

## Arvind Fashions Ltd — Feb 2025 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Strong Beat **One-line:** Arvind Fashions has delivered a high-quality "decoupling" from the sluggish Indian retail sector, evidenced by industry-leading 11% LTL growth and a structural 120 bps EBITDA margin expansion driven by a successful pivot to direct-to-consumer (B2C) channels.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	11% LTL growth significantly exceeded the 5-7% long-term guidance and the 4.6% achieved in Q2.	☐
Earnings Quality	High (Core driven)	Gains were driven by lower discounting (-100 bps) and a 160 bps GP expansion, rather than one-offs.	☐
Guidance Confidence	Strong	Management re-affirmed 12-15% revenue CAGR and 100 bps annual margin expansion despite macro headwinds.	☐
Management Credibility	Strong	Successfully turned around Arrow and Flying Machine (both double-digit LTL) as promised in earlier quarters.	☐
Business Quality Signal	Improving	Direct channel mix reached 55%; inventory turns maintained at >4x while generating strong free cash flow.	☐
Key Q&A Exchange	Q1: Online B2C Pivot	Transitioning Online from B2B to B2C (20% growth) allows better price control and higher margins.	☐
The Street's Primary Anxiety	Wholesale Channel	Analysts pressed on the -8% to -10% wholesale "moderation"; Mgmt clarified this is intentional "tail pruning."	☐
Capital Cycle Stage	Harvesting	Focus on asset-light FOFO expansion and scaling the existing 5-brand "Power" portfolio.	☐
Margin / Return Ratio Trajectory	Improving	ROCE has crossed 19% (vs ~18% in Q2), moving toward the medium-term 20% target.	☐
Pricing Power	Expanding	Reduced discounting by 1% YoY despite high industry inventory; premium collections (Orry/Pacho) sold out.	☐
FCF Conversion & Quality	Strong	Inventory value down ₹40 Cr vs Sep'24 while Revenue grew; debtors reduced by ₹180 Cr post-festive.	☐
Competitive Moat Signals	Widening	USPA is approaching the ₹2,000 Cr NSV mark with a dominating lead in the casual lifestyle category.	☐
Balance Sheet Strength	Strong	Net working capital stable at 60 days; gross working capital days remained stable despite revenue acceleration.	☐
Working Capital Efficiency	Improving	Inventory turns improved to 4.2x (from ~3x historically), reflecting tighter supply chain control.	☐
Mgmt Guidance Track Record	Reliable	Consistent delivery of margin expansion and successful execution of celebrity-led premiumization.	☐
Key Vulnerability / Red Flag	Minority Interest	Significant profit leakage to non-controlling interests (PVH JV) remains a drag on consolidated EPS.	☐
Management Tone	Highly Confident	Posture was aggressive on market share gains ("green shoots") while disciplined on channel hygiene.	☐

**Key Takeaways:** \* **Positives:** AFL is winning on execution; the 11% LTL growth is likely the highest in the listed speciality retail space this quarter. The "Power Brand" strategy is bearing fruit as Arrow and Flying Machine—formerly laggards—are now contributing double-digit LTL growth. Structural margin expansion is being driven by a 4% mix shift toward direct channels (Retail/B2C Online), which offers higher full-price sell-throughs and better data visibility. \* **Negatives:** The wholesale channel (MBOs and Dept Stores) remains a drag on top-line growth due to a strategic exit from one partner and de-stocking in a muted market. Footwear performance was hampered by BIS implementation, leading to inventory shortages in key lines like sneakers. \* **Street Concern:** Analysts remain focused on the divergence between EBITDA growth and Reported PAT, given the high minority interest from the PVH (Tommy/CK) joint venture. Management's response is to scale 100%-owned brands (Arrow/FM) to a point where they reach fixed-cost coverage, eventually narrowing the profit-leakage gap. \* **Forward Watchpoint:** Monitoring the SS'25 launch; management is hopeful of sustaining current momentum, but hitting the 12-15% annual revenue target requires the wholesale channel to return to its 8-10% underlying growth potential in H1 FY26.

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## 2. BUSINESS PERFORMANCE

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### 2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	1203	↑ 7%	↓ 5.5%	↑	Driven by 11% LTL growth and 15% retail growth; volume-led.
Gross Margin (%)	55%	↑ 160 bps	↑ 460 bps	↑	Lower discounting (-1%) and richer channel mix (Direct).
EBITDA (₹Cr)	174	↑ 16%	↑ 2.4%	↑	Highest-ever quarterly EBITDA; helped by operating leverage.
EBITDA Margin %	14.5%	↑ 120 bps	↑ 120 bps	↑	110+ bps expansion YTD; tight cost control despite higher ads.
PAT (₹Cr)	Not stated*	↑ 71%	→	↑	Bottom line doubled in YTD period; PAT (ex-minority) ~₹28 Cr.
ROCE (%)	>19%	↑	↑	↑	Trending toward 20% target; significant shift in last 2 years.
SSS Growth (%)	11%	↑	↑	↑	Double-digit growth across all five Power Brands.
Store Count (Net)	~960+	↑	↑	↑	Focus on FOFO model and large format "Marquee" stores.
Inventory Days	~89	↓	↓	↑	Turns at 4.2x; Absolute inventory down ₹40 Cr vs Sep'24.
NWC Days	60	→	→	→	Tight control on balance sheet KPIs; GWC days stable.
Debt (₹Cr)	Not stated*	↓	↓	↑	Focus on FCF generation leading to further deleveraging.

*\*Note: PPT Snapshot table (doc\_id 2856) leaves PAT/Debt cells blank; values derived from Concall commentary (doc\_id 2855).*

## 2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
Power Brands	1203	7%	14.5%	↑	In-line	Aggregated view of USPA, Tommy, CK, Arrow, and FM.
US Polo Assn.	Not stated	Strong	High	↑	Above	approaching ₹2,000 Cr NSV; USPA x Pacho collab a success.
Tommy / CK	Not stated	Strong	High	↑	Above	Premiumization trend aiding superior sales and profitability.
Arrow	Not stated	Improving	Improving	↑	Below	1851 Italian line driving differentiation; double-digit LTL.
Flying Machine	Not stated	Improving	Improving	↑	Below	"Flying Machine x Orry" campaign buzz amongst Gen Z.

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	12-15% Growth	Needs ~₹1,300 Cr in Q4 to hit 12%; Q4 usually sees EOSS drag.	Delivered 8.5% YTD (Acceleration vs FY24's 4.5%).	Moderate
Guidance	Margins	+100 bps YoY	Already achieved 110 bps YTD; highly feasible for full year.	Consistent delivery.	Low
Guidance	ROCE	>20%	Currently at >19%; requires further inventory turn improvement.	On track (shifted from 15% to 19% in 2 years).	Low
Strategy	Channel Mix	2/3rd Revenue from Direct	Currently at 55%; requires continued aggressive EBO rollout.	Mixed (Wholesale remains a larger portion than target).	Moderate
Strategy	Expansion	15% Sq Ft CAGR	Opened ~1.5 lakh sq ft gross YTD; net additions slowed by mall delays.	On track (Net area growth is the focus).	Low
Balance	Inventory	4x+ Turns	Currently at 4.2x; sustainable if B2C mix stays high.	Strong delivery.	Low

## 4. ANALYST Q&A

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Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Priyank Chheda / Vallum	Online Transition	Business Overview	"When do you think the transition within online towards B2C will get completed?"	Management stated B2C online is growing at 20% and will eventually become two-thirds of the digital mix, offsetting the planned 10-12% decline in B2B wholesale. This shift improves price control and reduces the volatility associated with marketplace deep-discounting.	None	4.5	Clear pivot
2	3.5	Priyank Chheda / Vallum	Wholesale Drag	Business Overview	"What would have been the growth excluding the exit from large department stores?"	Management clarified that one partner's format closure was an industry-wide event, but underlying consumer sales in department stores remain at double-digit LTL. This suggests the "moderation" in reported wholesale revenue is a technical/ structural cleanup rather than a brand	None	4.0	Structural drag

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						demand issue.			
3	4.5	Prolin Nandu / Edelweiss	Margin Drag	Financials	"Is it fair that the drag from Arrow and Flying Machine will no longer be there as we enter FY26?"	Management confirmed that while Arrow/FM are still on a journey, they are delivering double-digit LTL and their EBITDA margins must expand by >100 bps to hit the company target. A successful turnaround here is the primary driver for consolidated PAT expansion given 100% ownership.	None	4.5	High-conviction
4	3.0	Prolin Nandu / Edelweiss	Store Size	Capex & Allocation	"How do you see the square foot addition for retail space in FY26?"	Management is targeting 15% net sq ft addition annually, prioritizing larger "family" formats and marquee stores over small doors. Larger stores house more adjacencies (Kids/ Innerwear), which should theoretically improve store-level ROICs.	None	4.0	Strategy shift
5	3.5						None	3.5	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Sachin Kasera / Svan	Footwear / BIS	Business Overview	"Can you update us on the progress on the footwear business?"	Management admitted footwear was impacted by BIS import standstill, but "green shoots" are visible as domestic sourcing approvals accelerate. This is a temporary headwind that masked the underlying 20% growth potential of the footwear category.			Temporary pain
6	4.0	Sachin Kasera / Svan	PAT Leakage	Financials	"Why is the high brand margin not flowing through in the PAT margin?"	Management pointed to the doubling of PAT YTD and the ₹30 Cr/quarter run-rate, noting that as Arrow/FM hit scale leverage, the consolidated bottom line will accelerate. This remains the central "patience" point for buy-side investors waiting for EPS to match brand strength.	None	3.0	Journey signal
7	4.5	Sachin Kasera / Svan	Growth Hierarchy	Business Overview	"Which brands grew more than	Management highlighted that the PVH portfolio	None	4.0	Premium lead

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					company average?"	(Tommy/CK) is growing in the teens with best-in-class profitability, while USPA maintains massive momentum. This confirms the premium end of the portfolio is doing the heavy lifting in a constrained consumption environment.			
8	3.5	Avinash Karumanchi / Equirus	Inventory Quality	Financials	"Where exactly are we reducing inventory?"	Management explained that optimization is happening across all locations, aided by a move to the consignment model in EBOs. Tighter inventory at the source allows AFL to resist early EOSS, protecting gross margins.	None	4.5	Operational
9	3.0	Naysar Parikh / Native	Volume vs Price	Business Overview	"For 11% LTL growth, what's the volume vs price?"	Management confirmed the bulk of the 11% like-to-like growth was driven by volume rather than price hikes. Volume-led growth in a	None	4.0	Quality growth

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						<p>muted market is a superior signal of brand health and market share capture.</p>			
10	3.5	Shreyans Jain / Svan	Receivables	Financials	"Why did receivables increase 17% while retail grew most?"	<p>Management explained that a model change with certain partners (controls-based) shifted stock from Inventory to Receivables, making the GWC impact neutral. This forensic detail mitigates concerns about "stuffing" the wholesale channel.</p>	None	4.5	Tech shift
11	4.0	Abhijit Kundu / Antique	Full Price Sales	Business Overview	"How much of the growth came from EOSS?"	<p>Management emphasized that Q3 results included "hardly any" discounted sales as they delayed EOSS until January. This is a massive credibility signal, proving AFL did not need to "buy" its 11% LTL with discounts.</p>	None	5.0	Pricing power

**PATTERN FLAGS & SENTIMENT** \* **The "Clean Up" Pattern:** Analysts were skeptical about the "moderation" in wholesale. Management's posture was defensive but logical, framing the slowdown as an intentional exit from low-margin/high-risk doors. This "quality over quantity" shift is the primary reason EBITDA is growing 2x faster than Revenue. \* **The Arrow/FM Re-rating:** Multiple questions focused on when the owned brands would stop dragging down the PVH-led profits. Management's confidence in their double-digit LTL growth suggests the operating leverage "break-even" for these brands is approaching in FY26. \* **Analyst Sentiment Verdict:** Skepticism regarding macro headwinds was largely overcome by the 11% LTL print. The primary friction point remains the **Non-Controlling Interest (NCI)**; until Arrow/FM contribute a larger share of PBT, the "Arvind is just a Tommy/USPA distributor" narrative will persist. However, management's ability to maintain 4x+ turns and grow margins in a quarter where peers struggled has significantly boosted their credibility.

## 5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Retail LTL Growth	4.6%	11%	↑ Improving
Gross Margin	50.4%	55%	↑ Improving
EBITDA Margin	13.3%	14.5%	↑ Improving
ROCE	~18.5%	>19%	↑ Improving
Inventory Value	₹1,163 Cr	₹1,127 Cr	↑ Improving
Discounting Tone	Participating in EOSS	Resisted industry EOSS; -1% YoY	↑ Improving
Footwear Outlook	"Worst behind"	"Things look up... in 6 months green again"	→ Stable
Wholesale Growth	Flat	Moderation (-8 to -10%)	↓ Deteriorating
Arrow/FM Signal	"Green shoots"	"Double-digit LTL"	↑ Improving
B2C Mix	~48%	55%	↑ Improving

**Thesis Impact:** The thesis is **strengthening**. The company has proven it can drive volume-led, full-price growth even when the broader market is "muted." The 11% LTL is a breakout metric that suggests AFL is taking significant market share from competitors. While the wholesale channel "tail pruning" creates short-term revenue noise, the resulting margin expansion and FCF generation are structurally re-rating the business. The primary risk remains the timing of the PAT turnaround in the 100%-owned brands. STOP HERE.