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TRUE BLUE CZARS

The story of the Lalbhai group's metamorphosis from a textiles company to a conglomerate – with interests in Internet platforms, engineering, real estate and water solutions

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SPINNING THE BUSINESSES OF TOMORROW

How Arvind's new businesses are likely to more than double the group's turnover in five years By Clifford Alvares

F YOU THINK ARVIND IS JUST another textiles group, you have got another think coming. Sure, from the 1890s, Arvind's primary business was in textiles – and that is still its bread and butter. However, over the last decade or so, this side of the Lalbhai Group has spawned a handful of other businesses from creating internet platforms for others to sell their wares to specialised engineering, real estate, water solutions and apparel retailing.

“We have transmogrified ourselves from being a textiles company into a conglomerate,” says Sanjay of the Lalbhais. “And it has been planned. A business has a lifecycle; so, we have been constantly reinventing ourselves.”

In the 1980s, when power looms arrived, Arvind Mills, back then, was one of the first to venture into a then completely unknown area for the Indian market – denim. Denim as a fabric has western roots, and entering the business at that time meant that the company was stepping into the unknown.

Adding Value

Over the years, Arvind stepped up its manufacturing game to rank among the biggest manufacturers of denim across the world. (As far as shirting and bottom-weights are concerned, it is the third largest company after the Chinese manufacturers.)

Starting off in women's wear, Arvind continues to enjoy a decent market in voiles. Despite its sizeable market share in denims, etc., it has expanded its capabilities and is now moving increasingly

1993	1996	1998	2010	2011	
Global brands come knocking as Arvind brings apparel brands such as Arrow and US Polo to the Indian market	Arvind begins to build a manufacturing unit at Santej to produce high value-added cotton shirts at a cost of Rs1,000 crore	Santej shirting facility, with a capacity of 34 million metres, was commissioned in 2017	Arvind Store was set up to house the best brands of Arvind under one roof. There are currently over 180 Arvind Stores across India	Expands the international brand basket and begins to bring in more brands like Calvin Klein, Tommy Hilfiger, Gap over the next three years	

2014	2015	2016
Arvind scores a major win. Arvind Envisol, a subsidiary of Arvind, which provides waste water treatment solutions, gets a global patent for its polymeric film evaporation technology (PFET)	Arvind splits its real estate subsidiary Arvind Infrastructure (now Arvind Spaces) and lists it on the stock exchanges	Arvind launched India's first omni-channel platform - Nnnow.com, a one-stop shopping destination.
		2016
		Multiples invests \$110 million in Arvind Fashions for a 10 per cent stake
		2017
		Arvind announces a demerger of its engineering, fashions and textiles business

ARVIND

A textile manufacturer and the flagship company of the Lalbhai Group headquartered in Naroda

Revenue	Rs 6,158 cr
Revenue growth CAGR (%)	13%
Ebidta	Rs 819 cr
Ebidta growth CAGR (%)	5.9%
RoCE	11.90%
Debt	Rs 2,792 cr
Shareholder equity*	Rs 2,600 cr

ARVIND FASHIONS

This branded apparel business is being hived off into a separate company on the bourses

Revenue	Rs 2,898 cr
Revenue growth CAGR (%)	25%
Ebidta	Rs 145 cr
Ebidta growth CAGR (%)	34%
RoCE	3.70%
Debt	Rs 696 cr
Shareholder equity*	Rs 1,108 cr

ANUP ENGINEERING

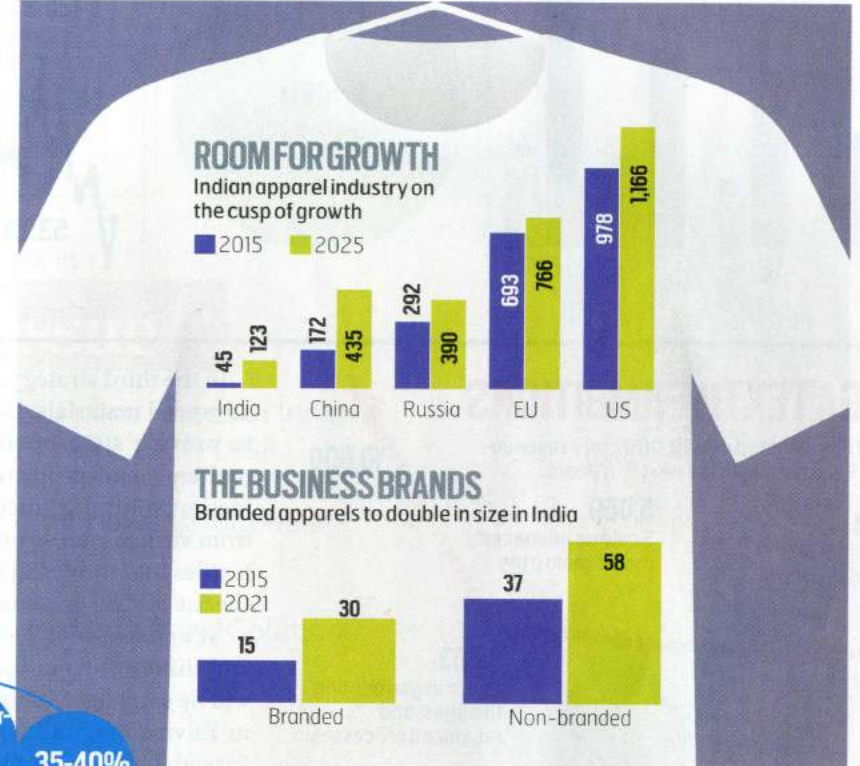
The engineering company, to be listed, manufactures specialised equipment

Revenue	Rs 179 cr
Revenue growth CAGR (%)	25%
Ebidta	Rs 54 cr
Ebidta growth CAGR (%)	47%
RoCE	43.30%
Net cash	Rs 36 cr
Shareholder equity*	Rs 179 cr

ARVIND SPACES

Established in 2009, the company has set its sights on unlocking its land bank

Revenue	Rs 160 cr
Revenue growth CAGR (%)	34%
Ebidta	Rs 46 cr
Ebidta growth CAGR (%)	32%
RoCE	10.93%
Debt	Rs 45 cr
Shareholder equity*	Rs 194 cr



into advanced materials, precisely, "smart" materials used in firefighting, construction, and so on.

These roots of innovation were laid in the late 1980s and early 1990s. Lalbhai, then, saw the potential of diversifying into allied segments, which would add more value to shareholders.

Arvind was also the first to bring big international brands to the country when it was complicated even legally to bring them in. The company brought into India many international brands including US Polo, Arrow, GAP, Tommy Hilfiger and Cherokee.

"You know about us as a denim company, but we have moved on. That's a constant journey. And it is intentional. Unless you re-invent yourself, you cannot create shareholder value," says the senior Lalbhai.

In fact, value creation for all stakeholders is the predominant mantra at Arvind. It is this drive that has seen the company announce a major rejig of its businesses. It will now hive off and list on the bourses its subsidiary, Arvind Fashions, its apparel retailing arm with more than 20 brands. Another subsidiary, Anup Engineering, which is into specialised engineering, will also be listed



on the bourse. Both these companies have been clocking revenue growth rates of over 25 per cent.

Now, this revamping exercise will free resources and cash for the flagship textiles business. The company now plans to utilise these resources to bolster its meandering growth rates in the textiles division from about 6 per cent to the early teen levels of 12-13 per cent. This newly expected growth is likely to come from the new advanced materials.

"When we look at the business and our end-to-end capabilities, we think why not technical textiles," says Lalbhai. "I have certain capabilities and certain core competencies, and I see a huge opportunity. When we are going to become a \$7 trillion economy, it is going to be the fastest possible growth globally anywhere. If there

* Shareholder equity as on September; Source: Ace Equity

TO SCRIPT A BIG FASHION LEAP

Arvind Fashions aspires to grow into a Rs 9,000-crore brand powerhouse

FY22

- Revenue: Rs 9,000 cr
- Ebidta: Rs 1,000 cr
- RoCE: 35-40%

is such a large opportunity, can we not create disproportionate shareholder value? The answer is yes. Do we have the domain expertise? The answer is yes."

But is Arvind moving away from its core competency of textiles? Lalbhai believes that happens when the same management is trying to learn 10 new things, which may dilute shareholder value. "We are building vertical domain expertise with professional management and

expertise in each of the new segments."

Reinventing the Textiles Business

Sanjay's eldest son, Punit, is the key person driving the new textile division. "Arvind is an engine based on the core capabilities," he says. "We overlay our thinking on where we can create value; it is much more than just backward and forward integration."

On the other hand, textiles manufacturing has become a low-margin, capital-intensive business. Advanced materials are less capital intensive and could command much higher margins based on newer applications. Arvind, on its part, is exploring fresh avenues for such applications.

It is looking at reshaping the way the textiles business operates, and moving from a manufacturing business to an integrated service provider in global textiles. In brands, for example, it is looking at not manufacturing and selling fabric, but also taking up other aspects of

REAL ESTATE ZOOMS SKYWARD

The growth of Arvind's real estate division has been solid



MARKET CAP



ARVIND'S REAL ESTATE SURGE

Arvind's real estate arm has added over Rs 500 crore to group's market cap post listing



Share price BSE

MEGA TEXTILE AMBITIONS

Arvind has targeted a Rs 10,000 crore revenue purely from textiles in the next 5-6 years

4,684

Plans to improve revenue growth to 10%

5,069

Scale up advanced materials in a big way

4,958

And raise the margin profile

5,453

Invest in garmenting facilities, and advanced processes

FY14 FY15 FY16 FY17 FY22

Figures in Rs crore; Source: Company reports

brand management such as supply chain. Here's where forward integration into garments comes into play, coupled with integrating design and innovation of Arvind to the designing of the brands the company manages.

Arvind is also looking at how textiles are manufactured. For over a 100 years now, the process of textile manufacturing has hardly changed. Companies are still weaving, dyeing, and finishing. Now, with technology, automation, artificial intelligence, additive manufacturing and 3D printing, the opportunity for a complete makeover is around the hem.

The company is also looking at overturning the manufacturing game such as with manufacturing without weaving or dyeing. "We are going to play the lead role in manufacturing textiles in a way that can add much value," says Punit. "If I can have a garment directly from yarn, imagine how much faster I can service my customers. So, the second theme is about game-changing manufacturing innovations."

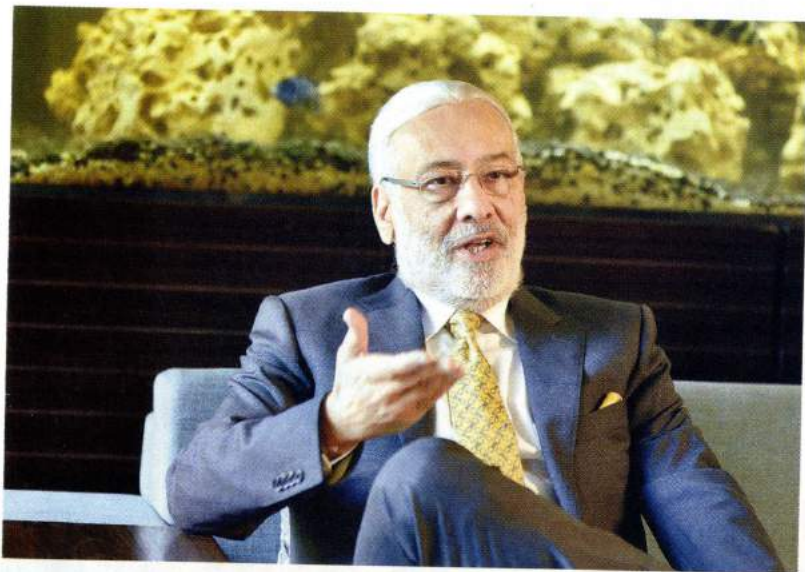
In the third strategy, Arvind is building capabilities on advanced materials. It is partnering the likes of duPont to provide state-of-the-art fire-protection solutions, molten-metal-protection solutions, anti-ballistic-protection solutions, medical clothing that protects you from viruses, and so on. Arvind is also looking at taking textiles into the construction space in order to minimise the use of steel or stone structures.

"It's going to look a very technology-heavy business, and different from the asset-heavy manufacturing. It will be asset light," says Punit who has done his Master's in Environmental Science from Yale and MBA from Insead. "It is going to, you know, ride on some of the mega trends. It is going to enjoy robust margins. It is also going to have return on equity, which will see growth returning."

Over the next year or so, Arvind is planning to invest Rs 1,500 crore in these new capabilities, which should close to double its textiles turnover from approximately Rs 5,400 crore to Rs 10,000 crore in the next five years. Punit reckons that the story is far from the traditional game of gaining market share at lower and lower margins. "It is a different story from the traditional unattractive textiles one. We want to bring that excitement back to textiles," he says.

Raising The Bar

At the front-end of the textiles business are the brands where Arvind Fashions is raising the bar in retailing apparel. With its 270-plus stores and with over 1,000 additional counters like multibrand stores, Arvind clocked sales worth Rs 2,898 crore as on 17 March. As a standalone unit, Arvind Fashions is now targeting revenue of Rs 9,000 crore in the next five years, commanding



'We have transmogrified ourselves from being a textiles company into a conglomerate'

Sanjay Lalbhai, Chairman and Managing Director, Arvind

months from now. We will have two brands that are near the Rs 1,000 crore mark. We believe this portfolio itself will propel the business from being a Rs 3,500 crore business to a Rs 9,000 crore one in five years, an organic 35 per cent CAGR," says Kulin, an Engineering graduate from Stanford and an MBA from Harvard Business School.

The Opportunities Of Tomorrow

Increasingly, brands are also becoming more commonly explored online. Arvind has launched its e-commerce business Nnow.com. Online sales now account for about 10 per cent of Arvind Fashion's revenues, but the company is looking at clocking about 20 per cent from digital in five years.

The company is using digital not only to perk up e-commerce sales, but also to check out investing in digital stores and experiences. Digital will mean that consumers will be able to zap out of stores without going to the POS (point of sales) machines, and clock sales through apps. Discounts can also be customised based on a consumer's online shopping and browsing patterns.

The company is also investing in predictive analytics to further drive sales growth. That means that back-end software and analytics will be able to predict what is selling online or in stores, and rank the top selling models. At the analytic end, the Arvind

manufacturing machinery will then work backwards and produce apparel in very quick time.

"The business of yesterday was that everything was built around the store. The business of tomorrow will be where everything is built around the customer. The store will adapt itself to the customer, and we will keep spoiling the customer more and more," says Kulin.

The Lalbhai group is executing a similar strategy in its fabrication business, Anup Engineering. Set up two decades ago, this company is into manufacturing heat exchangers, pressure vessels, centrifuges, columns, absorbers. It is a business where the management sees a growth of over 30 per cent in Ebitda, with high returns

a growth rate of over 20 per cent.

Isn't that way too ambitious? Not really. Apparel retailing has moved from multi-brand outlets to standalone stores to online e-commerce. Punit's younger sibling, Kulin, believes the opportunity in the brands business is that for a country like India, which is so young, rising per-capita GDP makes one's apparel the most important way to express oneself.

One of the largest segments in the country, the \$80 billion apparel market, both brand-named and non-brand-named, continues to clock growth rates of 15-plus per cent. Punit believes that Arvind has created a platform for global and lifestyle brands to scale up quickly and at a fraction of the cost. Arvind has more than a dozen stores in big malls selling different clothing. The company houses mega brands such as US Polo, Flying Machine and Arrow, among others. In brand retailing, positioning is key. Breakevens are achieved only after a brand reaches Rs 100 crore in sales, and here's where Arvind Fashion's platform helps quickly scale up a brand. In the next 8-10 months, all of Arvind Fashion's latest brand introductions will start to mature and begin to break-even on operating costs.

In fact, Kulin believes that, without adding any more brands to its portfolio, Arvind Fashions could easily scale the Rs 9,000 crore target it has set for FY 22.

"The unique thing about our brands business is that we will not have a single Ebitda negative brand eight

ENGINEERING SCRIPTS A GROWTH PATH

Anup Engineering into special fabrications is clocking a growth of 25-plus %

FY	Revenue	RoCE (%)
FY13	73	18.5
FY14	105	25.2
FY15	136	40.5
FY16	145	34.5
FY17	179	43.3

Revenue Rs cr; Source: Company



'We will not have a single Ebitda negative brand eight months from now.'

-Kulin Lalbhai, Executive Director, Arvind

on capital. In fact, currently, it clocks an over 40 per cent RoE, with no debt.

Water solutions is another business that the group has incubated, which is now stepping into the big league. Arvind Envisol looks at recycling water and utilising technologies such as zero-liquid discharge in the textiles business. Since then, the company has expanded into areas such as pharmaceuticals, leather, chemicals, and so on. In fact, the business has 25 patents in the water business.

In fact, the water-solutions business started as a necessity in the textiles business which uses gallons of water for dyeing and washing. Water is an integral part of textile manufacturing. Learning from that, Arvind developed expertise in water, where it started consulting for other companies and soon started to provide end-to-end solutions.

Now, it has 60 water-solution installations in 10 countries, including Ethiopia, where it has an MoU with the government to make all industrial businesses zero-liquid-discharge compliant. Says Punit, "I have sold technology to Germany, China. It is becoming a global business, and expanding on innovation and technology, and a deep understanding in water. The need has given rise to an interesting business that we will incubate more till it has the cash flows to chart its own course."



'We are going to play the lead role in manufacturing textiles in a way that can add much value'

-Punit Lalbhai, Executive Director, Arvind

For Lalbhai, though, the last few years have been about constantly creating shareholder value. Over the past few decades, Arvind's market cap has hovered around Rs 3,000 crore. For Lalbhai it has been a sobering experience. Says Sanjay: "The market is always right. It is a humble way of saying that you did not do what the market wanted. That could be the only explanation. The market is not wrong. You did not do the right things."

But ever since the company split its real estate division, the strategy has created enormous shareholder value. Today, the flagship Arvind company has a market value of Rs 12,000 crore. Says Lalbhai, "Valuation is a game of various things. If you incubate a little higher number of opportunity of your total cash flow, it may be an issue for the market. But, see, you have to look at both short term and long term. So, investors will see we are focused on creating shareholder value."

Kulin believes that the new direction in which the group is going – capital allocation and return on capital employed – are going to be the key focus areas. "We have to focus on capital allocation and return on capital employed, and innovation," he says, "then the outcomes follow." The new conglomerate has started to deliver. **BW**

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