Arvind Fashions Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Arvind Fashions maintains a high-quality premium brand moat, led by USPA reaching a □2,500 Cr NSV milestone and a footprint of 1,025 EBOs.**	Positive
2	**Revenue grew 13.99% YoY to □5,266 Cr, driven by premiumization and a strategic shift toward higher-margin D2C and EBO channels.**	Positive
3	**Gross margins expanded by 91 bps to 54.4%, while ROCE improved from 17% to 19%, signaling better operational utilization of the capital base.**	Positive
4	***Reported PAT of 184 Cr was significantly aided by a sharp drop in the effective tax rate from 85% to 30%, rather than pure operational scaling.***	Neutral
5	***Net Debt escalated by 280.87 Cr to fund acquisitions and operations, worsening the Gearing Ratio to 57.40% and increasing financial risk.***	Negative
6	***Cash Flow from Operations (CFO) plummeted to 0.00 Cr despite positive profits, indicating a total collapse in cash conversion and earnings quality.***	Negative
7	***The 135 Cr acquisition of the loss-making Flying Machine (AYBPL) entity aims for IP control but currently acts as a drag on the consolidated balance sheet.***	Neutral
8	***Severe working capital bloat is evident as inventory surged 28.7% to 1,390 Cr, stretching inventory days to a high-risk level of 211 days.***	Negative
9	***Governance concerns have emerged following an audit trail failure in the PVH subsidiary and a 75% spike in KMP pay (24.19 Cr) despite liquidity strains.***	Negative
10	***High reliance on vendor financing is visible through a 48% surge in Trade Acceptances to 502 Cr, while cash reserves depleted by 61% to just 64 Cr.***	Negative
11	The outlook remains "Aggressively Optimistic" under new leadership, targeting digital dominance, yet the business faces a heavy □270 Cr short-term lease burden.	Neutral
12	***Investment View: Watch; stance is cautious pending evidence of inventory normalization (<190 days) and a CFO/PAT recovery toward 0.8x.***	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** Arvind Fashions Ltd (AFL) operates as a leading player in the Indian branded apparel and accessories space, with a portfolio bifurcated into Premium/Lifestyle (USPA, Tommy Hilfiger, Calvin Klein) and Value/Youth (Flying Machine, Megamart).
- **Revenue Drivers:** Growth is primarily driven by the "Power Brand" strategy, with USPA reaching a □2,500 Cr NSV milestone (representing ~47% of total revenue). Premiumization and a shift toward EBO and D2C channels are key top-line catalysts.
- **Cost Drivers:** Major costs include inventory procurement, employee benefits (impacted by gratuity and ESOPs), and significant lease obligations (□266.49 Cr cash outflow). Shared service payments to the parent company also impact the cost structure.

- **Industry Position:** AFL has transitioned from a "turnaround" story to a "premium retail compounder," focusing on aspirational segments supported by rising disposable incomes in India.
- **Expansion Plans:** The company added 1.43 lakh sq. ft. of retail space, reaching 1,025 EBOs, with a focus on the asset-light FOFO (Franchise Owned Franchise Operated) model.
- **Acquisitions:** AFL acquired Flipkart's 31.25% stake in Arvind Youth Brands (Flying Machine) for ₹135 Cr to gain 100% IP control and drive omnichannel independence.
- **Capacity & Infrastructure:** Deployment of "localized fulfillment algorithms" on NNNOW.com and the IGBC Platinum-rated Hoskote facility signal a shift toward tech-led logistics.
- **Geographical Presence:** The business is almost entirely domestic, with 99.28% of revenue generated within India.

2. Management commentary & outlook

- The leadership transition from Shailesh Chaturvedi to Amisha Jain (ex-Levi's) signals a strategic pivot from balance sheet cleaning to aggressive, digital-first brand building.
- Management is doubling down on NNNOW.com, moving online strategy from a clearance channel to a primary discovery and "omnichannel integration" engine.
- The focus remains on "aspirational" segments, leveraging structural transformations in Indian fashion and rising consumer disposable income.
- Capital allocation has matured, with the company initiating dividends (₹1.60/share) for the first time in years, signaling confidence in sustainable wealth creation.
- Inventory management is being addressed through AI-driven merchandising and localized fulfillment to mitigate the "inventory bloat" risks seen in previous cycles.
- The buyout of the Flipkart stake in Flying Machine is viewed as a "victory lap," allowing the company to capture the full upside of the brand's reinvigoration.
- Management highlights the achievement of a 23% ROCE milestone as evidence of improving asset turns and operational efficiency.
- Long-term vision centers on "Scale," "Digital Dominance," and maintaining a "Power Brand" concentration to drive operating leverage.
- **Management Tone: Aggressively Optimistic & Growth-Oriented.** Management has moved past a defensive posture to a narrative of expansion and premiumization. While confident, the lack of granular detail on wholesale channel quality (receivables/returns) suggests they are still growing out of historical inefficiencies rather than having fully eliminated them.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	5,266	4,620
Sales Growth %	13.99	8.47
Expenses	4,562	4,004
Material Cost %	45.62	46.53
Raw material cost	2,712	2,320
Change in inventory	-310	-171
Manufacturing Cost %	0	11.41
Employee Cost %	6.11	5.84
Other Cost %	34.89	22.89
Operating Profit	705	616
OPM %	13	13
Other Income	16	33
Exceptional items	-24.53	-1.12
Other income normal	40.79	34.34
Interest	170	170
Depreciation	290	256
Profit before tax	261	224
Tax %	30	85
Net Profit	184	33
Minority share	-61	-69
Exceptional items AT	-18	0
Profit excl Excep	201	33
Profit for PE	134	-36
Profit for EPS	123	-36
Profit Growth %	477	-142
EPS (□)	9.17	-2.67
Dividend Payout %	17	-60

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	53	53
Reserves	890	904
Borrowings	1,336	1,157
Long term Borrowings	105	8
Short term Borrowings	426	381
Lease Liabilities	805	767
Other Borrowings	0	0
Other Liabilities	1,936	1,695
Non controlling int	217	207
Trade Payables	1,387	1,172
Advance from Customers	0	34
Other liability items	332	282
Total Liabilities	4,216	3,809
Fixed Assets	1,080	1,008
Building	0	208
Plant Machinery	0	34
Equipments	0	16
Computers	0	41
Furniture n fittings	0	180
Vehicles	0	3
Intangible Assets	153	148
Other fixed assets	0	814
Gross Block	0	1,445
Accumulated Depreciation	0	437
CWIP	4	3
Investments	0	0
Other Assets	3,132	2,798
Inventories	1,390	1,080
Trade receivables	752	729
Receivables over 6m	0	81
Receivables under 6m	0	1,190
Prov for Doubtful	0	-541
Cash Equivalents	64	165
Loans n Advances	83	39
Other asset items	843	785
Total Assets	4,216	3,809

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	0	530
Profit from operations	0	634.19
Receivables	0	-92.37
Inventory	0	-189.32
Payables	0	233.57
Other WC items	0	-13.21
Working capital changes	0	-61.33
Direct taxes	0	-43.34
Cash from Investing Activity	0	-75
Fixed assets purchased	0	-95.82
Fixed assets sold	0	4.58
Capital WIP	0	0
Investments purchased	0	0
Investments sold	0	0
Interest received	0	14.91
Dividends received	0	0
Redemp n Canc of Shares	0	0
Other investing items	0	1.11
Cash from Financing Activity	0	-456
Proceeds from shares	0	5.25
Proceeds from borrowings	0	20
Repayment of borrowings	0	-96.52
Interest paid fin	0	-77.27
Dividends paid	0	-66.68
Financial liabilities	0	-240.80
Other financing items	0	0
Net Cash Flow	0	-2
Free Cash Flow	0	438
CFO/OP	0	93

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	52	58
Inventory Days	211	183
Days Payable	211	199
Cash Conversion Cycle	52	42
Working Capital Days	35	29
ROCE %	19	17

3.2 Financial analysis summary

- **Revenue** reached □5,266.00 Cr, a 13.99% YoY increase driven almost entirely by the Indian market (99.28%), while Trade Receivables remained stable at □752.00 Cr, leading to an improved Debtor Days of 52.00.
- While **Operating Profit** grew to □705.00 Cr, the Net Profit of □184.00 Cr was significantly bolstered by a non-cash gain of □12.77 Cr from lease reassessments and a sharp reduction in the effective tax rate to 30.00% from 85.00%, even as Cash Equivalents fell to □64.00 Cr.
- **Inventory** levels surged by 28.7% to □1,390.00 Cr, significantly outpacing Revenue growth and causing Inventory Days to deteriorate to 211.00 days from 183.00 days, which directly pressured Working Capital and resulted in a CFO of □0.00 Cr.
- **Employee Cost %** rose to 6.11% of Sales, impacted by a 263% spike in gratuity expenses to □11.26 Cr due to past service costs and a 3x increase in ESOP charges to □6.11 Cr, creating a structural drag on EBITDA margins.
- **Finance Cost** remained flat at □170.00 Cr despite Total Debt (including Lease Liabilities) rising to □1,336.00 Cr, as the company shifted toward Short term Borrowings of □426.00 Cr and increased reliance on Trade Credits (Acceptances) which surged 48% to □502.46 Cr.
- The company utilized **□135.00 Cr** to acquire the remaining 31.25% stake in Arvind Youth Brands, a loss-making subsidiary that lost □31.32 Cr in FY26, which increased Net Debt by □280.87 Cr and expanded Intangible Assets to □153.00 Cr.
- **Other Expenses** spiked to 34.89% of Sales, including □266.49 Cr in total cash outflows for leases and a 50% increase in shared service payments to Arvind Ltd (□16.94 Cr), signaling potential value leakage that limits the conversion of Revenue to CFO.
- **ROCE** improved to 19.00% (management reported 23% on specific bases, but 19% on standard metrics) as Operating Profit increased, but Net Worth stayed stagnant at □943.00 Cr, indicating that growth is being funded by a 36% increase in gross Borrowings rather than internal accruals.
- **Capital Commitments** increased by 63% to □27.37 Cr, suggesting continued Capex for store expansions despite rising Net Debt and a 61% plunge in Cash Equivalents.
- Discontinued operations (Aeropostale/Ed Hardy) continue to bleed cash with an **□8.23 Cr** operating cash outflow and □11.59 Cr in remaining Trade Payables, acting as a lingering drain on group liquidity.
- The dominant financial theme of the year is **"Growth at the Cost of Liquidity,"** where double-digit Revenue growth and improved ROCE are overshadowed by zero CFO conversion, a bloating Inventory position, and a deteriorating Gearing Ratio of 57.40%.

3.3 Contingent liabilities & commitments

- **DRI Customs Demand:** □1.69 Cr demand for short payment of duty due to non-inclusion of vendor payments in assessable value (deposited under protest).
- **GST Litigation (Indemnified):** New GST claims of □10.69 Cr emerged related to a sold subsidiary; the Parent has indemnified the purchaser.
- **Capital Commitments:** □27.37 Cr (up 63% YoY) primarily for store expansions and warehouse technology.
- **Lease Obligations:** □270.23 Cr of lease payments are due within the next 12 months, representing a significant short-term cash commitment.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	Net debt increased by □280.87 Cr despite reported profits; zero cash conversion.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — inventory build outpaces sales	—	Inventory days increased from 183 to 211; combined asset growth 18.4% vs 13.9% sales growth.
3	Revenue timing	Revenue ↑ — depletion of customer advances	—	Note 29: 99.28% of revenue is domestic; customer base is granular.
4	Revenue from related parties %	Neutral — minimal top-line impact	—	Shared services paid to Arvind Ltd increased 50% to □16.94 Cr.
5	Inventory vs revenue growth	Profit ↓ — working capital drag	—	Inventory grew 28.7% while sales grew 13.99%; high reliance on vendor-financed trade credits (□502 Cr).
6	Inventory valuation method change	Neutral — consistent application	—	Valuation remains at lower of cost or net realizable value.
7	Exceptional items in operating profit	Profit ↓ — non-recurring losses	—	Includes costs for brand rationalization and discontinued operations settlement.
8	Depreciation rate vs useful life policy	Profit ↑ — lower depreciation intensity	—	Lease reassessment gain of □12.77 Cr credited to P&L as non-cash income.
9	Provision reversals boosting PAT	Profit ↑ — non-cash boost	—	Management claims no concentration risk; unhedged USD receivables decreased.
10	Tax rate consistency	Profit ↑ — tax rate normalization	—	FY26 reflects a more normalized corporate tax structure after prior year distortions.
11	CWIP age and stalling projects	Neutral — minimal capital lock-up	—	Capital commitments increased 63% for future store expansions.
12	Deferred tax asset recognition	Profit ↑ — valuation of tax shields	—	Consolidation of loss-making AYBPL provides future tax offsets.
13	RPT quantum and trend	Profit ↓ — value leakage risk	—	KMP remuneration surged 75% vs 14% revenue growth; includes termination benefits.
14	Dividend paid vs FCF adequacy	Profit ↓ — debt-funded dividends	—	□66 Cr paid despite negative FCF and rising debt; gearing worsened to 57.4%.
15	Audit Trail Integrity	Profit ↑↓ — risk of unauthorized data modification	—	Audit trail feature not enabled for administrative/ privileged database access.
16	Capital Allocation Quality	Profit ↓ — acquisition of loss-making entity	—	Paid premium for 31.25% stake in subsidiary that lost □31.32 Cr in FY26.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **Key Audit Matters (KAMs):** * **Control Judgment in Consolidation:** Management exercised significant judgment in consolidating PVH Arvind Fashion Pvt Ltd (50% ownership) based on the power to appoint the Chairman and direct activities under Ind AS 110. * ***Audit Trail Failure (Subsidiary):*** A critical internal control weakness was identified in **PVH Arvind Fashions Limited**. The audit trail feature was not enabled for administrative/privileged access to the database, creating a risk of undetectable unauthorized data modification. * **Auditor Fees:** Totaled □1.22 Cr. M/s. Deloitte Haskins & Sells proposed for re-appointment (FY 2026-2031).

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Flipkart India Pvt Ltd | Strategic Partner | ***AYBPL Stake Buyout*** | 135.00 Cr | ***Acquisition of loss-making entity*** | | Arvind Limited | Parent | Shared Services | 16.94 Cr | ***50% YoY increase in costs*** | | KMP Group | Management | Remuneration | 24.19 Cr | ***75% YoY growth vs 14% Revenue*** | | Aura Securities | Promoter Group | Dividend Paid | 6.66 Cr | Value-neutral | | Arvind Limited | Parent | Purchase of Goods | (0.78) Cr | Normalized |

- **RPT Risk:** Total RPT of □182.79 Cr represents 3.47% of revenue. However, the 75% spike in KMP pay and 50% surge in shared services suggest potential value leakage.

C. Shareholding | Mar 2026 | % | | :--- | :--- | | Promoters | 36.85 | | FIIs | 14.24 | | DIIs | 15.15 | | Public | 33.76 |

- **Pledge:** Borrowings are secured by the pledge of subsidiary shares (Arvind Lifestyle Brands and Arvind Youth Brands).

D. Board Composition + KMP Compensation * **KMP Remuneration:** □24.19 Cr (75% YoY growth). This significantly outpaces the 14% revenue growth. * **CEO Pay:** New CEO Amisha Jain's compensation ratio to median is 46.95x. * **Family/Group Correlation:** Shared service payments to Parent (Arvind Ltd) increased to □16.94 Cr.

F. Capital Allocation & Capex | Metric | FY 2025 | FY 2026 | | :--- | :--- | :--- | | Capex (Gross Block Additions) | □142 Cr | **□198 Cr** | | CFO / Capex | 1.8x | **0.0x** | | Investment in Subsidiaries | □0 Cr | **□135 Cr** |

CAPEX Analytical Notes: * **CFO Coverage:** Capex is currently **not covered by CFO**, which fell to zero in FY26. * **Capex Nature:** Primarily focused on EBO expansion (1.43 lakh sq. ft. added) and tech-led supply chain upgrades. * **Deployment Efficiency:** While **ROCE** improved to 19-23%, the Inventory Days deterioration to 211 days suggests capital is being trapped in working capital rather than driving efficient cash cycles. * **Key Takeaway:** Capital allocation has turned aggressive with the **□135 Cr** Flipkart stake buyout and increased capex, funded entirely by debt and cash depletion.

H. Risks * **License Dependency:** Terminal value is tied to USPA and PVH (Tommy/CK) licenses; non-renewal is a catastrophic risk. * **Working Capital Stress:** Inventory growth (28.7%) outpacing sales (14%) creates severe liquidity pressure. * **Interest Rate Sensitivity:** 100% of borrowings are floating; a 50bps hike impacts PBT by □2.66 Cr. * **Audit Trail Weakness:** Lack of database logs in a major subsidiary poses a risk to financial data integrity.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	USPA ₹2,500 Cr NSV; 1,025 EBOs	Strong brand moat in premium segment but high license dependency.
Financial health	2	↓	D/E Gearing 57.4%; CFO ₹0 Cr	Growth is debt-funded with severe working capital bloat.
Earnings quality	2	↓	CFO < PAT; Audit trail failure	Zero cash conversion and internal control gaps in a key subsidiary.
Management & governance	3	↓	KMP pay +75%; AYBPL buyout	Aggressive RPTs and high KMP pay growth relative to performance.
Capital allocation & earnings visibility	3	→	ROCE 19%; ₹135 Cr AYBPL buyout	Improving returns but value-destructive acquisition of a loss-making entity.

Business positives (for this company this year) * **Strong Revenue Growth: Revenue** grew 13.99% to ₹5,266 Cr, led by the USPA brand reaching a ₹2,500 Cr milestone. * **Margin Expansion:** Gross margins improved by **91 bps** to 54.4% due to a better channel mix (EBO/D2C). * **Improving Asset Returns: ROCE** improved to 19.00% from 17.00%, signaling better utilization of the capital base. * **Strategic Consolidation:** Acquired 100% of Flying Machine (AYBPL) to capture full IP upside and omnichannel control. * **Shareholder Returns:** Initiated a dividend of **₹1.60/share**, signaling a shift toward a mature business model.

Business negatives / concerns (for this company this year) * **Zero Cash Conversion: CFO** plummeted to ₹0.00 Cr despite a PAT of ₹184 Cr, indicating poor earnings quality. * **Inventory Bloat: Inventory** surged 28.7% to ₹1,390 Cr, with Inventory Days stretching to 211 days. * **Governance Red Flag: Audit trail** feature was not enabled in the PVH Arvind subsidiary, risking data integrity. * **Debt Escalation: Net Debt** increased by ₹280.87 Cr, and the Gearing Ratio worsened to 57.40%. * **Disproportionate KMP Pay: KMP remuneration** spiked 75% to ₹24.19 Cr, far exceeding revenue growth of 14%. * **Liquidity Crunch: Cash Equivalents** depleted by 61% to ₹64 Cr to fund operations and acquisitions.

Overall scorecard summary Arvind Fashions is exhibiting a "growth at any cost" phase, where strong brand performance and revenue scaling are being undermined by a total collapse in cash flow generation. While business quality remains high due to its premium brand portfolio, financial health is weakening as the company relies on debt and vendor financing (Trade Credits up 48%) to fund a massive inventory build-up. Governance posture is currently under pressure due to internal control failures (audit trail) and aggressive RPTs, placing the company on a stable but high-risk trajectory that requires immediate working capital normalization.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 7/10 — Governance Rating: 3

Part c: investor verdict

Thesis: AFL is a high-quality premium brand house currently undergoing a liquidity-strained expansion that is masking underlying working capital inefficiencies. **Overall stance:** Watch **Rationale:** Strong brand momentum is offset by zero cash conversion and internal control red flags. **Re-evaluate when:** Inventory Days drop below 180 and CFO/PAT exceeds 0.8x. **BULL CASE:** Successful "reinvigoration" of Flying Machine and digital scale-up drives ROCE above 25% and FCF turns positive. **BEAR CASE:** Continued inventory bloat leads to massive discounting/write-offs, and audit trail issues mask further financial slippage. **Key monitorable:** Inventory Days: 211 → Watch threshold: 190.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Cash Conversion Efficiency	Strong CFO (□530 Cr) covering capex 5.5x.	Zero CFO (□0.00 Cr) despite reported PAT of □184 Cr.	The total collapse in cash conversion reveals that reported profits are entirely trapped in working capital, rendering the earnings "paper-only."
Inventory Trajectory	183 days; growth (18.7%) was double revenue growth.	211 days; growth (28.7%) is again double revenue growth (14%).	Sustained inventory bloat for two consecutive years suggests a structural failure in demand forecasting or a refusal to recognize obsolescence.
Capital Allocation Priority	Debt reduction (□76 Cr) and consolidation.	Debt-funded buyout (□135 Cr) of a loss-making subsidiary.	Management has pivoted from balance sheet repair to aggressive, debt-fueled acquisitions of underperforming assets.
Management Tone & Compensation	Defensive/Turnaround focus; KMP pay growth (2.2%) lagged employees.	Aggressively Optimistic; KMP pay spiked 75% (□24.19 Cr).	The massive jump in executive pay amidst a liquidity crunch and zero cash flow signals a potential misalignment between management rewards and operational reality.
Internal Control Environment	Clean audit trail and standard governance checks.	Audit trail failure for privileged access in PVH subsidiary.	The inability to track database modifications in a major subsidiary introduces a high risk of undetected financial data manipulation.
Liquidity & Gearing	Improving; financial debt reduced to □389 Cr.	Deteriorating; Net Debt increased by □280 Cr; Gearing hit 57.4%.	The company has exhausted its cash reserves (down 61%) and increased its reliance on vendor financing to sustain operations.

7.2 Persistent patterns

- **Structural Lease Leverage:** The business remains heavily burdened by fixed-cost obligations, with **lease liabilities (□767 Cr - □805 Cr) consistently dwarfing actual financial debt**.
- **Power Brand Concentration:** Profitability and growth remain dangerously concentrated in the **USPA and Tommy Hilfiger licenses**, creating a high-stakes dependency on third-party brand owners.
- **Parental Credit Dependency:** There is a recurring reliance on **Arvind Limited (Parent) for corporate guarantees (□135 Cr)** and shared services to maintain the credit and operational structure.
- **Asset-Encumbered Borrowing:** The company consistently **pledges subsidiary shares** to secure its debt, limiting financial flexibility and increasing cross-default risks.
- **Working Capital Stress:** A persistent inability to align inventory procurement with actual sales velocity continues to result in **deteriorating cash conversion cycles**.
- **Asset-Light Retail Expansion:** Management maintains a steady commitment to the **FOFO (Franchise Owned Franchise Operated) model** to drive footprint growth without heavy capital expenditure.
- **Wholesale Channel Friction:** Recurring issues with **credit quality and sales returns** (whether as a spike in returns or a jump in doubtful debt provisions) indicate ongoing stress in the B2B segment.