20 May 2025

Arvind Fashions

Encouraging performance despite retail headwinds; retaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.681
Share Price: Rs.457

Arvind Fashions reported 8.5%/13% y/y revenue growth/EBITDA margin in FY25. Growth was aided by 5.5% comparable growth, network expansion (0.12m sq. ft. net addition in FY25), higher adjacent categories' share (20%; 15% in FY24), premiumization and investments in marketing. Adj. PAT (post minority) grew ~70% y/y to Rs855m. Working capital days improved to 50 (53 in FY24), led by higher payables. OCF/FCF grew ~22%/24% y/y to Rs5.3bn/4.4bn in FY25. Net debt reduced to Rs2.2bn (~Rs3n in FY24). The RoCE rose to 20%+ in FY25 (16% in FY24), led by greater profitability. USPA reached Rs20bn NSV in FY25, while Tommy and CK continued with double-digit growth. Arrow and Flying Machine saw encouraging traction in H2 and reported low single-digit EBITDA margins (pre-IND AS); mid-single digit EBITDA margins targeted in the short term. Management retained its 12-15% revenue growth guidance, led by ~15% sq.ft. expansion CAGR in FY26; with 100bps EBITDA margin expansion every year. Our FY26e-27e revenue/EBITDA remain unchanged; we cut EPS by 8% on avg. due to higher depreciation/interest expense. We retain our Buy rating, with a TP of Rs681 (earlier Rs685) on 11x FY27e EV/EBITDA.

One-time deferred tax charge impacted PAT. Q4 revenue grew 8.7% y/y to Rs11.9bn, led by 5.2% retail comparable growth. Better channel mix, 2% lower retail discounting and sourcing efficiencies pushed up the gross margin by 271bps y/y to 53.9%. EBITDA grew 17.4% y/y to Rs1.6bn and the margin, 99bps y/y to 13.3%. The one-time deferred tax charge was Rs1.2bn, led by change in tax regime of its subsidiary Arvind Lifestyle Brands to 25% (35% earlier). Reported net loss (post minority and discontinued ops) was Rs932m vs. PAT of Rs243m in Q4 FY24. Adj. PAT (adjusting for deferred tax) post minority grew 7.6% y/y to Rs268m.

Higher direct channel mix, adjacent categories. The retail channel brought 43% to sales in FY25 (42% in FY24), online & others 28% (27%); wholesale's share fell to 29% (31%). Retail channel saw double-digit growth in FY25, while online channel reported 15%+ growth, along with improvement in channel margins. Adjacent categories' contribution to sales rose to 20%+ in FY25 (15% last year), with all adjacent categories being profitable at channel level. Innerwear/women's wear grew 15%+/2x y/y in FY25, while footwear crossed the Rs3bn mark.

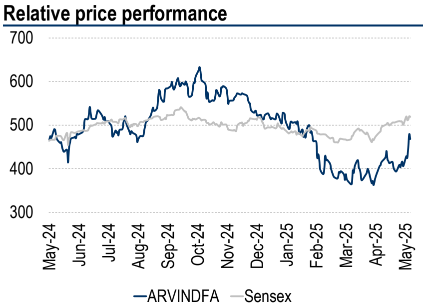
Valuation. We retain our Buy, with a revised 12-mth Rs681 TP, 11x FY27e EV/EBITDA. **Key risks:** Keener competition; less consumption.

Key data	ARVINDFA IN / ARVF.BO
52-week high / low	Rs639 / 338
Sensex / Nifty	82059 / 24945
Market cap	Rs.62bn / $707.6m
Shares outstanding	133m

Shareholding pattern (%)	Mar'25	Dec'24	Sept'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	9.4	10.0	10.5
- Domestic institutions	21.9	21.8	21.0
- Public	33.5	33.0	33.3

Estimates revision (%)	FY26e	FY27e
Sales	0.0	0.0
EBITDA	0.0	0.0
EPS	(9.6)	(6.4)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY23	FY24	FY25	FY26e	FY27e
Sales (Rs m)	40,695	42,591	46,198	51,882	59,341
Net profit (Rs m)	367	806	(356)	1,706	2,718
EPS (Rs)	2.8	6.1	(2.7)	12.9	20.5
P/E (x)	100.8	74.3	NA	35.5	22.3
EV / EBITDA (x)	11.3	13.7	9.9	9.6	7.7
P/BV (x)	4.1	6.0	5.2	5.0	3.9
RoE (%)	11.2	9.3	2.9	19.9	23.8
RoCE (%)	10.6	10.9	3.3	20.2	24.2
Dividend yield (%)	0.2	0.3	0.3	0.2	0.2
Net debt / equity (x)	0.4	0.3	0.2	0.1	(0.0)

Source: Company, Anand Rathi Research

Vaishnavi Mandhaniya
Research Analyst

Shreya Baheti
Research Associate

Hardik Shetty
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net revenues	40,695	42,591	46,198	51,882	59,341
Growth (%)	33.2	4.7	8.5	12.3	14.4
Direct costs	20,667	20,371	21,495	24,177	27,534
SG&A	15,798	17,115	18,683	20,396	22,934
EBITDA	**4,230**	**5,105**	**6,020**	**7,309**	**8,873**
EBITDA margins (%)	10.4	12.0	13.0	14.1	15.0
Depreciation	2,031	2,301	2,557	2,927	3,047
Other income	503	337	346	350	353
Interest expenses	1,210	1,442	1,558	1,315	1,127
PBT	1,493	1,700	2,251	3,417	5,052
Effective tax rates (%)	26.8	34.9	84.7	25.0	25.0
+ Associates / (Minorities)	(503)	(565)	(686)	(857)	(1,071)
Net income	367	806	(356)	1,706	2,718
Adjusted income	590	501	(342)	1,706	2,718
WANS	132	132	132	132	132
FDEPS (Rs)	2.8	6.1	-2.7	12.9	20.5
FDEPS growth (%)	NM	119.7	(144.1)	(579.6)	59.3
Gross margins (%)	49.2	52.2	53.5	53.4	53.6

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	531	532	533	533	533
Net worth	9,096	10,033	9,571	12,002	15,658
Debt	5,977	4,661	3,896	2,896	1,396
Minority interest	1,826	1,891	2,074	2,074	2,074
DTL / (Assets) *	2,554	2,926	5,067	5,067	5,067
Capital employed	**19,453**	**19,511**	**20,607**	**22,038**	**24,195**
Net tangible assets **	7,131	7,493	8,599	8,679	8,639
Net intangible assets	406	355	371	371	371
Goodwill	1,112	1,112	1,112	1,112	1,112
CWIP (tang. & intang.)	21	39	28	28	28
Investments (strategic)					
Investments (financial)					
Current assets (excl. cash)	20,768	20,192	22,645	26,438	29,589
Cash	2,003	1,680	1,647	1,176	1,595
Current liabilities	11,988	11,360	13,796	15,767	17,141
Working capital	8,779	8,832	8,849	10,671	12,448
Capital deployed	**19,453**	**19,511**	**20,607**	**22,038**	**24,195**

** includes lease liabilities ** includes RoU*

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
PBT (adj. for int. exp / other inc.)	2,498	3,302	3,581	4,732	6,179
+ Non-cash items	2,063	1,698	2,761	2,927	3,047
Oper. prof. before WC	4,561	4,999	6,342	7,659	9,226
- Incr. / (decr.) in WC	955	31	613	1,822	1,777
Others incl. taxes	433	627	433	854	1,263
Operating cash-flow	3,173	4,342	5,295	4,982	6,186
- Capex (tang. + intang.)	360	801	912	1,000	1,000
Free cash-flow	2,812	3,541	4,383	3,982	5,186
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	626	667	132	132
+ Equity raised	54	23	53	-	-
+ Debt raised	959	(1,316)	(765)	(1,000)	(1,500)
- Fin investments	-	(4)	-	-	-
- Misc. (CFI + CFF)	2,915	1,878	3,021	3,322	3,134
Net cash-flow	954	(323)	(17)	(472)	420

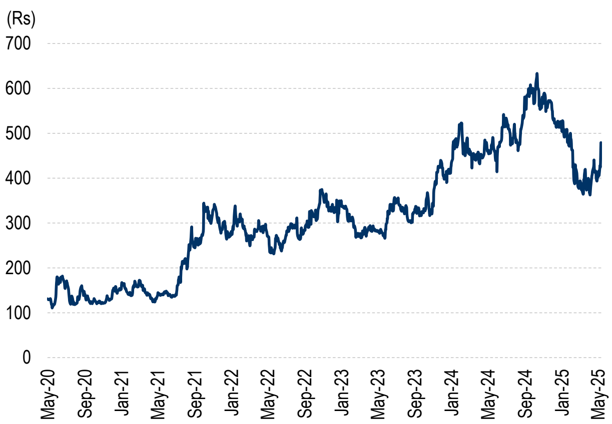
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
P/E (x)	100.8	74.3	NA	35.5	22.3
EV / EBITDA (x)	11.3	13.7	9.9	9.6	7.7
EV / Sales (x)	1.2	1.6	1.3	1.3	1.1
P/B (x)	4.1	6.0	5.2	5.0	3.9
RoE (%)	11.2	9.3	2.9	19.9	23.8
RoCE (%) - after tax	10.6	10.9	3.3	20.2	24.2
RoIC (%) - after tax	11.8	12.2	3.7	22.1	26.2
DPS (Rs)	1.0	1.3	1.6	1.0	1.0
Dividend yield (%)	0.2	0.3	0.3	0.2	0.2
Dividend payout (%) - incl. DDT	36.0	20.5	(59.5)	7.8	4.9
Net debt / equity (x)	0.4	0.3	0.2	0.1	(0.0)
Receivables (days)	50	55	58	55	55
Inventory (days)	88	78	85	84	80
Payables (days)	91	80	93	95	90
CFO : PAT %	537.7	866.3	(1,550.5)	292.0	227.6

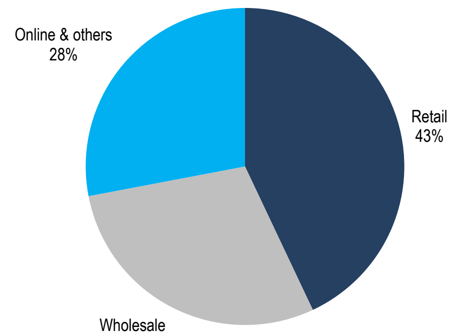
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Channel mix, FY25



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

Financial Highlights

Q4 consolidated revenue grew 8.7% y/y to Rs11.9bn. The gross margin expanded 271bps y/y to 53.9%. Employee expenses fell 2.7% y/y while other expenses rose 16.8% y/y. EBITDA grew 17.4% y/y to Rs1.6bn and margin expanded 99bps y/y to 13.3%. Depreciation/interest expenses rose 9.7%/9.6% y/y, while other income dipped 12.8% y/y. PBT grew 23.9% y/y to Rs664m. Minority interest was Rs207m (Rs154m in Q4 FY24). Loss from discontinued operations was Rs3m (vs. loss of Rs5m in Q4 FY24).

It had a one-time deferred tax charge of Rs1.2bn, led by change in tax regime of its subsidiary Arvind Lifestyle Brands to 25% (35% earlier), which led to a tax charge of ~Rs1.1bn. It also had Rs150m of deferred tax expiring, which has been charged. Rep. net loss (post minority and discontinued ops) was loss of Rs932m (profit of Rs243m in Q4 FY24). Adj. PAT (adjusting for deferred tax of Rs1.2bn) post minority grew 7.6% y/y to Rs268m.

FY25 revenue grew 8.5% y/y to Rs46.2bn, led by 5.5% retail comparable growth. The gross margin rose 130bps y/y to 53.5%, led by a better channel mix and lower discounting. EBITDA grew 17.9% y/y to ~Rs6bn and margin expanded 104bps y/y to 13%. Net loss (post minority and discontinued ops) was Rs356m (vs. profit of Rs806m in FY24). Adj. PAT (adjusting for Sephora sale gain and deferred tax of Rs1.2bn) grew 70.5% y/y to Rs855m.

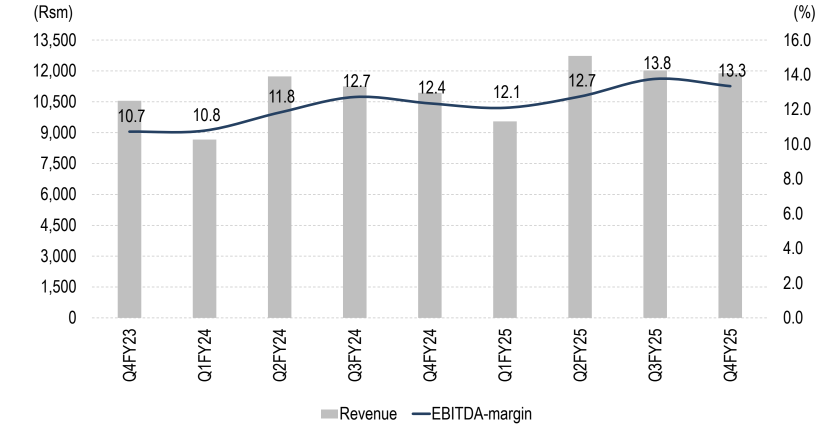
Working capital days for FY25 fell to 50 (53 in FY24), primarily driven by 12 days y/y higher payable days to 93. Inventory days rose 7 y/y to 85 days while receivable days increased by 2 days y/y to 58. Reported OCF grew 22% y/y in FY25 to Rs5.3bn. FCF grew 23.8% y/y to Rs4.4bn, led by higher OCF despite ~14% y/y increase in net capex. Net debt was lower at Rs2.2bn (~Rs3bn in FY24).

Fig 7 – Quarterly and full-year results

(Rs m)	Q4 FY25	Q4 FY24	Y/Y (%)	Q3 FY25	Q/Q (%)	FY25	FY24	Y/Y (%)
Revenues	11,891	10,939	8.7	12,028	(1.1)	46,198	42,591	8.5
Gross Margin (%)	53.9	51.2	271 bps	55.0	-107 bps	53.5	52.2	130 bps
Employee Expenses	694	713	(2.7)	665	4.5	2,687	2,601	3.3
Other operating expenses	4,125	3,532	16.8	4,290	(3.8)	15,997	14,514	10.2
EBITDA	1,587	1,351	17.4	1,655	(4.1)	6,020	5,105	17.9
EBITDA Margin(%)	13.3	12.4	99 bps	13.8	-42 bps	13.0	12.0	104 bps
Depreciation	648	591	9.7	654	(0.8)	2,557	2,301	11.1
Interest expenses	388	354	9.6	403	(3.5)	1,558	1,442	8.1
Other income	113	130	(12.8)	87	30.7	346	337	2.7
Exceptional items	-	-	NA	-	NA	-	(62)	NA
PBT	664	536	23.9	686	(3.2)	2,251	1,638	37.4
Income taxes	1,385	134	NA	209	NA	1,907	573	NA
Non-controlling interest	(207)	(154)	34.6	(199)	4.0	(686)	(565)	21.4
Discontinued ops	(3)	(5)	NA	(11)	NA	(14)	305	NA
Rep. PAT (post minority and discontinued ops)	(932)	243	NA	267	NA	(356)	806	NA
Adj PAT (post minority)	268	249	7.6	278	(3.7)	855	501	70.5

Source: Company

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



Source: Company. Note: Power brands includes all five focus brands

Other highlights

- **Demand.** While overall demand remained subdued, growth was supported by premiumization and a shift toward stronger, established brands. Initial trends in FY26 are encouraging, with comparable growth improving in the first 45 days. Management expects supportive macros and tax cuts to push comparable growth beyond 5% in FY26.
- **Channel mix.** In Q4**,** retail comparable growth stood at 5.2%, driving 15% y/y growth in the retail channel, which contributed 42% to revenue (up from 40% a year ago), led by premiumization and retail sq. ft. expansion. Retail profitability improved as discounting dropped by ~2%, aided by advancement of spring merchandise to Feb (a month earlier than last year), which helped improve realizations and reduce discounting. The online B2C segment grew over 20%, with margin expansion supported by better cost control and analytics-led assortment planning.
- The wholesale channel grew in low single digits during the year and contributed 33% to Q4 revenue (vs. 35% in Q4 FY24), while tertiary sales grew in high single digits. Inventory clean-up during the year helped improve freshness and prevented stock build-up. With inventory levels stabilizing and retail macros expected to improve, wholesale growth is likely to rebound to high single digits for the next year.
- **The EBITDA margin** expanded 99bps y/y to 13.3% in Q4, driven by higher gross profit (aided by reduction in retail discounting, improved sourcing efficiency and a richer retail-led channel mix). This expansion came despite a 30bps increase in marketing spends during the quarter.
- **Brands.** All five core brands posted double-digit revenue growth in Q4, with most brands also recording double-digit EBITDA growth for the quarter. US Polo (crossed Rs20bn in NSV) continued to outperform, driven by product-led growth and expansion in its distribution across city tiers. Tommy Hilfiger and Calvin Klein also delivered double-digit growth in its NSV during the quarter, supported by strong consumer affinity and continued marketing investments. Arrow and Flying Machine saw encouraging performances on key KPIs such as full-price sell-through and reduced discounting. Both brands currently operate at low single-digit EBITDA margins (pre-Ind AS), with AFL targeting a transition to mid-single digit levels in the short term.
- **Adjacent categories** now contribute over 20% of revenue and grew at over 20% y/y during the year. Footwear crossed Rs3bn in revenues in FY25 and grew in double digits in Q4 as inventory build-up resumed. It is expected to grow at 15%+ in FY26 and return to its normal 20%+ run rate thereafter as inventory levels normalise post BIS implementation. The company aims to double the footwear business over the next three years. Innerwear grew over 15% in FY25 and is expected to cross Rs2bn soon, backed by strong performance in the online channel and improving profitability. The business has seen a meaningful turnaround in margins over the past two years and continues to scale through US Polo stores. Women's wear, relaunched under US Polo, grew 100% y/y in FY25. The brand has expanded to ~30 SIS locations and is focused on maintaining margins in line with core apparel despite selective marketing spends.

- **Retail network.** Added net 46 EBOs in FY25 (incl. ~120 gross additions and ~70 closures), taking the total count to 977. It added 0.12m sq. ft. (net) of retail space during the year, including 46,000 sq. ft. (net) in Q4. Most closures were small, non-strategic stores with weaker sell-through and lower profitability metrics. These have been replaced with larger, more productive formats to enhance retail performance and brand presentation. Additionally, the newer formats are scaling well: Stride has expanded to ~15 stores and remains integral to the footwear growth strategy; Megamart now has over 50 stores with healthy topline productivity; and Club A (5 stores operational under this pilot format) is under evaluation for further rollout.
- **Working capital.** The company has improved inventory turns from 3x to 4x and continues to focus on supply chain transformation under the Vector project. Further moderation in NWC is expected, though improvements will be gradual and driven by deeper structural changes.
- **Net debt** reduced by Rs750m to Rs2.2bn in FY25, supported by strong cash generation.
- **Outlook.** Management retained its guidance of 12-15% revenue growth in FY26. A recovery in the wholesale channel along with sustained growth in retail channel is expected to boost overall growth It expects EBITDA margin to expand by ~100bps, aided by operating leverage and improved execution. For FY26, it plans to add over 0.15m sq. ft. of retail space, with 85% of the expansion coming from core mono-brand stores and the remaining 15% allocated to new formats.

Change in estimates

Our FY26e-27e revenue/EBITDA remain unchanged.

Our FY26e/27e EPS cut is 8% on avg. due to higher depreciation and interest expense.

We expect the company to report ~13%/21%/revenue/EBITDA CAGRs over FY25-27.

Fig 9 – Change in estimates

(Rs m)	Old		Revised		Change (%)	
	FY26e	FY27e	FY26e	FY27e	FY26	FY27
Revenue	51,882	59,335	51,882	59,341	0.0%	0.0%
EBITDA	7,309	8,871	7,309	8,873	0.0%	0.0%
PAT	1,887	2,903	1,706	2,718	(9.6%)	(6.4%)
EPS (Rs)	14.3	21.9	12.9	20.5	(9.6%)	(6.4%)

Source: Anand Rathi Research

Valuation

We retain our Buy rating, with a TP of Rs681 on 11x FY27e EV/EBITDA (earlier Rs685).

Fig 10 – Valuation summary

(Rs m)	FY27e
EBITDA	8,873
Target multiple (x)	11.0
Enterprise value	97,599
Gross debt	9,068
Cash balance	1,595
Market cap	90,126
No. of shares (m)	132.3
TP (Rs)	681
CMP (Rs)	457
Upside / (downside) %	49.0%

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

Fig 11 – Valuation parameters

	FY23	FY24	FY25	FY26e	FY27e
P/E (x)	100.8	74.3	NA	35.5	22.3
EV / EBITDA (x)	11.3	13.7	9.9	9.6	7.7
EV / Sales (x)	1.2	1.6	1.3	1.3	1.1
RoE (%)	11.2	9.3	2.9	19.9	23.8
RoCE (%)	10.6	10.9	3.3	20.2	24.2

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.

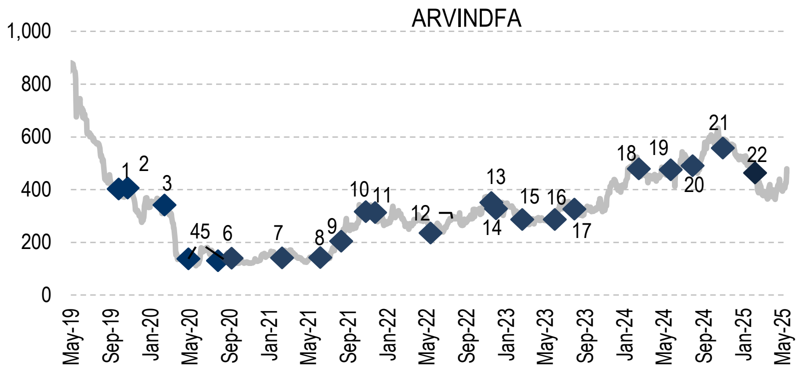
Appendix

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 20 May 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
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
22	08-Feb-25	**Buy**	685	462

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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Compliance officer: Deepak Kedia, email id: deepakkedia@rathi.com, Contact no. +91 22 6281 7000
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ARSSBL registered address: Express Zone, A Wing, 10th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
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