

Arvind Fashions Ltd — Nov 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** AFL's transition from a turnaround to a compounding retail franchise is solidified as industry-leading LTL growth (8.3%) and a structural gross margin expansion (+210 bps) more than offset management transition costs and temporary GST-led wholesale destocking.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Revenue (11.3%) and EBITDA (18.2%) growth exceeded the medium-term "double-digit" framework despite GST transition friction.	☐
Earnings Quality	High (Core driven)	Gross margin expansion of 210 bps is driven by full-price sell-throughs and lower discounting, not accounting tailwinds.	☐
Guidance Confidence	Strong	Re-affirmed 50–80 bps annual margin expansion and 1.5L sq. ft. net expansion targets.	☐
Management Credibility	Strong	Clean execution in the first full quarter under Amisha Jain; transparent communication on one-time employee cost spikes.	☐
Business Quality Signal	Improving	Inventory freshness at 85% (all-time high) and Direct Channel mix reaching 50% reduces historical wholesale reliance.	☐
Key Q&A Exchange	Q5: Strategy	Amisha Jain confirmed a shift toward "data-backed segmentation" and "adjacent category acceleration" to capture Gen-Z wallet share.	☐
The Street's Primary Anxiety	GST 2.0 Impact	Fear of margin dilution from the 12% to 5% GST cut; mitigated by management passing on benefits to stimulate volume.	☐
Capital Cycle Stage	Harvesting / Growth	Funding aggressive store expansion and marketing entirely through internal accruals and FCF.	☐
Margin / Return Ratio Trajectory	Improving	EBITDA margins up 80 bps YoY to 14.1%; ROCE remains on track to stay above the 20% milestone.	☐
Pricing Power	Expanding	Discounting reduced by 90 bps YoY; premiumization trend in USPA and Tommy Hilfiger remains resilient to macro noise.	☐
FCF Conversion & Quality	Strong	Despite inventory buildup for an early festive season (₹1,492 Cr), NWC days remained stable YoY.	☐
Competitive Moat Signals	Widening	USPA growing at 21% YoY at its current massive scale indicates significant market share consolidation in premium casuals.	☐
Balance Sheet Strength	Strong	Working capital management remains tight; debtor days stable despite wholesale billing delays.	☐
Working Capital Efficiency	Stable	NWC days held flat; inventory turns maintained despite front-loading for Diwali/Puja.	☐
Mgmt Guidance Track Record	Reliable	Consistent delivery on the "profitable growth" mantra; footwear recovery (25% growth) delivered as promised.	☐
Key Vulnerability / Red Flag	Cost Structure	Employee costs up 18% YoY; management attributes this to one-time transition costs, but needs monitoring in H2.	☐
Management Tone	Confident/ Strategic	Management was focused on "Wallet Share" and "Consumer Cohorts" rather than just "Store Count."	☐

Key Takeaways (Positives & Negatives): * **Positives:** AFL is successfully navigating the GST 2.0 transition with limited disruption; passing on the 7% tax benefit to consumers is expected to stimulate demand in the <₹2,500 segment. LTL growth of 8.3% is materially ahead of specialty retail peers, driven by the D2C channel (Retail + Online B2C) which now constitutes 50% of the mix. Footwear has decisively pivoted from a "problem child" to a "growth engine" (+25% growth) with BIS issues fully resolved. * **Negatives:** Wholesale channel (MBOs) experienced temporary destocking/billing delays due to GST changes, though management views this as purely transitional. Employee costs saw a significant spike (18% YoY), part of which is a structural 10% hike and the remainder a one-time management transition expense. * **Watchpoint:** Monitoring the "One-time" nature of management costs in Q3; if these costs do not normalize, it could signal a higher structural overhead under the new leadership.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for commentary.

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹ Cr)	1,418	↑ 11.3%	↑ 28.1%	↑	Driven by 14% Retail growth and 50%+ Online B2C; offset slightly by wholesale destocking.
Gross Margin (%)	~53.0%	↑ 210 bps	↓ 300 bps	↑	YoY improvement due to 90 bps lower discounting and richer channel mix; QoQ drop is seasonal.
EBITDA (₹Cr)	200	↑ 18.2%	↑ 35.1%	↑	Highest ever quarterly EBITDA; expansion led by operating leverage and cost efficiencies.
EBITDA Margin %	14.1%	↑ 80 bps	↑ 70 bps	↑	Achieved despite 20 bps higher ad spend and elevated employee transition costs.
PAT (₹Cr)	37	↑ 23.3%	↑ 184%	↑	PBT growth was stronger at 31%; effective tax rate normalizing.
ROCE (%)	>20% (Est)	↑	↑	↑	Management confirmed focus on "higher ROCE" through asset-light expansion.
Cash Flow (OCF)	Not Stated	→	→	→	Inventory buildup for early festive onset; NWC days remained stable.
Net Debt / (Cash)	Not Stated	↓	↓	↑	Focus remains on FCF generation and debt reduction.
SSS Growth (%)	8.3%	↑	↑	↑	Strong performance in direct retail channel across all brands.
Store Count (Net)	~960+	↑ 10 (Net)	↑	↑	36,000 sq ft added; rationalizing small stores and opening larger marquee formats.
Ad Spend % of Rev	~4.5% (Est)	↑ 20 bps	↓	□	Sustained high investment in brand visibility for USPA and Tommy.
Inventory Days	96 (TTM avg)	↑	↑	□	Higher inventory (₹1,492 Cr vs ₹1,163 Cr YoY) due to early festive season timing.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
U.S. Polo Assn.	~750 (Est)	21%	High	↑	Above	Strong momentum in marquee stores; footwear/innerwear adjacencies growing >25%.
Tommy / CK	~320 (Est)	Muted/M-S-D	V. High	→	Above	Growth "muted" this quarter due to GST transition impact on wholesale/billing.
Arrow / Flying Machine	~340 (Est)	Muted	Improving	↑	Below	SSSG remains positive; wholesale destocking hit total growth but margins improved.
Adjacencies (Total)	~170 (Est)	22%	Improving	↑	In-line	Footwear grew 25% after BIS normalization; Womenswear emerging as a future bet.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Double-digit growth for H2.	Needs ~₹2,500 Cr in H2; H1 achieved ₹2,525 Cr. Highly feasible given wedding season.	Consistent.	Low
Guidance	Margins	50–80 bps annual expansion.	H1 margin up ~80 bps; path is clear via discounting control and channel mix.	Consistent.	Low
Guidance	Expansion	1.5 Lakh Net Sq Ft addition.	74,000 sq ft added in H1 (49%); needs same run-rate in H2. On track.	Improved.	Low
Strategy	Digital Pivot	Online B2C to drive growth.	Online B2C grew 50%; B2B online shrinking. Execution is aligned with strategy.	Delivered.	Low
Strategy	Adjacencies	Double Footwear in 3 years.	Requires ~25% CAGR; currently growing at 25% exactly. Supply chain stabilized.	Recovery stage.	Moderate
Macro	GST 2.0	Full benefit pass-through.	Passed to consumers for <₹2,500 items; expect demand stimulus in medium term.	Immediate action.	Low
Balance	Working Cap	NWC days to stay stable.	Inventory up for festive; needs liquidation in Q3 to hit year-end NWC targets.	Stable so far.	Moderate

4. ANALYST Q&A

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.5	Deep Shah / Equirus	Brand Performance	Business Overview	"How have different brands performed during the quarter, especially Arrow and Flying Machine?"	Management admitted Arrow/FM wholesale was under pressure due to GST destocking but highlighted that USPA grew at 21% with strong retail-led growth elsewhere. Implication: USPA is carrying the portfolio while the mid-market brands are still in a stabilization phase regarding channel health.	None	4.0	Logical explanation
2	5.0	Deep Shah / Equirus	CEO Strategy	Mgmt Commentary	"What are the key learnings and strategies Amisha Jain will work upon?"	The new CEO highlighted doubling down on the 5-brand portfolio, accelerating adjacencies (Footwear/ Womenswear), and moving toward data- backed consumer segmentation. Implication: Strategy shifts from "cleanup" to "sophisticated scaling" which could improve marketing efficiency and ROCE.	None	4.5	Clear and strategic

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
3	4.0	Priyank / Vallum	Margin Flow	Financials	"Why don't we see gross margin expansion percolating down to EBITDA margin more significantly?"	Management explained that growth is coming from direct channels (Retail/B2C Online) which carry higher commission costs and elevated marketing/ employee transition spends. Implication: Top-line growth is high quality (direct), but operating leverage is being partially reinvested into brand equity and talent.	None	4.0	Quantified trade-off
4	4.5	Priyank / Vallum	Employee Costs	Financials	"Why is there a 20% shift in employee costs over the last 2 quarters?"	CFO explained that 10% was structural (salary hikes) and the rest was one-time costs associated with the management changeover. Implication: Q3 should see a sequential normalization of employee costs, providing a minor tailwind to EBITDA margins.	None	4.5	Specific breakdown
5	4.0	Avinash / Motilal	Store Churn	Business Overview	"Why were there 35-odd store	Management clarified they added 24 and closed 16 in Q2, focusing	None	4.0	Directional evidence

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					closures in the first half?"	on rationalizing small stores to move toward larger, marquee "Club A" formats. Implication: Average store size is increasing, which typically improves sales density and brand perception.			
6	4.5	Kulin Lalbhai	Footwear Outlook	Management Commentary	"What is the long-term vision for the footwear segment?"	Management expects to double the footwear business in the next 3 years as the supply chain has now stabilized post- BIS regulations. Implication: Footwear (currently ₹350 Cr run-rate) is becoming a needle-mover for consolidated revenue and margin.	None	5.0	Specific target
7	3.5	Rajiv Bharati / Nuvama	Channel Profitability	Strategy	"What is the optimum mix between channels and profitability across them?"	Management is targeting a 60-70% share for Direct channels over the next few years, noting that these channels are ROCE accretive due to faster capital turns. Implication: The shift away	None	4.5	Strategic clarity

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						from wholesale (MBOs) will reduce credit risk and improve the overall valuation multiple of the business.			
8	3.0	Nihal Mahesh / HSBC	Flying Machine	Business Overview	"What initiatives are driving improvement in Flying Machine?"	Management cited sharpening brand positioning and de- emphasizing online B2B wholesale in favor of direct channels. Implication: FM is being repositioned as a "direct- first" brand to regain control over pricing and inventory freshness.	None	3.5	Vague on product specifics

PATTERN FLAGS & SENTIMENT * **The GST 2.0 Pivot:** Analysts were focused on the transition from 12% to 5% GST. Management's posture was proactive, ensuring prices were dropped immediately to drive volume. This concern seems resolved for the retail channel but remains a "monitoring point" for the wholesale MBO channel in Q3. * **Cost Reinvestment vs. Leverage:** Multiple questions probed the "missing" operating leverage from the 210 bps gross margin expansion. Management was confident that the "one-time" nature of management transition costs would not recur, but was equally firm that marketing spend will remain aggressive to capture market share. * **Analyst Sentiment Verdict:** Analysts appeared cautiously optimistic. The strong 8.3% LTL and USPA's 21% growth provided substantial comfort, offsetting the leadership transition jitters. The credibility of the CFO's explanation on employee costs will be tested next quarter; however, the strategic clarity provided by the new CEO, Amisha Jain, was well-received.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
LTL Growth	8.1%	8.3%	↑ Improving
Gross Margin	56.0% (Strong but seasonality different)	~53.0% (+210 bps YoY expansion)	↑ Improving
GST Environment	12% flat on items >₹1k	5% on items <₹2.5k (GST 2.0)	↑ Demand Stimulus
Leadership Phase	CEO Transition / Leadership watch	Amisha Jain firmly at the helm; strategy defined	↑ Credibility
Inventory Status	"Freshest in 3 years"	All-time high freshness (>85%)	↑ Improving
Employee Costs	Normal trend	Spiked 18% (10% structural + one-time)	↓ Deteriorating
Footwear Trajectory	Recovery start	Decisive 25% growth; supply issues over	↑ Improving
Channel Strategy	Targeting 50% Direct	50% Direct achieved; targeting 60-70%	↑ De-risking

Investor Note: The core thesis is strengthened by the fact that AFL managed to expand EBITDA margins by 80 bps despite a significant "one-time" management cost hit. The 210 bps jump in gross margins is the highest in several quarters, indicating that the brand portfolio (particularly USPA) has reached a level of pull where it no longer needs to rely on heavy discounting to move volume. The GST 2.0 reform is a structural positive that will likely widen the addressable market in H2. CFO-to-PAT divergence this quarter was driven by a ₹329 Cr inventory buildup for early festivals; this is a seasonal working capital deployment, not a structural efficiency decay. Monitoring the wholesale channel's return to growth in Q3 is the final piece to verify the "GST transition" story.