29 July 2025

Arvind Fashions

Good start to FY26, retail expansion in focus; retaining a Buy

Rating: **Buy**
Target price (12-mth): Rs.728
Share price: Rs.538

With revenue/EBITDA up ~16% y/y and adj. PAT (post-minority) up to Rs128m (from Rs12m a year ago), Arvind Fashions started FY26 on a good note. EBITDA margin was flat y/y at 12% due to higher ad spends (up 140bps y/y). Growth was 5% above our estimates led by higher LTL growth at 8.1%. 10 EBOs (net) were added in Q1, taking the total to 987 stores across 1.23m sq.ft. USPA grew >20% while Tommy and CK continued to grow in double digits. Arrow and Flying Machine delivered double-digit L2L growth in Q1. FM's profitability was impacted by channel-mix seasonality, which management expects to reverse in Q2. Both the brands are on the path to mid-single digit EBITDA margins (pre Ind AS), from low single-digit currently. Inventory turns continued at ~4x and net working capital days were steady. Over the past 12-18 months, AFL has strengthened its brands through retail expansion, marketing, and supply chain investments. Management retained its guidance of 12-15% medium-term revenue growth led by 15% growth in direct channels and high single-digit growth in the wholesale channel. Our FY26e/27e revenues are unchanged; EBITDA is ~3% lower on avg. due to higher marketing spends. The EPS cut is larger due to higher depreciation/interest. We retain our Buy rating, with a TP of Rs728 on 11x Sep'27e EV/EBITDA (earlier Rs681 on 11x FY27e EV/EBITDA).

Sound operating performance. Q1 revenue grew 16% y/y to Rs11.1bn, led by 8.1% retail LTL growth. Gross margin expanded 61bps y/y to 55.9% led by lower discounting. EBITDA grew 15.5% y/y to Rs1.3bn and margin was flat y/y at 12%. Reported net profit (post minority and discontinued ops) was Rs126m vs. PAT of Rs13m in Q1 FY25. Adj. PAT (adjusting for discontinued operations) was Rs128m (vs Rs12m in Q1 FY25).

Adjacent categories continue to do well. Retail channel grew 16% y/y, contributing 44% of Q1 sales (flat y/y), while online channel rose to 33% (vs 32%) and wholesale rebounded with ~11% growth y/y, contributing 23% (vs 24%). Adjacent categories grew over 20% y/y, with womenswear up >50% and kidswear up >30%. Footwear remains a key growth driver, with plans to scale the portfolio from to Rs5bn (Rs3bn currently), with double-digit pre-Ind AS EBITDA margins.

Valuation. We retain our Buy rating, with a revised 12-mth Rs728 TP, 11x Sep'27e EV/EBITDA. **Key risks:** Keener competition; less consumption.

Key financials (YE Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	42,591	46,198	51,882	59,341	68,070
Net profit (Rs m)	806	(356)	1,547	2,223	3,106
EPS (Rs)	6.1	(2.7)	11.7	16.8	23.5
P/E (x)	74.3	NA	46.0	32.0	22.9
EV / EBITDA (x)	13.7	9.9	11.3	9.3	7.5
P/BV (x)	6.0	5.2	6.0	4.7	3.7
RoE (%)	9.3	2.9	18.8	21.3	23.2
RoCE (%)	10.9	3.3	19.3	22.4	24.7
Dividend yield (%)	0.2	0.3	0.2	0.2	0.4
Net debt / equity (x)	0.3	0.2	0.1	0.0	(0.1)

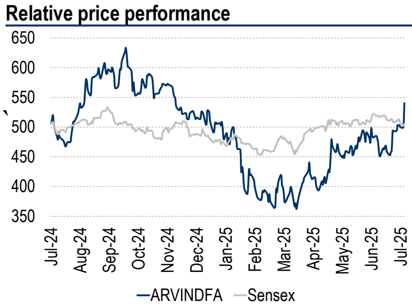
Source: Company, Anand Rathi Research

Key data	ARVINDFA
52-week high / low	Rs.639 / 338
Sensex / Nifty	81,338 / 24,821
Market cap	Rs.72bn
Shares outstanding	134m

Shareholding pattern (%)	Jun'25	Mar'25	Dec'24
Promoters	35.1	35.2	35.2
- *of which, Pledged*	*8.3*	*8.3*	*8.3*
Free float	64.9	64.8	64.8
- Foreign institutions	9.4	9.4	10.0
- Domestic institutions	23.6	21.9	21.8
- Public	31.9	33.5	33.0

Estimates revision (%)	FY26	FY27
Sales	0.0	0.0
EBITDA	(2.1)	(3.3)
EPS	(9.2)	(18.2)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Net revenues	42,591	46,198	51,882	59,341	68,070
Growth (%)	*4.7*	*8.5*	*12.3*	*14.4*	*14.7*
Direct costs	20,371	21,495	24,177	27,534	31,585
SG&A	17,115	18,683	20,551	23,231	26,258
EBITDA	**5,105**	**6,020**	**7,153**	**8,576**	**10,228**
EBITDA margins (%)	*12.0*	*13.0*	*13.8*	*14.5*	*15.0*
Depreciation	2,301	2,557	2,927	3,272	3,519
Other income	337	346	350	353	357
Interest expenses	1,442	1,558	1,315	1,265	1,138
PBT	1,700	2,251	3,262	4,392	5,927
Effective tax rates (%)	*34.9*	*84.7*	*26.2*	*25.0*	*25.0*
+ Associates / (Minorities)	(565)	(686)	(857)	(1,071)	(1,339)
Net income	806	(356)	1,547	2,223	3,106
Adjusted income	501	(342)	1,549	2,223	3,106
WANS	132	132	132	132	132
FDEPS (Rs)	6.1	-2.7	11.7	16.8	23.5
FDEPS growth (%)	*119.7*	*(144.1)*	*(534.8)*	*43.7*	*39.7*
Gross margins (%)	*52.2*	*53.5*	*53.4*	*53.6*	*53.6*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	532	533	533	533	533
Net worth	10,033	9,571	11,845	15,007	19,188
Debt	4,661	3,896	2,896	1,696	696
Minority interest	1,891	2,074	2,074	2,074	2,074
DTL / (Assets) *	2,926	5,067	5,067	5,067	5,067
Capital employed	**19,511**	**20,607**	**21,881**	**23,843**	**27,024**
Net tangible assets **	7,493	8,599	8,679	8,553	8,248
Net intangible assets	355	371	371	371	371
Goodwill	1,112	1,112	1,112	1,112	1,112
CWIP (tang. & intang.)	39	28	28	28	28
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	20,192	22,645	26,438	29,914	34,315
Cash	1,680	1,647	1,019	1,006	2,530
Current liabilities	11,360	13,796	15,767	17,141	19,581
Working capital	8,832	8,849	10,671	12,773	14,734
Capital deployed	**19,511**	**20,607**	**21,881**	**23,843**	**27,024**

** includes lease liabilities ** includes RoU*

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT (adj. for int. exp / other inc.)	3,302	3,581	4,577	5,657	7,065
+ Non-cash items	1,698	2,761	2,927	3,272	3,519
Oper. prof. before WC	4,999	6,342	7,503	8,929	10,584
- Incr. / (decr.) in WC	31	613	1,822	2,102	1,961
Others incl. taxes	627	433	855	1,098	1,482
Operating cash-flow	4,342	5,295	4,826	5,729	7,142
- Capex (tang. + intang.)	801	912	1,000	1,000	1,000
Free cash-flow	3,541	4,383	3,826	4,729	6,142
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	626	667	132	132	265
+ Equity raised	23	53	-	-	-
+ Debt raised	(1,316)	(765)	(1,000)	(1,200)	(1,000)
- Fin investments	(4)	-	-	-	-
- Misc. (CFI + CFF)	1,878	3,021	3,322	3,410	3,353
Net cash-flow	(323)	(17)	(628)	(13)	1,525

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

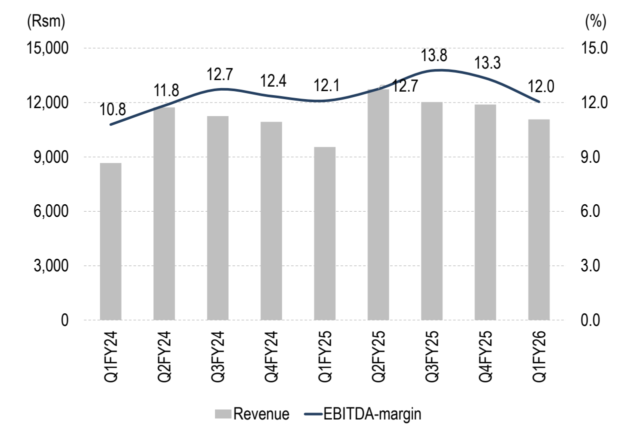
Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	74.3	NA	46.0	32.0	22.9
EV / EBITDA (x)	13.7	9.9	11.3	9.3	7.5
EV / Sales (x)	1.6	1.3	1.6	1.3	1.1
P/B (x)	6.0	5.2	6.0	4.7	3.7
RoE (%)	9.3	2.9	18.8	21.3	23.2
RoCE (%) - after tax	10.9	3.3	19.3	22.4	24.7
RoIC (%) - after tax	12.2	3.7	21.0	23.7	27.1
DPS (Rs)	1.3	1.6	1.0	1.0	2.0
Dividend yield (%)	0.2	0.3	0.2	0.2	0.4
Dividend payout (%) - incl. DDT	20.5	-59.5	8.6	6.0	8.5
Net debt / equity (x)	0.3	0.2	0.1	0.0	-0.1
Receivables (days)	55	58	55	55	55
Inventory (days)	78	85	84	82	82
Payables (days)	80	93	95	90	90
CFO : PAT %	866.3	NA	311.5	257.7	229.9

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Q1 Revenue up 16% y/y, EBITDA margin at 12%



Source: Company

Financial Highlights

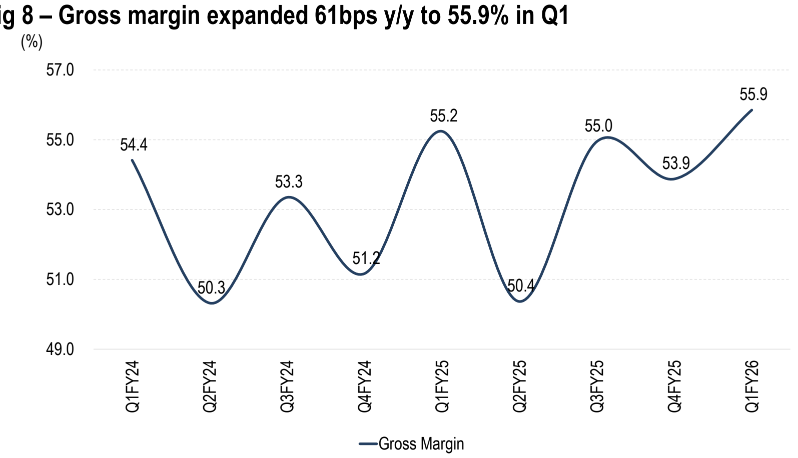
Consolidated sales grew 16% y/y to Rs11.1bn. The gross margin expanded 61bps y/y to 55.9%. Employee/other expenses grew 8.7/19.5% y/y. EBITDA grew 15.5% y/y to Rs1.3bn while the margin was flat y/y at 12%. Depreciation/interest expense grew 11.8/6.4% y/y while other income was 2x higher y/y. PBT grew ~65% y/y to Rs388m. Minority interest was Rs123m (vs Rs126m a year back). The loss from discontinued operations was Rs2.7m (vs a Rs1.4m profit a year ago). PAT (post-Minority and discontinued operations) was Rs126m (vs Rs13m). PAT (adjusted for discontinued operations) was Rs128m (vs Rs12m).

Fig 7 – Quarterly results

(Rs m)	Q1 FY26	Q1 FY25	YoY (%)	Q4 FY25	QoQ (%)	FY25	FY24	YoY (%)
Revenues	11,073	9,548	*16.0*	11,891	*(6.9)*	46,198	42,591	*8.5*
Cost of revenues	4,889	4,274	*14.4*	5,484	*(10.9)*	21,495	20,371	*5.5*
Gross margins (%)	*55.9*	*55.2*	*61 bps*	*53.9*	*197 bps*	*53.5*	*52.2*	*130 bps*
Employee expenses	722	664	*8.7*	694	*4.0*	2,687	2,601	*3.3*
Other operating expenses	4,129	3,456	*19.5*	4,125	*0.1*	15,997	14,514	*10.2*
EBITDA	**1,334**	**1,155**	***15.5***	**1,587**	***(16.0)***	**6,020**	**5,105**	***17.9***
EBITDA margins (%)	*12.0*	*12.1*	*-5 bps*	*13.3*	*-130 bps*	*13.0*	*12.0*	*104 bps*
Depreciation	685	613	*11.8*	648	*5.7*	2,557	2,301	*11.1*
EBIT	**648**	**543**	***19.5***	**939**	***(30.9)***	**3,463**	**2,805**	***23.5***
EBIT margins (%)	***5.9***	***5.7***	***17 bps***	***7.9***	***-204 bps***	***7.5***	***6.6***	***91 bps***
Interest expenses	406	381	*6.4*	388	*4.5*	1,558	1,442	*8.1*
Other income	146	75	*95.3*	113	*28.4*	346	337	*2.7*
Exceptional items	-	-	*NA*	-	*NA*	-	(62)	*NA*
PBT	**388**	**236**	***64.6***	**664**	***(41.5)***	**2,251**	**1,638**	***37.4***
Income taxes	137	98	*39.8*	1,385	*(90.1)*	1,907	573	*233.1*
Effective tax rates (%)	*35.3*	*41.6*	*-629 bps*	*208.8*	*-17347*	*84.7*	*34.9*	*NA*
Non-controlling interest	(123)	(126)	*(2.5)*	(207)	*(40.5)*	(686)	(565)	*21.4*
Discontinued ops	(3)	1	*(292.9)*	(3)	*(12.9)*	(14)	305	*(104.7)*
Total PAT	**126**	**13**	***852.3***	**(932)**	***(113.5)***	**(356)**	**806**	***(144.1)***
EPS	**1.0**	**0.1**	***852.3***	**(7.0)**	***(113.5)***	**(2.7)**	**6.1**	***(144.1)***
Adj. PAT	**128**	**12**	***988.1***	**268***	***(52.0)***	**855***	**501**	***70.5***

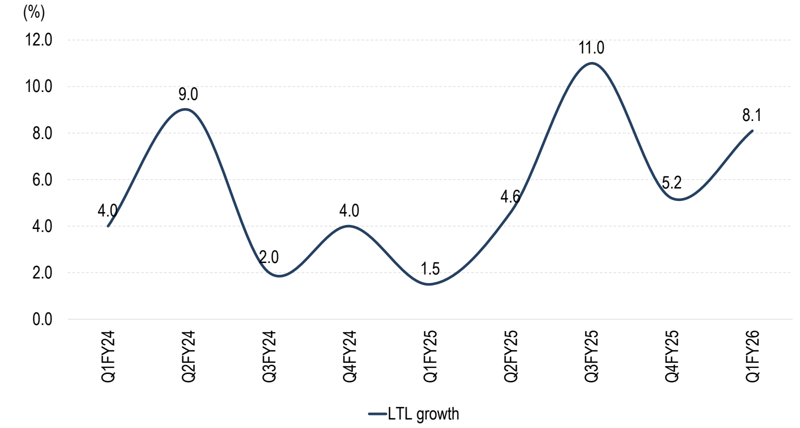
*Source: Company *Adj. PAT excludes Rs1,196m of exceptional DTA impact in Q4 FY25 and FY25*

Fig 8 – Gross margin expanded 61bps y/y to 55.9% in Q1



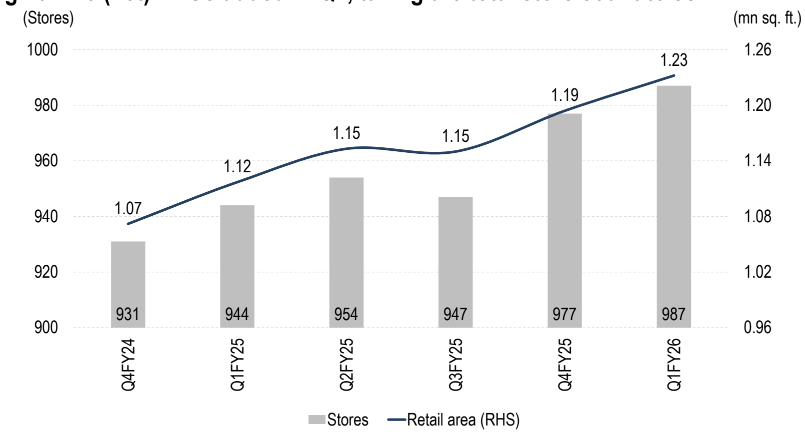
Source: Company

Fig 9 – Retail LTL growth was at 8.1% in Q1



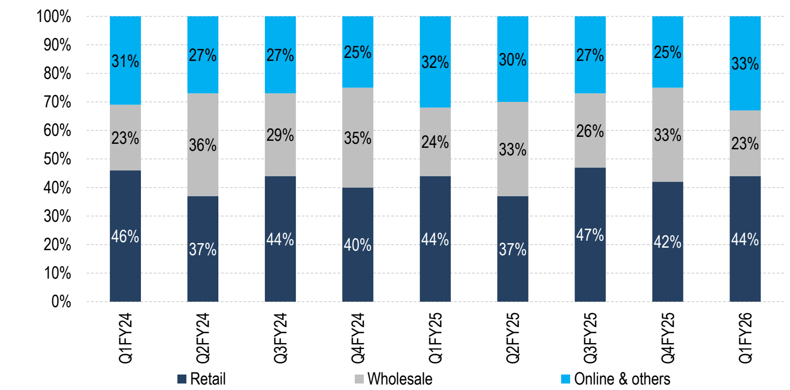
Source: Company

Fig 10 – 10 (net) EBOs added in Q1, taking the total store count to 987



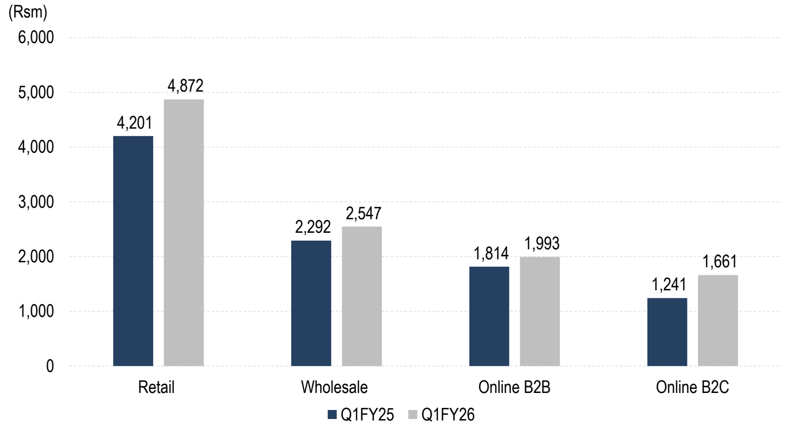
Source: Company

Fig 11 – Retail continues to dominate channel mix at ~44% in Q1 FY26



Source: Company **Wholesale includes MBO and department stores **online includes online B2C and online B2B*

Fig 12 – Retail and Online B2C lead channel-wise revenue



Source: Company

Other highlights

- **Channel mix.** The **retail** channel grew 16% y/y, led by 8.1% LTL growth, contributing 44% of revenue (flat y/y). Online B2C (15% of Q1 sales, 13% a year ago) grew ~34% y/y, driven by exclusive inventory, sharper assortment and analytics. AFL expects direct channels (retail + online B2C) to register a ~15% CAGR, with increasing emphasis on scaling up such channels.
- Aided by improved inventory freshness, stronger brand salience and a better trading environment, the **wholesale** channel grew ~11% y/y, with its share at 23% of revenue (vs 24% a year ago). The company continues to be focused on ensuring stock hygiene, maintaining low debtor levels in MBO and exercising strict control on discounting. Management expects the channel to grow in high single digits.
- The **EBITDA margin** was flat y/y at 12%, as the gross margin expansion (up 61bps y/y) from lower retail discounting (by ~1.2%) was offset by a ~140bp increase in ad spends. The company continued to invest aggressively in marketing, particularly for marquee brands such as US Polo and Tommy Hilfiger, focused on online visibility and on targeting younger and small-town consumers. It will continue to do this in FY26.
- **Brands.** US Polo delivered >20% y/y revenue growth, while Tommy Hilfiger and Calvin Klein reported double-digit topline growth with healthy margins. Arrow and Flying Machine delivered double-digit retail LTL growth in Q1. FM also saw strong traction across department stores, though its overall performance was impacted by seasonality and channel mix, which is expected to return to normal in Q2.
- Management aims to double both Arrow and FM revenue over 3-4 years, with both brands expected to grow faster than the company average. Arrow and FM continue to progress well on their journey to greater profitability from low to mid-single-digit pre-Ind AS EBITDA margins.
- **Adjacent categories** continued to do well, registering >20% sales growth in Q1. US Polo, which derives ~25% of its revenue from adjacent categories (largely footwear), maintained a strong momentum, with womenswear growing >50% y/y, kidswear up 30% y/y and innerwear scaling up rapidly as well.
- Footwear continues to be a high-margin, high-growth adjacent category for AFL with plans to scale up its portfolio to Rs5bn (from Rs3bn) with double-digit pre-Ind AS EBITDA margins in the near term. US Polo Sneakers is now among the top brands on portals such as Myntra, and brands like Tommy Hilfiger and Calvin Klein have sizable footwear businesses. BIS-related import restrictions had temporarily impacted footwear supply, but stock flows have now resumed, and management expects 20-25% y/y growth in footwear going ahead.
- **Retail network.** The company added 29 (gross), 10 (net) EBOs in Q1, taking the total store count to 987 in Jun'24 (vs 944 in Q1 FY25), with a net addition of ~38,000 sq.ft. Although most store closures were undertaken last year, the regular churn (about 2% of the network) will continue. For FY26, the company is targeting a net addition of 0.15m (net) sq.ft., with gross openings of ~150 stores, largely through the FOFO route.

- **Capex** for FY26 is expected to be ~Rs1bn (Rs250m per quarter). The company remains focused on scaling its existing five brands, with no near-term plans to deploy capital into new businesses or acquisitions. Operating cash flows will be utilised for debt reduction and to support growth in core brands, with continued investments in improving inventory freshness.
- **Management change.** Amisha Jain will join Arvind Fashions as MD & CEO effective 13th Aug'25 as part of the company's succession planning. She brings over 25 years of experience across tech, consumer, and retail sectors, with prior leadership roles at Levi's, and deep expertise in digital and new-age consumer understanding.
- **Outlook.** Management has reiterated its medium-term revenue growth guidance of 12-15%, with high single-digit LTL retail growth. Direct channels are expected to grow ~15%, while the wholesale channel is likely to grow in high single digits. The company is targeting a net addition of 0.15m sq.ft. in FY26, with ~150 store openings (gross), largely through the FOFO route. It will continue to invest in product premiumisation, advertising, brand-building and fortifying its internal abilities.

Change in estimates

Our FY26e-27e revenues are unchanged. We have reduced our FY26e/27e EBITDA margins 30bps/50bps as we expect the company to invest more in brand building and marketing expenses. We expect it to report 13.8/14.5% EBITDA margins in FY26/27.

Our FY26e/27e EPS cut is ~14% on avg. due to higher depreciation and interest.

Fig 13 – Change in estimates

	Old		New		Change (%)	
(Rs m)	FY26e	FY27e	FY26e	FY27e	FY26	FY27
Revenue	51,882	59,341	51,882	59,341	*0.0*	*0.0*
EBITDA	7,309	8,873	7,153	8,576	*(2.1)*	*(3.3)*
PAT	1,706	2,718	1,549	2,223	*(9.2)*	*(18.2)*
EPS (Rs)	12.9	20.5	11.7	16.8	*(9.3)*	*(18.2)*

Source: Anand Rathi Research

Valuation

We retain our Buy rating, with a higher TP of Rs728 on 11x Sep'27e EV/EBITDA (earlier Rs681 on 11x FY27e EV/EBITDA).

Fig 14 – Valuation summary

(Rs m)	Sep'27e
EBITDA	9,402
Target multiple (x)	11.0
Enterprise value	103,419
Gross debt	8,868
Cash balance	1,768
Market cap	96,319
No. of shares (m)	132.3
TP (Rs)	**728**
CMP (Rs)	538
Upside / (downside) %	35.3

Source: Anand Rathi Research. Note: Debt includes lease liabilities

Fig 15 – Valuation parameters

	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	74.3	NA	46.0	32.0	22.9
EV / EBITDA (x)	13.7	9.9	11.3	9.3	7.5
EV / Sales (x)	1.6	1.3	1.6	1.3	1.1
RoE (%)	9.3	2.9	18.8	21.3	23.2
RoCE (%)	10.9	3.3	19.3	22.4	24.7

Source: Anand Rathi Research

Risks

- **Keener competition.** On the entry of foreign brands, keener competition in India could be a key threat.
- **Less consumption.** Subdued consumer sentiment and restrained discretionary spending could crimp revenue growth.

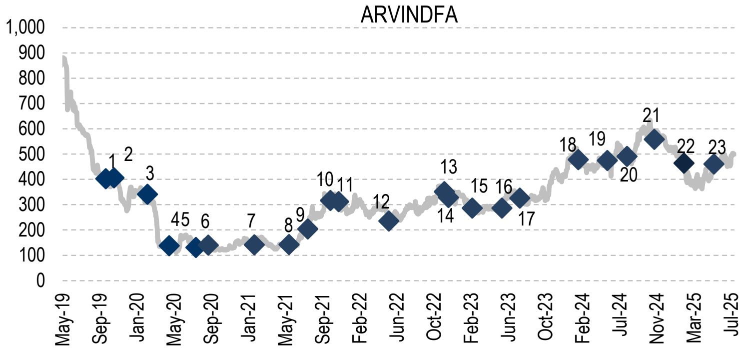
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 29 July 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
10	18-Nov-21	**Buy**	427	315
11	13-Jan-22	**Buy**	470	299
12	31-May-22	**Buy**	453	266
13	15-Nov-22	**Buy**	516	366
14	22-Dec-22	**Buy**	567	333
15	15-Feb-23	**Buy**	526	291
16	31-May-23	**Buy**	545	285
17	12-Aug-23	**Buy**	544	314
18	14-Feb-24	**Buy**	633	472
19	23-May-24	**Buy**	632	478
20	28-Aug-24	**Buy**	689	535
21	30-Oct-24	**Buy**	717	557
22	8-Feb-25	**Buy**	685	462
23	20-May-25	**Buy**	681	457

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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