

Q2 FY2019 Review Note

1st November 2018

Safe harbour statement

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Update on Demerger and consequent accounting disclosures

Demerger Update*

- Certified order from NCLT expected in 1st week of November
- We expect the demerge to become effective by end of November
- 29th November is likely to be the record date for allotment of shares of Arvind Fashions & Anveshan (name to be changed to Anup)
- Likely listing of Arvind Fashions & Anup – early February

Accounting

- Reported financials for this quarter give revenue, expenses and PAT for continuing businesses
- Only PBT & PAT of Branded Apparels and Engineering Business are shown as a separate line item called “Profit for the period from discontinuing business”

We have given full details of continuing and discontinuing businesses in this note for analysis purposes.

** The timelines are subject to receipt of necessary approvals from various regulatory/statutory bodies and stock exchanges*

Agenda

- Q2 FY 18'19 Summary Financial Performance
- Business discussion
- Updated Outlook
- Annexures – Memorandum of Financials of Three Demerged Companies

Q2 2019 Executive summary: Strong all round growth; margin expansion in Branded Apparel

INR Crs	Q2 FY2019	Remarks
Revenues	3053 (+12%)	
Textiles	1488 (+6%)	Fabric volumes +3M (mainly wovens) Garment grew 15%
Branded Apparel	1227 (+9%) <i>1165(unadjusted)</i>	Stated higher as IndAS adjustment; Underlying growth 13%
Advanced Materials	145 (+21%)	Growth as planned
Engineering	48 (+1 cr)	
EBITDA	277 (9.1% vs 8.0%)	
Textiles	12.4% (vs 13.1%)	Reduced drawback rates; Higher pre-operatives in Garments
Branded Apparel	6.2% (vs 5.6%) <i>6.5% (vs 6.1%)</i>	Improved margins; marketing spend as % of sales up 40bps, <i>(unadjusted)</i>
Advanced Materials	9.8% (vs 1.6%)	Operating leverage, higher unit realisation
Engineering	38% (+15%)	
PAT (before exception items)	86 (+30%)	
Net Debt (30th Sept 2018)	3562	

Application of new accounting standard

Ind AS 115 – Revenue from contracts with Customers

IndAS 115 - a new accounting standard on revenue recognition w.e.f. April 1, 2018

- Principle changed from “transfer of risk & rewards” to “transfer of control”.
- Applied the retrospective approach and hence the financial statement of Q1FY18 have also been re-instated.
- Key impact of applying new accounting standard:
 - Sales made on Sale or Return (SOR) have been recorded on gross basis and dealer margin as cost. This has resulted in increase in sales value for Q2FY18 & Q2FY19 by INR 96 crores and INR 61 crores, respectively.

Q2 FY 19: Profit and Loss summary – strong Q2 earnings

<i>All figures in INR Crs</i>	Q2 FY19	Q2 FY18	Change
Revenues from Operations	3,053	2,735	12%
EBIDTA	277	218	27%
Profit Before Tax	121	93	31%
Profit After Tax	86	66	30%
Less : Exceptional Item	13	4	
Net Profit	73	62	17%

- Exceptional Item - Retrenchment compensation includes payments under Voluntary Retirement Schemes & GST credit Write Off due to change in law

Q2 FY 19: Performance by segments

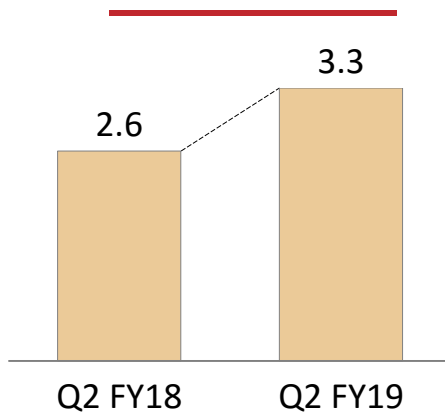
Rs Cr Business	Q2 1819			Q2 1718		
	Revenue	EBIDTA	EBIDTA%	Revenue	EBIDTA	EBIDTA%
Textiles	1488	184	12.4%	1399	183	13.1%
Advanced Material	145	14	9.8%	120	2	1.6%
Branded Apparels	1227	76	6.2%	1128	63	5.6%
Engineering	48	18	38.2%	47	11	22.9%
Others	167	11	6.6%	64	-18	-28.4%
Un Allocable		-27			-25	
Other Income		20			22	
Inter Segment Adj	-22	0		-22	0	
Total	3053	297	9.7%	2735	238	8.7%

Consolidated Balance Sheet, as at Sept 30th 2018

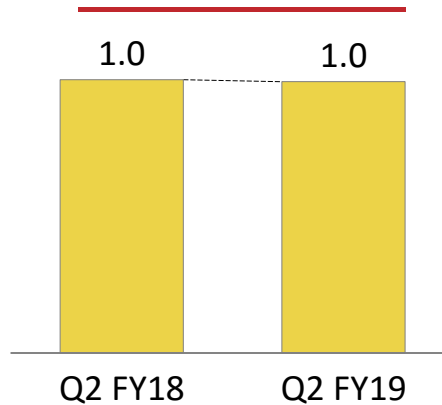
Rs Cr	As at	
	30th Sept 18	31st Mar18
Shareholders' Fund		
Share Capital	259	259
Reserves & Surplus	3531	3524
Minority Interest	308	305
long Term Borrowings	608	849
Short Term Borrowings	2735	2264
Long Term Liability Maturing in one year	296	211
Borrowings	3639	3323
Other Liabilities	3057	2847
Total	10793	10258
Assets		
Fixed Assets	4122	4078
Non Current Investments	70	76
Long term Loans & Advances	2	3
Other Non Current Assets	611	562
Current Assets	5987	5539
Total	10793	10258

Key indicators – Q2 FY19 Vs Q2 FY18

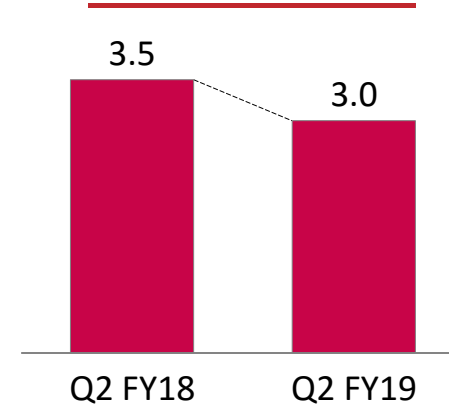
EPS



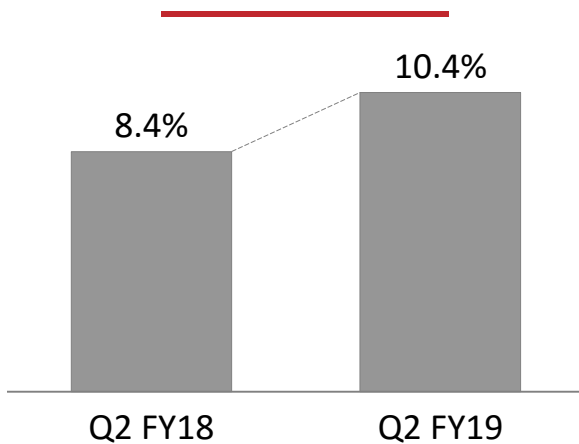
Debt / Equity



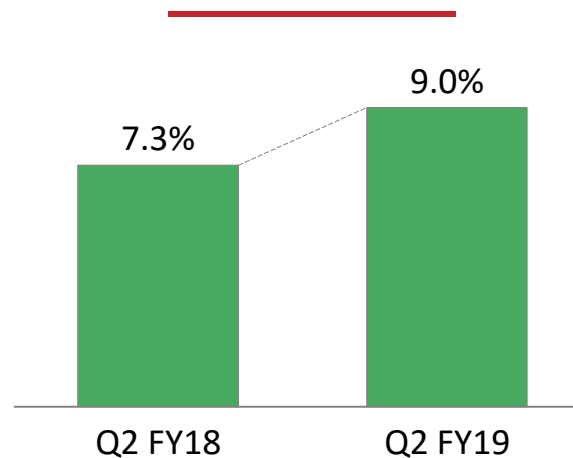
Debt / EBITDA



ROCE



ROE



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Branded Apparel

Market context – Q2 FY2019: Overall weak consumer sentiment

1. Overall weak consumer sentiment as reflected in RBI data, Consumer Confidence Surveys and performance across categories
2. Base effect (late Diwali) resulted in shifting significant portion of festival sales to Q3 (in turn impacting LTL numbers)
3. Online sales continue to boom – powered by their discount driven model and increasing penetration

Branded Apparel result highlights – performance continue to improve in a tough market

Continuing growth (13%) and profitability of Power Brands validates the robustness of core business

Innerwear business consisting of USPA, Hanes & CK saw **33% growth** during the Quarter, expect growth to accelerate

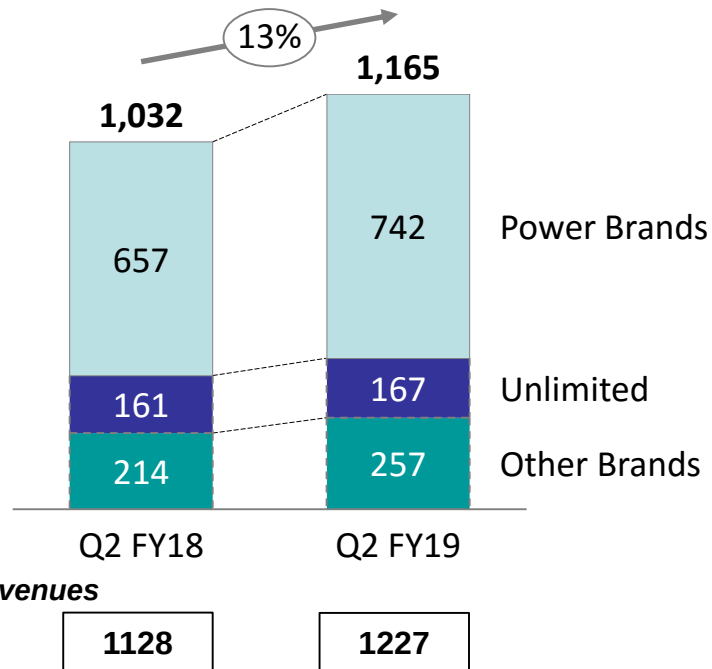
Higher profitability (50 bps increase in EBITDA margin) – driven by Emerging Brands and Speciality Retail

Online sales grew 48% in line with increasing eCommerce penetration in fashion retail

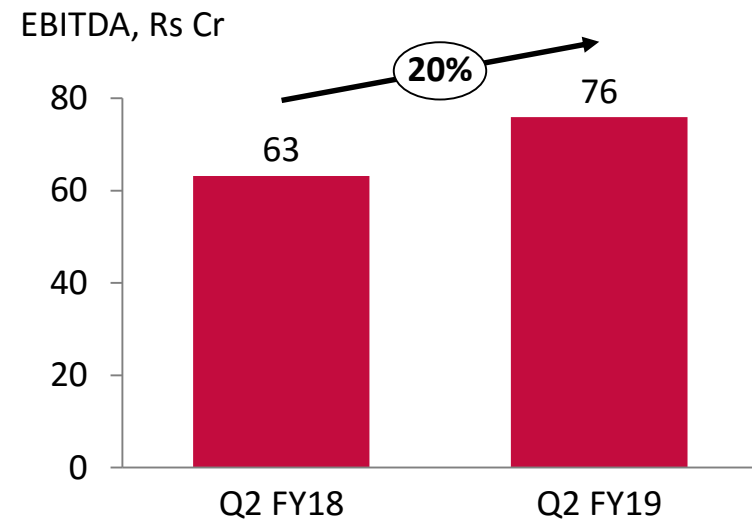
Brand building push **marketing spend up 40%** to ensure continuously growing consumer equity

Q2 FY2019: Strong revenue growth and sharp improvement in profitability in a tepid market

Revenues grew ~13%*



EBIDTA improved 20%



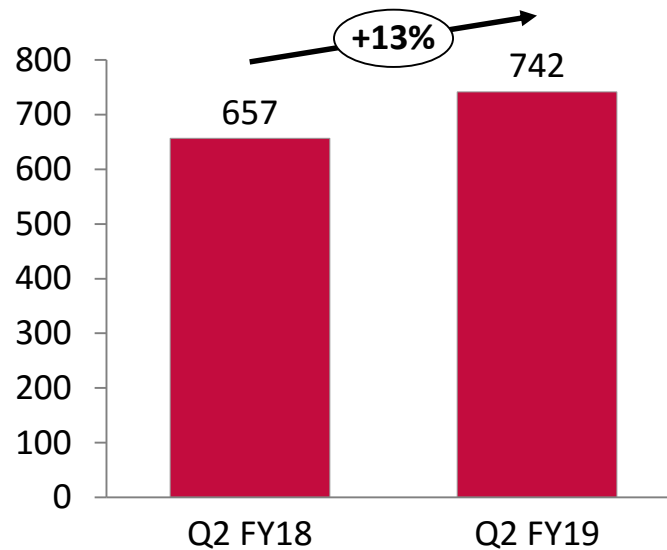
- Quarter started with double digit LTL growth in July, a tepid August and negative LTLs in September resulting in lower than planned growth
- LTLs improved by Dusshera and we expect the 5 week festival season LTL to be around 12%
- Margins improved from 6.1% to 6.5%

Q2FY19: Power Brands delivered another quarter of robust performance

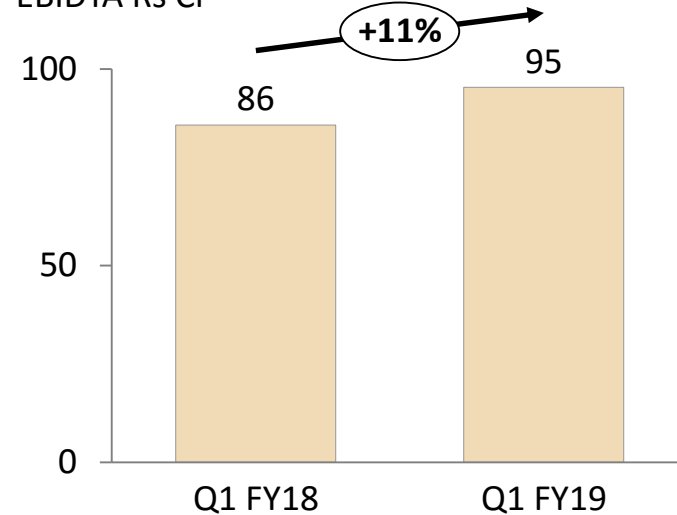
Q2 18'19 performance



Revenues Rs Cr



EBIDTA Rs Cr



Reported Revenues

724

766

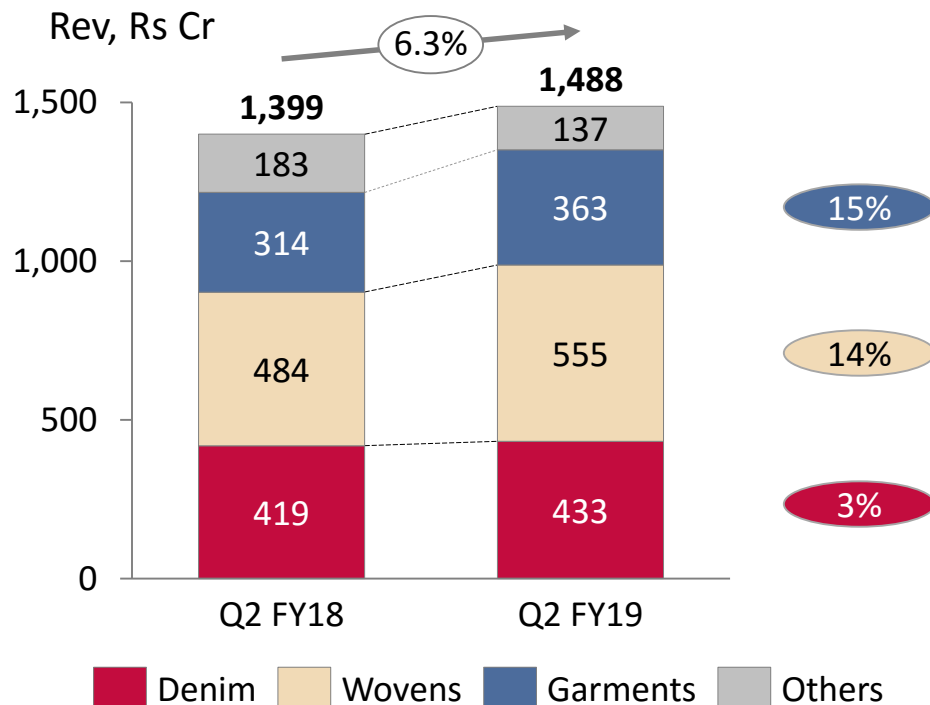
Distribution Footprint (as of 30th Sept 2018)

Particulars	Sept 2018	
	# Stores	Sq ft (Lacs)
Unlimited	105	10.3
Others	1269	12.4
Total	1374	22.7

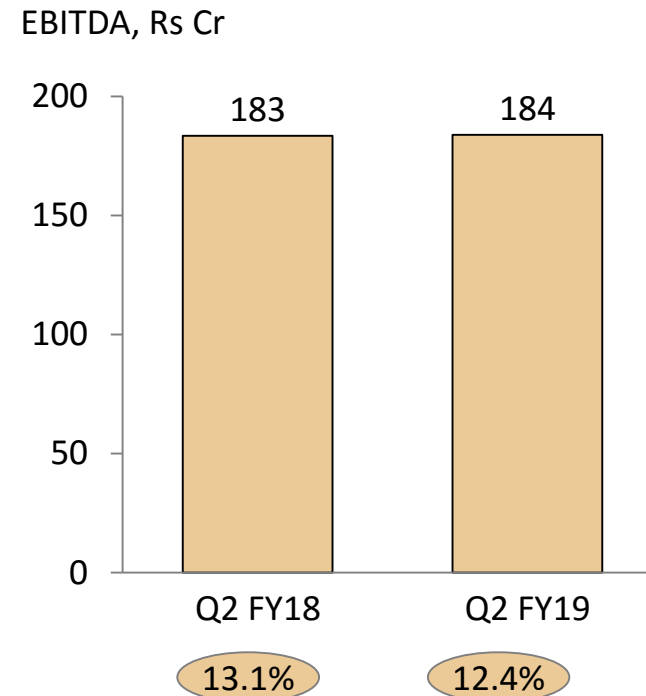
Textiles and Advanced Materials

Q2 2019: Growth in both Fabrics and Garment volumes; softer garmenting margins

Revenues growth led by Garments



Margins declined slightly



- Fabric volumes grew to 55M meters (from 52M) driven by healthy growth in Woven volumes, that offset softer demand for Denim
- Average cotton prices were slightly lower at Rs 115/kg

Key Textile business parameters for Q2 & H1 FY2019

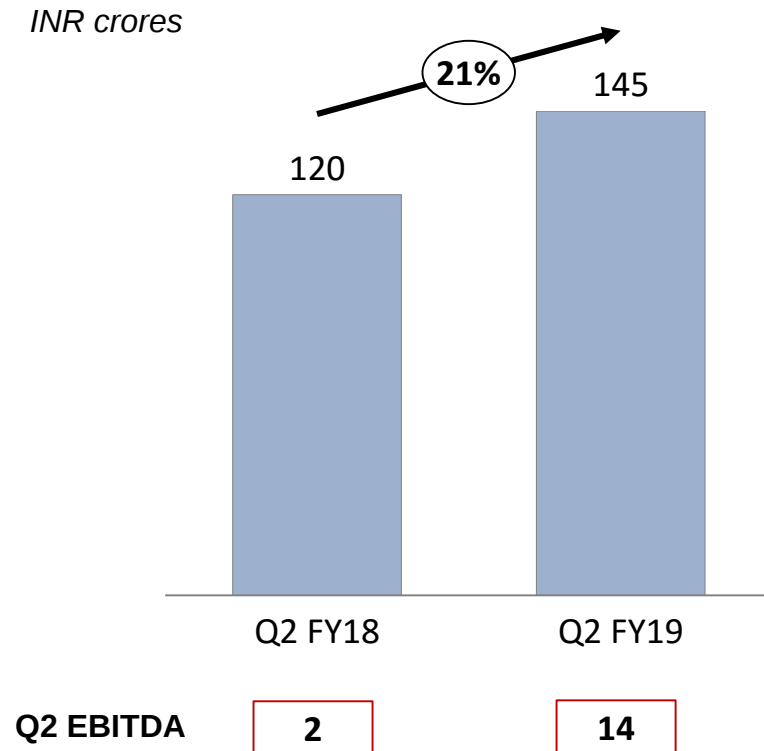
	Denim		Woven	
	Q2 18-19	Q2 17-18	Q2 18-19	Q2 17-18
Exports(Mn Mtrs)	11	11	10	8
Domestic (Mn Mtrs)	11	11	24	21
Avg Prices	190	178	170	168
Major Components	Cotton			
Cost in Rs / Kg	115	117		
	Denim		Woven	
	H1 18-19	H1 17-18	H1 18-19	H1 17-18
Exports(Mn Mtrs)	23	26	18	16
Domestic (Mn Mtrs)	21	25	49	44
Avg Prices	190	182	171	175
Major Components	Cotton			
Cost in Rs / Kg	114	121		

NOTE:

Sales prices and cotton prices for Q1 FY19 are excluding GST, whilst they include VAT in the previous year

Advanced Materials delivered a strong performance both in terms of topline and profitability

Healthy growth in revenues and EBITDA



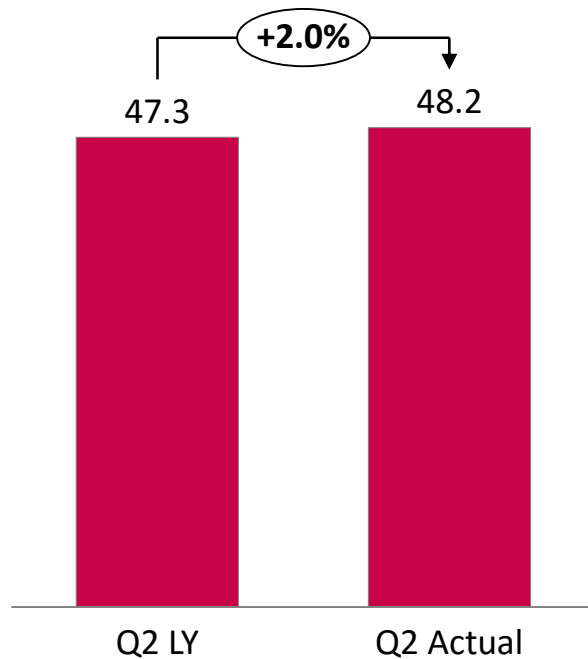
EBITDA Growth for Q2 Y2Y

- Operating leverage resulting in improving margins as mature part of portfolio starts to hit scale
- Improved realization from higher value added products
 - Start of carbon-fibre products
- Tie-up with a European firm for Cured-In-Place-Pipe technology (CIPP)

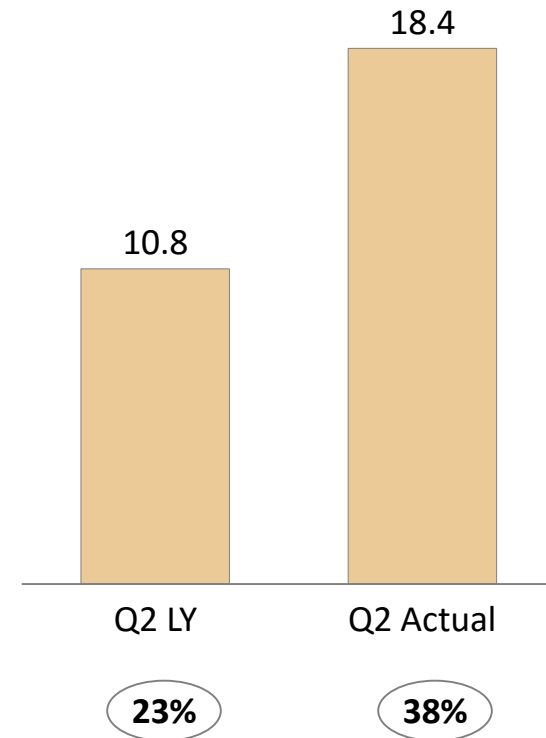
Engineering

Anup Engineering delivered yet another quarter of strong performance

Revenues – Rs Cr



EBIDTA – Rs Cr



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Outlook for FY19 for the 3 businesses

	Revenues	Margins
Arvind Limited (Demerged)	• Overall 10% growth in line with earlier estimate • Textiles 5-6% (lower than earlier estimate) ○ Lower Denim sales triggered by likely inventory correction by domestic brands, following weak Q2 ○ 3-6 month delay in new garment manufacturing projects* • Advanced Materials likely to grow at 24% (higher than earlier estimate)	• Overall likely to be higher by 1% • Textile margin likely to be lower by 0.8% on account of lower volumes • Advanced Materials likely to clock 9% (compared to -1% last year)
Branded Apparel	• ~ 20% growth expected	• Likely improvement of 1%
Engineering	• 10-12% growth expected	• Margins likely to maintain

Exceptional write off on account of likely due to change in GST law

A change in law is likely to be made to deny set off in GST of pre-GST additional excise duty. Also, refund of inverted duty for the past period has been denied. Company has made adhoc provision of Rs. 9 crores as exceptional write off during Q2. There may be a further write off of about Rs. 20 crores if these changes are implemented.

* New garment capacities planned in Ranchi (9.6m pcs), Ahmedabad cluster (20m pcs), Ethiopia (8.4m pcs), AP (6m pcs)

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Annexure-1 Memorandum P&L and Balance Sheet of 3 Demerged Entities as on 31st March 2018

	FY 17-18		
	Arvind Ltd (Demerged)	Branded Apparel	Engineering
<i>All figures in INR Crs</i>			
Revenue	6800	4266	224
EBIDTA Including Other Income	751	229	58
EBIDTA %	11.0%	5.4%	25.8%
EBIT Including Other Income	529	83	54
PAT (After Exceptional Item)	267	-7	43
CE	5355	1955	244
ROCE %	9.9%	4.2%	22.1%
Proforma Balance Sheet			
Shareholders' Equity	2677	1210	244
Borrowings	2678	745	0
Other Liabilities	1572	1302	57
Total Liabilities	6927	3257	302
Net Fixed Assets	3425	557	109
Other Non Current Assets	199	475	41
Current Assets	3303	2225	152
Total Assets	6927	3257	302

- Above Numbers are purely for broader understanding. The assets and liabilities as on effective date of demerger will be different than what is assumed as above.

Q2 FY19 : Demerged Entity wise P&L

Particulars <i>INR Cr</i>	Reported Arvind Limited	Branded Apparels	Engineering	Adj of Demerger	Consolidated
Revenues	1793	1227	48	-14	3053
EBIDTA (Without Other Income)	182	76	18	0	277
Profit before Tax	93	10	18	0	121
Profit After Tax	70	5	14	0	89
Minority Interest	3	0	0	0	3
Net profit	67	5	14	0	86
Less : Exceptional Item	13	0	0	0	13
Profit after Exception Item	56	5	14	0	73
Profit from Disc Ops (Net Of Tax)	19	0	0	-19	0
Profit for the Period	73	0	0	0	73

Annexure-2 Memorandum Financials of Three Demerged Entities for Q2 FY18 and Q2 FY 19

	Q2 18-19			Q2 17-18		
	Arvind Ltd (Demerged)	Branded Apparel	Engineering	Arvind Ltd (Demerged)	Branded Apparel	Engineering
<i>All figures in INR Crs</i>						
Revenue	1793	1227	48	1569	1139	47
Other Income	22	2	1	22	2	1
EBIDTA Including Other Income	204	77	20	163	68	12
EBIT Including Other Income	146	42	19	110	38	11
PAT (After Exceptional Item)	54	5	14	46	9	8
CE	5712	2105	276	5391	1861	185
ROCE %	10.2%	8.0%	27.1%	8.2%	8.2%	24.3%



Thank You!