Arvind Fashions Ltd — 09 Aug 2024 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**CARE A; Stable / CARE A1** (Reaffirmed; maintains the upgrade from A- achieved in Jan 2024).
Outlook	**Stable** (Current) vs **Stable** (Previous).
Key Drivers of Change	1. **Strategic Divestment:** Sold 'Sephora' business to Reliance for ₹213 Cr, cleaning up the balance sheet and exiting a loss-making segment. 2. **Profitability Turnaround:** Reported ₹195 Cr aggregate net profit over FY23-FY24 after 3 years of losses. 3. **Improved Leverage:** Net Debt/PBILDT improved to 2.73x (FY24) from 3.09x (FY23) due to better operating cash flows (₹278 Cr). 4. **Portfolio Focus:** Concentrating on 5 high-margin "Power Brands" (USPA, Tommy, CK, Arrow, Flying Machine) increasing full-price sales share.
Rated Instruments	• **LT Term Loan:** ₹20.51 Cr | CARE A; Stable • **LT/ST Bank Facilities:** ₹160.00 Cr | CARE A; Stable / A1 • **ST Bank Facilities:** ₹17.50 Cr | CARE A1
Key Observations	1. **Asset-Light Shift:** Transitioning to franchisee-led expansion to limit annual capex to ₹100–120 Cr. 2. **Brand Strength:** Strong licenses (long-term/perpetual) for market-leading international brands. 3. **Inventory Heavy:** Gross working capital cycle remains high at 197 days; improvement from 400+ days during COVID but still intensive. 4. **Margin Expansion:** Q1FY25 saw 100 bps margin expansion despite muted demand. 5. **Men's Wear Concentration:** Revenue remains skewed toward men's casual wear; adjacent categories (footwear/kids) are only 15% of revenue. 6. **Competitive Threat:** Faces intense pressure from TATA, Reliance, and Aditya Birla private labels. 7. **ROCE Trajectory:** ROCE improved to 16% (FY24); management targeting 25% by FY26.
Investor Impact	• **Growth:** Revenue growth projected at 10–12% via store efficiency and adjacent categories. • **Margins:** Post-IndAS EBITDA margins targeted at 13–15%. • **Leverage:** Gearing expected to drop below 1.0x by March 2025; reducing interest drag on PAT. • **Dilution Risk:** Low; internal accruals are now sufficient to fund planned growth capex.
Agency / Cross Analysis	**Same Agency:** CARE reaffirmed the rating assigned in Jan 2024. • **What Changed:** Financial risk profile strengthened further post-Sephora exit. Interest coverage improved from 3.05x to 3.36x. • **Financials:** While TOI dipped slightly (₹4,259 Cr vs ₹4,421 Cr) due to divestment, the quality of earnings improved with higher gross margins (~45%). • **Conclusion: Improvement.** The company has successfully transitioned from a high-growth/high-loss model to a disciplined, profitable entity.
Final Inference	**Real Improvement.** This is a fundamental turnaround signal. The exit from Sephora and focus on "Power Brands" has converted AFL from a cash-burner into a cash-generator (CFO: ₹278 Cr). Equity upside is now linked to ROCE expansion (16% $\rightarrow$ 25%) and successful scaling of 'Arrow' and 'Flying Machine'.