Arvind Fashions Ltd — 08 Jan 2026 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**Reaffirmed at CARE A / A1** (0 notches moved); **Outlook upgraded**
Outlook (Current vs Previous)	**Positive** vs. Stable
Key Drivers of Change	1. **Profitability Expansion:** PBILDT margin rose from 12.32% (FY24) to 13.33% (FY25) and 13.64% (H1FY26) via higher full-price sales. 2. **Debt De-leveraging:** TD/PBILDT improved to 2.43x (FY25) from 2.73x (FY24); projected to drop below 2x by FY27. 3. **Improved Capital Efficiency:** ROCE jumped to 20% in FY25 (from 16% in FY24) due to asset-light franchise expansion. 4. **Portfolio Pruning:** Exit from loss-making brands and focus on 5 core pillars driving steady TOI growth (₹4,620 Cr in FY25).
Rated Instruments	• **LT/ST Bank Facilities:** ₹160.00 Cr
Key Observations	• **Strengths:** Strong parentage (Lalbhai Group); Powerhouse brands (U.S. Polo, Tommy Hilfiger, CK). • **Growth Segments:** Footwear grew 25% (H1FY26); adjacent categories (kids/women/innerwear) now 20% of mix. • **Digital Traction:** Online sales contribute 24% of revenue (₹1,119 Cr), improving inventory fulfillment. • **Concerns:** High brand concentration; profitability is heavily dependent on the TH and CK JV (PAFPL). • **Scale Issues:** 'Arrow' and 'Flying Machine' operate at sub-optimal scales and drag consolidated margins. • **Inventory:** Working capital cycle remains high at ~200 days due to the nature of retail operations.
Investor Impact	• **Growth:** Revenue expected to cross ₹5,100 Cr in FY26 driven by Tier-II/III expansion. • **Margins:** Targeting 15-16% by FY28; operating leverage to kick in as 'Arrow' and 'Flying Machine' scale. • **Leverage:** Gearing expected to fall below 1x in the medium term despite the ₹135 Cr AYBPL acquisition. • **Dilution Risk:** Low; expansion is primarily franchise-led (asset-light) and funded via internal accruals (₹300 Cr+ annual cash accruals).
Agency / Cross Analysis	**Same Agency:** Previous review (Jan 2025) maintained 'Stable' outlook. The shift to 'Positive' reflects AFL hitting the 20% ROCE threshold and sustained margin improvement ahead of expectations. **Conclusion: Improvement.** The rating is now on the verge of an upgrade to 'A+' contingent on sustaining TD/PBILDT < 2x.
Final Inference	**Real operational turnaround.** The Positive outlook signals that AFL has successfully moved from a "portfolio cleanup" phase to a "profitable scaling" phase. Equity upside remains tied to the turnaround of the 'Flying Machine' and 'Arrow' brands.