

## 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	<ol style="list-style-type: none"> <li><b>Profitability Expansion:</b> PBILDT margin rose from 12.32% (FY24) to 13.33% (FY25) and 13.64% (H1FY26) via higher full-price sales.</li> <li><b>Debt De-leveraging:</b> TD/PBILDT improved to 2.43x (FY25) from 2.73x (FY24); projected to drop below 2x by FY27.</li> <li><b>Improved Capital Efficiency:</b> ROCE jumped to 20% in FY25 (from 16% in FY24) due to asset-light franchise expansion.</li> <li><b>Portfolio Pruning:</b> Exit from loss-making brands and focus on 5 core pillars driving steady TOI growth (₹620 Cr in FY25).</li> </ol>
Rated Instruments	<ul style="list-style-type: none"> <li><b>LT/ST Bank Facilities:</b> ₹60.00 Cr</li> </ul>
Key Observations	<ul style="list-style-type: none"> <li><b>Strengths:</b> Strong parentage (Lalbhai Group); Powerhouse brands (U.S. Polo, Tommy Hilfiger, CK).</li> <li><b>Growth Segments:</b> Footwear grew 25% (H1FY26); adjacent categories (kids/women/innerwear) now 20% of mix.</li> <li><b>Digital Traction:</b> Online sales contribute 24% of revenue (₹119 Cr), improving inventory fulfillment.</li> <li><b>Concerns:</b> High brand concentration; profitability is heavily dependent on the TH and CK JV (PAFPL).</li> <li><b>Scale Issues:</b> 'Arrow' and 'Flying Machine' operate at sub-optimal scales and drag consolidated margins.</li> <li><b>Inventory:</b> Working capital cycle remains high at ~200 days due to the nature of retail operations.</li> </ul>
Investor Impact	<ul style="list-style-type: none"> <li><b>Growth:</b> Revenue expected to cross ₹100 Cr in FY26 driven by Tier-II/III expansion.</li> <li><b>Margins:</b> Targeting 15-16% by FY28; operating leverage to kick in as 'Arrow' and 'Flying Machine' scale.</li> <li><b>Leverage:</b> Gearing expected to fall below 1x in the medium term despite the ₹35 Cr AYBPL acquisition.</li> <li><b>Dilution Risk:</b> Low; expansion is primarily franchise-led (asset-light) and funded via internal accruals (₹00 Cr+ annual cash accruals).</li> </ul>
Agency / Cross Analysis	<p><b>Same Agency:</b> 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.</p> <p><b>Conclusion: Improvement.</b> The rating is now on the verge of an upgrade to 'A+' contingent on sustaining TD/PBILDT &lt; 2x.</p>
Final Inference	<p><b>Real operational turnaround.</b> 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.</p>