

Arvind Lifestyle Brands Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	18.95 (Reduced from 54.24)	CARE A; Stable	Revised from CARE A- (CE); Positive
Long-term / Short-term bank facilities	437.50 (Reduced from 500.50)	CARE A; Stable/ CARE A1	Revised from CARE A- (CE); Positive/ CARE A2+ (CE)
Short-term bank facilities	131.80 (Enhanced from 112.40)	CARE A1	Revised from CARE A2+ (CE)

Details of instruments/facilities in Annexure-1.

Unsupported Rating	Withdrawn
---------------------------	-----------

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Arvind Lifestyle Brands Limited (ALBL) takes into account the change in analytical approach adopted by CARE Ratings Limited (CARE Ratings) for assessment of credit profile of ALBL. The analytical approach is revised as the credit enhancement structure available on the rated bank facilities does not fully comply with Reserve Bank of India's guidance note and FAQs on bank loan – credit enhanced ratings. The revision in the ratings also takes cognisance of improvement in operating and financial performance of ALBL on combined level [i.e. ALBL and its subsidiary, Arvind Youth Brands Private Limited (AYBPL; rated: CARE A-; Stable/ CARE A2+)] during FY23 aided by growth in revenue and turnaround in performance of its Arrow brand, leading to improvement in the overall profitability and thereby significantly contributing to consolidated profitability of Arvind Fashions Limited (AFL; rated: CARE A; Stable/ CARE A1) in FY23 (refers to period April 01 to March 31). The revision in the ratings also factors expectation of further improvement in operating and financial performance over the medium term, thus leading to sustained improvement in profitability, debt coverage indicators and return on capital employed (ROCE).

The ratings of ALBL continue to derive strength from its strategic importance to its parent, AFL, due to its portfolio of apparel brands with pan-India retail presence across multiple sales channels. The ratings further derive strength from ALBL being part of the Ahmedabad based 'Lalbbhai' group which has a track record of over a decade in the apparel brands and retail business.

The above rating strengths are, however, tempered by net loss incurred by ALBL on combined level during H1FY24 apart from sub-optimal scale of some of the brands which results in moderate profitability. The ratings also continue to remain constrained on account of its presence in a highly competitive fashion retail industry which is vulnerable to changes in fashion trends, consumer preferences and economic cycles.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained double digit growth in its total operating income (TOI) along with improvement in its PBILDT margin to more than 16% and ROCE of more than 20% on a sustained basis.
- Gross working capital cycle improving to around 180 days on sustained basis along with company maintaining adequate liquidity cushion.
- Improvement in the credit profile of its parent i.e. AFL.

Negative factors

- Decline in its PBILDT margin below 8% on a sustained basis leading to moderation in debt coverage indicators and ROCE.
- Inability to improve its cash flow from operations from FY24.
- Dilution in shareholding or support from parent and/or deterioration in the credit profile of its parent i.e. AFL.

Outlook: Stable

Stable outlook reflects that ALBL will continue to benefit from the extensive experience of its parent, AFL. Moreover, the financial risk profile of ALBL is also likely to sustain over the medium term with expectations of improved scale of operations and profitability with no major debt funded capex plan.

Analytical approach

CARE Ratings has analysed the combined profile of ALBL (standalone) and its majority owned subsidiary i.e. AYBPL, along with considering the linkages with its parent company, AFL.

The analytical approach is revised as the credit enhancement structure available on the rated bank facilities does not fully comply with Reserve Bank of India's guidance note and FAQs on bank loan – credit enhanced ratings.

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

Detailed description of the key rating drivers:

Key strengths

Part of the Ahmedabad-based Lalbhai Group with experienced and qualified management

ALBL 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. Arvind Limited (Arvind; rated 'CARE AA-; Stable/ CARE A1+'), the flagship company of the group, is one of India's leading vertically-integrated textile companies having presence of more than eight decades in the industry. ALBL is a wholly owned subsidiary of AFL. Post its demerger from Arvind; AFL got separately listed on the stock exchanges on March 08, 2019. Shareholders of Arvind became shareholders of AFL post demerger. The management team of ALBL includes Shailesh Chaturvedi (Managing Director and Chief Executive Officer of AFL) and Girdhar Chitlangia (Chief Financial Officer of AFL).

Strategic importance to its parent company, AFL

During FY23, revenue and PBILDT of ALBL on combined level accounted for 59% and 49% of AFL's consolidated revenue and PBILDT respectively. Moreover, the strong brand portfolio of ALBL also makes it important for AFL to grow its business. AFL has infused over ₹700 crore in past three years ended FY22 (₹50 crore in FY20, ₹325 crore in FY21 and ₹350 crore in FY22). CARE Ratings expects AFL to maintain its controlling equity stake in ALBL and support operations of ALBL.

Strong brand portfolio of own and licensed international apparel brands

ALBL discontinued many of its loss-incurring brands over the past few years. The company completed closure of most of its loss-incurring brands and has decided to focus on its three key brands (U.S. Polo, Arrow and Flying Machine) with an aim to improve its profitability. ALBL does wholesale and retailing of all these brands except for Arrow where wholesale sales are done by AFL and retail sales are done by ALBL. The licenses of these existing international apparel brands are long term/perpetual in nature. Furthermore, the existing brands have been major revenue driver for the company over past few years and it is expected to continue in medium to long term. Historically, higher growth momentum of some of these brands has led to healthy PBILDT margin thus driving the overall profitability of ALBL.

ALBL's brand portfolio encompasses various segments like men's wear, women's wear, kids wear, inner wear, footwear and accessories; albeit it is skewed towards men's wear. The company has also built dedicated team for its adjacent categories (footwear, inner wear, kids wear, women wear and accessories). Going forward, the management plans to increase its sales in adjacent categories within its existing brands to grow its revenue. During Q2FY24, the company launched women wear line under U.S. Polo through online channels.

Wide distribution network with presence across multiple sales channels

ALBL has a strong distribution network with 881 exclusive brand outlets (EBOs) as on March 31, 2023. ALBL's brands are sold through multiple sales channels such as its retail store network, through wholesale to Multi Brand Outlets (MBO) and large departmental stores as well as through online retailers like Flipkart, Myntra and Amazon in addition to its own website NNNOW.com. ALBL has integrated its offline stores and warehouse inventory to NNNOW.com and third-party online platforms to create 'one-view of inventory' which refers to access to the inventory of all the stores apart from the online inventory. As on March 31, 2023, over 80% of ALBL's stores were omni-channel enabled. The sales mix changed during FY23 with decline in share of online sales as consumer shift back towards offline shopping as impact of COVID-19 subsided.

Net profit in FY23 after reporting net losses during past three years ended FY22 with expectation of further improvement in profitability

Performance of ALBL was significantly impacted in FY20, FY21 and H1FY22 due to loss of sales and provisions arising out of Covid-19 disruption, curtailing its sales in the wholesale channel coupled with loss on discontinued brands. Despite steps taken for cost reduction by management, ALBL on combined level reported aggregate net loss of around ₹1,030 crore in FY20, FY21 and FY22. However, the cash losses during FY20, FY21 and FY22 were funded by non-debt fund infusion from its parent, AFL apart from proceeds from stake sale to Flipkart in AYBPL and proceeds of ₹167 crore from sale of its value-retail 'Unlimited' store assets.

With gradual recovery in sales, ALBL witnessed an improvement in revenue and profitability in FY23 over FY22. TOI of ALBL on combined level grew by over 50% during FY23 on y-o-y basis. ALBL also witnessed gradual increase in share of full price sales across brands and lower discounting which coupled with improvement in performance of 'Arrow' brand, discontinuation of loss-making brands and benefits of operating leverage aided improvement in profitability. Subsequently, ALBL reported net loss of ₹2 crore in FY23 on combined basis.

During FY23 and H1FY24, combined sales and profitability of ALBL was impacted by slowdown in demand mainly for value segment due to inflationary pressures along with consumer shift towards offline shopping. Additionally, sales and profitability during H1FY24 was impacted by higher advertising spend and festive shift towards Q3FY24.

Revenue of ALBL is expected to grow by 10-12% in near to medium term supported by strong market position of its apparel brands, increase in sales from adjacent categories, addition of new stores, improvement in performance of 'Arrow' and 'flying Machine' brands and increase in store efficiency. Operating profitability is mainly a function of sales volume, being very high gross margin (around 45%) business. Growth in sales supported by steps taken by management to rationalise its brand portfolio and stores network is expected to improve overall profitability to 10-13% (post-Ind AS 116 basis) in the near to medium term. With improvement in profitability coupled with improvement in operating cycle and release of capital employed in loss incurring operations, ALBL achieved ROCE of nearly 10% in FY23 and it is expected to reach 24% by FY26.

Improvement in capital structure and debt coverage indicators

The capital structure of the company marked by overall gearing ratio (including lease liability) and TOL/ TNW remained largely stable at 1.89x (PY: 1.54x) and 3.42x (PY:3.28x) respectively as on March 31, 2023. During November 2023, AFL sold its entire stake in Arvind Beauty Brands Retail Private Limited (ABBRP, retailing of Sephora brand) to Reliance Beauty and Personal Care Limited at consideration of ₹99 crore and enterprise value of ₹216 crore. Subsequently, AFL reduced its consolidated debt level (excluding lease liability and acceptances) by more than ₹150 crore during November 2023. Out of debt reduction at consolidated level, large part of external debt reduced by ALBL supported by ICDs from AFL.

With improvement in operating performance coupled with reduction in debt level, the debt coverage and leverage indicators of ALBL are expected to improve during FY24. The overall gearing (including lease liability) is expected to improve to below unity by March 2026. Moreover, the debt coverage indicators marked by total debt to PBIDLT which improved in FY23 to 4.53x (PY: 9.77x), is further expected to improve in FY24 and remain below 4x in FY24.

Liquidity: Strong

The operations of ALBL have been highly working capital intensive due to requirement of large inventory holding in its retail business and extension of credit to its wholesale/online channels. However, ALBL has taken various steps to improve inventory turnover and collection period. The gross operating cycle which elongated to nearly 438 days in FY21 mainly due to COVID-19-induced pandemic, improved to 222 days in FY23 supported by various steps taken by management to improve collection period, inventory turnover and store efficiency.

ALBL has strong liquidity at a combined level marked by significant reduction in working capital borrowings and expectation of healthy cash flow from operations in the medium term. The average utilisation of fund-based working capital limits of ALBL stood at 86% during the trailing 12 months ended September 2023. During November 2023, ALBL reduced working capital borrowings by over ₹100 crore supported by ICDs from AFL. Furthermore, CARE Ratings expects cash accruals of around ₹60 crore as against relatively low term debt repayment obligation of around ₹28 crore due in FY24. CARE Ratings also factors in the promoters' strong commitment and track record to provide need-based support to the company.

Key weaknesses

Operating performance exposed to economic down-cycles

The retail clothing and apparel industry has heavy dependence on the disposable income of its customer segment and is susceptible to economic cycles because of the discretionary nature of purchases. The retail clothing and apparel industry is facing demand slowdown mainly in value segment due to inflationary pressures and demand improvement is expected from H2FY24 with the onset of the festive season.

Highly competitive branded apparel retail industry which exerts pressure on profitability margins

The apparel retail sector in India is highly competitive with presence of many domestic and international brands as well as foray of large corporates like the TATA group, the Reliance group and the Aditya Birla group into apparel retail segment. ALBL faces tough competition from the private label brands of its established distributors. Some of the brands of ALBL are still at nascent stage and operate at sub-optimal scale which results in moderate profitability. Furthermore, large expansion by retailers lead to pressure on their PBIDLT margin as earnings from the existing stores do not adequately offset gestation losses from high proportion of new stores added. However, a strong brand portfolio could help ALBL in managing the increasing competition in a better manner.

Being in the retail business, ALBL has to continuously invest in order to revamp its existing stores as well as for opening of new stores. However, ALBL has gradually increased its focus on franchisee stores from FY20 onwards whereby share of the company-operated stores in total stores decreased. Also, most of the store expansion going forward is planned to be done through franchisee route, thereby limiting the capex requirements.

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](#)

[Short Term Instruments](#)

[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

ALBL was originally incorporated in February 1995 under the name of Arvind Telecom Ltd. by the Ahmedabad-based Lalbhai group. The name of the company was changed to ALBL in June 2008. ALBL is a wholly-owned subsidiary of AFL. The brand portfolio under ALBL includes some of the key national and international apparel brands like Arrow, Flying Machine and US Polo. ALBL does wholesale and retailing of all these apparel brands except for Arrow where wholesale sales are done by AFL while retail sales are done by ALBL. AYBPL, a majority owned subsidiary of ALBL, incorporated on February 27, 2020, is engaged in the business of wholesale and retail trading of "Flying Machine" brand.

Brief combined financials of ALBL # (₹ crore)	FY22 (UA)	FY23 (UA)	H1FY24 (UA)
Total operating income	1,709	2,600	1,230
PBILDT	91	230	113
PAT from continuing operations	(136)	(1)	(23)
PAT from continuing operations and discontinued operations	(269)	(2)	(23)
Overall gearing (times) @	1.54	1.82	NA
Interest coverage (times)	0.95	2.02	1.99

UA: Unaudited; NA: Not available; @ including lease liability in debt; # combined financials of ALBL and AYBPL; 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-Term loan	-	-	-	March 2025	18.95	CARE A; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	420.00	CARE A; Stable/ CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	-	17.50	CARE A; Stable/ CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	130.00	CARE A1
Non-fund-based - ST-Credit exposure limit	-	-	-	-	1.80	CARE A1
Un Supported rating-Un Supported rating (LT/ST)	-	-	-	-	0.00	Withdrawn

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/Non-fund-based-LT/ST	LT/ST*	420.00	CARE A; Stable/ CARE A1	-	1)CARE A- (CE); Positive/ CARE A2+ (CE) (06-Dec-22)	1)CARE A- (CE); Stable/ CARE A2+ (CE) (14-Mar-22) 2)CARE A- (CE); Negative/ CARE A2+ (CE) (14-Dec-21) 3)CARE A- (CE); Negative/ CARE A2+ (CE) (06-Aug-21)	1)CARE A- (CE); Negative/ CARE A2+ (CE) (29-Sep-20) 2)CARE A- (CE); Negative/ CARE A2+ (CE) (30-Apr-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	17.50	CARE A; Stable/ CARE A1	-	1)CARE A- (CE); Positive/ CARE A2+ (CE) (06-Dec-22)	1)CARE A- (CE); Stable/ CARE A2+ (CE) (14-Mar-22) 2)CARE A- (CE); Negative/ CARE A2+ (CE) (14-Dec-21) 3)CARE A- (CE); Negative/ CARE A2+ (CE) (06-Aug-21)	1)CARE A- (CE); Negative/ CARE A2+ (CE) (29-Sep-20) 2)Provisional CARE A- (CE); Negative/ CARE A2+ (CE) (30-Apr-20)
3	Fund-based - LT-Term Loan	LT	18.95	CARE A; Stable	-	1)CARE A- (CE); Positive (06-Dec-22)	1)CARE A- (CE); Stable (14-Mar-22) 2)CARE A- (CE); Negative (14-Dec-21) 3)CARE A- (CE); Negative (06-Aug-21)	1)CARE A- (CE); Negative (29-Sep-20) 2)CARE A- (CE); Negative (30-Apr-20)
4	Non-fund-based - ST-BG/LC	ST	130.00	CARE A1	-	1)CARE A2+ (CE) (06-Dec-22)	1)CARE A2+ (CE) (14-Mar-22) 2)CARE A2+ (CE) (14-Dec-21) 3)CARE A2+ (CE) (06-Aug-21)	1)CARE A2+ (CE) (29-Sep-20) 2)CARE A2+ (CE) (30-Apr-20)
5	Non-fund-based - ST-Credit Exposure Limit	ST	1.80	CARE A1	-	1)CARE A2+ (CE) (06-Dec-22)	1)CARE A2+ (CE) (14-Mar-22) 2)CARE A2+ (CE) (14-Dec-21) 3)CARE A2+ (CE) (06-Aug-21)	1)CARE A2+ (CE) (29-Sep-20) 2)CARE A2+ (CE) (30-Apr-20)
6	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	1)CARE A-/ CARE A2+ (06-Dec-22)	1)CARE BBB+/ CARE A2 (14-Mar-22) 2)CARE BBB+/ CARE A2 (14-Dec-21) 3)CARE BBB+/ CARE A2 (06-Aug-21)	1)CARE A-/ CARE A2+ (29-Sep-20) 2)CARE A-/ CARE A2+ (30-Apr-20)

*Long term/Short 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-Term loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Sr. No.	Name of the Instrument	Complexity Level
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Credit exposure limit	Simple
5	Un Supported rating-Un Supported rating (LT/ST)	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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saiikat.roy@careedge.in	Analytical Contacts Hardik Manharbhai Shah Director CARE Ratings Limited Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Krunal Pankajkumar Modi Associate Director CARE Ratings Limited Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in Akshay Dilipbhai Morbiya Assistant Director CARE Ratings Limited E-mail: akshay.morbiya@careedge.in
--	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in