Q2FY25 Result Update
Arvind Fashions

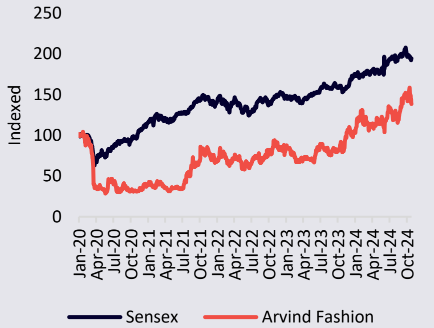
nuvama professional clients group

Operating margin expands; retail LTL positive despite a slowdown

- **Revenue grew 8% YoY to INR1,273cr (est. INR1,244cr) led by retail and online channels. Retail LTL sales stood at 4.6% despite an overall slowdown in the sector.**
- **Gross margin was flat at 50.4% with gross profit up 9% YoY to INR641cr. Higher contribution from the online channel resulted in a flattish gross margin despite lesser discounted sales.**
- **EBITDA rose 17% YoY to INR162cr (est. INR156cr), with a 90bp expansion in EBITDA margin to 12.7%, led by higher gross margin, cost efficiencies, and operating leverage kicking in.**
- **PAT (including minority interest) stood at INR45cr (est. INR47cr) versus INR41cr YoY. Excluding minority interest, PAT grew 38% YoY to INR30cr.**
- **We reaffirm 'BUY' with a FY26 SoTP-based revised TP of INR677.**

CMP: INR567
Rating: BUY
Target price: INR677
Upside: 22%
Date: October 30, 2024

Bloomberg:	ARVINDFA:IN
52-week range (INR):	298/600
M-cap (INR cr):	6,705
Promoter holding (%)	35.21



Retail and online channels lead the show; wholesale declines

Contribution from retail/wholesale/online channel stood at 37%/33%/30% versus 37%/36%/27% YoY. The retail area grew 3% QoQ to 11.5lk sq. ft. on: i) net additions of 36k sq. foot, and ii) LTL of 4.6%, despite subdued demand, supported by higher marketing spends. It added 10 net EBOs in Q2 and is targeting another 150 (mostly asset-light FOFO) gross additions, with 15% net area addition, in FY25. This will lead to accelerated growth in the retail channel in H2FY25.

The online channel grew 21% YoY on the back of a 40% growth in online B2C. The focus is on sales through its own website as it has better control over the supply chain. The online B2B channel is on the growth path. The wholesale channel fell 1% YoY on muted market conditions and closure of low margin, tail-end distribution points.

Growth was driven by Tommy Hilfiger (TH) and Calvin Klein (CK) brands (premiumisation), with margin hovering ~20%. The turnaround in Arrow has begun with profitable growth. Its margin should expand from hereon. ARVINDFA is seeing green shoots in Flying Machine (FM) and has launched products targeting the mass premium segment which appears promising. FM is a year behind Arrow in terms of growth and margin. The management is refreshing the FM brand, with the retail channel in focus. We expect a consolidated revenue CAGR of 13% over FY24–26 driven by footprint expansion, higher LTL in the retail channel, and growth in the online B2C channel.

Margin expansion continues

Gross margin was flat despite a higher full price sell through due to on greater contribution from the online channel. The management views this margin expansion as sustainable. Operating margin expanded by 90bp on a favourable operating leverage, stable gross margin, and cost efficiencies. We expect ad expenses, which grew 30bp YoY, to stay ~4% in FY25.

Adjacent categories are performing well with a contribution of more than 20%. In USPA, adjacent categories contribute over 30%. Womenswear is growing at a very strong rate on a low base. ARVINDFA has begun opening large sized stores to accommodate all its brands and the adjacent categories in USPA. We expect a 230bp expansion in EBITDA margin over FY24–26 to 14.3% in FY26 led by gross margin expansion, cost efficiencies, and a favourable operating leverage.

Valuation and view

The company delivered positive LTL sales despite subdued demand which indicates market share gains. The focus on portfolio rationalisation and operational efficiencies, rather than growth, has yielded results. Operating cash flows grew by more than 2x on better cost control and maintaining a lean working capital. Going forward, we expect ARVINDFA to floor the pedal on growth as market conditions improve.

Our revenue/EBITDA estimate stays broadly unchanged given the steady growth with a slight cut on account of muted growth in the distribution channel. We expect a revenue/EBITDA/PAT CAGR of 13%/24%/72% over FY24–26. Given the growth opportunities, execution capabilities, quality management, category extensions, and improved operational performance, we maintain 'BUY' with a SoTP-based TP to INR677 (15x/20x/10x/5x FY26E EV/EBITDA for USPA/PVH/Arrow/FM).

Key financials

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY23	FY24	FY25E	FY26E
Net sales (INR cr)	1,273	1,174	8.5	955	33.3	4,069	4,259	4,760	5,465
Gross profit (INR cr)	641	591	8.6	527	21.6	2,003	2,222	2,528	2,940
Gross margin (%)	50.4	50.3	4bp	55.2%	(488bp)	49.2%	52.2%	53.1%	53.8
EBITDA (INR cr)	162	139	16.9	116	40.5	427	511	624	781
EBITDA margin (%)	12.7	11.8	92bp	12.1	65bp	10.5	12	13.1	14.3
PAT (INR cr)	30	22	37.9	14	114.6	91	137	126	224
EV/EBITDA ratio (x)						14	11	12	9
P/E ratio (x)						60	72	37	23

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Q2FY25 result highlights

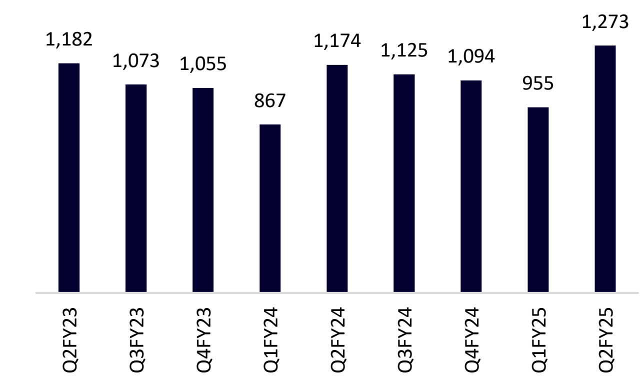
Particulars (INR cr)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY23	FY24	FY25E	FY26E
Income from operations	1,273	1,174	8.5	955	33.3	4,069	4,259	4,760	5,465
Gross profit	641	591	8.6	527	21.6	2,003	2,222	2,528	2,940
Gross margin (%)	50.4	50.3	4bp	55.2	(488bp)	49.2	52.2	53.1	53.8
Employee expense	66	65	1.8	66	(0.1)	244	260	286	328
Other expense	413	387	6.7	346	19.4	1,322	1,443	1,604	1,814
EBITDA	162	139	16.9	116	40.5	437	519	638	798
EBITDA margin (%)	12.7	11.8	92bp	12.1	65bp	10.7	12.2	13.4	14.6
Depreciation	64	55	17.2	61	4.9	203	230	251	263
Interest expense	39	36	7	38	1.3	121	144	145	135
Other income	7	4	72	7	(3.5)	50	34	38	44
Profit before tax	67	52	27.9	24	182.3	131	164	266	427
Profit after tax	30	22	37.9	14	114.6	91	107	199	320
Extraordinary items	-	-		-		-	-	-	-
Adjusted net profit	45	41	10.4	14	227.6	91	137	126	224

Revised estimates

(INR cr)	FY25E			FY26E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	4,840	4,760	(1.6)	5,559	5,465	(1.7)
Other income	38	38		44	44	
Total income	4,879	4,799		5,603	5,508	
EBITDA	634	624	(1.6)	795	781	(1.7)
EBITDA margin (%)	*13.1*	*13.1*		*14.3*	*14.3*	
PBT	276	266	(3.8)	441	427	(3.1)
PBT margin	*5.7*	*5.5*		*7.9*	*7.8*	
Net profit	207	199	(3.8)	330	320	(3.1)
Adjusted net profit	131	126	(4.2)	231	224	(3)
EPS (INR)	15.6	15	(3.8)	24.8	24.1	(3.1)
Adjusted EPS (INR)	15.6	15	(3.8)	24.8	24.1	(3.1)

Financials in charts

Exhibit 1: Revenue trend (INR cr)



**Exiting Sephora and other brands affects revenue print*

Exhibit 2: Channel mix tilts towards retail

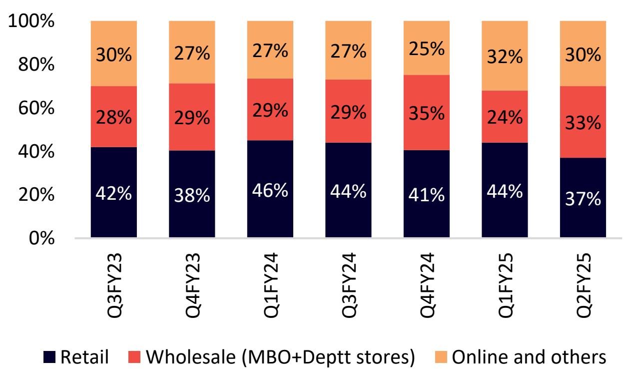


Exhibit 3: Lesser discounting aids gross margin expansion

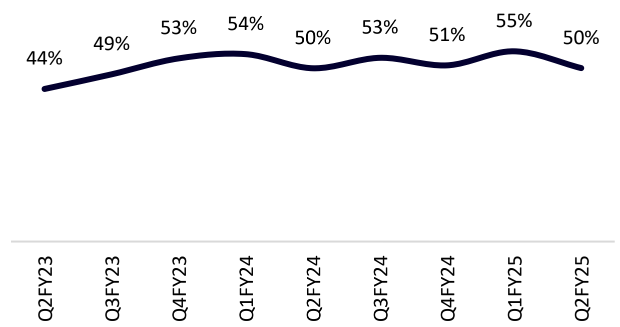


Exhibit 4: Sharp focus on margin expansion

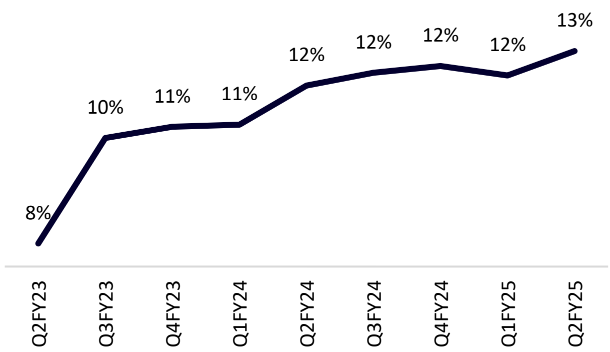


Exhibit 5: Continues to pare down debt (net D/E ratio)

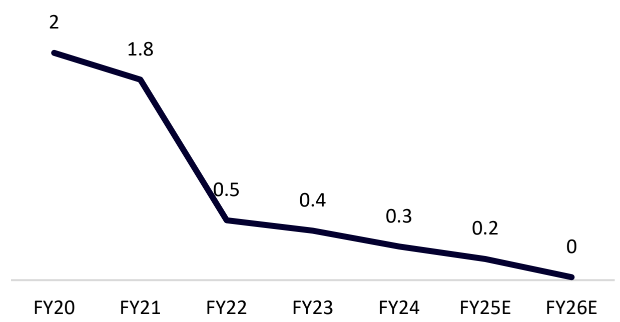
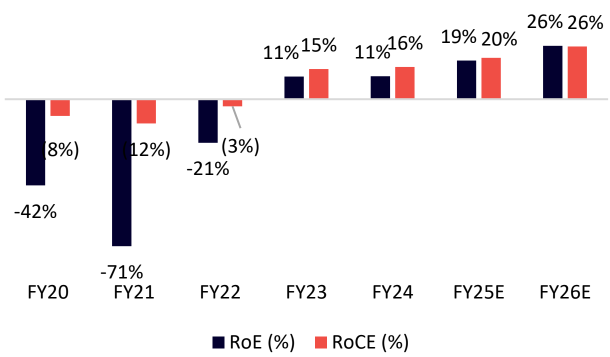


Exhibit 6: Return ratios to improve



Source: Nuvama Wealth Research

Previous outlook

Q1FY25: The company delivered positive LTL sales despite a subdued demand. The focus on portfolio rationalisation and operational efficiencies rather than growth has yielded results. We expect ARVINDFA to floor the pedal on growth in upcoming quarters. An early onset of the festive season bodes well for the company. We expect brand extensions to provide a strong lever for growth and margin expansion. Arrow should start growing from H2FY25. However, FM should take some time to grow and turn profitable. These two brands can provide extra levers for margin expansion and growth. Our revenue/EBITDA estimate stays broadly unchanged given the steady growth. However, our PAT estimate has changed due to slightly higher depreciation and interest cost. We expect a revenue/ EBITDA/PAT CAGR of 14%/25%/74% over FY24–26. Given the growth opportunities, execution capabilities, quality management, category extensions, and improved operational performance, we maintain 'BUY' with a TP to INR677 based on SoTP valuation (15x/18x/10x/5x FY26E EV/EBITDA for USPA/PVH/Arrow/FM).

Q4FY24: ARVINDFA's sharp focus on cash flow-led growth has yielded results. Gross debt fell by INR132cr in FY24. It delivered a positive LTL despite subdued demand conditions. Its focus on portfolio rationalisation and operational efficiencies, rather than growth, has yielded results. We expect growth to be an area of focus from here on and see brand extensions providing a strong lever for growth and margin expansion. The expansion in RoCE is expected to continue. We slightly upgrade our EBITDA/PAT estimate on better demand conditions ahead. We expect a revenue/EBITDA/PAT CAGR of 14%/23%/44% over FY24–26. Given its growth prospects, execution capabilities, quality management, category extensions, and improved operational performance, we maintain 'BUY' but revise our TP to INR677 (INR651 earlier), based on 12x FY26E EV/EBITDA.

Q1FY25


Q1FY25 Result Update
Arvind Fashions

Q4FY24


Q4FY24 Result Update
Arvind Fashions

Financials

Income Statement

(INR cr)	FY22	FY23	FY24	FY25E	FY26E
Income from operations	3,056	4,069	4,259	4,760	5,465
Direct cost	1,710	2,067	2,037	2,233	2,525
Employee cost	237	244	260	286	328
Other expenses	929	1,332	1,451	1,619	1,831
Total operating expenses	2,876	3,642	3,749	4,137	4,683
EBITDA	180	427	511	624	781
Depreciation and amortisation	233	203	230	251	263
EBIT	-53	224	280	372	518
Interest expense	124	121	144	145	135
Other income	67	50	34	38	44
Extraordinary items	133	0	-6	0	0
Profit before tax	-243	153	164	266	427
Provision for tax	-6	40	57	66	107
Core profit	-237	113	107	199	320
Profit after tax	-237	113	107	199	320
Minority Interest	30	22	0	74	96
Share from associates	0	0	0	0	0
Adjusted net profit	-267	91	107	126	224
Equity shares outstanding (cr)	13	13	13	13	13
Basic EPS (INR)	-10.1	6.8	8.0	15.0	24.1
Diluted shares (cr)	13	13	13	13	13
Fully diluted EPS (INR)	(10.1)	6.8	8.0	15.0	24.1
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24	FY25E	FY26E
Operating expense	94.1	89.5	88.0	86.9	85.7
Depreciation	7.6	5.0	5.4	5.3	4.8
Interest expense	4.1	3.0	3.4	3.0	2.5
EBITDA margin	5.9	10.5	12.0	13.1	14.3
Net profit margin	(8.7)	2.2	2.5	2.6	4.1

Growth metrics (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Revenue	59.8	33.2	4.7	11.8	14.8
EBITDA	(11,430.8)	137.0	19.6	22.2	25.3
PBT	(52.3)	(163.1)	6.9	62.1	60.7
Net profit	(57.0)	(147.7)	(5.8)	86.9	60.7
EPS	(73.0)	(167.6)	17.1	86.9	60.7

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Balance Sheet

(INR cr)	FY22	FY23	FY24	FY25E	FY26E
Equity share capital	53	53	53	53	53
Reserves and surplus	697	857	950	1,076	1,300
Shareholders' funds	750	910	1,003	1,129	1,353
Borrowings	502	598	466	366	266
Lease liabilities	335	509	537	547	557
Minority interest	100	183	189	263	359
Sources of funds	**1,688**	**2,199**	**2,195**	**2,304**	**2,535**
Gross block	405	424	404	494	584
Depreciation	291	319	280	340	410
Net block	113	105	124	154	174
Capital work in progress	0	2	1	1	1
Right of use assets	388	608	625	635	645
Goodwill	111	111	111	111	111
Intangible assets	49	41	38	38	38
Total fixed assets	661	867	900	940	970
Investments	63	62	56	66	76
Inventories	831	982	909	1,004	1,153
Sundry debtors	572	560	647	652	749
Cash and equivalents	105	200	168	155	231
Loans and advances	528	535	477	527	577
Other current assets	0	0	0	0	0
Total current assets	2,036	2,277	2,201	2,339	2,709
Sundry creditors and others	1,312	1,329	1,257	1,392	1,572
Provisions	10	7	38	38	38
Total current liabilities and provisions	1,322	1,336	1,295	1,430	1,609
Net current assets	714	941	906	909	1,099
Net deferred tax	411	412	389	389	389
Miscellaneous expenditure	-161	-84	-56	0	0
Uses of funds	**1,688**	**2,199**	**2,195**	**2,304**	**2,535**
Book value per share (INR)	57	68	75	85	102

Cash Flow Statement **(INR cr)**

Year to March	FY22	FY23	FY24	FY25E	FY26E
Net profit	-249	44	101	199	320
Add: Depreciation	261	239	249	251	263
Add: Miscellaneous expenses written off/other assets	10	130	87	7	46
Gross cash flow	22	413	437	457	629
Less: Changes in working capital	278	-96	-3	-15	-115
Operating cash flow	300	317	440	442	514
Less: Capex	17	-63	-82	-90	-90
Free cash flow	**284**	**381**	**522**	**532**	**604**

Ratios

Year to March	FY22	FY23	FY24	FY25E	FY26E
RoAE (%)	-21.1	11.0	11.1	18.7	25.8
RoACE (%)	-3.4	14.6	15.6	20.0	25.5
Debtor days	68	50	55	50	50
Current ratio	2	2	2	2	2
Debt/equity ratio	0.7	0.7	0.5	0.3	0.2
Inventory (days)	99	88	78	77	77
Payable (days)	125	91	80	80	80
Cash conversion cycle (days)	42	47	53	47	47
Debt/EBITDA ratio	3	1	1	1	0
Adjusted debt/equity ratio	0.5	0.4	0.3	0.2	0.0

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	(10.1)	6.8	8.0	15.0	24.1
YoY growth (%)	*(73.0)*	*(167.6)*	*17.1*	*86.9*	*60.7*
CEPS (INR)	7.5	22.1	25.3	33.9	43.9
Diluted P/E ratio (x)	*NA*	*60.1*	*71.8*	*37.8*	*23.5*
Price/BV ratio (x)	10.0	8.3	7.5	6.7	5.6
EV/sales ratio (x)	*1.6*	*1.4*	*1.4*	*1.6*	*1.4*
EV/EBITDA ratio (x)	27.7	13.7	11.3	12.4	9.7
Diluted shares outstanding	*13.2*	*13.3*	*13.3*	*13.3*	*13.3*
Basic EPS	(10.1)	6.8	8.0	15.0	24.1
Basic P/E ratio (x)	*NA*	*60.1*	*71.8*	*37.8*	*23.5*
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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