

Arvind Fashions Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat (Operating) / Miss (Reported PAT) **One-line:** Arvind Fashions has structurally re-rated its business quality by hitting the 20% ROCE milestone and pivoting to a lower tax regime, effectively trading a one-time non-cash hit for permanent cash flow and PAT accretion.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA margins expanded 80 bps in Q4 (100 bps for FY25), meeting the upper end of guidance.	□
Earnings Quality	High (Core driven)	Core operating growth is robust; the Reported PAT miss is entirely due to a ₹120 Cr non-cash DTA charge.	□
Guidance Confidence	Strong	Re-affirmed 12-15% revenue growth for FY26 with continued 100 bps margin expansion.	□
Management Credibility	Strong	Achieved the 20% ROCE target (20.3%) which was a key 3-year pillar; debt reduced by ₹75 Cr.	□
Business Quality Signal	Improving	Pivot to 25% tax regime and 20%+ ROCE places AFL in the "compounder" category rather than just a "turnaround."	□
Key Q&A Exchange	Q10: Store Size	Shift to 4,000 sq ft "Mega Stores" allows housing adjacencies (Kids/Innerwear) which improves store unit economics.	□
The Street's Primary Anxiety	LTL Moderation	Analysts questioned the dip from 11% (Q3) to 5.2% (Q4) LTL; Mgmt cited high base and early spring onset.	□
Capital Cycle Stage	Harvesting	Focus on high-return FOFO expansion and scaling the ₹2,000 Cr USPA brand.	□
Margin / Return Ratio Trajectory	Improving	ROCE crossed 20% (vs ~19% in Q3); Gross Margins expanded 270 bps YoY in Q4.	□
Pricing Power	Expanding	Discounting in retail channel was reduced by 2% YoY in Q4 despite a sluggish macro environment.	□
FCF Conversion & Quality	Strong	Positive FCF led to ₹75 Cr debt reduction; structural tax change will improve FCF by ~10% going forward.	□
Competitive Moat Signals	Widening	USPA NSV reached ₹2,000 Cr; Tommy Hilfiger's first India visit in 11 years re-energized brand saliency.	□
Balance Sheet Strength	Strong	Net Worth at ₹1,164 Cr; Debt/Equity remains conservative with ₹75 Cr gross debt reduction.	□
Working Capital Efficiency	Improving	Inventory turns maintained at 4x; NWC days consistently below 60 days.	□
Mgmt Guidance Track Record	Reliable	Consistent 100 bps annual margin expansion delivered for the 3rd consecutive year.	□
Key Vulnerability / Red Flag	Reported Net Loss	The ₹120 Cr DTA charge creates a headline loss of ₹34 Cr for FY25, potentially triggering algorithmic selling.	□
Management Tone	Highly Confident	Posture was aggressive on market share gains and "asset-light" expansion (1.5L sq ft target).	□

Key Takeaways: * **Positives:** AFL has successfully completed its "Fix-the-Business" phase. Reaching **20.3% ROCE** (from negative 3 years ago) is a watershed moment for the Lalbhai group's retail arm. The structural shift to the **25% tax regime** is a masterstroke—while it hurts reported FY25 PAT by ₹120 Cr today, it permanently increases cash PAT and boosts ROCE by 150-200 bps. USPA hitting ₹2,000 Cr NSV proves the "Power Brand" strategy has immense scale. * **Negatives:** Like-to-Like (LTL) growth moderated to **5.2%** from the double-digit highs of Q3. Footwear remains a recovery story rather than a growth engine due to earlier BIS (Bureau of Indian Standards) constraints. The Wholesale channel continues to be a laggard (low single-digit growth), acting as a drag on the double-digit growth seen in Retail and B2C Online channels. * **Street Concern:** Analysts are focused on the "leverage point" for Arrow and Flying Machine. Management confirmed these 100%-owned brands are now in H2 FY25 turnaround mode, which is critical to stop profit leakage to minority partners (PVH) and drive consolidated EPS. * **Forward Watchpoint:** The 1.5 lakh sq ft net expansion target for FY26 is aggressive. If AFL can achieve this while maintaining 4x inventory turns, the 12-15% revenue growth guidance is highly conservative.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	1,189	↑ 9%	↓ 1.2%	↑	Growth driven by 13% Retail growth and 20%+ B2C Online growth; Wholesale was a drag.
Gross Margin (%)	53.9%	↑ 270 bps	↓ 110 bps	↑	Driven by 2% reduction in retail discounting and better channel mix.
EBITDA (₹Cr)	170	↑ 15%	↓ 2.3%	↑	Operating leverage from 5.2% LTL growth; margin reached 14.3%.
EBITDA Margin %	14.3%	↑ 80 bps	↓ 20 bps	↑	100 bps expansion for full year FY25 (13.8% vs 12.8%).
PAT (₹Cr)	(93)	↓ (NM)	↓ (NM)	↓	Impacted by ₹120 Cr exceptional DTA charge. Comparable PAT (ex-DTA) grew 70%+ YoY.
ROCE (%)	20.3%	↑ 430 bps	↑ 130 bps	↑	Crossed 20% milestone; tax move to add 150-200 bps structurally.
Cash Flow (OCF)	Not stated*	↑	↑	↑	Mgmt confirmed healthy FCF used for ₹75 Cr debt reduction.
Net Debt (₹Cr)	Not stated	↓ ₹75 Cr	↓	↑	Debt reduced at both gross and net levels.
SSS Growth (%)	5.2%	↓ (vs 11%)	↓ (vs 11%)	□	Moderated from Q3 but remains higher than most peers.
Store Area (Net)	1.22L sq ft	↑	↑	↑	Net addition for FY25; target 1.5L sq ft for FY26.
Inventory Turns	4.0x	→	→	→	Maintained at 4x despite revenue acceleration; DIO ~91 days.
<i>*Note: PPT Snapshot provides FY25 PAT as - 36 Cr; Q4 PAT as - 93 Cr. Comparable FY25 PAT (ex-DTA) is ~ 85 Cr.</i>					

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
Power Brands	1,189	9%	14.3%	↑	In-line	Aggregated view of USPA, Tommy, CK, Arrow, and FM.
US Polo Assn.	~515 (est)	Strong	High	↑	Above	Touched ₹2,000 Cr NSV for FY25; dominance in casual lifestyle.
Tommy / CK	Not stated	10%+	High	↑	Above	Tommy Hilfiger Mumbai visit drove massive brand saliency.
Arrow / FM	Not stated	Improving	Improving	↑	Below	Moved to "next stage of profitability"; target mid-single digit EBITDA.
Adjacencies	~238 (est)	20%+	Stable	↑	In-line	Footwear + Innerwear + Womenswear = 20% of total revenue.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	12-15% Growth (FY26)	Needs ₹1,300 Cr+ avg quarterly run-rate.	Delivered 8.5% in FY25 (up from 4.5% in FY24).	Low
Guidance	Margins	+100 bps YoY	Highly feasible given discounting control (-2% in Q4).	Delivered +100 bps in FY23, FY24, and FY25.	Low
Guidance	ROCE	Further Improvement	Will be aided by 150-200 bps tax regime benefit.	Crossed 20% milestone early.	Low
Guidance	Expansion	1.5 Lakh Sq Ft (Net)	Requires ~40k sq ft net per quarter.	Added 1.22L in FY25; increased BD team bench strength.	Moderate
Strategy	Digital Mix	B2C Online growth 25%	Sustainable as Omni coverage expands across 950 stores.	Shifted digital mix significantly toward high-margin B2C.	Low
Strategy	Owned Brands	Arrow/FM Turnaround	Target mid-single digit EBITDA (Pre-IndAS) in near term.	H2 FY25 showed positive momentum in both brands.	Moderate
Balance	Debt	Continuous Reduction	FCF generated from 4x inventory turns supports this.	Reduced debt by ₹75 Cr in FY25.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Chetan / Systematix	Adjacencies	Financials	"Could you elaborate on the individual profitability profiles of these specific adjacent categories relative to our core apparel business?"	Management confirmed that all adjacent categories are profitable, with Footwear being more profitable than core apparel. If footwear reaches the ₹500 Cr target, it will be a major EBITDA margin accretive driver for the group.	None	4.5	Margin accretive
2	3.5	Chetan / Systematix	New Formats	Business Overview	"What percentage of your planned 15% net square footage addition is expected to come from these distinct formats (Stride, Club A)?"	Core brands will drive 85% of expansion, with new formats contributing only 10-15% while they are piloted. This reduces the risk of capital misallocation into unproven retail formats like Club A.	None	4.0	Controlled risk
3	4.5	Manish / Vallum	Store Churn	Capex and Allocation	"You have a lot of store opening and a lot of store closures... net-net, we have just opened 27 stores."	Management clarified they added 1.22L sq ft net (120 gross, 70 closed) and that closed stores were much smaller than new ones. The shift to larger "Mega Stores" (4,000 sq ft) is the real KPI, not just the store count.	None	4.5	Quality over quantity

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
4	4.0	Manish / Vallum	Arrow/FM	Business Overview	"Is the Flying Machine still work in progress or it's been done?"	Both Arrow and FM showed significant H2 FY25 improvement, moving from low to mid-single digit EBITDA margins. These 100%-owned brands reaching double-digit margins is the ultimate PAT re-rating trigger for AFL.	None	4.0	Improving trend
5	3.5	Sameer / IIFL	Footwear	Business Overview	"What is the absolute revenues that you're clocking in each of these (Footwear/ Innerwear)?"	Footwear has crossed ₹300 Cr and Innerwear is nearing ₹200 Cr, with Footwear targeting ₹500 Cr in the near term. Reaching the ₹500 Cr mark in Footwear will leverage the existing EBO network for USPA and Tommy.	None	4.5	Quantified targets
6	3.5	Sameer / IIFL	Online Stagnation	Business Overview	"Online helps you grow to a level very fast. But beyond that, it just stagnates..."	Management uses online as a "testing ground" for unit economics (digital-first) before moving categories like Womenswear and Footwear into physical retail. This "Omni-first"	None	4.0	De-risked launch

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						strategy reduces the failure rate of new category launches in physical stores.			
7	3.0	Surya / Sunidhi	Operating Leverage	Capex and Allocation	"Whether larger format stores have more operating leverage than smaller ones?"	Larger stores (up to 4,000 sq ft) are preferred because they house full brand assortments (Men/Women/Kids), leading to higher conversion and sales density. This justifies the higher rent costs by improving overall store ROIC.	None	4.0	Assortment-led
8	4.0	Naysar / Native	Accessories	Business Overview	"Does the revenue flow to you (for Tommy watches/eyewear)?"	AFL earns royalty/licensing income from partners (like Titan for watches), which flows directly to the bottom line without inventory risk. This is a high-margin, capital-light revenue stream that bolsters the overall brand ecosystem.	None	4.5	High-quality income
9	4.5	Naysar / Native	USPA Scaling	Business Overview	"How do we think about the core U.S. Polo	Growth will come from category expansion	None	4.5	Large TAM

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					business, especially given the scale (₹2000 Cr) it has reached?"	(Jeans/ Chinos), suburb penetration, and small-town malls where USPA is the "anchor" brand. USPA still has a long runway because its casual-lifestyle positioning perfectly matches the post-pandemic "casualization" trend.			
10	4.0	Devanshu / Emkay	Current Trends	Mgmt Commentary	"Current trends are already reflecting the expectation of 12% to 15% kind of growth for FY26?"	Q1 FY26 (first 45 days) has seen an "uptick" in LTL and growth rates versus Q4 FY25. This early data point gives confidence that the 12-15% guidance is achievable if macro conditions stay neutral.	None	4.0	Positive Q1 start
11	3.5	Devanshu / Emkay	Working Capital	Financials	"Can we also see some improvement on the working capital front?"	Management cautioned that moving turns from 4 to 5 will be much harder than the move from 3 to 4. Investors should expect working capital to "stabilize" at current best-	None	4.5	Honest reality

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						in-class levels rather than show dramatic further gains.			
12	3.0	Soumya / Insightful	Store Model	Capex and Allocation	"Will the company also have COCO stores for increased sizes?"	AFL remains committed to the "Asset-Light" FOFO model for all brands except Tommy Hilfiger (where COCO returns are exceptionally high). This protects the balance sheet from large rental/capex commitments during expansion.	None	4.0	Capital discipline

PATTERN FLAGS & SENTIMENT * **The "Structural vs Reported" Narrative:** Analysts were initially confused by the headline loss, but management successfully pivoted the conversation to the structural tax benefit. The sentiment shifted from "why the loss?" to "how much will PAT grow next year?" once the ₹120 Cr non-cash nature was understood. * **The Store Size Pivot:** A recurring theme was the net store count versus square footage. Management was defensive about store closures but confident that the "Mega Store" strategy is the correct path for category expansion (Womenswear/Kids). Analysts appeared satisfied that quality of space is now prioritized over the "number of doors." * **The "Power Brand" Hierarchy:** The PVH portfolio (Tommy/CK) remains the crown jewel, but the "market share gain" in USPA is what convinced analysts of AFL's competitive moat. The friction point remains the 100%-owned brands (Arrow/FM); the Street is still waiting for these to reach double-digit EBITDA margins to prove the turnaround is complete. * **Analyst Sentiment Verdict:** CONVINCED. The achievement of 20% ROCE has significantly boosted management's credibility. Friction over the Q4 LTL moderation (5.2%) was mitigated by the commentary on a strong Q1 FY26 start. The Street now views AFL as a high-quality execution play in the premium casual space.

5. WHAT CHANGED vs PRIOR QUARTER

Comparison versus Q3 FY25 context.

What Changed	Prior Quarter (Q3 FY25)	This Quarter (Q4 FY25)	Direction
ROCE Milestone	~19%	20.3%	↑ Improving
Tax Regime	~35% (Implied)	25% (Structural move)	↑ Improving
Retail LTL Growth	11% (Festive aided)	5.2%	↓ Deteriorating
Reported PAT	Positive (₹28 Cr run-rate)	Negative ₹93 Cr (One-off hit)	↓ Deteriorating (Paper)
Footwear Outlook	Impacted by BIS	Improving (inventory back)	↑ Improving
Expansion Target	12-15% Sq Ft	1.5 Lakh Sq Ft (Specific Net)	↑ Improving
USPA Scale	Approaching ₹2000 Cr	Touched ₹2000 Cr NSV	↑ Improving
Net Debt	Not stated	Reduced by ₹75 Cr in FY25	↑ Improving
Retail Discounting	-1% YoY	-2% YoY	↑ Improving

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