PVH Arvind Fashion Private Limited

August 28, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	129.00 (Enhanced from 80.00)	CARE A; Positive	Reaffirmed; Outlook revised from Stable

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of PVH Arvind Fashion Private Limited (PAFPL) continues to derive strength from its parentage of the USA-based PVH Corporation Limited (PVH) and the India-based Arvind group through Arvind Fashions Limited (AFL; rated CARE A-; Positive/ CARE A2+), strong brand identity arising from global presence of its 'Tommy Hilfiger' (TH) and 'Calvin Klein' (CK) apparel brands along with its established operations in India through a widespread distribution network. The rating also takes cognizance of improvement in financial risk profile during FY23 (refers to the period from April 01 to March 31) and Q1FY24, marked by significant growth in total operating income (TOI) with improvement in profitability, cash accruals and return ratio. The rating also factors its comfortable capital structure and debt coverage indicators along with favourable long-term growth prospects for the Indian apparel retail industry.

The rating of PAFPL is, however, constrained on account of inherent working capital-intensive operations owing to high inventory holding requirement and susceptibility of its profitability to foreign exchange rate fluctuations and changes in import duty structure. Its presence in the highly competitive premium branded apparel industry which is vulnerable to changes in fashion trends or consumer preferences and economic cycles further constrain its rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in its TOI while maintaining PBILDT margin of more than 16% and ROCE of more than 20% on a sustained basis.
- Curtailment of gross working capital cycle to around 120 days on a sustained basis.
- Significant improvement in the credit profile of its JV partners i.e. PVH and AFL**.**

Negative factors

- Significant adverse impact on the profitability, working capital cycle, liquidity and debt coverage indicators of the company on a sustained basis.
- Significant deterioration in the credit profile of its JV partners.

Analytical approach: Standalone while factoring strengths of its JV partners (i.e. PVH Corp and AFL)

Outlook: Positive

The revision in the outlook on the long-term rating of PAFPL from 'Stable' to 'Positive' reflects the expectations of continued improvement in operating and financial performance over the near to medium term aided by growth in revenue and improvement in profitability which coupled with reduction in gross working capital cycle should enable the company to maintain its strong ROCE.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful JV partners: PVH, the 50% JV partner in PAFPL, is a leading American clothing company and owner of brands like Tommy Hilfiger, Calvin Klein, True & Co., Warner's and Olga. The key focus of the PVH group is to acquire brands and grow them globally through wholesale, retail, e-commerce and licensing channels. PVH, through its subsidiaries, also focuses on designing and marketing high-quality menswear, women wear, children's apparels and denim collections. On a consolidated basis, PVH Corp reported total revenue of USD 9.02 billion with PBIT of USD 0.47 billion for the year ended January 29, 2023.

AFL, the other JV partner of PAFPL, is a part of the Ahmedabad-based Lalbhai group which was founded by Late Kasturbhai Lalbhai in 1931. The group is a diversified conglomerate having presence in textile, apparel retailing, engineering, waste-water treatment and real estate business. AFL, through its subsidiaries and JV, is engaged in the wholesale and retailing of several owned and licensed branded apparels in India. AFL discontinued many of its loss-incurring brands during FY20-FY22 and has decided to focus on its six key brands (TH, U.S. Polo, Arrow, Flying Machine, CK and Sephora) with an aim to improve its

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

profitability. Post discontinuation of operations of most of its loss-incurring apparel brands along with benefit of operating leverage, its profitability and return on capital employed (ROCE) improved in FY23 and Q1FY24. The consolidated bank debt (excluding LC backed creditors and lease liability) of AFL stood at around ₹598 crore as on March 31, 2023 as compared to ₹502 crore as on March 31, 2022.

Established brands with global identity: TH is one of the world's leading designer lifestyle brands and is internationally well-recognised. TH has built a strong global brand awareness and recognition due to its quality apparel, accessories and lifestyle products at accessible price points through its widespread distribution network. The TH brand portfolio primarily includes Tommy Hilfiger, Hilfiger Collection, Tommy Hilfiger Tailored, Tommy Jeans and Tommy Sport. CK is another iconic global lifestyle brand in its portfolio. The CK brand portfolio primarily includes Calvin Klein, Calvin Klein Jeans, Calvin Klein Underwear and Calvin Klein Performance.
Global retail sales for products sold under TH and CK brands were approximately USD 9.1 billion and USD 9.3 billion respectively during CY23 (CY; refers to the period from January 31, 2022 to January 29, 2023) (the figure represents sales from franchisees, licensees and other stores to end customers). PVH Corp earned revenues of USD 4.7 billion and USD 3.8 billion for the year ended January 29, 2023 from TH and CK brand business respectively. The performance of PVH Corp is significantly driven by TH and CK brand portfolio as TH and CK together contribute over 90% of PVH Corp's consolidated revenue.

Established operations of PAFPL along with widespread distribution network: PAFPL sells apparels, accessories and other products under the 'Tommy Hilfiger' and 'Calvin Klein' trademarks in India. These products are sold through exclusive stores which are either exclusive brand outlets (EBOs) through company-operated stores and franchisee stores, stores in stores (SIS), exclusive counters or sections for TH and CK products in stores like Shoppers Stop, Lifestyle, Central mall, Pantaloons, etc. and outlet stores (discount stores for TH and CK products).
As on March 31, 2023, PAFPL had a total of 458 stores (283 for TH and 175 for CK) spread across India which includes 158 EBO, 288 SIS and 12 outlet stores having an aggregate retail space of 2.98 lakh square feet (LSF). The opening of new stores and closure of old stores is an on-going exercise depending upon the performance of the stores. Net reduction in total number of stores in past two years ended FY23 was mainly due to large reductions in SIS along with few reductions in EBO. CARE Ratings Limited (CARE Ratings) expects net addition of EBO in FY24.

Growth in total operating income with significant improvement in profitability: During FY23, PAFPL's TOI grew by more than 50% over FY22 mainly due to like to like (LTL) growth of around 9% along with revenue from new stores. Growth in revenue was supported by strong domestic demand for TH and CK apparel apart from increase in sales from adjacent categories and accessories. Operating profitability is mainly a function of sales volume, being very high gross margin business. With growth in sales, PBILDT margin improved from 15.36% in FY22 to 17.60% in FY23. With largely stable depreciation charge and interest cost, net profit and gross cash accruals (GCA) increased by more than 50% during FY23 over FY22.
During Q1FY24, TOI of PAFPL grew by 33% over Q1FY23 with PBILDT margin of 16.49% (Q1FY23: 14.29%). CARE Ratings expects PAFPL to achieve annual revenue growth of 10%-15% while maintaining its healthy operating profitability (PBILDT) margin in the range of 15-17% in the medium term.

Comfortable leverage and debt coverage indicators and strong return ratio: As on March 31, 2023, capital structure of the company marked by overall gearing ratio and TOL/ TNW continued to remain comfortable at 0.39x (PY: 0.24x) and 1.50x (PY:1.27x) respectively. The company does not have any term debt while working capital borrowings remained NIL as on March 31, 2023 backed by strong cashflow from operations and tight working capital management. Moreover, debt coverage indicators marked by interest coverage ratio and total debt to PBILDT also continued to remain comfortable at 13.04 (PY: 6.74x) and 0.63x (PY: 46x) respectively in FY23. CARE Ratings expects leverage and debt coverage indicators to remain comfortable in the medium term. Furthermore, ROCE of the company improved significantly to 47% in FY23 from 22% in FY22 and it is expected to remain at around 40% in the medium term.

Favourable long-term growth prospects of branded apparel business: The fashion retail sector has been facing demand slowdown due to inflationary pressures while demand improvement is expected from upcoming months with the onset of the festive season. Notwithstanding the near-term challenges in terms of inflationary pressures, the trend of increasing urbanisation is likely to augur well for the branded apparel segment's long-term growth prospects in India. In the long term, the organized apparel retail market is likely to exhibit good growth due to expectation of increased consumer spending driven by changing demographic profile, high brand consciousness, rising income and purchasing power, increasing number of dual income-nuclear families, changing lifestyle and consumer behaviour.

Liquidity: Strong

PAFPL has strong liquidity marked by current ratio of 1.70x as on March 31, 2023 and strong cashflow from operations leading to NIL utilization of working capital borrowings for the trailing 12 months ended June 2023 (as against 10% for the 12 months ended June 2022). PAFPL had cash and cash equivalents of nearly ₹157 crore as on March 31, 2023 which reduced to nearly ₹70 crore as on June 30, 2023 post dividend payment of nearly ₹99 crore to JV partners in Q1FY24. Despite dividend payment, PAFPL's liquidity is expected to remain strong backed by strong generation of cash flow from operations, available liquidity in forms of undrawn working capital limits and cash and cash equivalents and relatively lower capex. Furthermore, absence of fixed term debt repayment obligation continues to provide cushion to its liquidity.

Key weaknesses

Inherent working capital intensive operations; albeit efficient working capital management: The operating cycle of PAFPL remains elongated on account of its higher inventory holding requirement and receivable associated with wholesale business. Due to long lead time involved in procurement of the imported apparels and seasonality associated with the apparel retailing business coupled with a wide range of products, PAFPL has a high inventory holding requirement which results in a longer inventory holding period. Furthermore, it is required to provide one-two months of credit to its wholesale customers (franchisees as well as departmental stores and online players) resulting in working capital intensive operations for PAFPL. The same get negated to an extent by extension in the credit period offered by the vendors of PVH. The operating cycle improved from 159 days in FY22 to 126 days in FY23 supported by significant improvement in collection period. Improvement in collection period over past few years is supported by increase in share of B2C sales coupled with higher debtor collection efficiency.

Intense competition and susceptibility to volatile raw material prices: PAFPL continues to face intense competition from other premium apparel brands like Louis Phillipe, U.S. Polo, Gucci, Guess, DKNY, Raymond, Park Avenue, Color Plus, Zodiac, Indian Terrain, etc. and it is also inherently vulnerable to changes in fashion trends, consumer spending habits as well as economic cycles. Furthermore, large expansion by retailers lead to pressure on their PBILDT margin as earnings from existing stores do not adequately offset gestation losses from high proportion of new stores added. Notwithstanding, PAFPL continues to remain a key player in the premium semi-casual wear segment in the country due to its established brands. It is learnt from the company's management, TH and CK are in top two positions in their respective category in the country. Furthermore, the volatility in input prices (primarily cotton) may impact the performance of PAFPL going forward given its large inventory holding.

Susceptibility to foreign exchange rate fluctuation and changes in import duty structure: PAFPL imports nearly 50% of its total requirement of readymade garments and accessories. As articulated by the company management, it hedges over 90% of its foreign currency exposure through forward contract booking; however, it remains susceptible to foreign currency fluctuation risk on its balance un-hedged exposure. Furthermore, due to competitive pricing environment, it is difficult for PAFPL to pass on any increase in import duty to its customers which may also impact the profitability.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Retail
Wholesale Trading
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Diversified Retail

PAFPL was incorporated on March 31, 2011 in the name 'Premium Garments Retail Private Limited'. Later, its name was changed to Calvin Klein Arvind Fashion Private Limited (CKAFPL) from May 19, 2016. The name of the company was rechristened to its present form i.e. PAFPL on September 09, 2020 post amalgamation of Tommy Hilfiger Arvind Fashion Private Limited (THAFPL) into CKAFPL. PAFPL is a 50:50 joint venture between PVH, USA [through its wholly-owned subsidiary PVH B.V.] and AFL.

The company is engaged in wholesale trading and marketing of licensed products under the brand TH and CK including retail trading for TH brand in India. During FY23, majority of PAFPL's revenue was contributed by TH which accounted for 61% of total revenue whereas the balance 39% was contributed by CK.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	670	1,024	279
PBILDT	103	180	46
PAT	62	101	25
Overall gearing (times) @	0.24	0.39	NA
Interest coverage (times)	6.74	13.04	NA

A: Audited UA: Unaudited; NA: Not available; @ including lease liability in debt; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	129.00	CARE A; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT *	129.00	CARE A; Positive	-	1)CARE A; Stable (26-Aug-22)	1)CARE A; Stable (14-Mar-22) 2)CARE A; Negative (14-Dec-21) 3)CARE A; Negative (20-Aug-21)	1)CARE A; Negative (11-Nov-20)

*Long-term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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