Net Increase in Current Liabilities	110.4	-496.1	-150.7	155.3
Others	10.0	-288.1	0.0	0.0
CF from operating activities	205.0	-77.6	223.7	430.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-129.8	-41.8	-30.0	-50.0
Others	12.1	2.3	0.0	0.0
CF from investing activities	-117.7	-39.5	-30.0	-50.0
Inc / (Dec) in Equity Capital	0.3	19.0	11.1	0.0
Inc / (Dec) in Loan	419.6	-307.0	-253.4	-150.0
Others	-507.7	412.4	182.9	-356.6
CF from financing activities	-87.9	124.4	-59.3	-506.6
Net Cash flow	-0.5	7.3	134.4	-126.2
Opening Cash	12.1	11.6	18.9	153.2
Closing Cash	11.6	18.9	153.2	27.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	23.5	42.4	53.6	53.6
Reserve and Surplus	575.0	479.6	893.7	926.4
Total Shareholders funds	598.5	522.0	947.2	979.9
Total Debt	1,210.4	903.4	650.0	500.0
Non Current Liabilities	1,086.5	1,092.8	1,092.8	1,092.8
Source of Funds	2,895.4	2,518.2	2,690.1	2,572.7
Net Block	389.2	268.6	197.2	139.7
Capital WIP	1.4	0.4	0.4	0.4
Net Fixed Assets	390.7	269.0	197.6	140.1
Goodwill on consolidation	111.2	111.2	111.2	111.2
Investments	-	-	-	-
Inventory	1,305.8	810.0	766.6	850.2
Cash	11.6	18.9	153.2	27.0
Debtors	781.4	625.6	627.2	765.2
Loans & Advances & Other CA	676.8	686.9	686.9	686.9
Total Current Assets	2,775.6	2,141.4	2,233.9	2,329.3
Creditors	1,325.3	931.8	780.5	935.3
Provisions & Other CL	230.6	128.0	128.5	129.1
Total Current Liabilities	1,555.9	1,059.8	909.1	1,064.3
Net Current Assets	1,219.7	1,081.5	1,324.8	1,265.0
LT L&A, Other Assets	1,173.8	1,056.4	1,056.4	1,056.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	2,895.4	2,518.3	2,690.1	2,572.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	-68.3	-50.9	-8.2	2.4
Cash EPS	6.3	-24.3	11.3	23.4
BV	102.0	45.9	70.7	73.2
Cash Per Share	2.0	1.7	11.4	2.0
Operating Ratios (%)				
EBITDA margins	6.0	-0.3	11.3	15.5
PBT margins	-12.8	-18.5	-3.7	1.2
Net Profit margins	-10.4	-26.3	-4.3	1.1
Inventory days	123.3	134.3	110.0	100.0
Debtor days	73.8	103.7	90.0	90.0
Creditor days	125.1	154.5	112.0	110.0
Return Ratios (%)				
RoE	-67.0	-111.1	-11.6	3.3
RoCE	-8.1	-12.7	5.4	14.9
Valuation Ratios (x)				
P/E	-3.8	-5.1	-31.9	106.9
EV / EBITDA	11.8	-551.5	13.9	8.2
EV / Sales	0.7	1.8	1.6	1.3
Market Cap / Revenues	0.4	1.3	1.4	1.1
Price to Book Value	2.6	5.7	3.7	3.6
Solvency Ratios				
Debt / Equity	2.0	1.7	0.7	0.5
Debt/EBITDA	5.2	-129.2	2.3	1.0
Current Ratio	1.8	2.0	2.5	2.2
Quick Ratio	0.9	1.3	1.6	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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