Four-point strategic plan to reduce Arvind's debt burden

City-based apparel major Arvind Ltd has evolved a four-point strategic action plan, including reducing its denim production, to bring down its huge debt burden which as on March 31 totalled Rs.11.72 billion.

The four-point plan, unveiled in the company's annual report, says the company would bank on profitable fabrics and apparel business, give more focus on retail business and popular brands, unlock value in non-strategic assets, and use cash flows to de-leverage the balance sheet.

The proposal is expected to get shareholders' nod at the annual general meeting here July 31.

The report keeps mum about how the company would unlock value in non-strategic assets, but Arvind's chairman and managing director Sanjay Lalbhai told a television channel in May that the company had a 'land portfolio worth Rs.7 billion' and that business consulting organisation Ernst and amp; Young had been hired to raise money by selling this.

Arvind had undergone a major financial restructuring in 2003, which saw the company's total debt come down by Rs.10.16 billion including write-offs of principal totalling Rs.4.83 billion.

The annual report says the company is planning to reduce its denim production to focus more on premium and mid premium product segments.

Arvind, which forayed into denim production in 1987, became the fourth largest denim maker in the world in 1991 when it reached a capacity of 100 million metres a year. It became the world's largest denim producer in 1998.

'The company as a long-term strategy is reducing the capacity of its denim operations,' said the report.

'The company intends to focus on the premium and mid premium product segments, and for the regular market it is exploring possibilities of moving manufacturing capacities to logical locations,' it added.

The report indicated that Arvind has put its growth bet on lifestyle brands, retailing and value-added fabric and garmenting solutions.

The branded apparel and retail business of the company continued to perform 'exceptionally well' in 2007-08, the report said.

The sales have gone up to Rs.4.83 billion, a jump of 39 percent from the previous fiscal. The year also saw 100 percent growth in sales volume of the flying machine brand, which was re-launched with new look and Abhishek Bachchan as its brand ambassador.

As part of its strategy to promote retail business, the company would launch 30 Megamart outlets, the retail arm of Arvind, over the next four years.

Many textile players have indicated a shift in the strategy to give more importance to the domestic market as the export market is weakening.

While the overall apparel market is growing at an estimated 13 percent at domestic level, organised retail is expected to grow at over 25 to 30 percent a year and is likely to account for 25 to 30 percent of the total retail markets in next 10 years.

The report noted that the future demand for the branded apparel is expected to be robust due to a shift in the demographic profile, exponential growth in organised retail and because clothing still holds a lion's share of organised retail sales.

The report further noted that even though 'there may be some growth dampening in the coming financial year due to rapidly rising inflation and a general recession in the developed world, the growth story would remain intact'.

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