

Arvind Fashions Ltd — 08 Jan 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd. (January 08, 2025)
Rating Change	Reaffirmed at CARE A / CARE A1 (Maintains status after Jan 2024 upgrade from A-)
Outlook (Current vs Previous)	Stable / Stable
Key Drivers of Change	<ol style="list-style-type: none"> Portfolio Pruning: Sale of loss-making 'Sephora' (₹13 Cr EV) structurally boosted ROCE to 16% in FY24. Operational Resilience: H1FY25 revenue grew 10% (excl. Sephora) with >100 bps PBILDT margin expansion despite weak consumption. Deleveraging: Total Debt/PBILDT improved to 2.73x (FY24) from 3.09x (FY23); gearing reduced from 1.55x to 1.37x. Digital Efficiency: Online channel now contributes 23% (₹65 Cr) of sales, supported by 90% omnichannel-enabled stores.
Rated Instruments	<ul style="list-style-type: none"> LT/ST Bank Facilities: ₹160.00 Cr
Key Observations	<ul style="list-style-type: none"> (+) Group Strength: Benefits from Ahmedabad-based Lalbhai Group (Arvind Ltd rated AA-). (+) Asset-Light Pivot: Shift toward franchisee-led expansion limits annual capex to ₹100–120 Cr, funded by internal accruals. (+) Working Capital Management: Gross cycle at 197 days (FY24); ₹350 Cr unutilized limits + ₹150 Cr cash provide "Strong" liquidity. (+) Margin Lever: Higher full-price sales and discontinuation of legacy loss-making brands. (-) Segment Weakness: 'Arrow' and 'Flying Machine' still operate at sub-optimal scale/profitability. (-) Macro Risks: Sluggish "Value" segment demand and consumer shift toward travel/electronics over apparel. (-) Competition: High pressure from private labels and aggressive expansion by TATA, Reliance, and Aditya Birla.
Investor Impact	<ul style="list-style-type: none"> Growth: Guidance of 8–10% revenue growth; shift to Tier-2/3 towns via franchisees. Margins: Target PBILDT of 13–15%; ROCE projected to hit 25% by FY26 (key re-rating trigger). Leverage: Gearing (incl. leases) expected to fall below 1.0x by March 2026; minimal equity dilution risk. Cash Flow: Positive CFO (₹278 Cr in FY24) covers low term-debt repayments (₹25 Cr).
Agency / Cross Analysis	<p>Same Agency: Reaffirmed. The transition from "Turnaround" (A- in 2022) to "Quality Growth" (A in 2024) is now consolidated. Financials are approaching "Positive Factor" triggers (TD/PBILDT < 2.0x).</p> <p>Conclusion: Improvement. The credit profile reflects a leaner, more profitable entity post-Sephora exit, moving away from high-burn experimental brands.</p>
Final Inference	<p>Real structural improvement. AFL has successfully traded volume (Sephora exit) for value (ROCE expansion). While the value segment is currently a drag, the "Power 5" brand focus and debt reduction make this a high-quality discretionary play.</p>