PVH Arvind Fashion Private Limited

September 17, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	129.00	CARE A+; Stable	Revised from CARE A; Positive

Details of facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of PVH Arvind Fashion Private Limited (PAFPL) consider improved operating and financial performance in FY24 (FY refers to April 01 to March 31) and Q1FY25 (UA). Revenue and profit before interest, lease rentals, depreciation and taxation (PBILDT) improved on y-o-y basis leading to improved net profit and cash accruals in this period, which remained better than envisaged. With improved profitability and tight working capital management, return on capital employed (ROCE) continued to remain strong at ~47% in FY24. Revision in the rating also takes cognisance of improved credit profile of joint venture (JV) partners PVH Corporation Limited (PVH Corp) and Arvind Fashions Limited (AFL; rated: CARE A; Stable/ CARE A1) as reflected from improvement in their profitability and leverage parameters.

The rating of PAFPL continues to derive strength from its parentage of the USA-based PVH (through its wholly owned subsidiary PVH B.V.) and the India-based Arvind group through AFL, strong brand identity arising from global presence of its 'Tommy Hilfiger' (TH) and 'Calvin Klein' (CK) apparel brands, and its established operations in India through a widespread distribution network. The rating also factors its comfortable capital structure, debt coverage indicators and favourable long-term growth prospects for the Indian apparel retail industry.

Owever, the rating of PAFPL constrained considering inherent working capital intensive operations owing to high inventory holding requirement and profitability susceptible 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 constrains its rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its total operating income (TOI) with improvement in PBILDT margin of more than 20% while maintaining ROCE of more than 25% on a sustained basis.
- Curtailment of gross working capital cycle to ~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 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, factoring strengths of its JV partners (PVH Corp and AFL)

Outlook: Stable

Stable outlook reflects that PAFPL is likely to maintain its market position supported by strong brand portfolio. PAFPL's financial risk profile is also likely to sustain in the medium term with expectations of improved scale of operations and profitability, maintaining strong ROCE.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful JV partners

The 50% JV partner in PAFPL, PVH is a leading American clothing company and owner of brands including Tommy Hilfiger, Calvin Klein, True & Co., Warner's, and Olga. PVH group's key focus is to acquire brands and grow them globally through wholesale, retail, e-commerce, and licensing channels. Through its subsidiaries, PVH, 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 US$ 9.22 billion with PBIT of US$ 0.93 billion for the year ended February 04, 2024.

The other JV partner of PAFPL, AFL 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 business. Through its subsidiaries and JV, AFL is engaged in the wholesale and retailing several owned and licensed branded apparels in India. AFL discontinued many of its loss-incurring brands over the years and decided to

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

focus on five key brands (TH, U.S. Polo, Arrow, Flying Machine, and CK) to improve its profitability. Post discontinuation of operations of most of its loss-incurring apparel brands and benefit of operating leverage, its profitability and ROCE improved in FY24 and Q1FY25. AFL's consolidated bank debt (excluding LC backed creditors and lease liability) stood at ~₹467 crore as on March 31, 2024, compared to ₹598 crore as on March 31, 2023.

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 US$ 9 billion each in CY24 (refers to January 30, 2023, to February 04, 2024; the figure represents sales from franchisees, licensees and other stores to end-customers). PVH Corp earned revenues of US$ 4.83 billion and US$ 3.92 billion for the year ended February 04, 2024, from TH and CK brand business respectively. PVH Corp's performance is significantly driven by TH and CK brand portfolio as TH and CK together contribute over 90% of its consolidated revenue.

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 such as Shoppers Stop, Lifestyle, Central mall, and Pantaloons, among others, and outlet stores.

As on March 31, 2024, PAFPL had a total of 529 stores (328 for TH and 201 for CK) spread across India, including 174 EBO, 343 SIS and 12 outlet stores having an aggregate retail space of 3.20 lakh square feet (LSF). Opening of new stores and closure of old stores is an on-going exercise, depending on store performance. Having sufficient liquidity, PAFPL acquired many stores of TH from Franchise owners in FY24, which provided better profitability and return. CARE Ratings Limited (CARE Ratings) expects PAFPL to open ~50 stores in FY25 and enable ~75 stores for omni-channel by the end of FY25.

Sustained growth in TOI with improvement in profitability, which remained better than envisaged

PAFPL's TOI grew at compound annual growth rate (CAGR) of 41% in the last five years ended FY24 and grew by over 20% in FY24 over FY23 mainly due to like-to-like (LTL) growth of 6-7% and revenue from additional stores. Growth in revenue was supported by strong domestic demand for TH and CK apparel and increase in sales from adjacent categories and accessories. Gross margin improved by 250 bps in FY24 backed by lower discounting and full sales pass through. With growth in sales and increase in share of company-operated stores in TH brand, PBILDT margin improved by 169 bps to 19.28% in FY24. Despite increase in lease rental (part of depreciation charge and interest cost) associated with higher company operated stores, profit after tax (PAT) and gross cash accruals (GCA) improved to ₹137 crore (FY23: ₹101 crore) and ₹152 crore (FY23: ₹115 crore) respectively in FY24.

In Q1FY25, PAFPL's TOI grew by 12% over Q1FY24 with PBILDT margin of 20.45% in Q1FY25 (Q1FY24: 16.49%). CARE Ratings expects PAFPL to achieve annual revenue growth of 10-15% while maintaining its healthy operating profitability (PBILDT) margin in the range of 16-18% in the medium term; better than earlier envisaged.

Comfortable leverage and debt coverage indicators and strong return ratio

As on March 31, 2024, the company's capital structure marked by overall gearing ratio and total outside liability to tangible net worth (TOL/TNW) continued to remain comfortable at 0.41x (PY: 0.39x) and 1.40x (PY:1.62x) respectively. The company does not have term debts while working capital borrowings remained NIL as on March 31, 2024, backed by strong cashflow from operations and tight working capital management. The company's total debt only consists of lease liabilities.

Debt coverage indicators marked by interest coverage ratio and total debt to PBILDT also continued to remain comfortable at 13.55x (PY: 13.04x) and 0.56x (PY:0.63x) respectively in FY24. CARE Ratings expects leverage and debt coverage indicators to remain comfortable in the medium term. ROCE continued to remain strong at ~47% in FY24 and it is expected to remain over 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. This, and regular network expansion, is expected to lead to an estimated 10-15% growth in revenue in the medium term. Value segment of fashion retail is mainly impacted by

inflationary pressure, while premium and super premium segment continues to witness demand growth. Notwithstanding near-term challenges, 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 organised 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 1.87x as on March 31, 2024, and strong cashflow from operations leading to NIL utilisation of working capital borrowings for 12-months ended June 2024. PAFPL had cash and cash equivalents of ₹139 crore as on March 31, 2024, which remained at largely similar level as on August 31, 2024, post dividend payment of nearly ₹100 crore to JV partners in Q2FY25. Despite dividend payment, PAFPL's liquidity is expected to remain strong backed by strong generation of cash flow from operations, available liquidity in the form of undrawn working capital limits and cash and cash equivalents and relatively lower capex. 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

PASPL's operating cycle remains elongated considering 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 and a wide range of products, PAFPL has a high inventory holding requirement which results in a longer inventory holding period. It is required to provide 1-2 months of credit to its wholesale customers (franchisees and departmental stores and online players) resulting in working capital intensive operations. This get negated to an extent by extension in the credit period offered by the vendors of PVH.

Operating cycle remained in the range of 125-160 days in the last three years ended FY24. Improved collection period in the last few years is supported by increase in share of B2C sales and higher debtor collection efficiency.

Intense competition and susceptibility to volatile raw material prices

PAFPL continues to face intense competition from other premium apparel brands such as Louis Phillipe, U.S. Polo, Gucci, Guess, DKNY, Raymond, Park Avenue, Color Plus, Zodiac, and Indian Terrain, among others, and it is also inherently vulnerable to changes in fashion trends, consumer spending habits and economic cycles. 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. 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. Input price volatility (primarily cotton) may impact PAFPL's performance going forward given its large inventory holding.

Susceptible to foreign exchange rate fluctuation and changes in import duty structure

PAFPL imports over 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. Due to competitive pricing environment, it is difficult for PAFPL to pass on increase in import duty to its customers, which may also impact profitability.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Retail
Wholesale Trading

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'. Its name changed to Calvin Klein Arvind Fashion Private Limited (CKAFPL) on May 19, 2016. The company was rechristened to its present name 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 licensed products under the brand TH and CK including retail trading for TH brand in India. In FY24, 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)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	1,024	1,242	313
PBILDT	180	240	64
PAT	101	137	33
Overall gearing (times) @	0.39	0.41	NA
Interest coverage (times)	13.04	13.55	13.58

A: Audited UA: Unaudited; NA: Not available; @ 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

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	129.00	CARE A+; Stable

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 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-Cash Credit	LT	129.00	CARE A+; Stable	-	1)CARE A; Positive (28-Aug-23)	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)

LT: 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 lender-wise details of bank facilities please click here

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.

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About us:

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