

Arvind Limited

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TRANSCRIPTION REPORT

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Company	Arvind
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Operator:

Thank you for standing by and welcome to conference call and analysts and investors for Q1 Arvind Limited presented by Mr. Jayesh Shah.

At his time all participants are in listen-only mode. There will be presentation followed by a question and answer session at which time if you wish to ask a question please press *1 on your telephone.

I would like to hand the conference over to Mr. Jayesh Shah. Over to you sir.

Mr. Jayesh Shah:

Thank you and good morning to all of you. I trust you would have all seen the results but I will very quickly take you through some of the highlights.

As you possibly know our turn over this quarter was about 1200 crores, which was 39% higher than the comparable quarter last year. Operating profit EBIDTA was 175 crores, up 47%, as a result the profit after tax shot up from a small 22 crores to 61 crores. In terms of margin, our EBIDTA margin grew for textile business to 17.6%, that is I would say quite healthy considering the fact that the cotton price movement has been quite volatile. Brand and retail margin also improved. This is possibly as you know brands and retails this is not a very good quarter, I mean this is a lull quarter for brands and retail business, so typically the turn over as well as margins are very low, despite that there is a healthy growth from 5.8 to 6.5%. So, because of these two reasons our overall EBIDTA improved from 13.8% to 14.6%. Our earning per share was 2.4 for the quarter. Debt to EBIDTA ratio improved from last year 3.7 to this quarter 3.3. ROCE improved from 10.6 to 13.5, and return on equity was 14%. In terms of volumes, denim did 8% higher, if you see the revenue of denim grew by almost 66%, but the volume growth was 8%, so primarily the significant growth in top line came because of price increase which is our price had increased even higher than the cotton price increase for the current quarter. Similarly, our shirting volume grew by about 10% and the total revenue in shirting and khaki grew by 19%.

As you possibly right now know that since the cotton has moved so sharply, there has been quite uncertain situation in the industry. The buyers are waiting to buy assuming or hoping that the prices of fabrics will fall, and at the same time all the brands and retailers, some of our own brands and as well as international brands that we see are all concerned about whether there could be a slow down on account of very high MRPs that they are now confronted with, they are supposed to sell those goods in the coming fall-winter season. So, there has been uncertainty and as a result the volume growth in both our denim and khaki was about 8-10%, we would have expected it should be around 12%, so there has been a slight less volume growth than what we had thought.

In the brands and retail space we did exceedingly well, I think we had not forecasted ourselves to do as well as we did. We had internally targeted about 35% growth considering that the retail prices have gone up so sharply because of excise as well the growth will be slower than what we had experienced last year, but we are pleasantly surprised that the revenue grew by 44%, particularly brands, which grew by 66%, and the like to like growth in brands was 14 compared to last year this quarter, and in retail it was 6%. We did add about 100,000 sq.ft. of retail space and added about close to 50 counters in the key accounts in this quarter.

So, in summary it was a very-very good quarter. Honestly, it beat slightly our internal expectation in Q1. We believe that Q2 should be similar, particularly because India is in a season in terms of fabric purchase because of upcoming Diwali and festive season. So, currently the volumes from domestic markets are very strong, also brands and retail this is now start of the season, so we expect the volumes and the value of brand and retail turn over to be higher. We think that cotton will remain where it is, there would be some marginal improvement in cotton prices from where it is right now because of the relaxation that the government announced this morning about export. Right now we are trading at about 94 cents, as far as international if you compare this with the US prices, it is about 110-112 cents. So, there is a bit of a gap and we think that in the immediate future the price can go up by about 2000 rupees a candy; however, we think that the coming season seems to be the crop estimates are very-very good, last season we had 315-320 lakh bales in India and it is expected that the way monsoon has moved it appears that cotton production in India could be as high as 350 lakh bales. So, it is quite encouraging in the sense that we will be able to bring down or keep the prices of our fabrics low, which will help grow the brands and retail business of our own as well as of our customers in fabric division. So, overall we think that we are headed for a good immediate future. We should be able to maintain our margin and we possibly try and improve that, and have a healthy top line as well as bottom line growth for this current financial year.

So, with this I will leave it to you to go ahead and ask whatever questions you might have.

Operator:

Thank you.

At this time, participants if you wish to ask ant question, please press *1 on your telephone keypad and wait for your name to be announced.

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The first question we have Ms. Vishvas Shah from Envision. You may go ahead sir.

Ms. Vishvas Shah:

Good morning sir. Congrats on a good set of numbers. Couple of questions; one obviously given fall in the cotton prices have our realizations for denim in tandem with the fall, and two is your outlook, you seem to be upbeat on the Q2 numbers as well, but you are guiding for a 15-20% growth year on year, so just wanted to understand that.

Mr. Jayesh Shah:

Sure. First of all the denim prices are expected to come down in tandem with the cotton prices in coming quarters, so we expect our margins to be maintained. You asked me about 15-20%, you know that is the top line growth, and revenue growth will largely depend upon the cotton prices, so we don't want to forecast something which we don't really know, particularly for Q3 and Q4 as to how low the cotton could be and as a result how low the sales price could go down in tandem with the cotton price, and as a result the turn over might be different. So, depending upon how the next season opens in cotton we will be able to next quarter call I will be able to forecast the revenue in a much better way than what I can do today. As far as margins are concerned, as I said we see them being maintained, they could be slightly better than what they were last year, but we think that we should be able to maintain them.

Ms. Vishvas Shah:

During the quarter you would have had some inventory gains also?

Mr. Jayesh Shah:

On the contrary, because if you look at Q4, compared to Q4, Q3 the cotton prices are lower, I mean Q1 the cotton prices are lower. So, if you go quarter by quarter there would be an inventory in a sense loss rather than a gain, like yarn prices are lower, so all our inputs which build out in inventory valuations have gone down.

Ms. Vishvas Shah:

Also, during the quarter we saw a very strong growth in Arvind brand, whereas Mega Mart grew by around 26%, is there something which we have done, we have added a new brand or a portfolio into Arvind brands during the quarter?

Mr. Jayesh Shah:

No, it is relative growth that you are seeing, but Arvind brand has been doing very well, all these brands are doing very well particularly two of its flagship brands US Polo and Arrow are on a significant up curve. As far as Mega Mart is concerned you know this is a low season in retail, real retail season is starting September ending December, so you will see a very sharp increases in revenues in that period. But, both are doing extremely well and particularly some of our key brands are doing much-much better than what the market is doing right now.

Ms. Vishvas Shah:

Okay, you were also concerned about how the retail demand especially on the retail side on your branded product side would pan out, we have seen a fairly disappointing kind of a volume growth from Shoppers Stop quarter we have also seen the sales season starting a little early this year compared to what you see it every year, so want to know your thoughts on the same given that you also have a retail.

Mr. Jayesh Shah:

The way we are seeing it is that because the sales prices have gone up on account of cotton as well as on account of excise duty that came, obviously there has been a slow down in the market, more importantly people are also you know all the retailers and brands are keeping lower inventory for they don't want to go wrong on the inventory again, however, the good thing what has happened is that they now know that come next season the retail or the MRPs will come down because the prices of fabrics have started going down in tandem with cotton prices, now what as a result we believe the brands and retailers would do in the season starting now September through December is take some margin hit, bring down the MRPs of the existing products and sell rather than keep them high and try and protect margin and bring down the turn over. So, because on a going forward they are seeing that the MRPs will come down; had that not been the case they would not have taken this step. So, we believe that you will see a lot of sale, you will see lot of discounts being offered from all the retailers and the brands so that they can keep their revenue growth momentum continuing, and they would hopefully have next season merchandise much cheaper.

Ms. Vishvas Shah:

Okay, so whether it is a premium brand or mid premium or a value, you would see price corrections?

Mr. Jayesh Shah:

There would be, because you know it is just this season that they have high priced inventory, as a result their MIPs are high, and now that the cotton has corrected to the very-very reasonable levels all their MRPs will see a good cut, may be 7-10% cut, so they might as well not keep this for this season high expectation of margin, they might as well see goods going out. so, they will drop the prices I believe.

Ms. Vishvas Shah:

Lastly, what is the debt on the books at the end of the current quarter and

Mr. Jayesh Shah:

It has not changed, it is similar to what it was.

Ms. Vishvas Shah:

And interest cost?

Mr. Jayesh Shah:

Interest rate or interest cost? Interest cost is booked in the accounts, it is 83 crores.

Ms. Vishvas Shah:

No, percentage wise?

Mr. Jayesh Shah:

In percentage terms it will be around 10.5.

Ms. Vishvas Shah:

And the capex?

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Mr. Jayesh Shah:

Current quarter 105 crores.

Ms. Vishvas Shah:

Okay, and for the full year how much we intend to do?

Mr. Jayesh Shah:

About 300 odd crores.

Ms. Vishvas Shah:

Thank you and good luck.

Mr. Jayesh Shah:

Bye, bye.

Operator:

Thank you. Next question we have Mr. Maulik Patel from Equinox. You may go ahead please.

Mr. Maulik Patel:

Good morning sir. Sir, I have basically questions on the recent news that PVH wants to buy _____ rights from Murzani from which we have a JV, sir would you like to comment on that like they buy and we still become a partner or....?

Mr. Jayesh Shah:

Two things; number one, we have a 50% stake in this company and we neither want to buy or sale anything out of it. Number two, as far as the balance stake it concerned we would not want to make a comment at this juncture.

Mr. Maulik Patel:

Okay, and has there any margin improvement in your Arvind Retail and Arvind Lifestyle in this quarter compared to the....?

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Mr. Jayesh Shah:

Yes, in fact you would have seen in our review note, which is also on our website, that brands and retail margin last year this quarter was 5.8, this year this quarter is 6.5.

Mr. Maulik Patel:

Okay, that is good. And, sir on retail FDI which has been announced recently, scope for Arvind as a whole to monetize their brands or are we looking for such things in near future?

Mr. Jayesh Shah:

Near future, no; future, yes.

Mr. Maulik Patel:

So, that can be possibly only after the firm guidelines are placed, and..., and sir whatever growth you are seeing in own stores and

Mr. Jayesh Shah:

Sorry?

Mr. Maulik Patel:

What type of growth you are looking in the key accounts and own stores?

Mr. Jayesh Shah:

Yes, I mean the key accounts growth in the current quarter the revenue growth was 45%.

Mr. Maulik Patel:

Okay, 45% was the revenue growth.

Mr. Jayesh Shah:

Yes.

Mr. Maulik Patel:

Okay, and in the own stores?

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Mr. Jayesh Shah:

The own stores growth was better, because as you know our overall growth was 66%, so own growth I don't have it right now but it would have grown at about may be 65-70%.

Mr. Maulik Patel:

Okay.

Operator:

Thank you sir.

At this time there are no further questions from the participants. I would like to hand floor back to Mr. Jayesh Shah for final remarks. Over to you sir.

Mr. Jayesh Shah:

Thank you very much for sparing time and coming over to the call. Bye, bye.

Operator:

Thank you sir.