Arvind Lifestyle Brands Limited

August 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	22.46 (Enhanced from 18.95)	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	437.50	CARE A; Stable/ CARE A1	Reaffirmed
Short-term bank facilities	131.80	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Arvind Lifestyle Brands Limited (ALBL) continue to derive strength from its strategic importance to its parent, Arvind Fashions Limited (AFL; rated: 'CARE A; Stable/ CARE A1'), due to its portfolio of apparel brands with pan-India retail presence across multiple sales channels. Ratings further derive strength from ALBL being part of the Ahmedabad-based 'Lalbhai' group, which has a track record of over a decade in the apparel brands and retail business. Ratings also factor expectation of improved operating performance on combined level [ALBL and its subsidiary, Arvind Youth Brands Private Limited (AYBPL; rated: CARE A-; Stable/ CARE A2+)] in the medium term with recovery in consumer demand especially for most impacted value segment.

However, rating strengths are tempered by its presence in a highly competitive fashion retail industry, which is vulnerable to changes in fashion trends, consumer preferences and economic cycles. CARE Ratings Limited (CARE Ratings) also takes cognisance of lower-than-envisaged profitability in FY24 (FY refers to period April 01 to March 31) due to temporary impact on its operating profitability due to from one-time inventory markdown and aggressive advertisement and marketing spend in AYBPL. The operating profitability was also impacted by continued subdued demand for value segment and online channel and sub-optimal scale of some of the brands. Profitability is expected to improve from FY25 with expected growth in revenue and normalisation of advertisement and marketing expenses against revenue thus leading to sustained improvement in profitability, debt coverage indicators and return on capital employed (ROCE).

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.
- Gross working capital cycle improving to around 180 days on sustained basis and 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 return on capital employed (ROCE).
- Inability to improve its cash flow from operations on a sustained basis.
- 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 extensive experience of its parent, AFL. ALBL's financial risk profile is also likely to sustain in 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, and considering linkages with its parent company, AFL.

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

Detailed description of key rating drivers:

Key strengths

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

ALBL is 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 businesses. Arvind Limited (Arvind; rated 'CARE AA-; Stable/ CARE A1+'), the group's flagship company, 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 was separately listed on stock exchanges on March 08, 2019. Shareholders of Arvind became shareholders of AFL, post demerger. ALBL's management team 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

In FY24, ALBL's revenue and PBILDT, on combined level, accounted for 51% and 49% of AFL's consolidated revenue and PBILDT respectively. ALBL's strong brand portfolio also makes it important for AFL to grow its business. AFL has infused over ₹700 crore in FY20-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 in the last few years. The company completed closure of most of its loss-incurring brands and decided to focus on its three key brands (U.S. Polo, Arrow and Flying Machine) to improve its profitability. ALBL does wholesale and retailing of these brands, barring Arrow, where wholesale is managed by AFL and retail sales by ALBL. Licenses of these existing international apparel brands are long term/perpetual in nature. Existing brands have been major revenue driver for the company in the last few years and is expected to continue in the medium to long term. Historically, higher growth momentum of some of these brands led to healthy PBILDT margin, driving ALBL's overall profitability.

ALBL's brand portfolio encompasses various segments such as men's wear, women's wear, kids wear, inner wear, footwear and accessories; albeit being 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. In 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 its brand being sold through multiple sales channels such as its retail store network, through wholesale to Multi Brand Outlets (MBO) and large departmental stores and through online retailers such as Flipkart, Myntra and Amazon in addition to its own website NNNOW.com and uspoloassn.in. ALBL integrated its offline stores and warehouse inventory to NNNOW.com and third-party online platforms to create 'one-view of inventory', which allows access to inventory across stores apart from online inventory. As on March 31, 2024, nearly 90% of ALBL's stores were omni-channel enabled. Sales mix changed in the last two years ended FY24 with declining share of online sales as consumer shift back towards offline shopping as impact of COVID-19 subsided.

Improvement in standalone profitability with expectation of further improvement

Post COVID-19, with gradual recovery in sales, ALBL's revenue and profitability improved since the last two years ended FY24. On a combined level, ALBL's TOI for FY24 remained largely stable over FY23. ALBL also witnessed increase in share of full price sales across brands, lower discounting, improvement in performance of 'Arrow' brand and benefits of operating leverage aided improvement in profitability during the year. ALBL reported PBILDT of ₹268 crore in FY24, which grew from ₹230 crore in FY23. Despite improvement, combined operating profitability in FY24 was impacted by continued subdued demand for value segment and online channel, sub-optimal scale of some of the brands apart from one-time inventory markdown and aggressive advertisement and marketing spend in AYBPL. Subsequently, ALBL reported net loss of ₹15 crore in FY24 (FY23: ₹2 crore) on combined basis. As informed by the management, ALBL increased advertising expenses despite muted demand in the near term having long-term focus.

Revenue of ALBL is expected to grow by 10-12% in the 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, normalisation of advertisement and marketing expenses 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 11-13% (post-Ind AS 116 basis) in the near to medium term.

Satisfactory capital structure and debt coverage indicators
The company's capital structure marked by overall gearing ratio (including lease liability) and total outside liabilities to tangible net worth (TOL/TNW) remained satisfactory and largely stable at 2.09x (PY: 1.89x) and 3.47x (PY: 3.42x) 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 an enterprise value of ₹213 crore. Debt (including lease liability and acceptances) level of ALBL have increased 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 improved operating performance, stabilisation in debt level and no major plans for capex in medium term, the debt coverage and leverage indicators of ALBL are expected to improve in FY25. The overall gearing (including lease liability) is expected to improve to below unity in medium term. Moreover, the debt coverage indicators marked by total debt to PBIDLT which remained largely stable in FY24 over FY23 at 4.59x (PY: 4.53x), is further expected to improve in FY25.

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 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 258 days in FY24 (FY23: 222 days) supported by steps taken by management to improve collection period, inventory turnover and store efficiency.
ALBL has strong liquidity at a combined 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 ₹105 crore (FY23: ₹10 crore). On a standalone level, ALBL's average utilisation of fund-based working capital limits stood at around 70% in the trailing 12 months ended May 2024. As on June 30, 2024, on combined level, ALBL had unutilised working capital limits of over ₹200 crore providing liquidity cushion. 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
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. Retail clothing and apparel industry is facing subdued demand for value segment and online channel which had an impact of 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. ALBL faces tough competition from private label brands of its established distributors. Some of ALBL'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 ALBL in managing the increasing competition.
Being in the retail business, ALBL has to continuously invest to revamp its existing stores and for opening new stores. ALBL has gradually increased its focus on franchisee stores from FY20 onwards whereby share of the company-operated stores in total stores decreased. The company is focusing on franchisee led expansion limiting its 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

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 se 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 wholesale and retail trading of "Flying Machine" brand.

Brief combined financials of ALBL # (₹ crore)	FY23 (UA)	FY24 (UA)
Total operating income	2,600	2,519
PBILDT	230	268
PAT from continuing operations	(1)	(14)
PAT from continuing operations and discontinued operations	(2)	(15)
Overall gearing (times) @	1.82	2.21
Interest coverage (times)	2.02	2.12

UA: Unaudited; NA: Not available; # combined financials of ALBL and AYBPL; @ including lease liability in debt; Note: these are latest available financial results

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	-	-	-	May 2027	22.46	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

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/Non-fund-based-LT/ST	LT/ ST	420.00	CARE A; Stable/ CARE A1	-	1)CARE A; Stable / CARE A1 (05-Jan-24)	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)
2	Fund-based/Non-fund-based-LT/ST	LT/ ST	17.50	CARE A; Stable/ CARE A1	-	1)CARE A; Stable / CARE A1 (05-Jan-24)	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)
3	Fund-based - LT-Term Loan	LT	22.46	CARE A; Stable	-	1)CARE A; Stable (05-Jan-24)	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)
4	Non-fund-based - ST-BG/LC	ST	130.00	CARE A1	-	1)CARE A1 (05-Jan-24)	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)
5	Non-fund-based - ST-Credit Exposure Limit	ST	1.80	CARE A1	-	1)CARE A1 (05-Jan-24)	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)
6	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ ST	-	-	-	1)Withdrawn (05-Jan-24)	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)

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/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Credit exposure limit	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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 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 detailed Rationale Report and subscription information,
please visit www.careedge.in