**8 February 2025**

# Arvind Fashions

## *Sustained strong performance in a muted context; retaining a Buy*

Rating: **Buy**
Target Price (12-mth): Rs.685
Share Price: Rs.462

**Despite muted demand, Arvind Fashions posted 11% retail LTL growth y/y, with double-digit LTL growth for all its five brands. The retail channel outshone (15% growth y/y), driven by higher ad-spend, store expansion and celebrity collaborations. LTL PAT (post-minority interest) doubled y/y to Rs587m in 9M FY25, while working capital was stable with stock turns of >4x. RoCE rose to 19% (TTM) from 16% in FY24, backed by greater profitability. Adjacent categories outpaced overall growth, with women's wear sales doubling and innerwear growing in mid-teens. Arrow is progressing towards mid-to-high single-digit EBITDA margins, while Flying Machine's rebranding gains traction; both are set to turn PAT positive in the medium term. Targets 12-15% sales growth in the medium term with a 100bp annual EBITDA margin expansion. We lower our FY25-27 revenue/EBITDA estimates ~2%/3% due to weak demand, with a higher EPS cut due to IND AS 116-led depreciation/ interest. Expecting 12%/20%/53% revenue/EBITDA/EPS CAGRs over FY24-27, we retain our Buy rating, with a TP of Rs685 on 11x FY27e EV/EBITDA (earlier Rs717 on 11x FY27e EV/EBITDA).**

**Healthy EBITDA, PAT growth.** 11% retail LTL growth pushed up Q3 revenue 6.9% y/y to Rs12bn. A favorable channel mix, 1% lower discounting and cost optimization continuing pulled EBITDA up 15.7% y/y to Rs1.7bn with the margin expanding 104bps y/y to 13.8%. With the premium brands performing well and greater Flying Machine profitability, minority interest rose 43.3% y/y to Rs199m. Loss on discontinued operations was Rs11m vs a Rs348m profit a year ago (on the sale of Sephora). PAT was Rs267m (Rs511m a year back). On an LTL basis (normalized for gains in Q3 FY24 on the Sephora sale), PAT was ~64% higher y/y.

**Channel mix, network expansion.** On the company's focus on D2C channels, their contribution rose to 55% in Q3. The retail channel brought 47% to sales in Q3 (44% a year ago), wholesale 26% (29%) and online 27% (flat). 34 EBOs were added in Q3 to total 947 (954 in H1 FY25). Net working capital days were 59 (57 a year back).

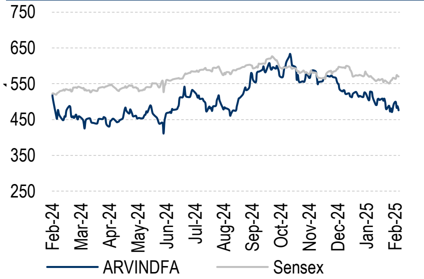
**Valuation.** We retain our Buy, with a 12-mth Rs685 TP, 11x FY27e EV/EBITDA. **Key risks:** Keener competition; less consumption.

| Key data | ARVINDFA |
|---|---|
| 52-week high / low | Rs.640 / 385 |
| Sensex / Nifty | 77,860 / 23,560 |
| 3-m average volume | $2.3m |
| Market cap | Rs.62bn / $707.6m |
| Shares outstanding | 133m |

| Shareholding pattern (%) | Dec'24 | Sep'24 | Jun'24 |
|---|---|---|---|
| Promoters | 35.2 | 35.2 | 35.2 |
| *- of which, Pledged* | 8.3 | 8.3 | 8.3 |
| Free float | 64.8 | 64.8 | 64.8 |
| - Foreign institutions | 10.0 | 10.5 | 15.6 |
| - Domestic institutions | 21.8 | 21.0 | 11.9 |
| - Public | 33.0 | 33.3 | 37.3 |

| Estimates revision (%) | FY25 | FY26 | FY27 |
|---|---|---|---|
| Sales | (1.3) | (2.5) | (2.4) |
| EBITDA | (3.0) | (3.6) | (3.5) |
| EPS | (27.7) | (14.6) | (11.9) |

**Relative price performance**




*Source: Bloomberg*

| Key financials (YE Mar) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Sales (Rs m) | 40,695 | 42,591 | 46,291 | 51,882 | 59,335 |
| Net profit (Rs m) | 367 | 806 | 880 | 1,887 | 2,903 |
| EPS (Rs) | 2.8 | 6.1 | 6.6 | 14.3 | 21.9 |
| P/E (x) | 100.8 | 74.3 | 69.5 | 32.4 | 21.1 |
| EV / EBITDA (x) | 11.3 | 13.7 | 11.8 | 9.5 | 7.7 |
| P/BV (x) | 4.1 | 6.0 | 5.3 | 4.3 | 3.4 |
| RoE (%) | 11.2 | 9.3 | 12.6 | 18.8 | 22.3 |
| RoCE (%) | 10.6 | 10.9 | 14.1 | 18.9 | 22.5 |
| *Dividend yield (%)* | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |
| Net debt / equity (x) | 0.4 | 0.3 | 0.2 | 0.1 | 0.0 |

*Source: Company, Anand Rathi Research*

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# Quick Glance – Financials and Valuations

## Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Net revenues | 40,695 | 42,591 | 46,291 | 51,882 | 59,335 |
| *Growth (%)* | ***33.2*** | ***4.7*** | ***8.7*** | ***12.1*** | ***14.4*** |
| Direct costs | 20,667 | 20,371 | 21,664 | 24,177 | 27,532 |
| SG&A | 15,798 | 17,115 | 18,614 | 20,396 | 22,932 |
| **EBITDA** | **4,230** | **5,105** | **6,013** | **7,309** | **8,871** |
| *EBITDA margins (%)* | *10.4* | *12.0* | *13.0* | *14.1* | *15.0* |
| Depreciation | 2,031 | 2,301 | 2,546 | 2,732 | 2,852 |
| Other income | 503 | 337 | 340 | 343 | 347 |
| Interest expenses | 1,210 | 1,442 | 1,510 | 1,228 | 1,025 |
| PBT | 1,493 | 1,700 | 2,297 | 3,692 | 5,341 |
| *Effective tax rates (%)* | *26.8* | *34.9* | *30.5* | *25.0* | *25.0* |
| + Associates / (Minorities) | (503) | (565) | (706) | (882) | (1,103) |
| Net income | 367 | 806 | 880 | 1,887 | 2,903 |
| Adjusted income | 590 | 501 | 891 | 1,887 | 2,903 |
| WANS | 132 | 132 | 132 | 132 | 132 |
| FDEPS (Rs) | 2.8 | 6.1 | 6.6 | 14.3 | 21.9 |
| *FDEPS growth (%)* | *NM* | *119.7* | *9.1* | *114.5* | *53.8* |
| *Gross margins (%)* | *49.2* | *52.2* | *53.2* | *53.4* | *53.6* |

## Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Share capital | 531 | 532 | 532 | 532 | 532 |
| Net worth | 9,096 | 10,033 | 11,497 | 14,134 | 18,007 |
| Debt | 5,977 | 4,661 | 4,161 | 2,661 | 1,461 |
| Minority interest | 1,826 | 1,891 | 1,891 | 1,891 | 1,891 |
| DTL / (Assets) * | 2,554 | 2,926 | 2,926 | 2,926 | 2,926 |
| **Capital employed** | **19,453** | **19,511** | **20,475** | **21,612** | **24,285** |
| Net tangible assets ** | 7,131 | 7,493 | 7,760 | 7,841 | 7,801 |
| Net intangible assets | 406 | 355 | 355 | 355 | 355 |
| Goodwill | 1,112 | 1,112 | 1,112 | 1,112 | 1,112 |
| CWIP (tang. & intang.) | 21 | 39 | 39 | 39 | 39 |
| Investments (strategic) | | | | | |
| Investments (financial) | | | | | |
| Current assets (excl. cash) | 20,768 | 20,192 | 24,747 | 27,592 | 30,903 |
| Cash | 2,003 | 1,680 | 1,017 | 927 | 1,290 |
| Current liabilities | 11,988 | 11,360 | 14,556 | 16,253 | 17,215 |
| Working capital | 8,779 | 8,832 | 10,192 | 11,339 | 13,688 |
| **Capital deployed** | **19,453** | **19,511** | **20,475** | **21,612** | **24,285** |

** includes lease liabilities ** includes RoU*

## Fig 3 – Cash-flow statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| PBT (adj. for int. exp / other inc.) | 2,498 | 3,302 | 3,807 | 4,920 | 6,366 |
| + Non-cash items | 2,063 | 1,698 | 2,546 | 2,732 | 2,852 |
| Oper. prof. before WC | 4,561 | 4,999 | 6,353 | 7,652 | 9,218 |
| - Incr. / (decr.) in WC | 955 | 31 | 1,359 | 1,147 | 2,349 |
| Others incl. taxes | 433 | 627 | 701 | 923 | 1,335 |
| Operating cash-flow | 3,173 | 4,342 | 4,293 | 5,582 | 5,534 |
| - Capex (tang. + intang.) | 360 | 801 | 1,000 | 1,000 | 1,000 |
| Free cash-flow | 2,812 | 3,541 | 3,293 | 4,582 | 4,534 |
| Acquisitions | | | | | |
| - Div. (incl. buyback & taxes) | - | 626 | 132 | 132 | 132 |
| + Equity raised | 54 | 23 | - | - | - |
| + Debt raised | 959 | (1,316) | (500) | (1,500) | (1,200) |
| - Fin investments | - | (4) | - | - | - |
| - Misc. (CFI + CFF) | 2,915 | 1,878 | 3,323 | 3,041 | 2,838 |
| Net cash-flow | 954 | (323) | (662) | (91) | 363 |

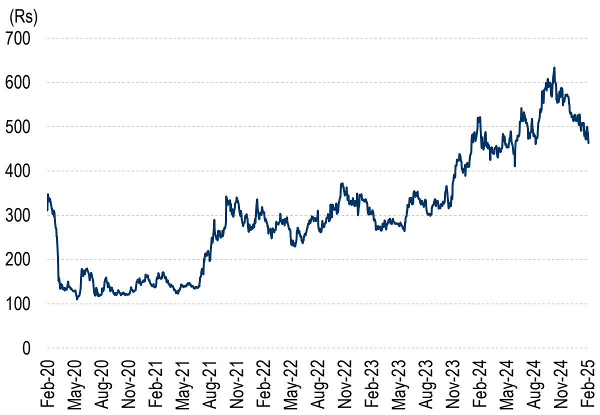
*Source: Company, Anand Rathi Research*

## Fig 4 – Ratio analysis

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| P/E (x) | 100.8 | 74.3 | 69.5 | 32.4 | 21.1 |
| EV / EBITDA (x) | 11.3 | 13.7 | 11.8 | 9.5 | 7.7 |
| EV / Sales (x) | 1.2 | 1.6 | 1.5 | 1.3 | 1.1 |
| P/B (x) | 4.1 | 6.0 | 5.3 | 4.3 | 3.4 |
| RoE (%) | 11.2 | 9.3 | 12.6 | 18.8 | 22.3 |
| RoCE (%) - after tax | 10.6 | 10.9 | 14.1 | 18.9 | 22.5 |
| RoIC (%) - after tax | 11.8 | 12.2 | 15.3 | 20.0 | 23.9 |
| DPS (Rs) | 1.0 | 1.3 | 1.0 | 1.0 | 1.0 |
| Dividend yield (%) | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |
| Dividend payout (%) - incl. DDT | 36.0 | 20.5 | 15.0 | 7.0 | 4.6 |
| Net debt / equity (x) | 0.4 | 0.3 | 0.2 | 0.1 | 0.0 |
| Receivables (days) | 50 | 55 | 55 | 55 | 55 |
| Inventory (days) | 88 | 78 | 85 | 84 | 80 |
| Payables (days) | 91 | 80 | 98 | 98 | 90 |
| *CFO : PAT %* | 537.7 | 866.3 | 482.0 | 295.8 | 190.7 |

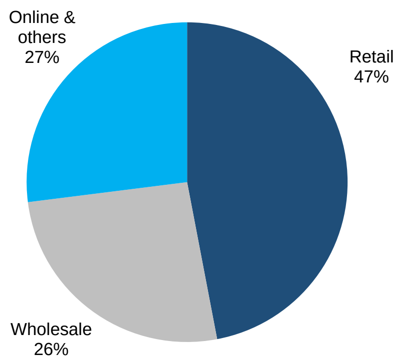
*Source: Company, Anand Rathi Research*

## Fig 5 – Price movement




*Source: Bloomberg*

## Fig 6 – Channel mix, Q3 FY25




*Source: Company *Wholesale includes MBO and departmental stores*

# Financial Highlights

Sales grew ~7% y/y to Rs12bn. The gross margin expanded 160bps y/y to 55%. Employee/other expenses grew 1.4/9.5% y/y. EBITDA grew 15.7% y/y to Rs1.7bn, with the margin expanding 104bps y/y to 13.8%. Depreciation/interest expense/other income rose ~6%/5%/26% y/y. PBT rose 55.6% y/y to Rs686m. The tax rate was 30.5% (31.7% a year ago). Minority interest increased 43% y/y to Rs199m (up 29% q/q). Loss from discontinued operations was Rs11m (vs Rs348m profit a year ago incl. the Sephora sale). PAT was Rs267m (Rs511m). On an LTL basis (adjusting for the gain on sale of Sephora), PAT was ~64% higher y/y.

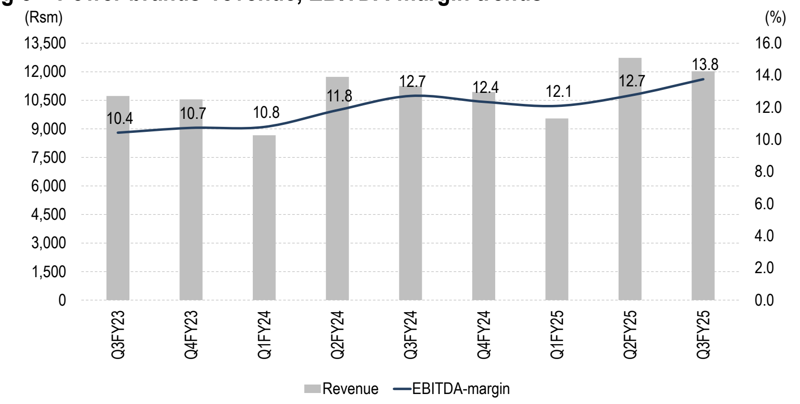
9M FY25 revenue grew 8.4% y/y to Rs34.3bn. The gross margin expanded 81bps y/y, coming at 53.3%. EBITDA grew ~18% y/y to Rs4.4bn, and the margin expanded 106bps y/y to 12.9%. PAT grew 2.3% y/y to Rs576m.

**Fig 7 – Quarterly and 9M results**

| (Rs m) | Q3 FY25 | Q3 FY24 | YoY (%) | Q2 FY25 | QoQ (%) | 9M FY25 | 9M FY24 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| Revenues | 12,028 | 11,251 | 6.9 | 12,732 | (5.5) | 34,308 | 31,653 | 8.4 |
| Cost of goods sold | 5,418 | 5,248 | 3.2 | 6,319 | (14.3) | 16,011 | 15,029 | 6.5 |
| *Gross margins (%)* | *55.0* | *53.3* | *160 bps* | *50.4* | *458 bps* | *53.3* | *52.5* | *81 bps* |
| Employee expenses | 665 | 655 | 1.4 | 664 | 0.2 | 1,992 | 1,888 | 5.5 |
| Other operating expenses | 4,290 | 3,916 | 9.5 | 4,126 | 4.0 | 11,871 | 10,982 | 8.1 |
| **EBITDA** | **1,655** | **1,431** | **15.7** | **1,623** | **2.0** | **4,433** | **3,754** | **18.1** |
| *EBITDA margins (%)* | *13.8* | *12.7* | *104 bps* | *12.7* | *101 bps* | *12.9* | *11.9* | *106 bps* |
| Depreciation | 654 | 615 | 6.3 | 643 | 1.7 | 1,909 | 1,710 | 11.6 |
| Interest expenses | 403 | 383 | 5.2 | 386 | 4.2 | 1,170 | 1,087 | 7.6 |
| Other income | 87 | 69 | 25.5 | 72 | 20.6 | 233 | 208 | 12.3 |
| Exceptional items | - | (62) | (100.0) | - | - | - | (62) | (100.0) |
| PBT | 686 | 441 | 55.6 | 666 | 3.0 | 1,588 | 1,103 | 44.0 |
| Income taxes | 209 | 140 | 49.9 | 215 | (2.5) | 522 | 439 | 18.9 |
| Effective tax rates (%) | *30.5* | *31.7* | *-116 bps* | *32.2* | *-170 bps* | *32.9* | *39.8* | *-693 bps* |
| Non-controlling interest | (199) | (139) | 43.3 | (154) | 28.7 | (479) | (411) | 16.4 |
| Discontinued operations | (11) | 348 | (103.2) | (1) | 841.7 | (11) | 311 | (103.6) |
| **PAT** | **267** | **511** | **(47.8)** | **296** | **(9.9)** | **576** | **563** | **2.3** |

*Source: Company*

**Fig 8 – Power brands' revenue, EBITDA-margin trends**




*Source: Company. Note includes Calvin Klein from Q3 FY23*

## Other highlights

- **Demand** held steady, with Diwali, the wedding season, and a 10-/12-day early winter, boosting full-price winterwear sales in Nov-Dec. Lower discounting (retail 1%, B2C 2%) and a richer channel mix favouring direct retail and online B2C boosted profitability. Q3 discounting was delayed, levering full-price sell-through while retaining 15% retail growth. Tax cuts are expected to further aid demand recovery across wholesale, retail and overall consumption

- **Channel mix.** Retail contributed 47% of revenue (up from 44% a year ago) driven by sq. ft. expansion, and store renovations. Online B2C grew ~20%, fully offsetting the planned ~10% B2B decline, while the overall online business contributed 27% to revenues (flat y/y). The strategic shift from B2B to B2C continues, with the latter at 50%, and expected at two-thirds of online business in the near term. The wholesale share slipped to 26% (from 29% a year back), with growth expected to rebound (8-10%) as early Diwali billing and the impact of a major department store closure normalise.

- **The EBITDA margin** expanded 104bps y/y to 13.8%, driven by higher gross profit (improved sourcing and cost efficiencies), supported by a favourable channel mix tilted toward retail and controlled discounting.

- **Brands.** All five brands hit double-digit L2L growth, despite a subdued market. Tommy Hilfiger and Calvin Klein drove premiumisation, growing in high teens, while U.S. Polo gained momentum across channels. Increased marketing investments, celebrity tie-ups and capsule collections (Orry for Flying Machine, Maharaja Pacho for U.S. Polo Assn.) enhanced brand positioning and reduced discounting. Flying Machine's rebranding, featuring a new logo, retail identity and product direction, has had early positive results. Arrow's EBITDA rose Rs700m-750m (from FY23 to FY24), marking a turnaround from Covid losses to breakeven, now advancing towards mid-to-high single-digit margins.

- **Adjacent categories** bring 20% to revenue (for U.S. Polo ~25%), growing at a rate nearly double that of the company. Footwear remains a key segment, with U.S. Polo footwear operating at a profitable double-digit EBITDA. BIS regulations temporarily impacted inventory and sales, but factory approvals and local production ramp-ups are expected to drive recovery in six months. Stride saw double-digit L2L growth, while sneakers continue to do well. The company aims at 20% growth in footwear post-inventory stabilisation. Women's-wear has doubled (from a smaller base), expanding into MBOs, online and family stores. Kids-wear continues to be a key growth area, with pilot U.S. Polo Kids Stores in development, while U.S. Polo innerwear is growing in mid-teens, supported by online and in-store sales.

- **Gross working capital** days increased to 143 (vs. 139 in Dec'23), driven by a rise in debtor days to 54 (from 45). This increase was due to the shift to a control-based model with some partners, improving inventory visibility. Inventory days reduced to 89 (from 94), balancing overall working capital dynamics.

- **Retail network.** The company added 34 EBOs, taking the total count to 947 as of Dec'24 (vs. 954 in Q2 FY25), with YTD FY25 ~76k sq. ft. added (net) to ~1.15m sq. ft. Store count may vary as larger formats gain preference, with Club A and U.S. Polo family stores expanding footprints. Two Club A stores were opened in Q3, bringing the total to three operational, with two more under fit-out as the company refines its model before further expansion. The opening of four large malls was delayed from Diwali to Apr-May, slightly curbing the planned additions.

- **Outlook.** The company targets 12-15% revenue growth, with 5-7% L2L growth. The EBITDA margin is expected to expand by at least 100bps annually, with more contribution by Arrow and Flying Machine. Expansion (in terms of square feet) is set to continue at a 15% CAGR, despite minor delays in mall openings.

# Change in estimates

Our FY25-27 revenue/EBITDA estimates are ~2%/3% lower on average due to restrained demand.

Our EPS cut is higher due to higher depreciation/interest because of the IND AS 116 impact, and higher tax rate in FY25.

We expect the company to report 12%/20%/53% revenue/EBITDA/EPS CAGRs over FY24-27.

**Fig 9 – Change in estimates**

| (Rs m) | Old | | | Revised | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY25e | FY26e | FY27e | FY25e | FY26e | FY27e | FY25 | FY26 | FY27 |
| Revenue | 46,883 | 53,212 | 60,822 | 46,291 | 51,882 | 59,335 | *(1.3)* | *(2.5)* | *(2.4)* |
| EBITDA | 6,198 | 7,584 | 9,193 | 6,013 | 7,309 | 8,871 | *(3.0)* | *(3.6)* | *(3.5)* |
| PAT | 1,214 | 2,212 | 3,290 | 891 | 1,887 | 2,903 | *(26.6)* | *(14.7)* | *(11.8)* |
| EPS (Rs) | 9.2 | 16.7 | 24.9 | 6.6 | 14.3 | 21.9 | *(27.7)* | *(14.6)* | *(11.9)* |

*Source: Anand Rathi Research*

# Valuation

We retain our Buy rating, with a TP of Rs685 on 11x FY27e EV/EBITDA (earlier Rs717 on 11x FY27e EV/EBITDA).

**Fig 10 – Valuation summary**

| (Rs m) | FY27e |
|---|---|
| EBITDA | 8,871 |
| Target multiple (x) | 11.0 |
| Enterprise value | 97,585 |
| Gross debt | 8,279 |
| Cash balance | 1,290 |
| Market cap | 90,596 |
| No. of shares (m) | 132.3 |
| **TP (Rs)** | **685** |
| CMP (Rs) | 462 |
| *Upside / (downside) %* | 48.2 |

*Source: Anand Rathi Research. Note: Debt includes lease liabilities*

**Fig 11 – Valuation parameters**

| | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| P/E (x) | 100.8 | 74.3 | 69.5 | 32.4 | 21.1 |
| EV / EBITDA (x) | 11.3 | 13.7 | 11.8 | 9.5 | 7.7 |
| EV / Sales (x) | 1.2 | 1.6 | 1.5 | 1.3 | 1.1 |
| *RoE (%)* | *11.2* | *9.3* | *12.6* | *18.8* | *22.3* |
| *RoCE (%)* | *10.6* | *10.9* | *14.1* | *18.9* | *22.5* |

*Source: Anand Rathi Research*

### Risks

- **Keener competition.** On the entry of foreign brands, keener competition in India could be a key threat.
- **Less consumption.** Subdued consumer sentiment and restrained discretionary spending could dent revenue growth.

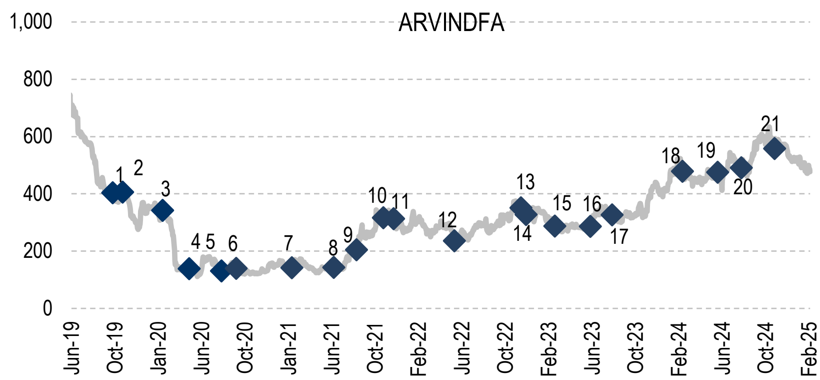
## Appendix

**Analyst Certification**

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

**Important Disclosures on subject companies**

**Rating and Target Price History (as of 7 February 2025)**




| | Date | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| **8** | 03-Jun-21 | **Hold** | 165 | 148 |
| **9** | 08-Aug-21 | **Hold** | 242 | 213 |
| **10** | 18-Nov-21 | **Buy** | 427 | 315 |
| **11** | 13-Jan-22 | **Buy** | 470 | 299 |
| **12** | 31-May-22 | **Buy** | 453 | 266 |
| **13** | 15-Nov-22 | **Buy** | 516 | 366 |
| **14** | 22-Dec-22 | **Buy** | 567 | 333 |
| **15** | 15-Feb-23 | **Buy** | 526 | 291 |
| **16** | 31-May-23 | **Buy** | 545 | 285 |
| **17** | 12-Aug-23 | **Buy** | 544 | 314 |
| **18** | 14-Feb-24 | **Buy** | 633 | 472 |
| **19** | 23-May-24 | **Buy** | 632 | 478 |
| **20** | 28-Aug-24 | **Buy** | 689 | 535 |
| **21** | 30-Oct-24 | **Buy** | 717 | 557 |

**Anand Rathi Ratings Definitions**

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

**Ratings Guide (12 months)**

| | **Buy** | **Hold** | **Sell** |
|---|---|---|---|
| Large Caps (Top 100 companies) | >15% | 0-15% | <0% |
| Mid Caps (101st-250th company) | >20% | 0-20% | <0% |
| Small Caps (251st company onwards) | >25% | 0-25% | <0% |

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