Arvind Fashions Limited

August 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	20.51 (Reduced from 30.26)	CARE A; Stable	Reaffirmed
Long-term/Short-term bank facilities	160.00 (Enhanced from 145.00)	CARE A; Stable/ CARE A1	Reaffirmed
Short-term bank facilities	17.50	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Arvind Fashions Limited (AFL) continue to derive strength from AFL being part of the Ahmedabad-based Lalbhai group, which has a track record of over a decade in apparel brands and retail business, AFL's strong brand portfolio of owned and licensed international brands, PAN-India retail presence across multiple sales channel and diversified revenue mix; albeit concentrated towards men's wear. Ratings also factor profitable track record of two years ended FY24 (refers to April 01 to March 31) with expectation of further improvement in profitability. Rating further considers satisfactory return on capital employed (ROCE), capital structure and debt coverage indicators which are expected to remain healthy due to controlled working capital cycle and steady profitability along with discontinuation of loss-making 'Sephora' business.

However, rating strengths are tempered by its modest profitability as some of AFL's brands operate at sub-optimal scale and 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) and improvement in its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to over 16% and ROCE of over 20% on a sustained basis.
- Sustained improvement in its total debt to PBILDT (TD/PBILDT) below 2x.
- Maintaining gross working capital cycle at around 180 days on a sustained basis and maintaining adequate liquidity cushion.

Negative factors

- Decline in its PBILDT margin below 10% on a sustained basis leading to moderation in its TD/PBILDT above 3.5x and ROCE below 12%.
- Significantly lower-than-envisaged cash flow from operations.

Outlook: Stable

Stable outlook reflects that AFL is likely to maintain its market position supported by strong brand portfolio. AFL's financial risk profile 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: Consolidated

CARE Ratings Limited (CARE Ratings) considered AFL's consolidated financials for its analytical purpose, which includes financials of its subsidiaries/joint venture (JVs). The list of subsidiaries/JVs consolidated in AFL is placed in **Annexure-6.**

Detailed description of key rating drivers:

Key strengths

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

AFL 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 group's flagship company is one of the India's leading vertically integrated textile companies having presence of over eight decades in the industry. Post its demerger from Arvind; AFL got separately listed on stock exchanges on March 08, 2019. The Lalbhai family of Arvind is the largest shareholder in AFL.

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

Sanjay Lalbhai is the Chairman of AFL while his sons, Punit Lalbhai and Kulin Lalbhai, are non-Executive Directors on the company's board. AFL's management team includes Shailesh Chaturvedi (Managing Director and Chief Executive Officer [CEO]) and Girdhar Chitlangia (Chief Financial Officer). AFL's board comprises eminent industry experts, including Nilesh Shah and Nithya Easwaran.

Strong brand portfolio of own and licensed international apparel brands

AFL discontinued many of its loss-incurring brands in the last few years. The company completed closure of most of its loss-incurring brands and decided to focus on its five key brands (Tommy Hilfiger, U.S. Polo, Arrow, Flying Machine and Calvin Klein) with an aim to improve its profitability. Licenses of these existing international apparel brands are long term/perpetual. Existing brands have been major revenue driver for the company over past few years and is expected to continue in medium to long term. Historically, higher growth momentum of some of these brands led to healthy PBILDT margin thus driving AFL's overall profitability.

AFL's brand portfolio is positioned across various price points and fashion styles although more focused towards casual wear. It also encompasses various segments like men's wear, women's wear, kids wear, inner wear, footwear and accessories; albeit skewed towards men's wear. The company has a dedicated team for its adjacent categories (footwear, inner wear, kids wear, women wear and accessories), which has supported revenue of around ₹600 crore from adjacent categories in FY24. Adjacent categories account for over 15% of the revenue for some brands. Going forward, the management plans to increase its sales in adjacent categories within its existing brands to improve demographic presence. In Q2FY24, AFL launched women wear line under U.S. Polo through online channels.

Wide distribution network with presence across multiple sales channels

AFL has a strong distribution network with 931 exclusive brand outlets (EBOs) having total retail space of 10.72 lakh square feet (LSF) as on March 31, 2024. AFL's brands are sold through multiple sales channels such as retail store network, through wholesale to Multi Brand Outlets (MBO) and large departmental stores and through online retailers like Flipkart, Myntra and Amazon in addition to its own website NNNOW.com and uspoloassn.in. AFL 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, 2024, nearly 90% stores were omni-channel enabled.

Profitable track record of two years with expectation of further improvement in profitability

AFL reported an aggregate net profit of ₹195 crore in the last two years ended FY24 after reporting net losses for the immediately trailing three years ended FY22. AFL witnessed gradual increase in share of full price sales across brands and lower discounting, improvement in performance of 'Arrow' brand, discontinuation of loss-making brands and benefits of operating leverage aided improvement in profitability in recent past. In FY23 and FY24, AFL's consolidated sales and profitability impacted by slowdown in demand mainly for value segment due to inflationary pressures and consumer shift towards offline shopping. Additionally, profitability in FY24 was impacted by higher advertising spend. Despite challenging demand environment, AFL could increase its revenue in FY24 on y-o-y and improvement in profitability supported by increase in share of full price sales across brands and lower discounting.

In Q1FY25, AFL's revenue grew by 10% over Q1FY24 with over 100 bps improvement in PBILDT margin despite muted demand scenario. AFL's revenue is expected to grow by 10-12% over 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 13-15% (post-Ind AS 116 basis) in the near-to-medium term. With improvement in profitability, improved operating cycle and release of capital employed in loss incurring operations, AFL achieved ROCE of nearly 16% in FY24 and is expected to reach around 25% by FY26.

Satisfactory capital structure and debt coverage indicators

The company's capital structure marked by overall gearing ratio (including lease liability) and total outside liabilities (TOL)/ tangible net worth (TNW) remained satisfactory and largely stable at 1.37x (PY: 1.55x) and 2.31x (PY: 2.74x), respectively, as on March 31, 2024. In November 2023, AFL sold its entire stake in Arvind Beauty Brands Retail Limited (ABBRL; retailing of Sephora brand) to Reliance Beauty and Personal Care Limited at enterprise value of ₹213 crore.

Despite extra ordinary cashflow from sale of equity stake in ABBRL, total debt (including lease liability and acceptances) level of AFL remained largely stable as on March 31, 2024 over March 31, 2023 mainly due to increase in gross operating cycle and reduction in creditors during the year.

With improvement in operating performance and reduction in debt level, CARE Ratings expects AFL's debt coverage and leverage indicators to improve in FY25. Overall gearing (including lease liability) is expected to fall below unity by March 2025. Debt coverage indicators marked by TD/PBIDLT, which improved in FY24 to 2.73x (PY: 3.09x), is expected to improve and remain below 2.5x in FY25.

Liquidity: Strong

AFL's operations 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, AFL has taken steps to improve inventory turnover and collection period. The company's gross operating cycle which elongated to nearly 400 days in FY21 mainly due to COVID-19 pandemic, improved to 197 days in FY24 (FY23: 174 days) supported by steps taken by the management to improve collection period, inventory turnover and store efficiency.

AFL has strong liquidity at a consolidated level marked by undrawn working capital limits, unencumbered cash and bank balance and positive cashflow from operations. In FY24, cash flow from operations stood at ₹278 crore (FY23: ₹149 crore). On a standalone level, AFL's average utilisation of fund-based working capital limits stood at around 54% in the 12 months ended May 2024, while average utilisation of fund-based limits of Arvind Lifestyle Brands Limited (ALBL; its major subsidiary) stood at 70% for the same period. As on June 30, 2024, on consolidated level, AFL had unutilised working capital limits of over ₹350 crore apart from cash and bank balance of around ₹200 crore thereby providing liquidity cushion.

Key weaknesses

Operating performance exposed to economic down-cycles

Retail clothing and apparel industry has heavy dependence on the disposable income of its customer segment and is susceptible to economic cycles because of discretionary purchases. Retail clothing and apparel industry is facing subdued demand for value segment and online channel, which had an impact on its overall performance.

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 and foray of large corporates like TATA group, Reliance group and Aditya Birla group. AFL faces tough competition from private label brands of its established distributors. Some of AFL's brands 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 PBILDT margin as earnings from existing stores do not adequately offset gestation losses from high proportion of new stores added. However, a strong brand portfolio could help AFL in managing the increasing competition.

Being in the retail business, AFL has to continuously invest to revamp its existing stores and for opening new stores. The company is focusing on franchisee led expansion thereby limiting its capex requirements. With expectations of generating higher free cash flow, thereby further improving ROCE and return on equity. AFL has planned capex of ₹100-120 crore per annum in FY25-FY26, which is expected to be funded through internal accruals.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	• AFL shifted 80% of its electricity consumption in the corporate office to renewable sources and has plan to shift 50% of its energy consumption in warehouse operations to renewable sources by 2025. The company introduced motion sensor lights in their warehouse premises. These lights automatically adjust illumination levels based on occupancy, reducing electricity consumption by up to 30%. • AFL introduced certain SKUs, which has a blend of sustainable cotton and manufactured using non-hazardous chemicals in the washing process.
Social	• AFL introduced the 'responsible sourcing guidelines' for its finished goods vendors, which contain minimum sustainability and compliance standards that its vendors are expected to meet and good practices that may be adopted.
Governance	• AFL's board of directors consists 50% independent directors (6 out of 12). • There are separate Codes of Conduct for Board Members and senior management personnel. • Various policies, including whistle blower policy, is in place, considering the requirement.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Retail](#)
[Short Term Instruments](#)
[Wholesale Trading](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

AFL was originally incorporated in January 2016 as Arvind J&M Limited, and its name was changed to its current form in October 2016. It is a part of the Ahmedabad-based Lalbhai group and earlier used to be a 90% subsidiary of Arvind with the balance stake being held by Multiples Private Equity Fund. Post business restructuring undertaken within the Arvind group, AFL got demerged and was separately listed on the stock exchange on March 08, 2019. Arvind's shareholders became AFL's shareholders post demerger. AFL, through its two wholly-owned subsidiaries, one JV and two step-down subsidiaries, is engaged in the wholesale and retailing of owned and licensed branded apparels in India. However, its wholly-owned subsidiary, ALBL, has major contribution to AFL's consolidated revenue, profitability and debt profile.

Brief details of businesses conducted by AFL and its subsidiaries/JV:

Company Name	Business activities
AFL@	Wholesale of licensed brand 'Arrow'
ALBL - 100% subsidiary of AFL	Wholesale and retailing of U.S. Polo and retailing of Arrow
Arvind Youth Brands Private Limited (AYBPL) - nearly 40% equity stake held directly by AFL and balance equity stake held by AFL through its 100% subsidiary ALBL	Wholesale and retailing of own brand 'Flying Machine'
PVH Arvind Fashion Private Limited (PAFPL) - 50% JV between AFL and PVH Corp, USA	Wholesale trading of 'Tommy Hilfiger' (TH) and 'Calvin Klein' branded apparels, accessories and retail trading for TH brand
Value Fashion Retail Limited – wholly-owned by ALBL	Non-operational

@ In November 2023, AFL sold its entire stake in Arvind Beauty Brands Retail Private Limited (ABBRL, retailing of Sephora brand) to Reliance Beauty and Personal Care Limited.

Brief Consolidated Financials (₹ crore)	FY23 (A) ^	FY24 (A)	Q1FY25 (UA)
Total operating income	4,421	4,259	962
PBILDT	472	525	123
PAT from continuing operations	88	107	14
PAT from continuing operations and discontinued operations	87	137	14
Overall gearing (times) @	1.55	1.37	NA
Interest coverage (times)	3.05	3.36	3.23

A: Audited; ^ including financials of ABBRL in continuing operations; UA: Unaudited; NA: Not available; 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: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 2026	20.51	CARE A; Stable
Fund-based-LT/ST	-	-	-	-	160.00	CARE A; Stable/ CARE A1
Non-fund-based - ST-Working capital limits	-	-	-	-	17.50	CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based-LT/ST	LT/ ST	160.00	CARE A; Stable/ CARE A1	-	1)CARE A; Stable/ CARE A1 (05-Jan-24)	1)CARE A-; Positive/ CARE A2+ (06-Dec-22)	1)CARE A-; Stable/ CARE A2+ (14-Mar-22) 2)CARE A-; Negative/ CARE A2+ (14-Dec-21) 3)CARE A-; Negative/ CARE A2+ (06-Aug-21)
2	Fund-based - LT-Term loan	LT	20.51	CARE A; Stable	-	1)CARE A; Stable (05-Jan-24)	1)CARE A-; Positive (06-Dec-22)	1)CARE A-; Stable (14-Mar-22) 2)CARE A-; Negative (14-Dec-21) 3)CARE A-; Negative (06-Aug-21)
3	Non-fund-based - ST-Working capital limits	ST	17.50	CARE A1	-	1)CARE A1 (05-Jan-24)	1)CARE A2+ (06-Dec-22)	1)CARE A2+ (14-Mar-22) 2)CARE A2+ (14-Dec-21) 3)CARE A2+ (06-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based-LT/ST	Simple
3	Non-fund-based - ST-Working capital limits	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries/JVs of AFL

Name of the Company	% shareholding of AFL as on March 31, 2024	Consolidation
Arvind Lifestyle Brands Limited	100%	Fully consolidated
PVH Arvind Fashion Private Limited (erstwhile Calvin Klein Arvind Fashion Private Limited) (JV)	50%	Fully consolidated
Arvind Youth Brands Private Limited (AYBPL) @	68.75%	Fully consolidated
Value Fashion Retail Limited*	100%	Fully consolidated

@Held by Arvind Lifestyle Brands Limited and Arvind Fashions Limited; Post conversion of Compulsory Convertible Preference Shares (CCPS), Flipkart to have 31.25% stake in AYBPL post conversion

* Held by Arvind Lifestyle Brands Limited

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Krunal Pankajkumar Modi Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Akshay Dilipbhai Morbiya Assistant Director **CARE Ratings Limited** Phone: +91-79-4026 5619 E-mail: akshay.morbiya@careedge.in Naman Doshi Analyst **CARE Ratings Limited** E-mail: naman.doshi@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.

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