ARVIND FASHIONS LIMITED

A MEMBER OF THE LALBHAI GROUP

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August 08, 2024

To,
BSE Limited
Listing Dept. / Dept. of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Security Code : 542484
Security ID : ARVINDFASN

To,
National Stock Exchange of India Ltd.
Listing Dept., Exchange Plaza, 5th Floor
Plot No. C/1, G. Block
Bandra-Kurla Complex
Bandra (E)
Mumbai - 400 051

Symbol : ARVINDFASN

Dear Sir/Madam,

Subject: Earning call Transcript with Analysts and Investors for the quarter ended June 30, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please refer below link of transcript of conference call arranged by the company with analysts and investors on Friday, August 02, 2024 for post announcement of Financial Results for the quarter ended June 30, 2024.

On the website of the company:

Path: https://www.arvindfashions.com/overview/

Title: Earnings Call Transcript Q1 FY-25

This is for your information and records.

Thanking you,

Yours faithfully,

For Arvind Fashions Limited

Lipi Jha
Company Secretary

Q1 FY2025 Earnings Call Transcript – Aug 2, 2024

CORPORATE PARTICIPANTS

- Shailesh Chaturvedi – Managing Director & CEO
- Girdhar Chitlangia – Chief Financial Officer
- Ankit Arora – Head, Investor Relations and Treasury

Moderator: Ladies and gentlemen, good day, and welcome to Arvind Fashions Limited Q1 FY25 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Arora – Head, Investor Relations & Treasury at Arvind Fashions Limited. Thank you, and over to you, sir.

Ankit Arora: Thanks Viya. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the first quarter ended June 30, 2024. I am joined here today by Mr. Shailesh Chaturvedi, our Managing Director and CEO and Mr. Girdhar Chitlangia, Chief Financial Officer.

Please note that result press release and earnings presentation had been mailed across to you yesterday and these are also available on our website www.arvindfashions.com. I hope you had the opportunity to browse through the highlights of the performance. We will commence the call today with Shailesh covering the business highlights and financial performance. At the end of management discussion we will have a Q&A session.

Before we start, I would like to remind you that some of the statements made or discussed on this call today may be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A detailed statement of these risks is available in this quarter's earnings presentation. The company does not undertake to update these forward-

looking statements publicly. With that said, I would now turn the call over to Shailesh to share his views. Thank you and over to you Shailesh.

Shailesh Chaturvedi: Thanks, Ankit. Good afternoon, everyone.

There's all round good performance at AFL in Q1 FY25, with double-digit revenue growth, 1.5% like-to-like retail growth, 80 basis points increase in GP which has flown into EBITDA and EBITDA has grown by 100 basis points with value growth of nearly 20% in EBITDA. All in all, very satisfying results under tough market conditions. NSV in Q1 is 955 crores and EBITDA is 123 crores.

Markets have been subdued for a while and this quarter saw impact of elections, peak heat wave and fewer wedding dates which impacted traffic across offline and online channels. But we are pleased that Q1 results have been in line with our guidance with growth going up from levels of Q4 as we had indicated and there is 100 basis points increase in EBITDA.

We have seen growth across brands and in every channel. There is growth in volume as well as in price realization. A key highlight was control on discounting where we delayed EOSS to end of June, while industry had been discounting by mid-June.

You may recall that we had adjusted our primary billing of spring-summer goods for wholesale channels, with billing being lower to MBO and department store in Q4 earlier and now we supply goods at the right time, closer to the summer season in Q1, which led to healthy growth of more than 15% in wholesale channels in this quarter. After few quarters of de-stocking in online channel, Q1 saw healthy growth in online business with both revenue and channel profitability seeing healthy uptick. There is handsome growth in online direct-to-consumer business that has grown

more than 60% year-on-year and delivered higher channel profitability as well. We are making wholehearted investment behind online business with the right hygiene to gain from its traction.

GP has moved up to 55.2%, a gain of 80 basis points with dual benefit of better price realization as well as lower, more efficient product cost. With good sell-thru's and tight control on discounting, our price realization went up. It was also aided by efforts on premiumization where realization and sell- thru's are higher. This coupled with continued sourcing efficiency on product costs, we gained 80 basis points in GP. Most of these GP gain has flown into EBITDA which saw nearly 20% growth to Rs. 123 crores versus last year value of Rs. 103 crores.

On working capital front, Q1 saw stable GWC days. We were able to hold on to sell- thru's in SS'24 amidst very difficult market condition and ensure that there's no slippage in inventory. With tight control on inventory, business has grown by 10% with flat inventory value overall and delivering stock turns of four with lowering of inventory days by three days. With our asset light approach, ROCE has also gone up.

At brand level, all three super strong brands including Tommy Hilfiger, U.S. Polo Assn. and CK have delivered fantastic results once again, both in terms of top line and bottom line. I can clearly say that for all our brands, product overhaul in the last few years is paying dividends in difficult market conditions. Product lines are looking fresher with higher quality and delivering good sell- thru's. Tight control on inventories ensuring more freshness at counter and helping deliver better sell- thru's, good like-to-like growth and control discounting.

The highlight of Arrow business in this quarter was a mega marketing event with actor Hrithik Roshan in Mumbai, in association with GQ Publication.

This event promoted the Super Premium 1851 Line and we saw a really big impact of the event content on social media, with some posts reaching more than 10 million views.

The efforts to re-energize Flying Machine continues with new cool merchandise of Spring Summer ‘24, which is getting encouraging response from channels and consumers clearly seeing a healthy growth of FM and in online channel in Q1.

The key priority for FY25 is to focus on revenue growth. Our brands remain top of consideration set, are ready and prepared, and they benefit whenever market improves. They also benefit from the industry trend of casualization as most of our brands have leadership in casual segment. We continue to put energy behind each of our key growth drivers, including retail expansion, like-to-like store growth, premiumization, buildup of online direct B2C business and growth of adjacent categories.

Let me touch upon few growth drivers here, starting with retail network expansion:

We have added more than 40,000 square feet net of retail space in Q1 with opening of nearly 30 high quality stores. We remain committed to growing net retail space by around 15%, and hopeful of further acceleration of build-up in square footage in times ahead.

Another exciting aspect of store expansion has been opening of large flagship stores, especially in US Polo Association brand. We want to focus on few selected landmark locations so that we can showcase the entire range of fast-developing adjacent categories in these stores, including footwear, womenswear, kids wear and innerwear.

We opened such flagship stores of US Polo Association in Jayanagar, Bangalore, Indiranagar, Bangalore, Banjara Hills, Hyderabad, M.G. Road, Goa and C Road, Jodhpur. We are extremely excited by initial traction of the stores. They are tracking good numbers and are achieving targets.

We are also expanding square foot through innovative formats like Stride for footwear and accessories and Club A for full price premium retailing of our brands. Along with Club A store in Bangalore that we opened last year, we have opened two new Club A, one in Surat and another one at Lucknow Airport.

Growth of adjacent category also remains a key growth priority for AFL. The share of adjacent category like footwear, womenswear, kidswear, innerwear has crossed 20% revenue share of AFL and has grown in the last one year at double digit. In U.S. Polo Assn., share of adjacent category has been even higher at close to 30% because of higher investment in that marquee brand on adjacent category. While footwear, innerwear and kidswear have good scale, I am happy to confirm that the initial response to the new womenswear line in US Polo is also encouraging and the business has recorded high growth on a small base.

A lot of growth is linked to external market conditions and economic realities, but we remain hopeful that the growth in FY25 will be stronger and better than the growth we saw in previous financial year.

We hope for momentum to continue in months ahead with expectation of slightly better market condition. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Hi team, so congratulations on decent performance in tough times. So, my question is what explains the subdued SSG, which is a retail like-to-like growth while our format expansions continue at healthy pace, what explains on the 1.5% like-to-like retail sales growth?

Shailesh Chaturvedi: As far as like-to-like growth is concerned, while our normal expectation is above 5%, but in the current market condition, it would be a very satisfying number because we have seen in the industry, the like-to-like numbers are negative. While it could be higher, but because of the way the market conditions are, elections were a negative factor, there was a peak heat in May, which probably impacted walk-ins and also we delayed the EOSS because we may have lost some sort of revenue if we had gone with the industry, but we delayed the EOSS to last to protect our margin and sell-thru. So, overall, while markets are tough, I would say we have delivered a good like-to-like growth and many reasons behind that, because we renovated stores, there's been good response to our product stories, sell-thru's have been good and premiumization also is helping. So, I would answer the question that we have delivered very satisfying like-to-like in the current market conditions. Of course, it could be better, as the market improves and the walk-ins improve. But in the current environment, I think it's a satisfying like-to-like growth of 1.5%.

Priyank Chheda: So, now again, circling back to the same strategy where we have delayed our discounting for the want of controlled discounting, where we have delayed the participation in the EOSS. Now, currently our gross margins are at 55% and this has never been seen in the history of Arvind Fashions. But then what this is actually leading is the subdued growth or a subdued sales for a customer who used to have discounts in the history in Arvind Fashions brand. So, now we have gains on the gross margin, but then again we are

struggling back for the like-to-like business. So, how do we solve these two problems at the same time?

Shailesh Chaturvedi: See, I would say that early discounting, early EOSS is not a solution to anything frankly. It's a main problem in our industry. Now, what we have done over the last few years is to upgrade the product, upgrade the storytelling, upgrade the retail experience. So, today we are giving a very superior experience and significantly better experience than what we were delivering even two, three years ago. And we are hoping that the consumer will fall in love with our efforts and they will wait for us to buy. Our portfolios are very, very strong brands and I am sure they will remain top brands in their consideration, and they will wait for us to start our EOSS at the right time. But if you start giving discounting, then consumer will not buy full price and that's really the core issue in the industry and we are being very, very diligent on not sort of selling only at discount and we want to grow profitability, that has been a mantra that we will grow profitably and that's why our GP has gone up by 80 basis points and our realization has become better. So, market will realize that there will be some brands which will panic and give discount early, but the good brands will hold it. And I don't to take some of the competition name, but we are in line with the good brands. So, all the good brands also go on EOSS at the right time, we also go on EOSS at that time, but we don't want to panic and go early.

Priyank Chheda: Just wanted to know your thought process on the point, everyone seems to be rating downward in terms of the price points, create a marquee brands or create a value fashion as a whole of a category, which is emerging at a large size. So, consumer of course is spoiled for a lot of choices at a lower price point. So, is that also kind of impacting the brand positioning where we are right now, because we are not able to consume where the consumer price point where we are, while India is growing at a

premiumization trend, our retail SSG is a kind of a subdued. So, your thought process on a price point which are getting lower and the value fashion retail giving a tough competition to our kind of brand?

Shailesh Chaturvedi: See, we are quite competitively priced for the quality we give and the competitive set that we operate in. Our strategy in the last three years has been to focus on these five big brands and which are so big that consumer will make favorable purchase decision in favor of these. So, we are very watchful of the value that we offer, we must give superior product in a superior shopping environment online, offline and hopefully charge the right price, we are also looking at all the sourcing efficiency wherever possible. So, that's why if you look at this season, all our channels have grown even in this market condition, even if the pressure what you are mentioning. But I believe our brands are rightly priced and that's why we are able to hold on to our sell-thru's and able to increase our GP and EBITDA.

Priyank Chheda: Sure, last question. Arrow, if you can throw more light on what has been the profitability path over here -- are we on a journey for mid single digit margins by FY25? And on overall EBITDA margins, while YoY looks to be higher now, but what we have seen is because of the tough market conditions now last four quarters we are sliding down on the path of the EBITDA margins at the reported numbers versus the 500 basis points gain in the gross margins over the last three to four quarters. So, your judgment on the Arrow profitability and overall EBITDA margins going ahead from here?

Shailesh Chaturvedi: So, in the last couple of quarters, I've been explaining the strategy on Arrow and frankly, I will reiterate the same again that we made lot of changes in Arrow, we created new product lines to participate in

casualization, we created new line Arrow NewYork for the Gen Z customers. A couple of years back, we see almost 100 crores delta in EBITDA improvement, and it became a profitable brand at a low single digit EBITDA. Now, the last couple of quarters have been difficult and especially for the wedding brand and the formal brand. So, I said that Arrow remains in a low single digit brand and our first task is to take it to mid-single digit brand and in the current market condition believe the wedding dates are in the second half that the performance will improve and we are happy that it is where it is not losing money, gaining scale, it's gaining in new product lines, we launched the new retail entity of Arrow. So, we have done a lot of hard work for Arrow and we are now waiting for the market to improve a little bit. Now, in terms of the profitability in the medium term to go from low single digit to mid-single digit, it will need little more scale and that scale will come when the markets are little better, like-to-like growth improve in our store. So, we are doing all the things right. Hopefully, market improves. Currently, the wedding dates are a little low, the market conditions have been little muted. So, that impact is in the short run, but we are very hopeful that a strong brand like Arrow with all the good gains that we have done in the last two to three years, we will gain further and our journey towards mid-single digit EBITDA will happen. So, we remain confident. I am just hoping for markets to grow a little bit more.

Priyank Chheda: Kudos to your team and all the very best.

Moderator: Next question is from the line of Dhiraj Mistry from Antique. Please go ahead.

Dhiraj Mistry: Congrats on good set of numbers. My question is on online channel where you have grown by 60%. Can we say that the inventory correction which

you have taken over the last few quarters, it's now been done and we can expect normalized growth in online channel going ahead?

Shailesh Chaturvedi: We are very pleased with where we are in online and we have made lot of efforts to pivot the business from wholesale business to our own direct approach where we manage the whole experience from inventory to the pricing, to the cataloguing. So, that has really now started bearing fruits and that's the reason why the numbers have gone up. And there is a general traction in the channel, our brands are very, very strong. So, there is a good organic pickup happen that for our brands. So, we are very hopeful that the gain that we have seen, will stabilize and we'll hopefully go further and we'll continue to invest behind the online direct-consumer businesses and they will continue to grow.

Dhiraj Mistry: In terms of online profitability, how different it would be from our other channel business?

Shailesh Chaturvedi: It's fairly competitive and we have been very, very focused on profitable growth. So, the online profitability even this quarter has been very good. The channel profitability has gone up by a good percentage. So, we are very pleased with what we saw from both the revenue side and also from the channel profitability side from the online channel. So, it also depends on the market conditions, but our brands and our efforts are well placed to capitalize on the online business.

Dhiraj Mistry: But margin differential is material compared to general

Shailesh Chaturvedi: I mean, it's quite a healthy margin and we ensure that any growth is not going to be detrimental to our percentage profitability. We will ensure that growth is at similar than other channel or even higher, if possible.

Dhiraj Mistry: Again, on inventory in wholesale channel where we have witnessed 15% growth, which is quite encouraging. Is it any part of the growth is also because of the inventory buildup in this quarter, and it can normalize going ahead or we can assume that this is the normal course of inventory and wholesale channel as well?

Shailesh Chaturvedi: So, in fact, we are doing the reverse. We actually took a call to bill less inventory in the Q4. I mentioned that we delayed the launch because see, the weather pattern has shifted by almost a month, the peak winter happens in Jan, Feb and the summer sets in a little later now in April, May. So, we are trying to match our supply chain to the market realities and the season reality. So, we are holding back and that's why the invoice goes closer to the weather pattern, and I am sure because of that our sell-thru's will be very good and there's no build up before the season with the channels.

Dhiraj Mistry: Sir, one question on this minority interest, like in this quarter we had a reported PAT of 13.8 crores and then there is a minority interest goes somewhere around 12 to 13 crores. So, our entire profit has been gone as a minority interest. Any comment on that, whether it's more of this quarter phenomena or it should continue going ahead also?

Shailesh Chaturvedi: What happens is that there is a seasonality in different businesses and the PVH part benefit from premiumization. So, that's really helping. But we get a little more business in H2, in some other brands, the festivals and the wedding calendar, makes a little better difference. So, the profitability in non-PVH will also be good in the future. So, I think it will balance out.

Ankit Arora: Just to add, the comfort and the confidence which is what you should draw is the fact that if you look at our last year trend line also from Q1 to Q4 as to what Shailesh mentioned, we had even significantly large losses coming

in from Q1 and then it really build up on the non-PVH side of the portfolio and we are extremely confident that it will pan out the similar way if market conditions remain favorable as to what we have seen in Q1 and you should draw confidence that a significant improvement in the non-PVH side of the portfolio in Q1 has happened from the losses which is what we had in Q1 last year. And we expect this trend line on PAT. We are extremely focused on the bottom line and the mid line profitability. And if you will keep seeing this profitability improvement happening, you will see that translate into a disproportionate share coming in from non-PVH also going forward in FY25 and in the near to medium term as well.

Dhiraj Mistry: What we have been building like double digit top line growth and also 100 bps of margin expansion going for FY25 and despite subdued environment we have reported 100 bps of margin expansion. Is it a possibility to increase our guidance going ahead or we would maintain our guidance of 100 bps expansion and double-digit growth or early double digit growth?

Shailesh Chaturvedi: If you really take a step back and we had said that we are expecting a higher revenue growth compared to where we were at Q4 and we were at 5% and we have now delivered 10% and we remain optimistic that the growth will be higher than what was in the past and market conditions are muted, subdued & difficult. But we are very confident that our growth drivers are working, be it square foot expansion where a lot of efforts have gone, category expansion, online B2C business, premiumization, like-to-like, we are working hard to ensure that our growth drivers remain fully revved up and we continue to grow. Medium term, we would love the growth rates to move to 12% to 15%, but we are hoping for the market to correct, and we are also very watchful on profitable growth, we are not looking at just growth for the sake of growth, we are very careful that growth should bring efficiency in terms of improvement in EBITDA margin.

So, we are working hard. It all depends on the market conditions also and the economic realities, but we are in the short run confident that our job is to up the growth from five to high single digit, maybe double digit, and then as the market improves and as our scale comes larger, we will hopefully grow a little faster also. But in the short run, I would say our guidance should continue to be where we have mentioned to increase it from last year and we are working hard to ensure that happens.

Moderator: The next question is from the line of Shreyans Jain from Svan Investments. Please go ahead.

Shreyans Jain: Congratulations gentlemen on good set of numbers. Could you give us some sense on the channel, because I think you've given wholesale, retail, online. But just in terms of wholesale, could you help us understand how is MBO, how is departmental stores? And the same for online, if you can help us understand how is B2B and B2C? So, in the presentation also, if you could help us with this data going forward?

Shailesh Chaturvedi: Let me say the primary billing channel like MBO, department store, I mentioned that we have been trying to time it as closer to season, so that the stock turns don't get compromised and there's no buildup unnecessary before the season. So, that's why in this quarter all channels are growing, frankly, I mean wholesale or retail, every channel has grown in this quarter in terms of revenue and in terms of channel profitability, MBO grown really handsomely because of the shift and also our distribution expansion has been very aggressive, especially in the subscale brand like Flying Machine and Arrow where we will do open a lot more Shop-in-Shop and also our strong brand, U.S. Polo remains a preferred brand for any expansion of any mall or any MBO channel. So, MBO is doing well. Department store also we supplied goods in right time and seen good growth in our business and also

margin profile has been healthy in that channel. Retail, we mentioned that we grew like-to-like under really tough market conditions where a lot of other competitors have shown negative like-to-like, but we are decent and we have a good square foot expansion that's happening. So, we are looking at CAGR of 15% in square foot addition net. So, that channel is growing online. B2C has grown more than 60% and we are pivoting this business from wholesale and there the growth rates are coming down, but we are looking at overall healthy growth in online, from B2B pivoting towards B2C and the B2C is really firing and also the channel profitability also has gone up by good percentage. So, overall this season we have seen growth from wholesale as well as from retail channel. If you want any specifically double click, I am happy to give some color to that.

Shreyans Jain: Second is now everything is a power brand, right? So, if I have to understand, given your commentary, you're saying that weddings were lower, so obviously Arrow would be weak. If you can help us in the presentation itself, how is growth across Tommy, individual brand, if you're not comfortable with absolute numbers, but just some sense on what was the growth in each of the brands, it will be better for us to understand your numbers. Second part to this is sir, about 45,000-odd square feet you've added. So, if that also you can help us brand wise where you've been opening stores, are these EBOs, COCO a little more understanding on the store openings also brand wise would help us. My next question is on the gross margin. This, you said, retail was slightly weaker versus last year. And from what I understand the large part of our other expenses includes commission and brokerage, which is higher on the retail side, right? So, if I have to look at your other expenses in spite of retail being lower, our other expenses have gone up by about 8%-odd. So, I am just trying to understand what is the major shift that has happened here -- is it advertisement, is it freight? So, just more sense on the other opex bit.

Shailesh Chaturvedi: See, our retail has also grown, and it has grown overall, and it has grown in terms of like-to-like, so it's also grown in high single digit. The other expenses are actually in line or maybe slightly lower. So, there's no surprise there, there's no delta there in any way. It's in line with the growth of the business. And there's no other major expenses because all largely commission and commission is linked to the revenue growth, largely franchisee commission. So, it's in line with the growth. So, it's not higher than the growth. As far as GP is concerned, typically, retail channel delivers higher GP because the expenses come below. But this quarter what has happened is that retail has also grown, but the wholesale channels have grown slightly faster than retail, but overall the GP has gone up despite the channel revenue mix the way it is and that's coming from, like I said, better control on discounting, price realization, premiumization and also we have had good cost efficiency from sourcing. So, we got a dual benefit on price realization which is better and the costs which are more efficient. So, we got a good 80 basis points increase in GP despite retail being similar to the other channel. If retail had grown faster, the GP would have looked even higher than where it is today.

Ankit Arora: Just to add a couple of points to part of your question. One just to add on what Shailesh said on the GP side, please understand we are again growing margins despite us growing margins by about close to 100, 120 basis points last year. So, it's on that base. Of course, you need to look at in the context saying there is a general inflation on other expenses which remains and some portions or a large portion of expenses like royalty and other costs are variable in nature. So, you need to look at we have grown the sales at 10% and we have maintained a very, very sharp cost control on overhead which has only grown by 8%. That's how you are seeing the leverage coming through. So, that's on that. On the first part of your question on the brand wise, to be honest, it will be difficult for us to kind of give in the

presentation any specific data points because we are also bound by certain global confidential contract norm. Having said that, we try our best and Shailesh has tried his best in his opening commentary to kind of give you a color on a brand wise in a more qualitative way. But it will be difficult for us to kind of really quantify that and do that on Q-o-Q basis. Hope you understand on that front. Thank you.

Shreyans Jain: My last question is, sir, with the kind of improvement that we have seen in our margin and also Arrow now you're saying single digit, so for FY25, FY26, what is the kind of EBITDA that we should look at? Obviously I am not asking for an actual number, but just some sense on your direction, can we do like 100, 200 basis points improvement going forward now because you're saying discounting is lower, full price is higher and obviously retail growing faster than the other channels going forward, so what is your sense on this?

Shailesh Chaturvedi: See, our guidelines has been that we want to grow EBITDA by at least 100 basis points, even in the current really difficult market condition, we are committed and you look at this quarter also the EBITDA has gone up by 100 basis points and is now close to 13%. So, we work hard. In the current market environment, it will take a lot of efforts to deliver this, and we are delivering that, we are working hard. And that's why we focus on profitable growth, we are just not looking at growth for the sake of growth and we are only looking at growing businesses where we get commensurate profitability also. So, we are committed, to answer your question on EBITDA, how much will you grow, 100 basis points is our guidance also will depend on some market conditions, few basis points here and there. But that's our goal and our guidance remain to up the revenue growth and to grow EBITDA by 100 basis points.

Moderator: The next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale Thanks for the opportunity and congratulations on good set of numbers. Sir, my question is around Arrow and FM. So, when do you see these brands going at a higher growth, than consolidated levels?

Shailesh Chaturvedi: I've been giving commentary on our strategy on Arrow and Flying Machine in every quarter call and I will reiterate that these are the brands, they needed to be re-energized and that effort on Arrow started two years back with complete overhaul of the brand promise, the logo, the advertising, retail identity, we created a smart casual line called Arrow Sports, we created a Young formal workwear line called Arrow NewYork, and the premium line that we promoted, now 1851. So, a lot of the merchandise bricks are ready, lot of retail bricks have fallen in place, but still subscale and it needs to grow a little more and it needs to open probably many more stores in the country and that's what will take it to the place where we want in the short run from low single digit EBITDA to mid-single digit EBITDA. The markets have not been very favorable for formalish, workwear brands and wedding dates have also been low, it's a big blazer suits as a large business. So, that is a short term aberration, but we are very committed and market will improve and our square foot expansion will continue on Arrow also. So, we are seeing that Arrow will reach a certain point, will happen in the near term. As far as Flying Machine is concerned, that effort has started two seasons back. We changed the logo, we created new consumer promise for Gen Z, online first kind of a mindset. And recently when the new logo merchandise has gone this season spring-summer, we saw green shoots, we saw very good growth of Flying Machine in online channel, couple of new stores with the new identity we opened for example in Noida, in Mall of India. We are quite

happy with what we are seeing, and you will see in Diwali lot more intense efforts on Flying Machine to influence the consumer. So, maybe the Flying Machine journey is one year behind Arrow, but our three brands, Tommy Hilfiger, Calvin Klein and U.S. Polo are really well placed, market leader and they are doing really well financially, both in terms of top line growth and EBITDA growth and EBITDA percentage. Now, we focus is on Arrow and then Flying Machine to sort of grow their profitability and scale so that the overall portfolio delivers even better profitability.

Palash Kawale And sir, what was the A&P expense for Q1?

Ankit Arora: Sorry, we missed that. Which expense?

Palash Kawale A&P, advertisement and promotions.

Shailesh Chaturvedi: So, in Q1, typically it is slightly lower than 3% because the campaigns happens towards the end of season. So, we are in between that 3% to 4% spend, but for this quarter it was around 3%.

Palash Kawale And, sir congratulations on the profitability for the PVH brands. So, do you see like these margins growing further by like 100 or 150 basis points for PVH portfolio?

Shailesh Chaturvedi: It is the market leader and doing really well and also growing further, then the scale average again kicks in. So, I am sure it's doing really well, and it should continue to grow from here.

Palash Kawale Sir, what was the debt level by the end of Q1? And do you see like how much debt are you planning to pay this year?

Shailesh Chaturvedi: Our net debt was around 225 crores. There is a seasonality, next quarter it could go up by 50-odd crores here because we have to build the inventory

for the season and a bigger scale. But I think we will remain at this level and any free cash flow that we generate, we will try to pare down the debt level from that. So, I think we have been reducing our debt levels and that effort will continue.

Girdhar Chitlangia: Current net debt is about 225 crores, and yes this is impacted by seasonality as Shailesh said.

Palash Kawale Sir, if I look at online channel, what would be the contribution of online B2C right now and where do you see it stabilizing?

Shailesh Chaturvedi: Currently, in this quarter, the online contribution is slightly close to 25% and typically the B2B and B2C are more or less equal, but the way the trend is the B2C will keep growing faster and taking a higher share and that journey has already begun.

Moderator: The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.

Himanshu Nayyar: Hi team, thanks and congratulations on good performance in a tough environment. So, firstly, if you can you can throw some more color on the adjacent categories, how are they performing, whether they are still a drag on margins and what's the outlook going forward especially for footwear which had gotten impacted recently, if you can talk about that as well as the other key adjacent categories?

Shailesh Chaturvedi: Adjacent category development is one of the key growth drivers for our Company across all the brands. If I look at the overall share of adjacent categories like footwear, womenswear, kidswear, innerwear, this is at a Company level is more than 20% of AFL, and in the last 12 months that growth of this category has been double-digit and it's growing faster than the Company. As far as U.S. Polo is concerned, where we have invested

even more heavily and prioritized the adjacent category, the share is even closer to 30% there in U.S. Polo. So, that category expansion is working well. It's improving our store productivity, delivering like-to-like growth for us. So, it's a big, big sort of part of the way we are taking AFL forward. As far as the footwear results is concerned, there are some regulation changes, and we are in touch with the policymakers and we are making sure that our supply chain is geared for whatever the change required. So, we'll wait and watch, and we'll react to the realities based on the policies.

Himanshu Nayyar: But given that it's a large contribution now, just wanted to understand whether these adjacencies are a drag on your margins, basically whether the margins currently are lower than your apparel?

Shailesh Chaturvedi: I've said this in this call and I reiterate that we are focusing on profitable growth, we are not really looking for growth for sake of growth. So, we are very, very mindful, watchful sometime in some categories, we do invest ahead and it's important as an investment maybe on marketing side sometimes. What the data we have is clearly that adjacent category are not a drag on overall profitability and they will contribute to the profitability of brands and of AFL.

Himanshu Nayyar: Just like you gave the journey, your margin expectations on Arrow from low to mid single digits, would you have similar targets for the Flying Machine brand as well?

Shailesh Chaturvedi: FM is one year behind. We are just redoing the whole DNA for a long-term success of Flying Machine. So, FM is a one year behind Arrow in that journey.

Himanshu Nayyar: And a final bit was on the retail expansion which you said 15% area expansion is what we are looking at. So, are there any specific brands

where you'll be opening more EBOs or it will generally be across all the five, and any specific markets where you'll look to target, if you can share any color on that?

Shailesh Chaturvedi: All our brands are growing well, 15% sort of growth in square footage across the brand. But I would say the scope of opening more cities is in the non-PVH brands. So, U.S. Polo always has a much larger scope because every new mall in every town, small town, big town wants U.S. Polo as a key partner, right, as a key brand, any MBO that opens in any Tier-2 Tier-3 city also wants to have U.S. Polo in its shop. So, U.S. polo eventually has probably the maximum scope in the short run, but Arrow the way it is, I think it can take many more stores. Flying Machine, once we finish this whole reengineering of the brand promise, we see a lot of opportunity to grow. TH, CK also adding square footage just that where the standards are such that we'll be more mindful and be a little cautious on which town you go to… you can't go to Tier-3 city that easily as U.S. Polo and Arrow can go. So, it will be across, but doesn't matter, I mean, even the big cities, in the top cities, there are enough opportunities for growth in Tommy, CK also. Bangalore, for example saw three new malls in the last 12-months and all the three good malls have very nice stores of Tommy, CK also, and of course the non-PVH brands, not just in the big town but in smaller Tier-town also we can expand.

Himanshu Nayyar: So, should we take away given this aggressive 15% number, I mean, if you open 15% expansion plus we get to our targeted number of LTL, so are we in a way preparing ourselves for say, 15% to 20% growth in the retail part of the business at least?

Shailesh Chaturvedi: Our retail, if you look at last three years has grown quite well in double digit. But what happens is that when you open 15%, it doesn't actually

impact the same year number, it impacts the next year number, right. So, that's why in the short run impact is less and the stores settle down and then grow. Yes, it will fuel our growth, but not necessarily arithmetically the way you are looking at, and in the current market conditions, things are not easy. But if the market conditions improve and the stores started settling down soon, so it will only fuel growth and we are committed to the medium-term growth going to maybe 12% and maybe a little higher, but it will all depend on the external environment.

Himanshu Nayyar: Of course. I meant that in the medium term. Maybe once the environment improves, at least we are preparing ourselves for a 20% growth as well on the retail part.

Shailesh Chaturvedi: I would say 12% to 15% is the mantra and like I said earlier, we are very, very watchful on profitable growth. So, we are very careful on the kind of stores we sign, the quality of the stores, the need for making money soon. 20% number seems a bit on the higher side, I hope that number also happens, but in the current market environment and our whole focus on profitable growth, I think 12% to 15% in the medium term is a good guidance from our side.

Moderator: Next question is from the line of Gautam Rathi from CWC. Please go ahead.

Nishit: This is Nishit from CWC. Congratulations on great set of numbers and judos to the team for a great execution. I just wanted to run a thought process by you and just wanted to know if my thought is right, it's very visible given the scale that Tommy and CK are, and the profitability of Tommy and CK is very visible. And is my understanding is right, U.S. Polo should be a bigger brand than Tommy, CK, but we are seeding multiple things in U.S. Polo itself. Is it fair for us to assume that in the next year or a couple of years whenever, at some point of time, U.S. Polo will start delivering EBITDAs

and PAT closer to Tommy and CK and how far away from that? Firstly is that right to expect and then how far are we from that kind of performance?

Shailesh Chaturvedi: I couldn't agree more with you. U.S. Polo is a total powerhouse in our portfolio and a brand, we are very, very proud of, and we have really refreshed this brand in the last two years in terms of product, fashion flair, quality, retailing, marketing. So, you have seen closely how the brand is so strong brand and a market leader, coming closer to 2,000 crores scale. Tommy, CK are, yes, delivering very good financial matrices results on that. And U.S. Polo is very close and it's also double digit pre IndAS EBITDA brand of scale that we are talking about. So, in medium term, I can say confidently it will be a similar profitability brand whether it's EBITDA or PBT or PAT, whatever level that you see. There is some work-in progress. I would say short term to medium term will definitely deliver similar percentage on financial matrices that Tommy, CK are doing, I don't have doubt on that. Of course, market conditions can impact.

Nishit: I fully appreciate that you've just started the journey of reinventing and reinvesting in the brand also last year. But that's very heartening to say that it's not very far away and you expect it to get there. And the second big distraction which we are unable to, because it's very apparent your work in Tommy and CK is showing up very, very apparently, right. What is kind of not fully getting appreciated is because of the non-PVH part of it is not really showing up and that's where, one, is this U.S. Polo you are saying it will come back, and second is the drag which is there in both Arrow and Flying Machine, you called them out and you said there is a journey and a path to it. But now the final destination is at some point of time where if you could give some kind of a guideline, is it one year, two years, three years, let's say in three years, is it fair to assume that both these brands will

also be at least a PAT-positive, because again then what will happen is you will have all the brands delivering positively to the PAT.

Shailesh Chaturvedi: No, I couldn't agree more to you, Nishit, because U.S. Polo is a powerhouse and what we are doing the way consumers are responding to that, the way channel is responding to that, it's a powerhouse both internal scale, profitability, the free cash flow that it has the potential to generate in the short run itself. So, I mean, if I look at two buckets, Tommy, CK and the second bucket of U.S. Polo, I couldn't agree more to what you're saying. Comes to the third point on Arrow and FM, yes, in next two years, three years depends on the market condition we will be in mid single digit EBITDA for sure and at that level there will not be a drain at a PAT level, etc., So, it's a fair assumption to believe given market condition that we should look at that scenario that we will have no major drain at a PAT level or PBT level from Arrow and FM and the Tommy, CK and U.S. Polo should continue to deliver good financial results.

Nishit: That's very heartening and very good to hear, Shailesh. Last point, we understand it's a tough market scenario. Have you seen anything for you to believe that the market condition has worsened from what we were in Q1 or is it getting slightly better, can you give us some kind of qualitative from whatever you've seen from the last 30 days you've seen in the first half? I know it's very, very early, but just qualitatively are you seeing things get better, getting worse or is it kind of what we were?

Shailesh Chaturvedi: Markets have been difficult for a couple of quarters. Summer, there were some specific issue linked to elections for example. The global warming or warming in India is the reality, May saw that. The markets are sort of challenging and subdued currently. I am believing that in the short run, they remain subdued, but maybe slightly better than they have been in the

last year, and also the way we are geared up because once you assess the market correctly and know that markets are tough, then you react, and that's why lot of our growth engines are delivering better, and we are very confident that whatever happens to the market condition, our growth will be higher than what they were at the Q4 FY'24 and this quarter we delivered whether it's a high single digit or if market improves one or two percentage more, but markets are challenging but we are hopeful that we could get a little better because, for example, last year there was a Cricket World Cup in peak of Diwali, we had five weekends with India cricket. They are not going to happen in this Diwali, right? I mean that World Cup is over. So, maybe we'll get some better benefits from that in the remaining months of this year. So, we'll wait and watch and see. It's tough to predict, but more than the market condition, I would say we are very committed to improve on the revenue growth from what it was at Q4 FY'24 and we are working hard for high single digit and in good time maybe 10% revenue growth.

Moderator: The next question is from the line of Jatin Sangwan from Berman Capital. Please go ahead.

Jatin Sangwan: I observed that our interest expenses has increased from 35 crores to 38 crores. So, what caused this?

Ankit Arora: Jatin, it's largely on account of non-IndAS entry, because on the Tommy, CK side of the business as to what we have been maintaining in the previous calls, we have been opening on the Tommy side, the COCO stores, so it's only causing that our real interest cost has actually moved down both on a Q-o-Q and Y-o-Y basis

Jatin Sangwan: But this change is not much reflected in depreciation; it's like 59 crores to 61 crores.

Ankit Arora: So, it's a mix of both on the interest and depreciation, because as to what you would understand when you open a new store, there is a component of interest, which is what largely goes up and then that's how it gets adjusted during the course of half year of the tenure. So, that's how you would look at, first it's coming in the interest and then it's getting normalized where it comes down over the rest of the tenor.

Shailesh Chaturvedi: Actually, I can just say that both interest and depreciation. The operating number pre-IndAS are similar, maybe like Ankit said slightly lesser than before, some entries are IndAS entry and we have taken over stores in Tommy Hilfiger as COCO stores. So, that impacts the depreciation a little bit, but there's no major change, it's only on a downward trajectory.

Jatin Sangwan: And what will be our pre-IndAS margin in this quarter?

Ankit Arora: So, we have always said it's in the range of around 400 basis points difference from post-IndAS to pre-IndAS. So, you can do that math. We have reported about 12.9% post-IndAS margin.

Jatin Sangwan: Last question is on this part. How much of our Tommy & CK stores have we converted from let's say FOFO to COCO?

Shailesh Chaturvedi: We have 60 stores in Tommy Hilfiger which are now COCO stores.

Jatin Sangwan: And in CK?

Shailesh Chaturvedi: Nothing. It's in Tommy alone. Single brand.

Moderator: The next question will be from the line of Sagar Parekh from One Up Financial Consultants. Please go ahead.

Sagar Parekh: Hi team and congratulations on a good performance. Just two questions. One is you mentioned that this Flying Machine is one year behind in terms

of profitability versus Arrow. But did you give any number of what is the EBITDA currently of Flying Machine? If not, can you give us please?

Ankit Arora: We don't disclose and unfortunately can't disclose the brand level margins and revenue on account of our global contracts.

Sagar Parekh: But is it profitable or its loss-making at EBITDA?

Ankit Arora: So, we have said we are on that journey. It's a very, very low single digit close to about breakeven kind of a number. So, that's something where the work is on to turn that brand around and to make that journey as to what we have seen the turnaround in Arrow over the last couple of years.

Sagar Parekh: So, this Arrow is low single digit you said, and this is broadly breakeven to slight positive?

Shailesh Chaturvedi: In both the brands we have a journey to improve profitability Arrow is one year ahead than Flying Machine.

Sagar Parekh: So, what would be the capex for FY'25?

Girdhar Chitlangia: So, our capex is likely to be in the range of 100 crores, largely to be spent on some COCO stores on the PVH side, some IT capex and some renovation of stores.

Sagar Parekh: How much was the capex last year? So, 100 crores seem to be on a higher side.

Ankit Arora: About 85 crores, largely is on the Tommy side of the business. I don't have the break up but close to about half of it or maybe more than that. So, again that's how you should look at it for the FY'25 also.

Shailesh Chaturvedi: Some of the new Tommy stores we are doing directly as COCO stores. So, some capex will go there, but our capex is flat in that sense and this quarter was around 24 crores and largely like Girdhar said, it's for renovation of our SIS or some maintenance of IT. There's no major project that will require capex other than couple of Tommy Hilfiger stores that we are doing on a COCO basis.

Sagar Parekh: So, this capex would be funded internally, right, or how it will work?

Shailesh Chaturvedi: In Tommy there are strong cash flows to deploy.

Moderator: The next question is from the line of Rajiv Bharti from Nuvama. Please go ahead.

Rajiv Bharti: Sir, with regard to this margin expansion which we are seeing, is it possible to quantify how much of it is because of this FOFO to COCO, we are doing in Tommy Hilfiger?

Shailesh Chaturvedi: See, when we convert from franchisee to COCO, definitely, the GP goes up, margin goes up. I don't want to give a specific number but yes it's a ROCE accretive and we benefit from that investment of capex into the stores. That's a very small piece of the overall GP increase at AFL level. Largely, the GP increase has been because of the better price realization and better cost efficiency in sourcing. Even in this difficult condition, our discounting in full price channel was slightly lower than last year. So, we benefited from that. Premiumization gives the better realization. So, cost efficiency in sourcing and better premiumization is the dual benefit giving us that 80 basis points improvement in GP.

Rajiv Bharti: Secondly, one of the marquee Denim players has been running steep discounts earlier in the last season as well, and probably this season. Do

you think that cleanup is done, or we may see that again in terms of competitive intensity?

Shailesh Chaturvedi: Sorry I didn't get question. Which of our brand are you talking about?

Rajiv Bharti: No, no, I am talking about the competition. So, one of the marquee players have been entering earlier, right?

Shailesh Chaturvedi: We can’t comment on the moves of competition, I won't hazard a guess.

Rajiv Bharti: And thirdly, your PBT margins on the online side, is it comparable to the retail side?

Shailesh Chaturvedi: See, I am again repeating that online is a very healthy business for us. It's margins are quite good. And like I said, we are growing businesses which are with that mantra of profitable growth. So, at a channel level profitability, online has very good channel profitability.

Rajiv Bharti: Lastly, if we were to combine your channel level, for example, the wholesale for Q4 and Q1 and then compare against last year Q4, Q1, I think the wholesale is still at an 8% deficit, right? We have seen substantial growth in Q1, but it is not enough to cover minus 18% of the previous quarter, right?

Shailesh Chaturvedi: Between the department store and the MBO channel, we are growing and in fact MBO channel is growing faster because we are going to add distribution for all our brands. So, I am trying to check because our wholesale channels have grown, just that in Q4, we took inventory call on billing it closer to the season and not just adding inventory in the channel before the season starts. So, our channels are doing well. I mean just that in Q4, we took a decision to delay the inventory buildup closer to the season and that benefit has come in Q1.

Rajiv Bharti: My only point is because Q4 by quantum wholesale is a much bigger quantum, right, put together, Q4, Q1?

Shailesh Chaturvedi: Where we launched in a bigger part of the season in Feb, March, which we are now doing end of Feb and March. So, yes, Q4 is a bigger wholesale than Q1, you're right. But this Q1 is a bigger wholesale quarter than what it was last year Q1.

Rajiv Bharti: No, I got that. I am saying that combined put together for example Q4, Q1 last year was 664 crores versus this year we are at, I think close to 612 crores. So, there is still a deficit.

Shailesh Chaturvedi: In the current market condition, we will be careful looking at whatever the inventory buildup. They continue to grow. We keep an eye on the inventory in the channel and based on that we bill into the market.

Ankit Arora: And Rajiv, if I can just add, see, there will be of course seasonality, then we will play by that depending on which channel is firing and when. We want to just ensure that we stay very, very healthy on our inventory level and stock turn. So, yes, you may be having a right observation on Q4 and Q1 combined when you are looking at it, but at the same time, if you really step back and look at our retail very, very good in Q4 as well. So, retail may have made-up for that same thing, could have happened for online as well. I don't have any ready data for that. So, there will be variances if you add the two quarters together, but the good part is we have seen all round channel performance and all the channels have grown and that's what is heartening for us. Yes, could be plus and minus on various channels depending on Q4 and Q1.

Shailesh Chaturvedi: I will just add one color to it. In wholesale channel, we have very good visibility on the consumer sales, and we build this hygiene in last two years

where we are getting regular daily update on how the wholesale channels are able to liquidate their inventory to the consumers. And based on that we create the pull of what more we can sell. So, if the market improve, we'll be able to increase the growth, and if the market slow down, automatically the whole system slows it down.

Rajiv Bharti: Last time you indicated that you're looking for a high teen area addition, right. With the current Q1 environment, would you like revisit that or you're holding on to that target?

Shailesh Chaturvedi: You're talking about square foot addition, right?

Rajiv Bharti: Yes, yes.

Shailesh Chaturvedi: We are committed to 15% net addition this year on the Mar'24 base and the first quarter was a good quarter and we build more muscles in the market to ensure that. So, we are geared towards that 15% net square foot addition.

Moderator: The last question for today is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: If I just look at your annual report, if ex Tommy, CK numbers, other three brands have actually posted a decline last year. So, just wanted to know how was the U.S. Polo number, because even if I remove Flying Machine number, still there is a decline which makes me believe that Arrow would have also declined last year. Is that understanding right?

Shailesh Chaturvedi: I don't have ready for data last year, but I can tell you the trend is that last year in difficult market conditions, U.S. Polo did well. And if I look at this quarter, U.S. Polo has grown really well in double-digit in sales and in EBITDA, value also is much higher than that percentage. So, U.S. Polo is at a

point now where it's really revved up and the growth and the EBITDA growth is very, very high. So, that's what will keep growing. As far as the Arrow is concerned I know that the formal category and the wedding dates in the previous quarter and now also been a little slow. So, Arrow has seen a little bit of slowed down, but U.S. Polo is really doing well.

Ankit Kedia: Also in U.S. Polo, if I just see the annual report, we have cut down 50 stores last year, we have exited around 20 cities, which is lower than FY'19 in the city count also. So, is this rationalization of stores, cities across brand behind now for us and 150 cities for a brand like U.S. Polo is pretty much a low number given the time and the acceptance of the brand which we have wherein peers are today also. So, do you think in next three to five years, where do you see the city count for U.S. Polo coming and the store expansion?

Ankit Arora: Ankit, I don't think your reading is right. There is a disclaimer, which is what we have given when we have given the store data. If you look at there is a asterisk mark there. We have only taken a mono brand stores based on certain feedback coming from you and other industry players as well. So, we have not added the point of sale where the U.S. Polo is still sold, but we classify that as a multiple brand outlet, but it's still an EBO likes of a Stride or Megamart or a Club A. So, all of that is not there. Your observation is not right when you look at the number of stores going down. Rather than that, the number of stores and square foot addition is incrementally going up and as to what you can see, in the last year full year net square foot addition was close to about 56,000, this quarter alone it's at about 45,000 square foot. So, there is absolutely full wholehearted intent in terms of putting energies behind U.S. Polo to kind of grow that brand, similar to what Shailesh said, both from a square foot area and from a number of stores and penetration in terms of cities and towns as well.

Shailesh Chaturvedi: I would just add to what Ankit said is that, it's such a strong and dominating brand that every retailer in any type of city wants to start the store with U.S. Polo, every department store, when they go to smaller town or regional department store wants to have U.S. Polo. So, brand appeal is very strong and it's less risky to go to a smaller town for U.S. Polo than let's say some other brand. So, USPA will continue to go to more and more number of towns, it continues to increase its square footage through stores, through MBO channel, through department store. So, I assure you that this brand is really revved up and we will continue to expand square footage.

Ankit Kedia: And the last question is on inventory, across each of our subsidiary Company, inventory days have come down which is very heartening. Do you see there is some more juice left or this inventory is now stable and it should be maintained from here on?

Shailesh Chaturvedi: We are committed to stock turn of four, we improved from three turns to now four turns. This quarter also see our inventory days have come down by three days. We are using every possible means to see how we can improve the stock turn. Also, the advantage of lower inventory is that then we can sell more fresh goods and the margins become better, the EBITDA become better, consumer gets a better experience. So, we are really working hard and that's one reason why we open a chain called factory outlet of our own brands called Megamart where we are liquidating a lot of our old inventory faster with better cash realization. So, we are sure that there will be no stone left unturned to sort of liquidate inventory at good margin as fast as possible

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Ankit Arora for closing comments.

Ankit Arora: Thank you everybody for joining us on the call today. If any of your questions have remained unanswered, please feel free to reach out to me separately and I would be happy to answer them offline. Thank you and look forward to your participation again next quarter.

Moderator: On behalf of. Arvind Fashions Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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