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professional clients group

Arvind Fashions Ltd

Perfectly positioned for a valuation re-rating

Calvin Klein

TOMMY HILFIGER

U.S. POLO ASSN.
SINCE 1890

ARROW
USA·1851

FLYING MACHINE

Palash Kawale
Research Analyst
kawale.palash@nuvama.com

Long Term Recommendation
Arvind Fashions

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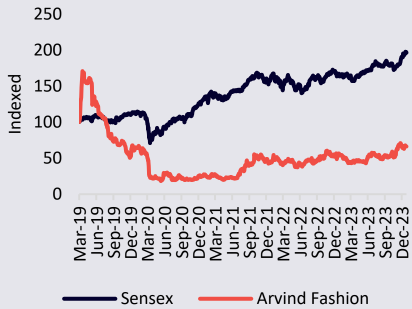
Arvind Fashions (ARVINDFA) has a strong portfolio of brands like U.S. Polo Assn. (USPA), Arrow, Tommy Hilfiger (TH), Calvin Klein (CK), and Flying Machine (FM). It is into designing, sourcing, marketing, and selling of a wide portfolio of branded men, women, and kids' readymade apparel, footwear, innerwear, and other accessories via EBOs, MBOs, LFS, and e-commerce platforms. Via a combination of capital raises, portfolio rationalisation (exiting of non-performing and non-core brands), and margin improvement (more than 300bp expansion over FY20–23), the management turned around the business. We expect a revenue/EBITDA CAGR of 12%/22% (ex-Sephora) over FY23–26, led by retail footprint and margin expansion. This counter deserves a valuation re-rating given its portfolio of marquee brands, lean Balance Sheet, and ample room for margin expansion. We initiate coverage with a 'BUY' rating and TP of INR660 (11x FY26E EV/EBITDA), which offers an upside potential of 48%.

CMP: INR445
Rating: BUY
Target price: INR660
Upside: 48%

Date: January 09, 2024

Bloomberg:	ARVINDFA:IN
52-week range (INR):	505/981
Shares in issue (cr):	3.9
M-cap (INR cr):	5,893
Promoter holding (%)	74.21



Portfolio rationalisation led to focus on core brands

Over the years, ARVINDFA has exited multiple loss-making brands. Brand consolidation resulted in a healthy debt reduction and margin expansion. The focus is on running and expanding its core brands. We expect USPA to reach ~INR2,000cr in revenue in FY24. Its PVH portfolio (TH and CK) posted sales of INR1,000cr in FY23 and should grow at a healthy rate going forward. With a double-digit pre-Ind AS EBITDA margin, these three brands are generating healthy operating cash flows. It aims to scale up its Arrow and FM brands given the huge potential for growth and margin improvement. We expect 12% consolidated revenue CAGR over FY23–26 led by store expansion, premiumisation, and expansion into adjacent categories.

Improving operating metrics

With the focus shifting to its core brands, margin expanded by ~500bp over last five years, aided by portfolio rationalisation and greater operating efficiencies. The management is eyeing a 100–150bp expansion over the next couple of years, led by an improvement in gross margin and positive operating leverage. Working capital cycle significantly improved to 43 days in FY23 from 72 days in FY20. Inventory turns rose to 4x from the lows of 2x. It aims to improve it to ~4.5-5x. A superior retail channel mix and better collections led to a fall in debtor days to 46 days in FY23 from 74 days earlier. As a result of margin expansion and an improved working capital cycle, it posted a double-digit RoCE in FY23. ARVINDFA aims to achieve more than 20% RoCE in the medium-term driven by further improving margin and the working capital cycle. We expect an EBITDA/PAT CAGR of 22%/91% over FY23–26 driven by margin expansion and lower debt levels.

Valuation deserves a premium multiple given its better overall performance

ARVINDFA choose to focus on to portfolio rationalisation and operational efficiencies rather than growth. This led to a better margin and return ratios. We expect its USPA, Arrow, CK, and TH to benefit from the ongoing premiumisation drive in India. The management is focusing on portfolio extension and a foray into adjacent categories which are growing at a healthy rate. These extensions are expected to provide a strong lever for growth and margin expansion. Given the growth opportunities, execution capabilities, quality management, category extensions, and improved operational performance, we initiate coverage with a 'BUY' rating and TP of INR660.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues (INR Cr)	3,056	4,421	4,420	5,010	5,682
Rev growth (%)	59.8%	44.7%	0.0%	13.4%	13.4%
EBITDA (INR Cr)	180	453	498	640	777
EBITDA margin (%)	5.9	10.2	11.3	12.8	13.7
Net Profit (INR Cr)	-134	38	77	175	259
P/E (x)	NA	147.8	75.8	33.5	22.6
EV/EBITDA (x)	27.7	12.9	12.2	9.3	7.3
RoACE (%)	-3.2	12.8	13.5	19.4	22.6
RoAE (%)	-21.1	4.6	8.1	16.3	20.1

Palash Kawale
kawale.palash@nuvama.com

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Business structure

ARVINDFA has a portfolio of five marquee brands that operate in the categories such as mass-premium, mid-premium, premium and super-premium. It has licences to operate USPA and Arrow brands and has formed a 50:50 JV with the PVH Corporation to operate TH and CK brands and in-house brand FM. Close to half of its sales accrue from the retail (EBOs) channel (versus ~35% prior to the COVID pandemic). The online channel and LFS+MBOs contribute ~25% each. In terms of brands, USPA/TH/CK/Arrow/FM contribute 41%/4%/9%/16%/11% to overall revenue (Nuvama estimates).

ARVINDFA's expertise lies in premium apparel as it has grown these brands from scratch. It has successfully diversified into adjacent categories such as kids' wear, women's wear, footwear, innerwear, comfort wear, and accessories through premium brand extensions. A ramp-up in these adjacent categories will result in margin expansion. Apart from this, scaling up of Arrow and FM (led by retail footprint expansion) is also margin accretive.

What's interesting is that its full price sell-through is better than brands that operate in similar categories. The management is pushing for further improvement which will result in margin expansion.

INR cr	FY23	FY24E	FY25E	FY26E
Revenue	4,421	4,420	5,010	5,682
EBITDA	453	498	640	777
EBITDA margin	10%	11%	13%	14%
PAT	37	77	175	259
PAT growth (%)	NA	109%	126%	49%

INR cr	FY23	FY24E	FY25E	FY26E
RoCE (%)	13	14	19	23
RoE (%)	5	8	16	20

INR	FY25E	CMP/target
EV/EBITDA (x)	12	445/660

Over FY23–26, we expect 12% revenue CAGR (ex-Sephora) led by: i) aggressive store expansion, ii) premiumisation, iii) growth in its adjacent categories, and iv) focus on the growing Arrow and FM brands

We see operating margin touching ~14% in FY26 and a margin expansion of 340bp over FY23–26 aided by exiting non-performing brands, scaling up of its current brand portfolio, operating leverage, and premiumisation

We forecast 91% PAT CAGR over FY23–26. With improved financials, we expect enhanced return ratios and a RoCE/RoE of 23%/20% by FY26

At the CMP, FY26E EV/EBITDA is 7x + FY25E RoCE of ~23% + At the TP, FY26E EV/EBITDA ratio is 11x

Upside: 48%

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Focus charts

Exhibit 1: Healthy revenue growth with a focus on portfolio rationalisation…

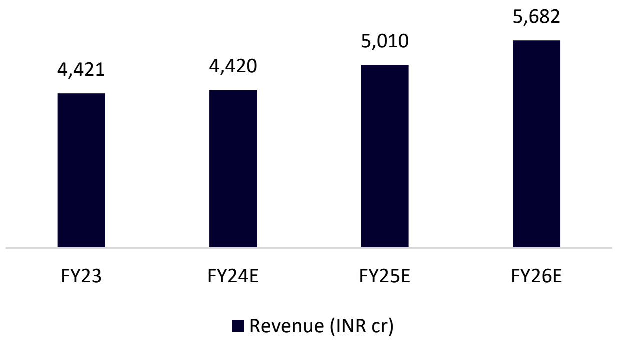


Exhibit 2: …led by channel mix tilting towards retail…

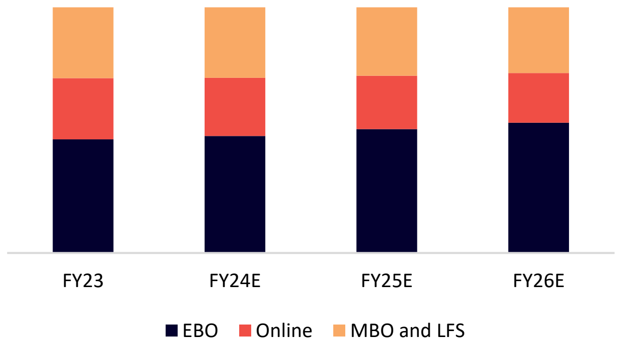


Exhibit 3: …aided by ~150-170 net new store additions annually over FY24-26…

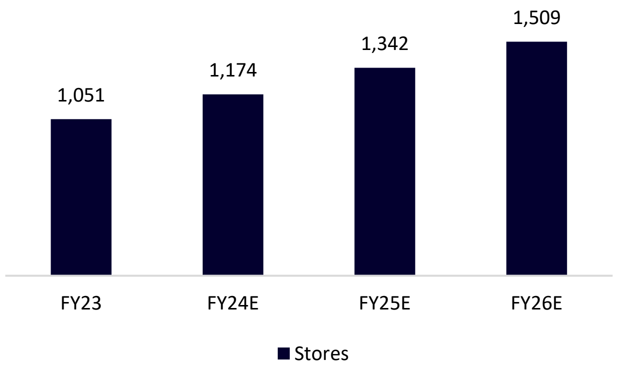


Exhibit 4: …with EBITDA margin (%) expansion of 340bp…

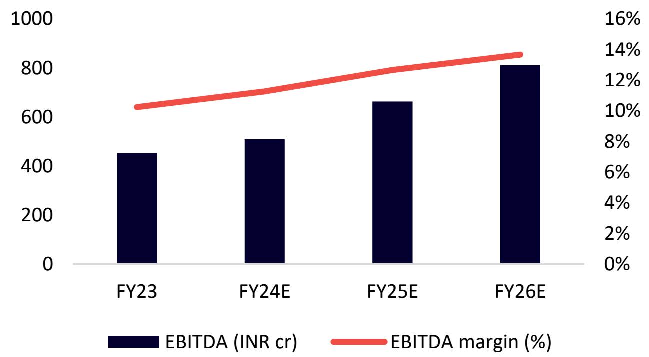


Exhibit 5: …leading to 7x growth in PAT (INR cr) over FY22–26 and…

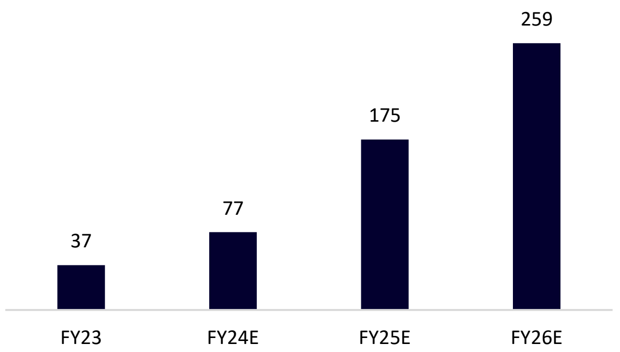
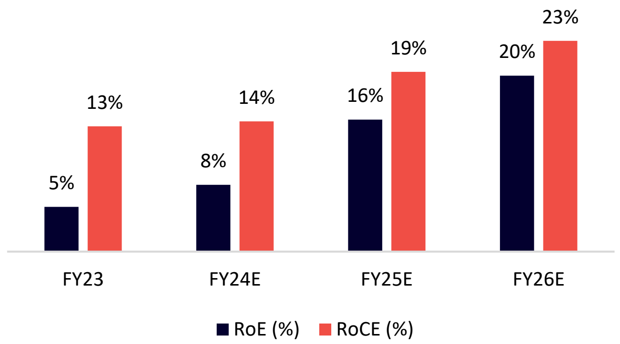


Exhibit 6: …with return ratios expanding in the coming years



Source: Nuvama Wealth Research

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Arvind Fashions at a glance:

Exhibit 7: Financial snapshot

INR cr	FY23	FY24E	FY25E	FY26E
Channel Mix - % (est)				
EBOs	46%	47%	49%	52%
Online	23%	23%	22%	21%
MBOs and online	31%	31%	29%	27%
Stores				
USPA	405	435	475	510
Tommy Hilfiger	98	106	124	144
Calvin Klein	72	82	97	109
Arrow	226	271	316	366
Flying Machine	250	280	330	380
Revenue	**4,421**	**4,420**	**5,010**	**5,682**
Revenue growth %	45%	0%	13%	13%
Gross Profit	**2129**	**2210**	**2530**	**2898**
Gross margin %	***48%***	***50%***	***51%***	***51%***
A&P spend	137	137	150	170
A&P - % of sales	*3%*	*3%*	*3%*	*3%*
Rent Expenses	20	44	50	57
Rent - % of sales	*2.6%*	*2.6%*	*2.6%*	*2.6%*
Rent - % of sales (pre IND AS)	*4.5%*	*4.8%*	*4.5%*	*4.5%*
Comission Expenses	512	504	556	625
	12%	*11%*	*11%*	*11%*
Royalty Expenses	195	199	220	250
	4.42%	*4.50%*	*4.40%*	*4.40%*
EBITDA	**453**	**498**	**640**	**777**
EBITDA margin (%)	***10%***	***11%***	***13%***	***14%***
EBITDA margin (pre IND-AS)	*7%*	*7%*	*9%*	*10%*
PAT	37	77	175	259
PAT growth %	*NA*	*109%*	*126%*	*49%*
Debtor days	46	45	43	40
Inventory days	81	80	80	80
Creditor days	84	90	90	90
W.C. days	43	35	33	30
RoE (%)	5%	8%	16%	20%
RoCE (%)	13%	14%	19%	23%
Operating cash flows	317	453	570	722
Free cash flows	254	373	480	622
Debt	598	398	268	118

Source: Company, Nuvama Wealth Research

Investment rationale

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I. Strong portfolio of brands

ARVINDFA's portfolio of marquee brands includes ***USPA, TH, CK, Arrow, and FM***. Its focus is on growing these brands, led by premiumisation and entry into adjacent categories

ARVINDFA has a portfolio of marquee brands which command huge brand recall among its consumers. These brands will benefit from the rise in per capita income in India and the current premiumisation play. The management has a clear strategy for expanding the footprint of these brands and entering Tier II and III cities in India where the potential remains untapped given the absence of many options for consumers. It has a portfolio of five industry-leading brands — USPA (mid-premium category) TH (premium category), CK (super-premium - which act as a bridge between the premium and luxury segments), Arrow (mid-premium and premium) and FM (value to mid-premium). All these brands have achieved sizeable scale, with a good visibility among consumers). Its next step will be to grow these brands.

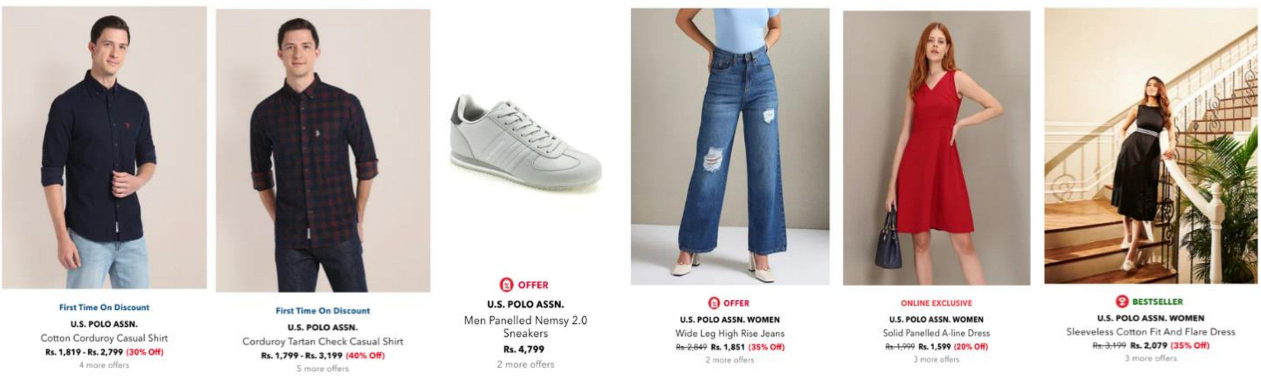
Exhibit 8: Brand positioning

Brand	Brand size by FY24 (est.)	Brand positioning
USPA	~INR2,000cr	A mid-premium casual wear brand. Offerings include men's wear, women's wear, kids' wear, innerwear, and footwear
TH	INR700cr+	A premium brand. Offerings include men's wear, kids' wear, innerwear, and accessories
CK	~INR450cr	A mass-premium brand. Offerings include men's wear, kids' wear, innerwear, and accessories
Arrow	~INR800cr	A premium men's wear brand. Offerings include detachable collars. auto press shirts, trousers with adjustable waistbands, polo shirts, and stain-resistant clothing
FM	INR450cr+	A mid-premium to premium youth-oriented brand. Offerings include men's wear, kids' wear, innerwear, footwear, and accessories

Source: Company, Nuvama Wealth Research

- Among its portfolio of brands, we note that USPA, TH, and CK are in auto pilot mode and focus would be driving the growth through premiumisation and adjacent categories expansion. As adjacent categories gain scale, margin will expand on account of positive operating leverage from these categories.
- The management is aggressively expanding the retail footprint of Arrow and FM. As these brands gain scale, their margin should expand on account of positive operating leverage.
- **Going forward, the management only intends to operate those brands, which have a potential to become market leaders in their respective categories. The management does not want to create a new brands from scratch and focus will be on scaling-up.**
  For example, management doesn't intend to enter a category where the market leader is a dominant player (For example, ethnic space).

USPA is among India's leading casual wear brands with a strong multi-category and multi-channel play, available as a price bridge between the mid-premium to premium segment. ARVINDFA is expanding in smaller towns by opening exclusive brand outlets (EBOs) and deeper penetration of multi-brand outlets (MBOs). It is focusing on expansion through the online channel and has launched its own website (www.uspoloassn.in) to boost growth.



Source: NNNOW.COM by Arvind Fashions

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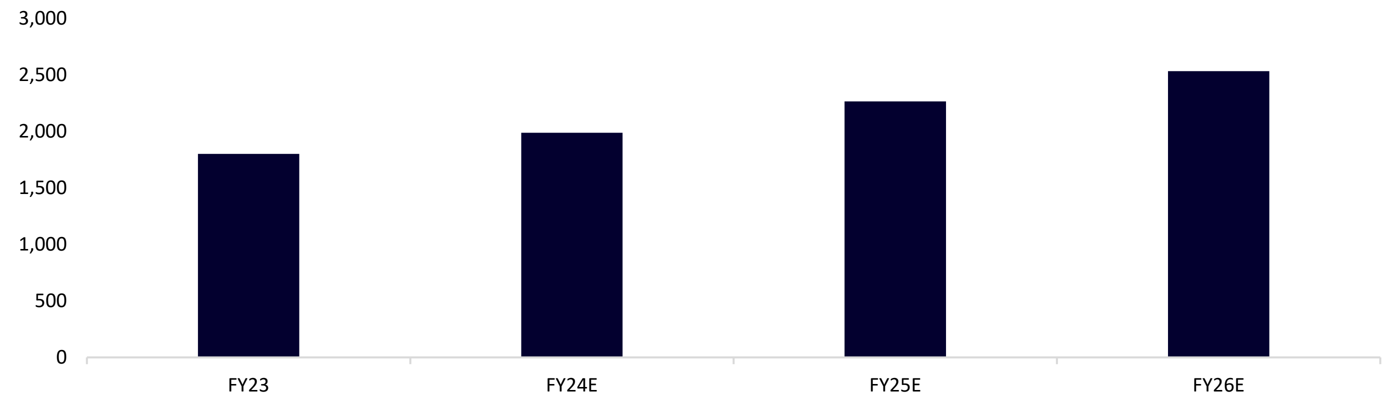
The brand was launched in India in 2009 and is close to achieving sales of ~INR2,000cr in FY24. USPA has a strong retail presence, with 405 stores (average size 1,500 sq. ft.) across 173 cities at the end of FY23. It plans to open 30-50 stores in FY24. Most new stores will be in Tier II and III cities. Expansion into adjacent categories such as women's wear, kids' wear, innerwear, footwear, and accessories can provide large opportunities and multiple growth levers for the brand. We expect 11% revenue CAGR over FY23–26.

Exhibit 9: Sales for USPA (INR cr)

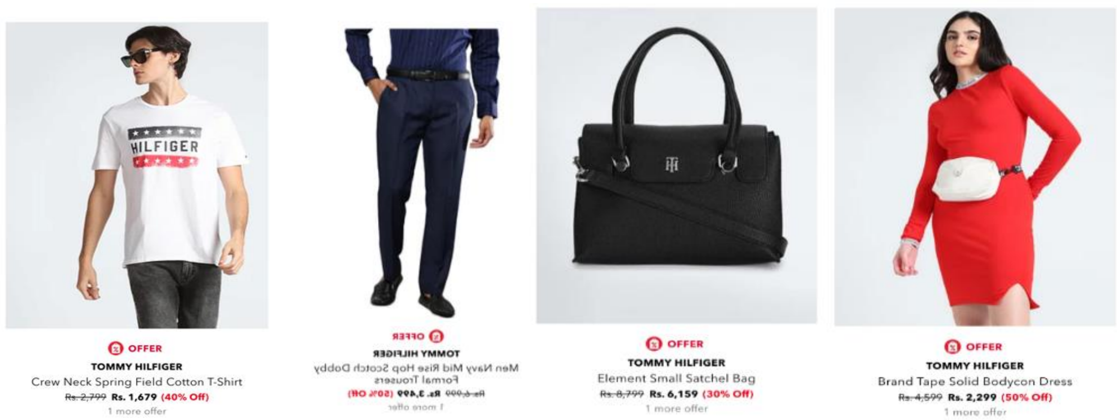


Source: Company, Nuvama Wealth Research

Tommy Hilfiger and Calvin Klein

TH and CK are a part of ARVINDFA's portfolio, housed under its JV: PVH Arvind Fashion Pvt (PVH).

TH is recognised as a premium lifestyle brand in India. It offers premium quality and value to consumers with a breadth of collections including men, women, and kids' sportswear, denim, accessories, and footwear. The brand was launched in 2004 and has a strong presence with ~100 retail stores across India. The brand also operates through online and large format stores (LFS).



Source: NNNOW.COM by Arvind Fashions

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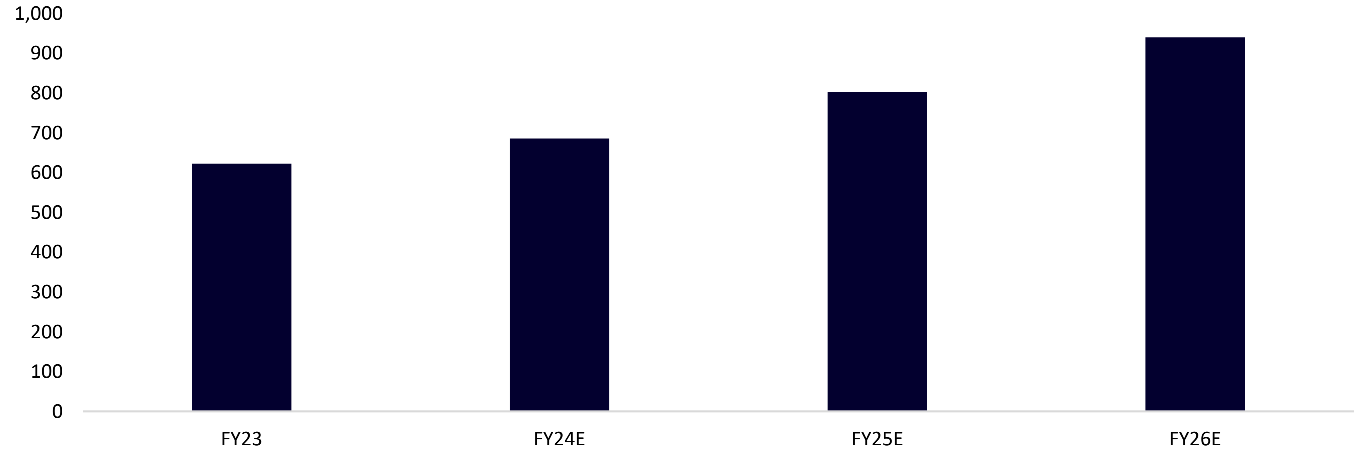
TH is planning to expand into newer markets by opening stores in Tier II and III towns while accelerating growth in the online channel. We expect it to open 8-10 net stores in FY24. TH can also benefit from expansion across adjacent categories such as tailored lines, women and kids wear, innerwear, and accessories. Premiumisation, market expansion, and opening of stores in Tier II and III cities provide the brand multiple growth opportunities. The management expects TH to grow at 12–15% over the medium term. We have factored in 14% CAGR over FY23–26. As per our estimates, the brand is operating at a low to mid-teen margin and has room to grow by ~200bp over FY23–26.

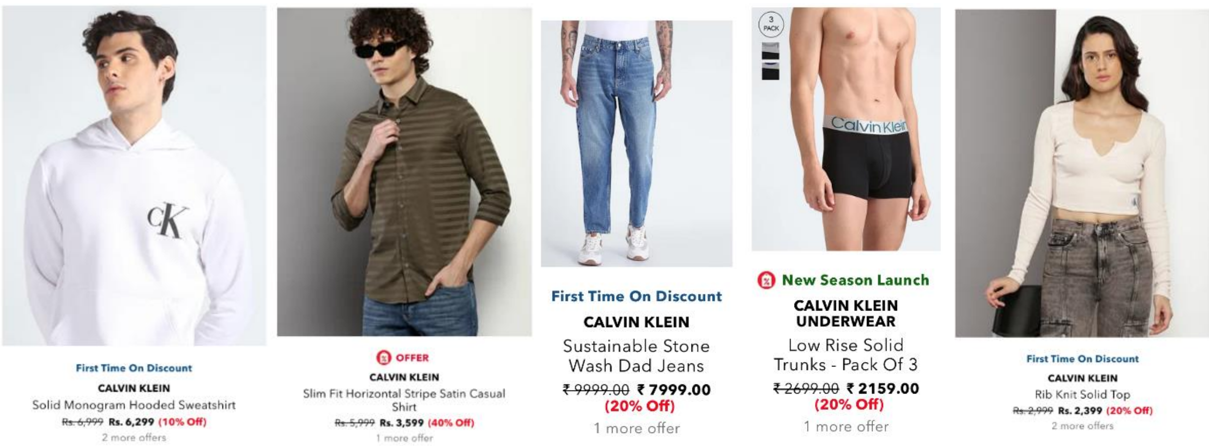
Exhibit 10: Sales for TH (INR cr)



Source: Company, Nuvama Wealth Research

Calvin Klein

It is one of the world's leading global fashion lifestyle brands. Launched in India in 2007 in India, the brand achieved sales of more than INR400cr in FY23 as per our estimates. It commands leadership in the luxury jeans, t-shirts, and innerwear segment.



Source: NNNOW.COM by Arvind Fashions

The brand has a retail presence with 72 stores across 34 Indian cities. We expect it to add 10 net stores in FY24. The management expects revenue to grow at 12–15% in the medium term. We have factored in a growth of ~13% over FY23–26.

Accessories such as footwear and wallets provide additional growth opportunities for the brand. Its strategic focus on store upgrades and the introduction of multi-category stores in the last few years has boosted the productivity of its retail channel.

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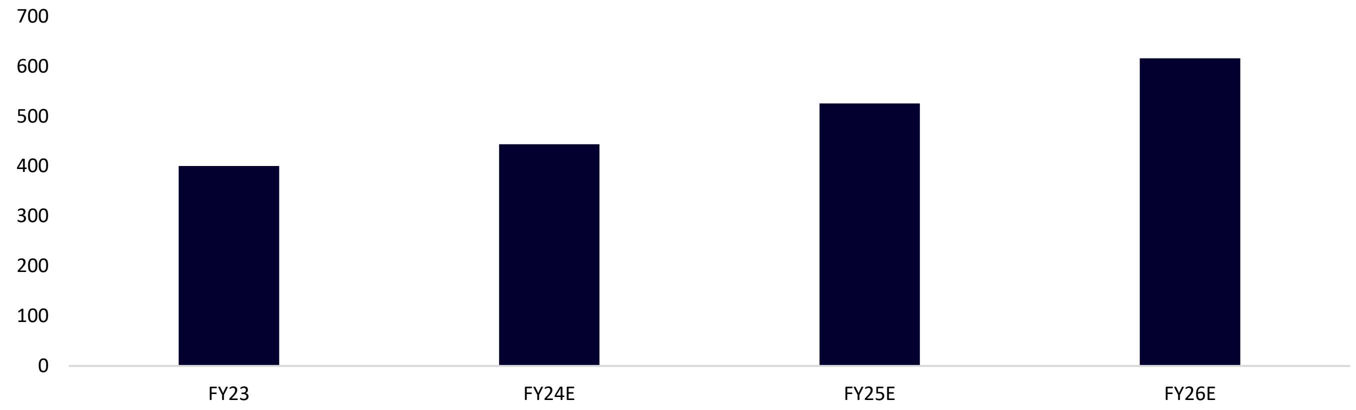
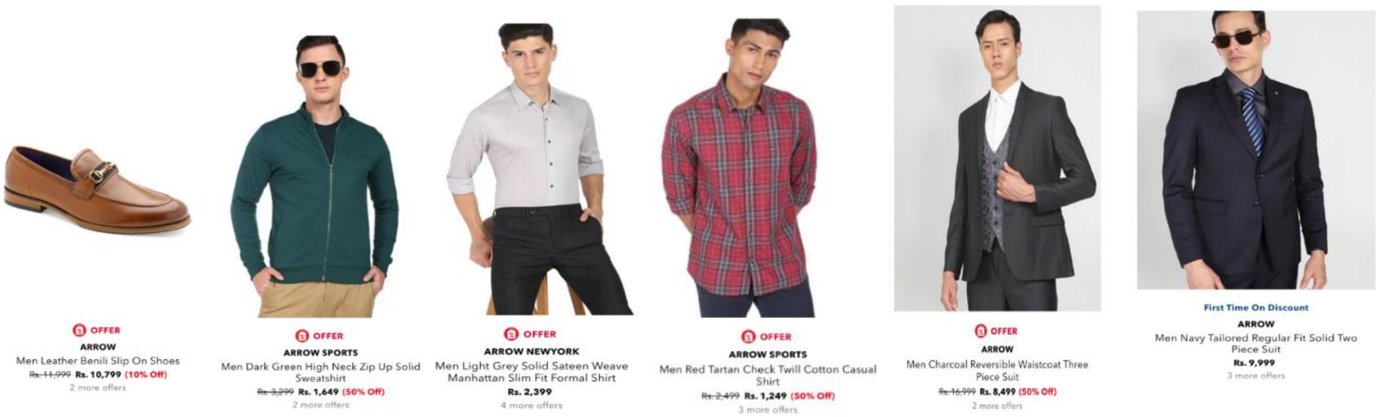
Exhibit 11: Sales for CK (INR cr)



Source: Company, Nuvama Wealth Research

Arrow was launched in India in 1993 as a first-of-its-kind premium international brand. Its innovative offerings include detachable collars, auto press shirts, anti-UV shirts, trousers with adjustable waistbands, perfect polo shirts, and stain-resistant and lightweight clothing. This established premium men's wear brand offers product lines such as formal and casual wear. Over the years, Arrow's high dependence on the MBO channel led to the build-up in inventory. It took corrective actions like stopping the long payment cycle of customers, which impacted its performance. Performance was also hit by the loss of the institutional business (~10% of sales). It restructured the business after the lifting of COVID-related restrictions, with a full price sell-through and higher LTL wholesale growth.



Source: NNNOW.COM by Arvind Fashions

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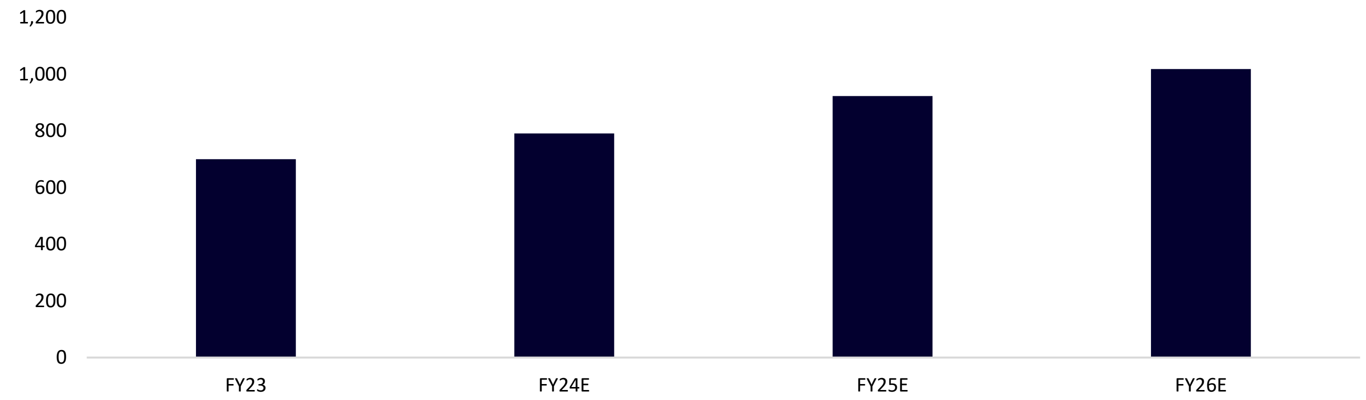
ARVINDFA has been driving Arrow's sales through product launches such as Arrow New York to cater to younger customers, evening work-wear demand, suits and blazers for special occasions, and online-specific launches. The brand now sports a new logo. It upgraded its top stores to offer a superior retail experience and roped in Hrithik Roshan as its brand ambassador. The management intends to expand the brand's EBO network aggressively from hereon. Arrow has an EBO network of 226 stores across 110 cities.

Exhibit 12: Sales for Arrow (INR cr)

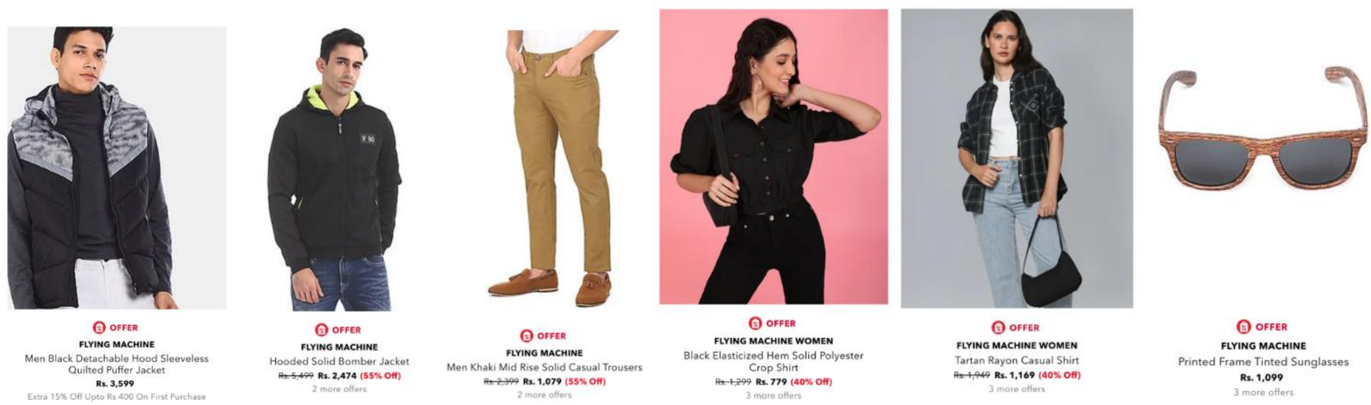


Source: Company, Nuvama Wealth Research

We estimate 13% revenue CAGR for Arrow over FY23–26 and see it scaling up to an over INR1,000cr brand. All measures that ARVINDFA has taken will help the brand gain scale and can result in positive operating leverage. We peg Arrow's margin at 5.5% by the end of FY23 and have a potential to scale up to ~14% by FY26.

Flying Machine

FM is ARVINDFA's homegrown, digital-first, youth-oriented jeans brand. Though over 40-years old, it still retains its digital first youth-oriented spirit. We estimate that more than 30% of the brand's revenue accrues from the online channel (majorly from Flipkart and Myntra). It has been making significant investments to de-risk itself from being an online dependent brand and is looking to aggressively add EBOs.



Source: NNNOW.COM by Arvind Fashions

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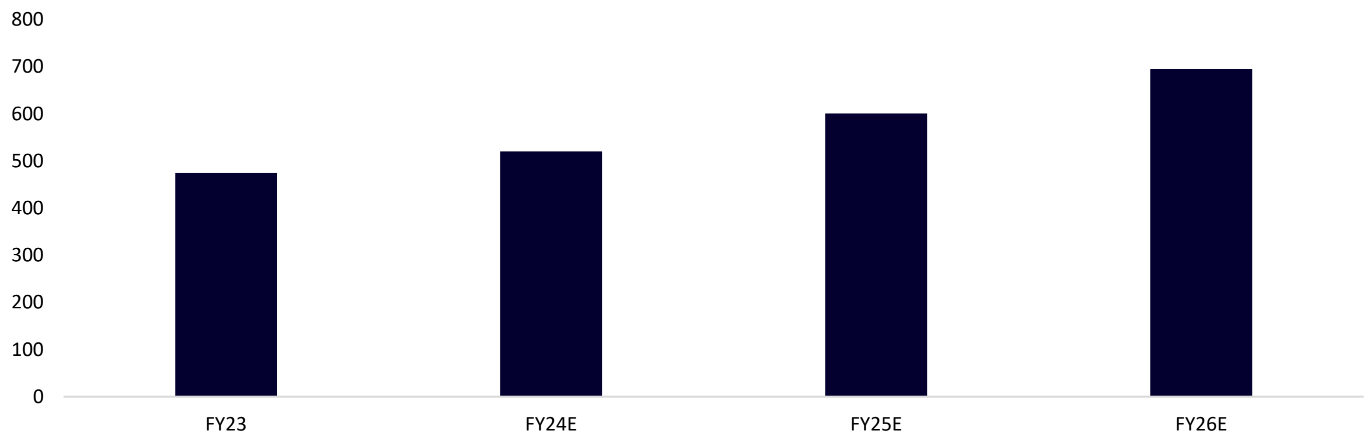
In July 2020, Flipkart acquired a minority stake in Arvind Youth Brands Pvt for INR260cr. This subsidiary of ARVINDFA owns the FM denim brand. The brand has 250 stores across 150 cities. We expect FM to clock 12% revenue CAGR over FY23–25, with EBITDA margin expanding to 9%+ in FY25 from 7% in FY23. Category expansions into adjacencies such as kids' wear, innerwear, footwear, and accessories can provide incremental opportunities for growth.

Exhibit 13: Sales for FM (INR cr)



Source: Company, Nuvama Wealth Research

Exhibit 14: Brand-wise store footprint

Particulars	FY20	FY21	FY22	FY23
USPA				
Stores	394	376	391	405
Cities	163	163	172	173
Tommy Hilfiger				
Stores	93	96	98	98
Cities	38	38	39	41
Calvin Klein				
Stores	71	69	76	72
Cities	32	32	32	26
Arrow				
Stores	286	267	212	226
Cities	122	122	112	110
Flying Machine				
Stores	252	279	270	250
Cities	138	138	111	150
Sephora				
Stores	24	24	25	26
Cities	12	12	13	13

Source: Company, Nuvama Wealth Research

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Exhibit 15: Competition in the apparel space, USPA leading the category

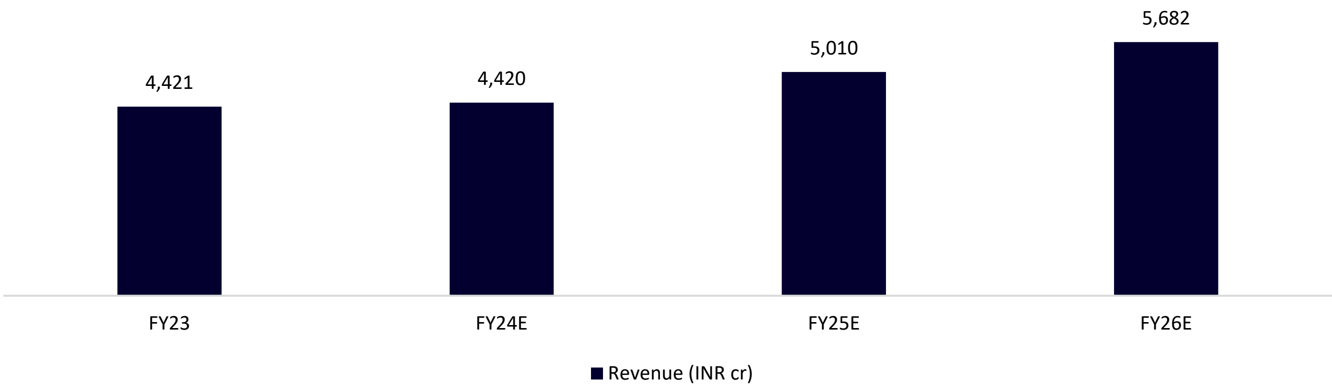
Year	Brand	EBO Store Count
FY23	U.S. Polo	405
FY23	Tommy Hilfiger	98
FY23	Calvin Klein	72
FY23	Mufti	379
FY22	Benetton	400
FY22	Levi Strauss & Co.	357
FY22	Spykar	240
FY22	Wrogn	58
FY23	Indian Terrain	182
FY23	Killer	382
FY22	Jack & Jones	161

Source: Company, Nuvama Wealth Research

We note that USPA has highest number of EBO count and city penetration among peers and in the industry and there is a lot of room for other brands to catch up in terms of city penetration.

We expect 14% CAGR in consolidated revenue over FY23–26 given its focus on achieving profitable revenue growth which may cause it to grow a tad slower than peers in the near-term.

Exhibit 16: Consolidated revenue trend



Source: Company, Nuvama Wealth Research

- *With more than 400 EBOs and strong performance in adjacencies like footwear,* ***USPA*** *has become a powerhouse brand for ARVINDFA and is dominating India's casual lifestyle space.*
- *Both* ***PVH brands (TH and CK)*** *have seen strong traction after the lifting of COVID-related restrictions and act as a bridge between the premium and luxury casual wear space, with the premiumisation theme driving industry-leading full price sell-through and retail LTL.*
- *We expect* ***Arrow and FM*** *to scale-up as the company is now focusing on aggressively investing in Arrow and FM with a refreshed portfolio, new brand identity, and upgraded offerings, in addition to entering relevant adjacencies. It intends to scale-up these brands and improve margin via operating leverage and better productivity.*

II. A classic turnaround story

Over the years, ARVINDFA has exited non-core and non-performing brands to focus on high conviction brands (USPA, TH, CK, FM, and Arrow).

Exhibit 17: Nine brand exits over FY20–23 led to a leaner Balance Sheet

Period	Brand	Stores	Revenue (INR cr)
FY20	GANT	20–25	200–300 (combined)
FY20	Nautica	30–35	
FY20	Elle	5–10	
FY20	Izod	5–10	
FY21	The Children's Place	10–15	
FY21	Hanes	NA	
FY21	GAP	15–20	~200
FY22	Unlimited	74	530
FY24	Sephora	26	350

Source: Company, Nuvama Wealth Research

This has freed up capital from its Balance Sheet. ARVINDFA exited GANT, Nautica, Elle, and Izod in FY20 and discontinued GAP, TCP, Hanes, Newport, and Ruf & Tuf in FY21. Unlimited was sold off in FY22. This exercise over FY20–21 led to freeing up INR150cr of capital employed. It sold the 'Unlimited' retail business in FY22 for ~INR180cr. Recently, it sold its premium beauty brand Sephora for INR216cr.

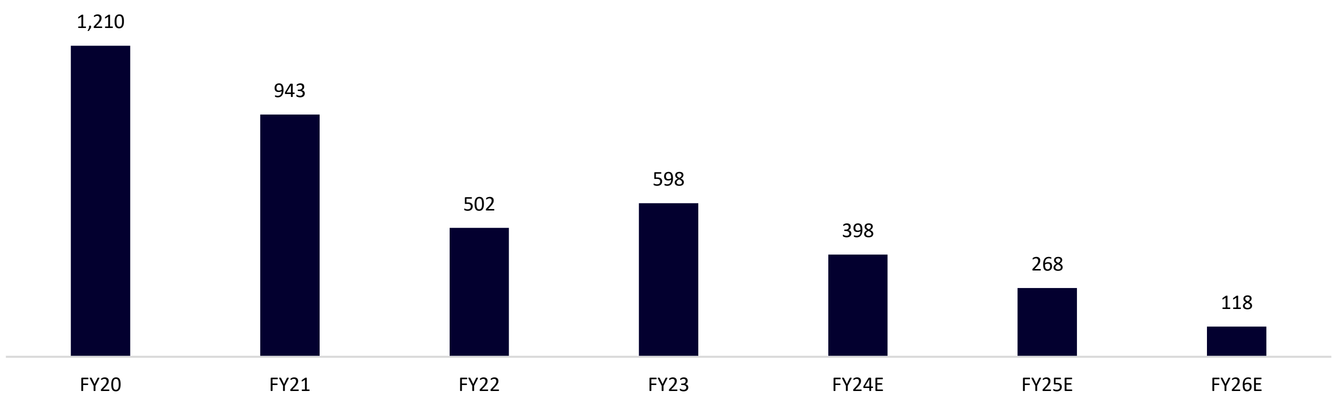
It has undertaken a series of rights issues and a preferential allotment. It also raised funds from the sale of a stake in Arvind Youth Brands (FM). This enabled it to pay off its debt, which had risen to INR1,200cr in FY20.

Exhibit 18: Details of the funds raised and recent investments

Period	Type of issue	Amount raised (INR cr)
July 2020	Right issue	400
July 2020	Investment by Flipkart	260
February 2021	Right issue	200
September 2021	Preferential allotment	400

Source: Company, Nuvama Wealth Research

Exhibit 19: Debt reduction to continue



Source: Company, Nuvama Wealth Research

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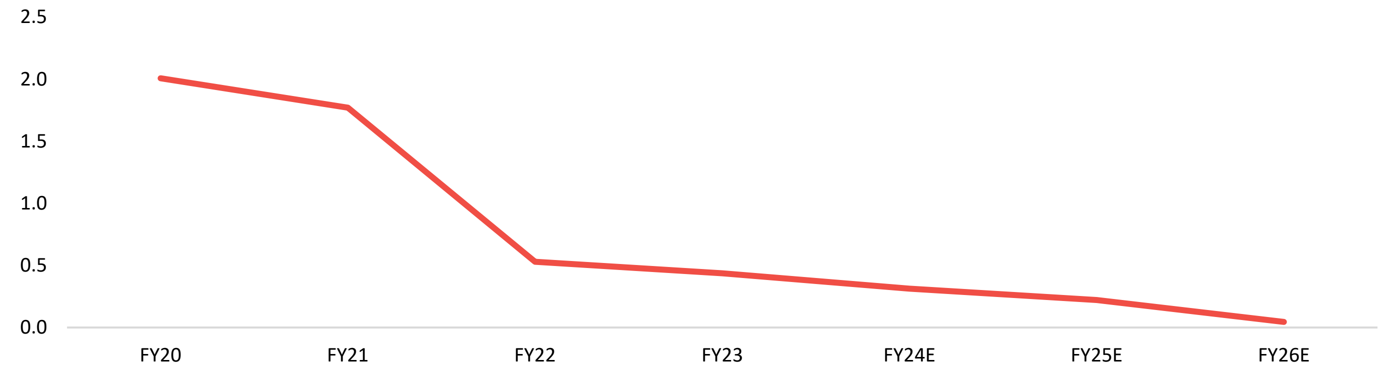
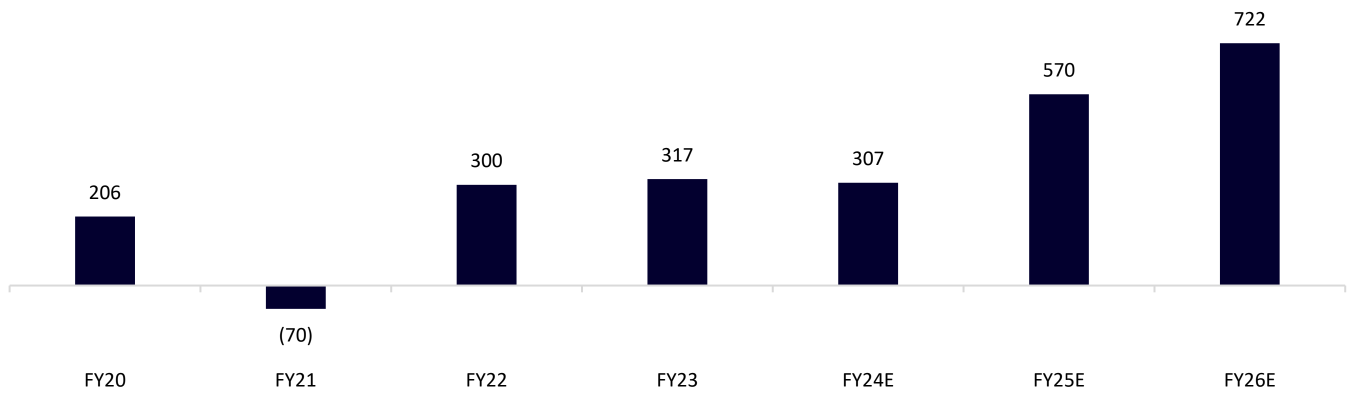
Exhibit 20: Improvement in net debt to equity ratio over the years



Source: Company, Nuvama Wealth Research

It has utilised proceeds from the sale of non-core businesses to pay off its debt over the last three years. This has led to freeing up of working capital to grow its five marquee brands.

Exhibit 21: Operating cash flows to stay healthy (INR cr)



Source: Company, Nuvama Wealth Research

The company can generate healthy operating cash flows. The management intends to grow its five core brands. As retail expansion will be under the FOFO model, the capital required would be minimal. We expect healthy operating cash flows ahead to be utilised to pare down its debt.

III. Brand extensions into adjacent categories provide new growth avenues

ARVINDFA has been working on restructuring its business since FY20 and has exited non-core businesses. Its brand portfolio has achieved scale and appropriate market share in their respective categories. The management is planning to foray into adjacent categories. In the last two-to-three years, it has diversified into fast-growing categories like kids' wear, women's wear, footwear, innerwear, comfort wear, and accessories through brand extensions. It is leveraging its strength in existing brands to tap opportunities like sports and athleisure. This will help the brands diversify their business.

Exhibit 22: Brand-wise category extensions

Brands	Footwear	Innerwear	Accessories	Luggage/ Handbags	Kids Wear	Womens Wear
USPA	✓	✓	✓	✓	✓	✓
Tommy Hilfiger	✓	✓	✓	✓	✓	✓
Calvin Klein	✓	✓	✓	✓	✓	✓
Arrow	✓		✓			✓
Flying Machine	✓		✓	✓		✓

Source: Company, Nuvama Wealth Research

Exhibit 23: Adjacent categories achieve considerable scale

Category	Size (FY23)
Innerwear	INR150cr
Kids' wear	INR100cr
Footwear	INR250cr

Source: Company, Nuvama Wealth Research

We estimate brand extensions to contribute ~15% to total sales, with the share of adjacent categories in USPA at over 25%. CK has a very strong innerwear, belt, and footwear lineup. It has also expanded its footwear line up under the Arrow and FM brands

The footwear category has outgrown overall revenue and has achieved a run-rate of INR250cr despite the company not spending on promoting it. The management plans to start promoting this category, which will aid growth. Most sales in accrue under the USPA brand. Recently, ARVINDFA launched footwear under the FM brand in the online value segment. It is seeing a good response. It is also working on launching casual footwear under the Arrow brand. The management is targeting footwear sales of INR500cr over the next three years (25% CAGR).

Revenue from innerwear has grown to INR150cr. Although the whole category is facing a slowdown after the high base of COVID, the management expects the category to grow at par with consolidated sales.

IV. Move to a consignment-based model leads to better inventory control and higher inventory turns

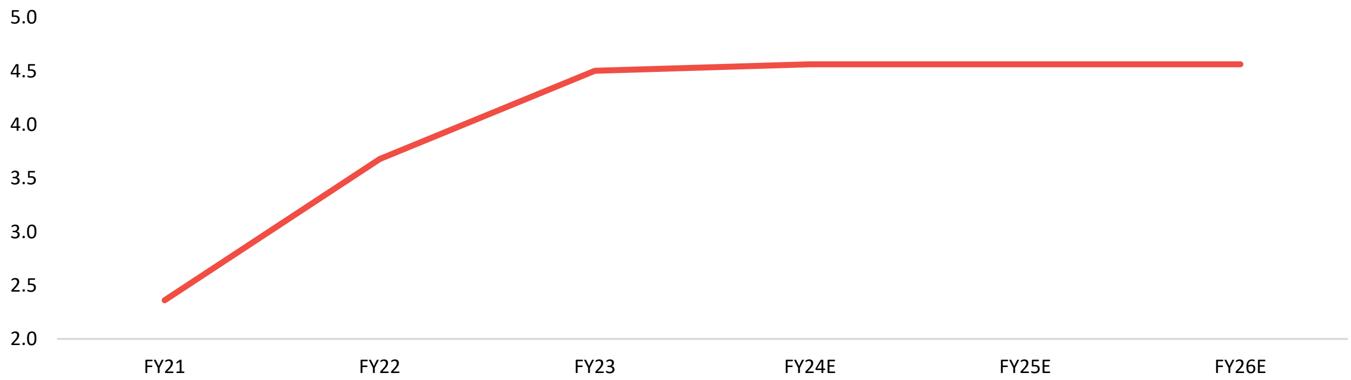
In a break with the past, ARVINDFA has moved its retail business to a consignment-based from a sale or return (SOR) inventory model. In the consignment-based supply-chain model, a product is sold by a retailer, but ownership is retained by the supplier until the product has been sold. ***This leads to greater control over inventory, better analysis of customer responses towards a particular product, and faster gauging of the changes in consumer trends.***

Exhibit 24: Understanding the consignment inventory model

Source: www.netsuite.com

With the help of Vector Consulting, the management is trying to reduce the time taken from ideation to shelf and is optimising inventory transfers across stores. All this led to inventory turns improving to ~4x in FY23 from 2.4x in FY21.

Exhibit 25: Continuous improvement in inventory turns (x)



Source: Company, Nuvama Wealth Research

ARVINDFA has seen a visible improvement in inventory turns which is the result of it exiting non-core brands and shifting to the consignment model. We expect inventory turns to touch ~4.6x by FY25.

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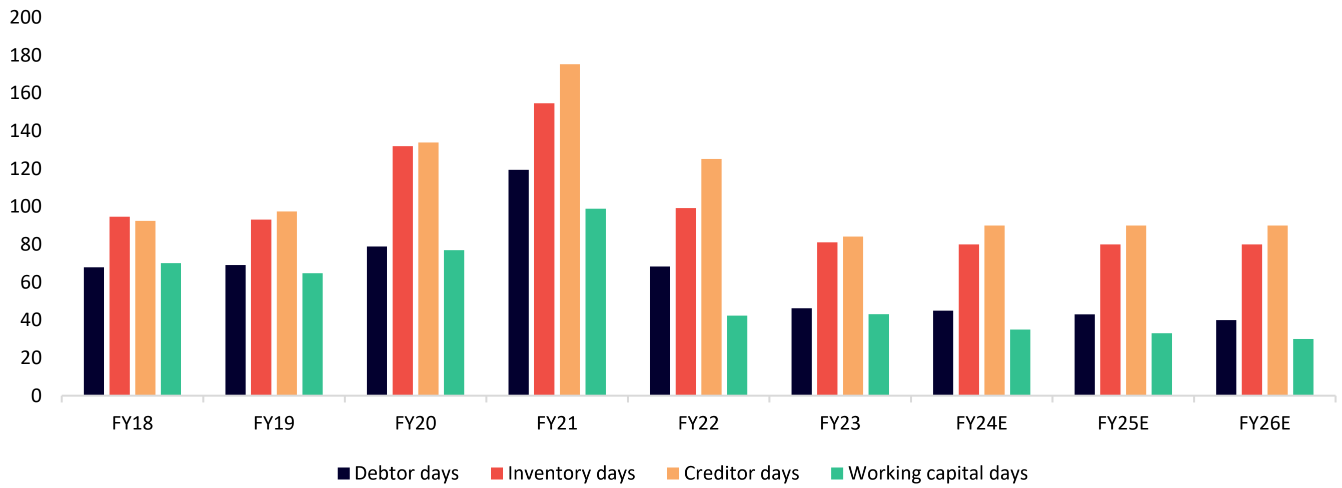
Sharp focus on ushering working capital efficiencies

Working capital days has shortened to 43 in FY23 from 70 in FY18. (It stood at 77/99 in the COVID-affected FY19/FY20). It has also reduced its debtor/inventory days to 46/81 in FY23 from 68/95 in FY18. Debtor days improved due to a superior retail channel mix and better collections. Aggressive retail expansion ahead should strengthen debtor days further. The management is confident of sustaining payables at 90–100 days going forward.

Exhibit 26: Working capital cycle getting leaner



Source: Company, Nuvama Wealth Research

V. Future growth drivers

Premiumisation:
Brands USPA, TH, and CK are positioned as aspirational and international, catering to the young population. With 50%/65% of India's population below the age of 25/35, we note that premiumisation will be the core theme across these brands. The management has been focusing on innovations and product extensions, especially in USPA and Arrow. USPA aims to premiumise its product offerings across polo shirts, chinos, and jeans. In Arrow, it has been premiumising the brand by launching superior quality products. It launched a wrinkle-free auto press line to elevate the customer experience. TH and CK are at play in the superior premium category. TH launched its 'tailored line' targeting the super-premium category.

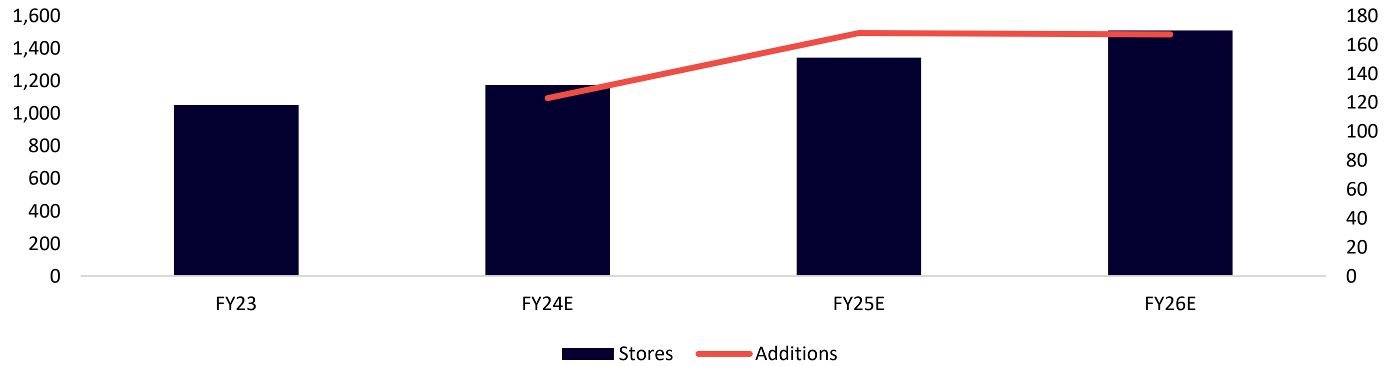
Brands such as USPA, TH, and CK have been outgrowing the management's internal growth target on account of premiumisation. The management expects these brands to grow at 12–15% driven by premiumisation and retail expansion. We think these brands can surprise in terms of their growth potential.

Adding ~150-170 stores (net) annually for the next two-to-three years
ARVINDFA's multi-channel approach has been driven by its retail footprint expansion in the last couple of years. It has a pan-India footprint in more than 170 cities and a presence across all major e-commerce platforms. As of H2FY24, it has over 1,100 brand stores, more than 5,000 counters in departmental stores, and over 11,000 MBOs. The management aims to add 150-200 stores annually
EBOs provide an immersive brand experience to customers by boosting the brand's visibility and market presence.

Store additions will be largely through the FOFO model, with expansion mainly in Tier II and III towns. We expect major retail expansion in Arrow and FM, which have room to catch up in terms of penetration and size, followed by USPA. We expect PVH brands (TH and CK) to collectively add more than 30 stores annually. We expect the store count to reach 1,509 by FY26, which implies an average store addition run-rate of ~13%.

- *On channel-mix, the company is focusing on growth driven by retail expansion and hence its contribution is going to increase.*
- *MBO+LFS channel is growing at a healthy rate and should continue to do so.*
- *Online channel consists of B2B (70% contribution) and B2C (30% contribution). B2B channel is de-growing given the high base of covid. However, B2C is growing well. ARVINDFA has started serving its online orders thorugh its stores which (omnichannel stores) and almost 90% of its total stores are now omnichannel stores.*

Exhibit 27: Store additions over the years



Source: Company, Nuvama Wealth Research

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Margin expansion: Past, present, and future

Past

- The significant improvement in margin from pre-COVID levels was driven by sale of non-performing brands and a major advancement in margin for TH.
- USPA's margin is below pre-COVID levels due to a ramp-up in adjacent categories like footwear, innerwear, and kids' wear. We note that apparel margin has improved from pre-COVID levels.
- Arrow's margin is below pre-COVID levels due to: i) loss of institutional sales (10% of pre-COVID sales), and ii) lower exposure to the high margin MBO channel (that fell by almost half from pre-COVID levels), which resulted in a negative operating leverage.
- The margin for FM has fallen from pre-COIVD levels as ARVINDFA expands the retail channel and contributions from the high-margin MBO channel fell from pre-pandemic levels.

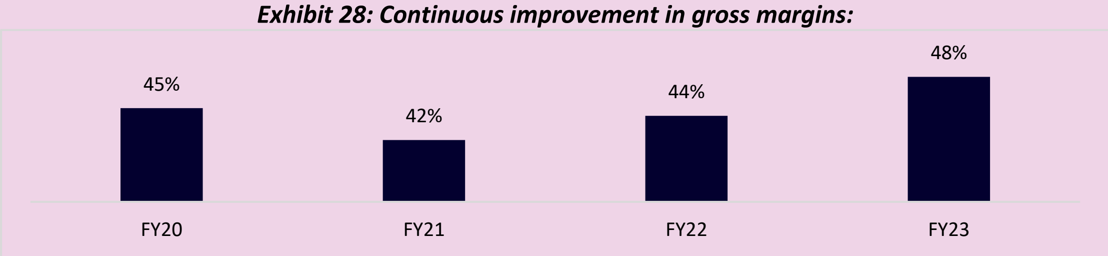
Future

- We expect margin expansion in USPA to play out driven by adjacencies gaining scale.
- We expect an improvement in profitability in Arrow and FM as these brands gain scale (positive operating leverage).
- There was a significant improvement in margin for CK from pre-COVID levels. It can improve further as the brand gains scale.
- There is a drag on EBITDA of INR20cr in FY24 on account of drawdown of brands Aeropostale and Ed Hardy. It would reduce to INR10cr in FY25. This would also translate to margin expansion for the company.

Typically, a good brand makes 50-55% of total sales at full price. After that, 30-35% of sales are done through EOSS and return+online sales include 15-20%. If there is still any inventory remaining, that goes to factory outlets and through liquidation.

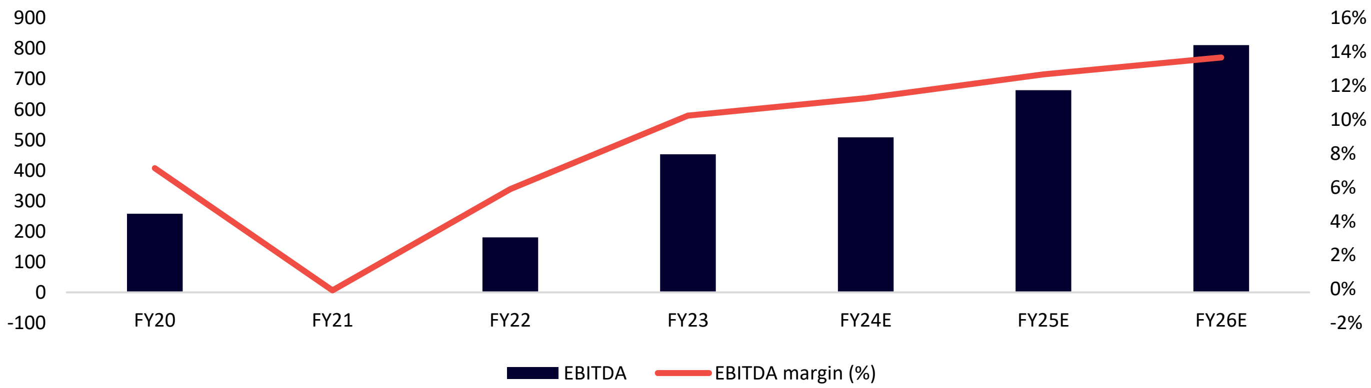
What's interesting according to our channel checks is that for ARVINDFA, all its brands do more than 55% of its sales at full price sale throughs. The management has focused on full price sale throughs over the years and plans to improve this going forward too. The management aspires to bring contribution of full-price sell throughs at 60% for all brands in the long term.

Exhibit 28: Continuous improvement in gross margins:



Source: Nuvama Wealth Research

Exhibit 29: EBITDA and EBITDA margin: Past, present, and future



Source: Company, Nuvama Wealth Research

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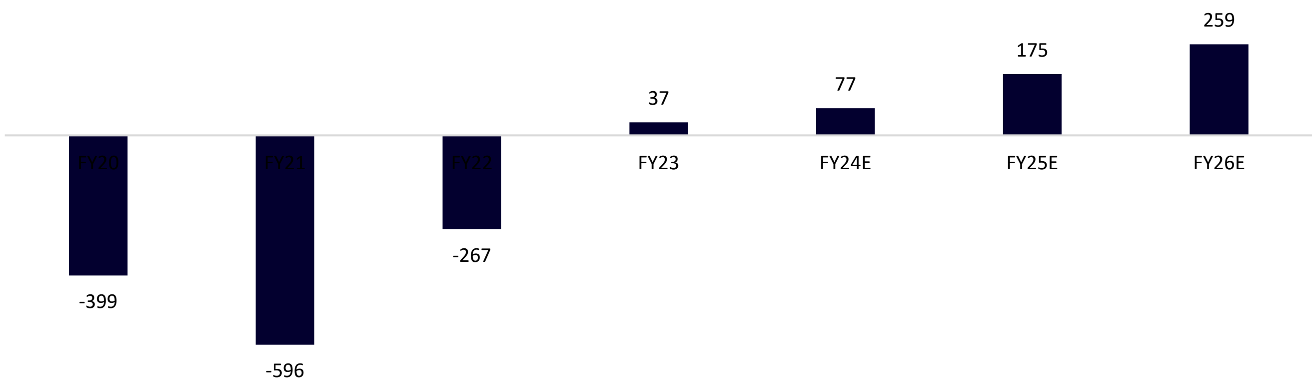
Operational capabilities
ARVINDFA improved its warehousing and logistics supply chain in the last two-to-three years and consolidated its B2B warehouses to four from 11 to usher in cost efficiencies. It added four e-commerce warehouses to boost its regional fulfilment capabilities in Kolkata, Lucknow, Ahmedabad, and Hyderabad.

We expect post-Ind AS margin to expand by 340bp (FY23–26) and reach 13.7% by FY26 (implying an average annual expansion of 110bp).
The management aims to expand the margin by 150bp in a good year and 100bp in a year when demand is affected by external factors. It also expects margin to touch 16% over the longer term.

Profit returns to the black
The management's focus on improving EBITDA margin (480bp improvement over FY18–23) and paring down of debt has resulted in the scaling down of interest expenses to INR138cr in FY23 from INR274cr in FY20. By selling its non-core and non-performing brands over the years, its depreciation expenses have fallen to INR239cr in FY23 from INR421cr in FY20. This resulted in profit returning to the black. ARVINDFA, which was posting huge losses due to the drawdown of brands and negative operating leverage, posted a profit in FY23. We expect this trend to continue ahead as ARVINDFA scales up its existing set of brands and pays off more debt in upcoming years. We expect profit to grow 6x to INR233cr by FY26 from FY23 levels.

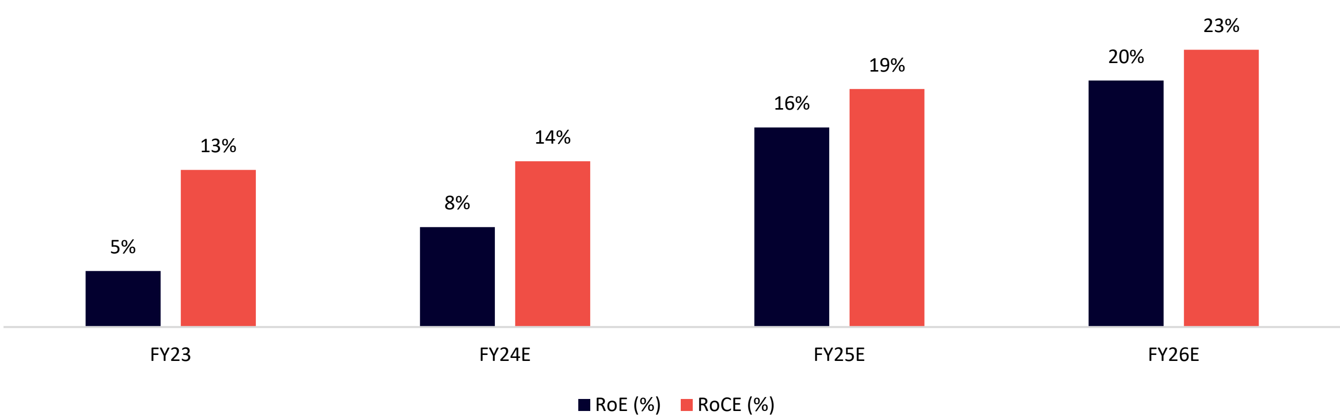
Exhibit 30: Posts a profit in FY23 which will expand by 7x by FY26E



Source: Company, Nuvama Wealth Research

Expect RoCE to touch 20% by FY26: ARVINDFA's debt levels have consistently fallen as it has sold several non-core brands which resulted in cash inflows and freeing up of working capital over the years. This, along with the margin expansion mentioned above, has led to RoCE touching double digits in FY23.

Exhibit 31: Return ratios to expand ahead



Source: Company, Nuvama Wealth Research

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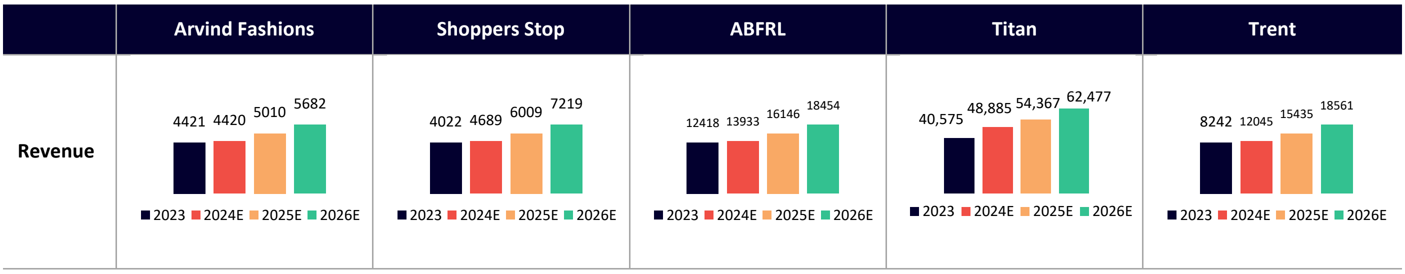
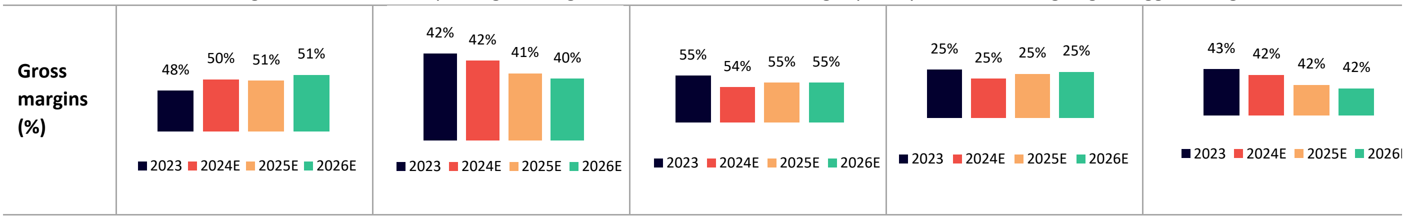
Peer analysis:

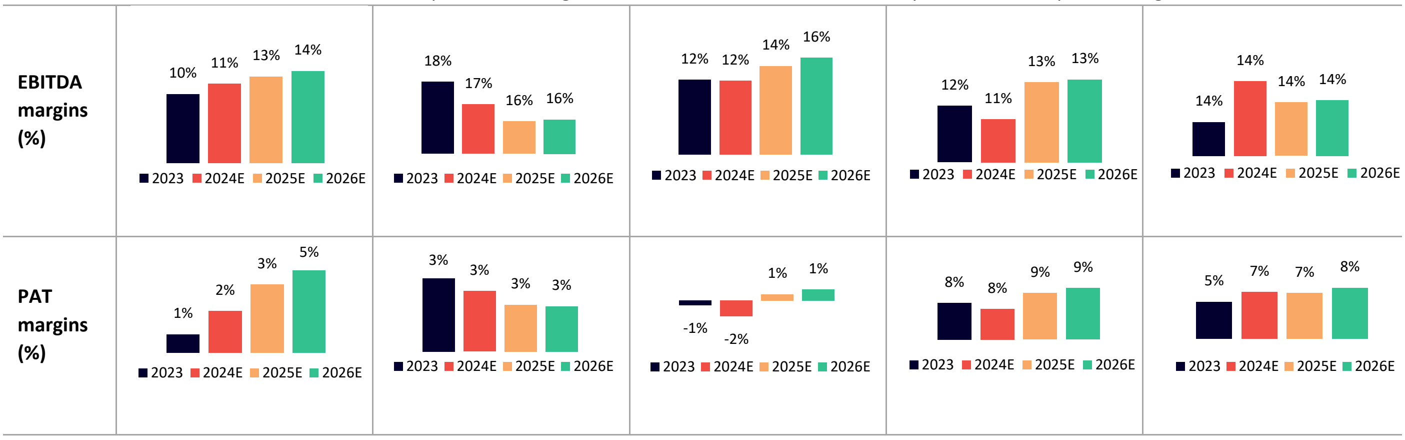
Exhibit 32: Financial comparison of ARVINDFA versus its peers



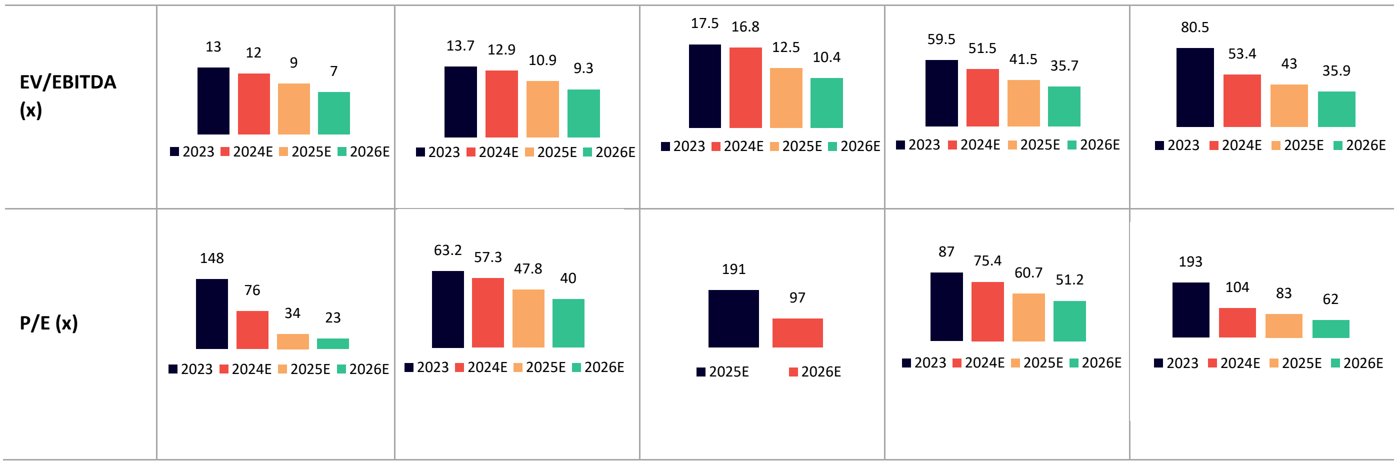
Order of revenue CAGR: Shoppers Stop>Trent>Titan>ABFRL>Arvind Fashions. ARVINDFA's revenue growth is lagging behind on account of sell-ff of its Beauty business in FY24 and management's focus on improving its margins, return ratios and working capital cycle rather than going for aggressive growth.



Gross Margins for ARVINDFA are mainly dragging on account of its brands such as Arrow and FM and is set to improve. However, margins are set to improve on account of increase in contribution from full price sell throughs. ARVINDFA's brands lead the industry in terms of full price throughs.



EBITDA margins for ARVINDFA are set to improve each year on account of its brands and adjacent categories gaining scale, better gross margins and operational efficiencies kicking in. ARVINDFA's margin improvement will be one of the best in among its retail peers except for ABFRL. However, ABFRL is not able to reflect its performance in PAT where ARVINDFA is witnessing improvement consistently.



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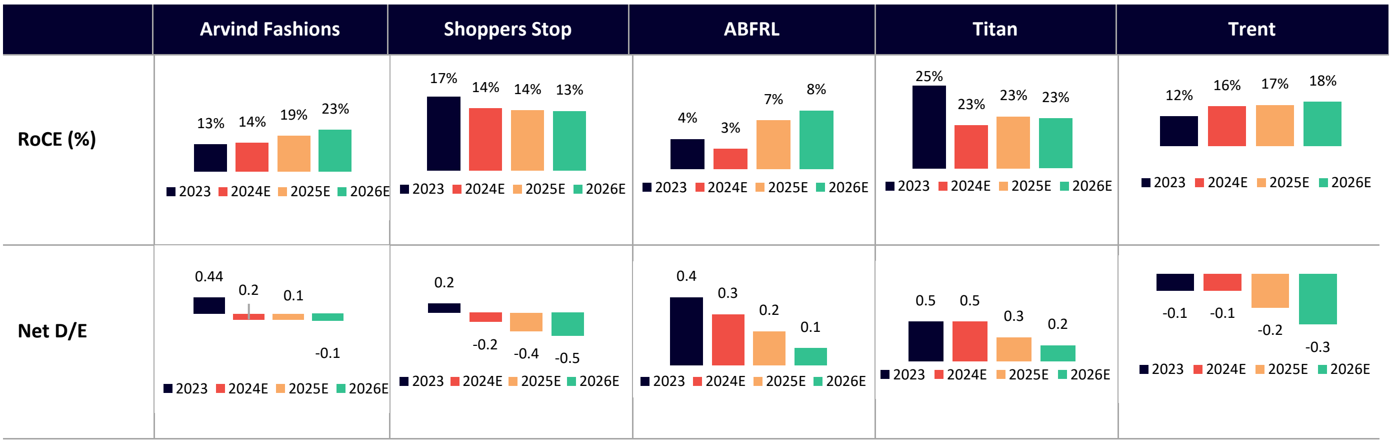

ARVINDFA is set to improve its return ratios consistently by FY26. This is on account of expansion in margins and improvement in debt profile. Still it is available at discount to its peers (some of which are lagging behind in terms of return ratios and making profit). In addition to this, ARVINDFA has a portfolio of brands which are among the market leaders in their respective categories. Hence, we argue that ARVIDFA deserves a premium multiple.

Source: Company, Nuvama Wealth Research

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Valuation and view

In the last 24 months, ARVINDFA has rationalised its portfolio and now has an array of strong brands that cater to value, mass premium, and super-premium categories. Despite selling some of its brands over the years, EBITDA CAGR stood ~15% in the last five years, with a 480bp expansion EBITDA margin on account of operating leverage due to scaling up of marquee brands, full price sell-throughs resulting in higher gross margin and better operational efficiencies. We expect margin expansion to play out on account of its adjacent categories and scaling up to INR1,000cr (from INR500–600cr inFY24), which will lead to economics of scale; premiumisation in brands such as USPA, TH, and CK; and scaling up of Arrow and FM driven by store expansion. Arrow and FM have room to expand the margin as they scale up.

Given its focus on the core portfolio after scaling down its non-core brands, ARVINDFA has been able to post a profit in FY23 and achieving double-digit return on capital employed. Its debt level has fallen and working capital requirements have become leaner. We expect margin expansion, profit growth, and improvement in return ratios to continue, driven by: i) expansion of its store footprint through the FOFO model over the next three years; ii) paring down its debt on account of healthy operating cash flows; and iii) an expansion into adjacent categories.

The stock trades at an FY25E/FY26E EV/EBITDA of 9x/7x versus 14x/12x and 11x/9x for ABFRL and SHOP, respectively. The stock deserves a premium multiple, given its portfolio of brands which are market leaders; enough room for margin expansion; high double-digit return ratios; and expansion plans that provide ample scope for growth. **We initiate coverage with a 'BUY' rating and TP of INR660 (11x FY26E EV/EBITDA), an upside of 48% from its CMP.**

Exhibit 33: Valuation matrix: table to be updated

	CMP	Revenue (INR Cr)				EBITDA Margin				PAT				ROE (%)				ROCE (%)			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Arvind Fashions	400	4,421	4420	5010	5682	10%	11%	13%	14%	37	77	175	259	5	9	15	18	13	14	19	23
KKCL	781	780	929	1,102	1,309	19%	20%	20%	21%	119	150	180	215	23	25	25	25	25	27	27	28
ABFRL	221	12,351	14,176	16,509	18,691	13%	11%	13%	14%	101	-371	58	210	3	-6	-0	5	4	3	7	8
Shoppers Stop	687	4,108	4,503	5,369	6,392	17%	17%	18%	18%	116	129	204	259	69	49	53	40	17	14	14	13
Cantabil	260	552	606	759	936	30%	29%	30%	30%	67	74	99	130	35	29	29	28	26	23	25	28
Trent	3,007	8097	12008	15634	19080	14%	14%	14%	14%	459	806	1085	1538	17	24	26	26	12	16	17	18
Titan	3,663	38751	47221	55084	63927	13%	12%	12%	13%	3329	3781	4671	5685	31	28	28	27	25	23	23	23

Source: Nuvama Estimates, Bloomberg/Consensus estimates for KKCL, ABFRL, Shoppers Stop, Cantabil, Trent and Titan

	P/Sales				EV/EBITDA				P/E			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Arvind Fashions	1.2	1.3	1.2	1.0	13	12	9	7	148	76	34	23
KKCL	5.3	5.0	4.2	3.5	27	24	20	16	39	31	26	22
ABFRL	1.6	1.8	1.7	1.4	18	19	14	12	237	NA	NA	139
Shoppers Stop	1.8	1.8	1.7	1.4	14	13	11	9	65	59	35	29
Cantabil	3.6	3.5	2.8	2.3	12	12	9	7	29	29	21	16
Trent	5.9	13.2	8.9	6.8	95	64	48	39	228	139	104	93
Titan	5.9	8.4	6.9	5.9	69	60	49	41	98	87	70	58

Source: Nuvama Estimates, Bloomberg/Consensus estimates for KKCL, ABFRL, Shoppers Stop, Cantabil, Trent and Titan

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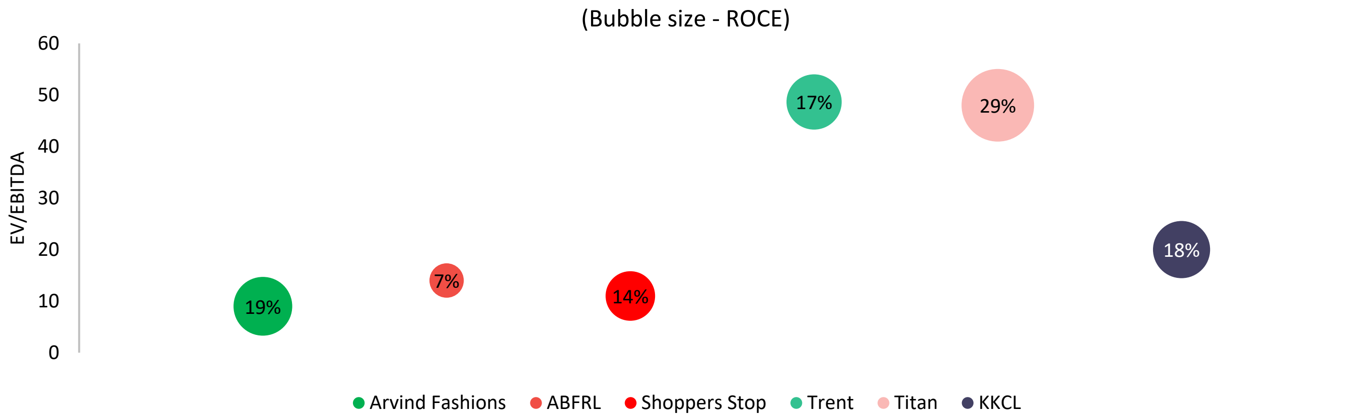
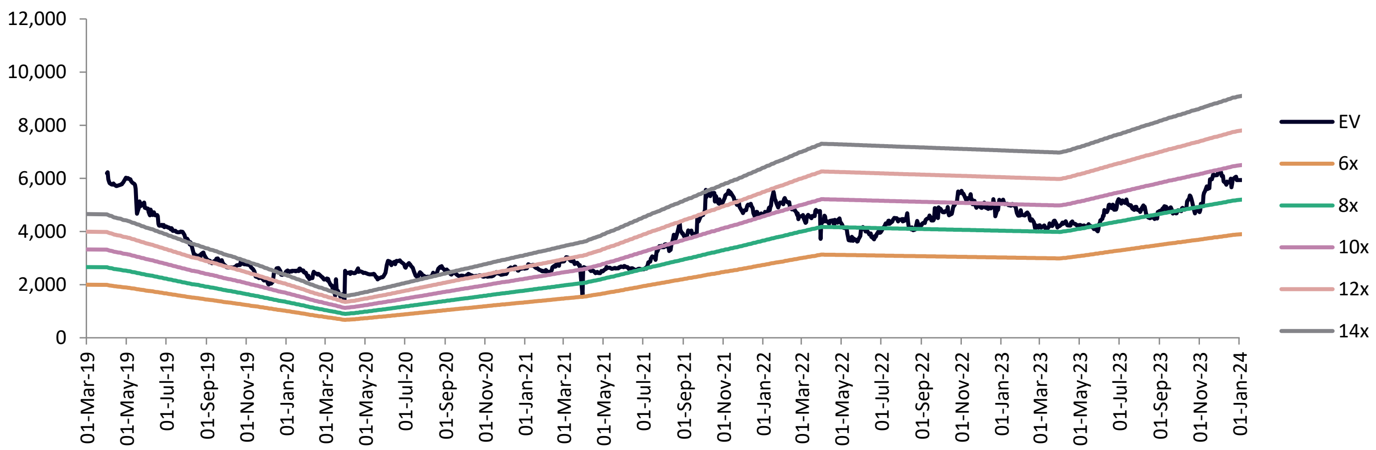
Exhibit 34: Bubble Chart: EV/EBITDA vs ROCE (FY25E) :



Source: Company, Nuvama Wealth Research

Exhibit 35: EV/EBITDA band (x)



Source: Company, Nuvama Wealth Research

Risks

External factors and brand dependence: Risks stemming from economic downturns, supply chain disruptions, or unforeseen events like the COVID-19 pandemic can adversely affect ARVINDFA's financial performance. The company's heavy reliance on key brands (such as USPA, TH and CK) poses significant risks to revenue and profitability.

Licence renewal and portfolio impact: The potential non-renewal of brand licences, due to non-compliance or performance standards, poses a threat to the diversity and appeal of ARVINDFA' brand portfolio, thus impacting its market presence.

Economic slowdown and consumer spending: A slowdown in the economy, resulting in stagnant income growth, poses a risk to same-store sales. Given its dependence on discretionary spending, revenue may be adversely affected by any moderation in consumer spending.

Competitive intensity and market dynamics: The highly competitive retail sector, coupled with low entry barriers, exposes ARVINDFA to the entry of domestic or foreign competitors. Price cuts by competitors can impact its market share and operational performance.

Value consciousness and brand erosion: The industry's emphasis on obtaining better value for money may lead to substantial discounts, posing a risk to the long-term health of the apparel sector. This trend has the potential to erode brand value, influencing ARVINDFA's pricing strategies and overall profitability.

Liquidity challenges and fixed costs: The challenge of servicing high fixed costs during periods of revenue volatility presents liquidity concerns. Prudent management of fixed costs is crucial to maintaining financial flexibility in uncertain market conditions.

Scaling brands: Successfully scaling up of brands is a formidable challenge for ARVINDFA. Navigating factors such as market acceptance, competition, and resource allocation is crucial for the effective growth of these brands. Difficulties in scaling up can impact the company's diversification strategy.

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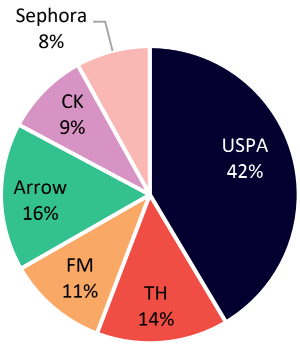
Company description

ARVINDFA is a prominent player in the Indian casual and denim market, operates as a lifestyle powerhouse, offering a diverse range of fashion brands across various sub-categories and price points. The company is into designing, sourcing, marketing, and selling men's, women's, and kids' branded ready-made apparel, footwear, innerwear, and accessories. ARVINDFA distributes products nationwide through Exclusive Brand Outlets (EBOs), Multi-Brand Outlets (MBOs), Large Format Stores (LFSs), and both self-operated and third-party e-commerce platforms.

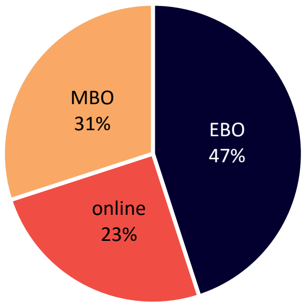
Its brand portfolio includes USPA - the market leader amongst casual brands; Arrow- the leading formal wear brand in the country; TH – the leading super premium casual wear brand; FM – which is amongst the top three denim brands in the country, and Calvin Klein - is the leading super premium denim brand.

Exhibit 36: Revenue mix (FY23)



Nuvama Estimates

Exhibit 37: Channel Mix (FY23)



Source: Company, Nuvama Wealth Research

Exhibit 38: Brand wise licensing

Brands	Licensed/Owned	Year of start	Agreement period
US Polo	Licensed	2009	Perpetual Contract
Arrow	Licensed	1993	Auto renewal contract
Flying machine	Owned	1980	-
Tommy Hilfiger	Licensed	2004	Perpetual contract for apparels
Cavin Klein	Licensed	2014	Perpetual contract for apparels

Source: Company, Nuvama Wealth Research

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Exhibit 39: Company structure

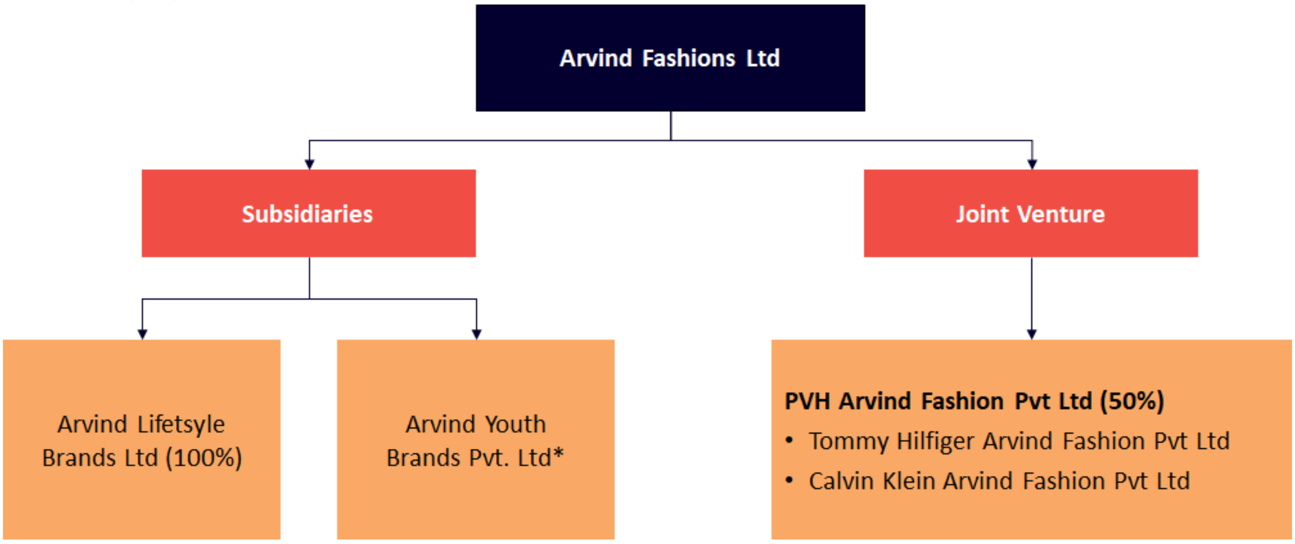
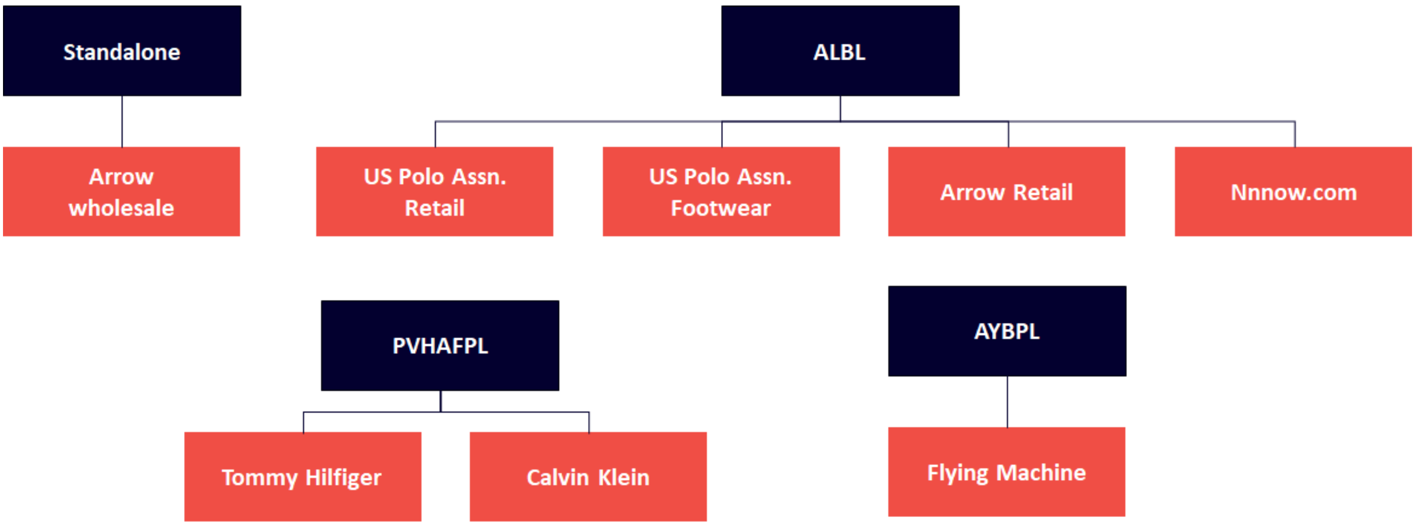


Exhibit 40: Reporting structure



Source: Company, Nuvama Wealth Research

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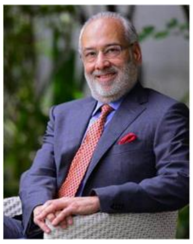
Exhibit 41: Timeline

Calendar Year	
1931	Arvind Mills Ltd was incorporated
1980	Established Flying Machine – India's first homegrown denim brand
1993	Opened exclusive flagship store for Arrow in India
1995	Launched youth denim brand, Ruf n Tuf
	Launched its first mass-market brand, Megamart
1997	Brought Excalibur to India as a part of Unlimited stores
1999	Brought brand Wrangler in India
2004	Brought brand Tommy Hilfiger in India
2006	Brought brand GANT in India
2007	Brand Cherokee was launched in India
2009	Brought brand US Polo Assn. in India
2012	Brands Nautica and Elle were launched in India
2013	Launched Ed Hardy in India
	Acquired Hanes, an innerwear brand
2014	Launched Calvin Klein in a joint venture with PVH
	Launched its own menswear brand Creyate
2015	Launched brands The Childrens Place and GAP
	Arrow, US Polo Assn. and Flying Machine launched their footwear
	Aeropostale launched its shoe range
2016	Launched Nnnow.com
	Added Sephora to the portfolio
2017	Arvind Ltd proposed the demerger and public listing of Arvind Fashions and Anup Engineering
2018	Nature of business changed to wholesale of branded apparels from retail
2020	Exited brands such as GANT, Elle, Izod and Nautica
	Closed unviable stores of Unlimited and emerging brands
2021	Transfer of Flying Machine brand to Arvind Youth Brands Pvt Ltd (AYBPL)
	Sold stake in AYBPL to Flipkart for Rs 2.6bn
	Raised capital through 2 rights issues of c. Rs 4bn and c. Rs 2bn
	Brands such as GAP, Hanes, The Childrens Place, New Port and Ruf and Tuf were discontinued
2022	Raised Rs 4 bn through preferential allotment
	Sold Unlimited to V-Mart for Rs 1.5bn, Arvind Fashions to get Rs 300-400 mn performance-based payment
2023	Sold the beauty brands Sephora and stopped incremental capital allocation for Aeropostale and Ed Hardy

Source: Company, Nuvama Wealth Research

Key managerial personnel

Name and designation	Profile
 **Mr Sanjay S. Lalbhai** **Chairman & Managing Director, ARVND**	Mr Sanjay Lalbhai is the CMD of ARVND, a USD1.3bn Indian conglomerate. In the last four decades, he has led the transformation of ARVND from a traditional textile mill into one of the world's leading manufacturers of denims, fine woven fabrics, and apparel solutions. He laid the foundations for the branded apparel business by bringing India's initial brands — FM and Arrow and opening EBOs. He is the president of Ahmedabad Education Society, Ahmedabad University, and CEPT University, and the Chairman of Council of Administration of Ahmedabad Textile Industry Research Association (ATIRA). He provides strategic leadership to SHARDA Trust, the CSR arm of ARVND. Mr. Lalbhai has completed his MBA from Jamnalal Bajaj Institute
 **Mr Shailesh Chaturvedi** **Managing Director & CEO**	Mr Shailesh Chaturvedi has successfully led several of ARVND's brands over the last 15 years. He joined ARVND in 2006 to lead the TH JV. Over the past 15 years, he has made TH one of the most admired and aspirational brands in India. He took over the CK brand in FY18 and has scripted a strong turnaround of the business. Recently, he took over the Arrow business in FY19 and is working on a plan to energise and reinvigorate the franchise. He is a proven leader in the apparel space, with a career that spans 28 years in leadership roles in Madura Coats Pvt, UCB, and ARVND. His deep expertise in working with international brands gives him a unique insight into the global best practices and trends. Prior to ARVND, he worked extensively in the mass premium men's wear segment
 **Mr Kulin Lalbhai** **Vice Chairman & Non-Executive Director**	Mr Kulin Lalbhai is the Director at ARVINDFA and Executive Director at ARVND. He has been driving new initiatives in the consumer businesses of the group. He has been instrumental in setting up several new retail concepts and spearheads the group's digital initiatives. He plays an active role in the overall corporate strategy. He holds an MBA from Harvard Business School and a B.Sc. in Electrical Engineering from Stanford University. Prior to this, he has been a management consultant at McKinsey & Co
 **Mr Girdhar Kumar Chitlangia** **CFO**	Mr Girdhar Kumar Chitlangia is a qualified chartered accountant and an experienced finance professional. In his career spanning 30 years, he has worked in leadership roles in large Indian and foreign retail and FMCG companies. He believes in making the finance function a strong enabler and an effective business partner. He has led his function with multiple tech interventions, which resulted in a significant improvement in efficiency. Prior to ARVINDFA, he has worked with More Retail, The Coca-Cola Company, and Super-Max World. He has attended top business schools like Harvard and Oxford and received several awards like the CA-CFO award by the Institute of Chartered Accountants of India, Exceptional Contributor at the Aditya Birla Group, and top 100 CFOs by the CFO magazine
 **Mr Anand Aiyer** **CEO of Arrow**	Mr Anand Aiyer is the CEO of Arrow at ARVINDFA. He has more than 24 years of experience in launching, building, and scaling successful fashion brands and the retail business. Prior to joining ARVND, he was the President and CEO of Easybuy, a division of Max Retail and Lifestyle International Pvt, which is part of the Landmark Group. As CEO of Easybuy, he was instrumental in building and scaling the business. Prior to Easybuy, he held pivotal positions in Louis Philippe, which is part of Aditya Birla Fashion & Retail. Few of his key achievements in Louis Philippe were building and scaling sub-brands such as LP Sport, LP Jeans, and Luxure. He also held key positions and built the Classic Polo and Trigger Jeans business (a division of KG Denim)

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Name and designation	Profile
 **Mr Amitabh Suri** **CEO of USPA**	Mr Amitabh Suri is the CEO of USPA at ARVINDFA. An alumnus of the University of Delhi and National Institute of Fashion Technology, he has over 20 years of work experience in the fashion and lifestyle industry. Prior to joining ARVND, he was the President of exclusive brands and private labels at Shoppers Stop. He held pivotal positions with well-renowned companies like the Landmark Group, Indian Terrain Fashion, and ITFL. He was also CEO of the Arrow brand for close to six months
 **Mr Nitesh Kumar Kanchan** **Chief Digital Officer**	Mr Nitesh Kanchan heads digital business for AFL. An alumnus of IIT Delhi, he has over 20 years of work experience in the fashion and lifestyle industry, of which the last seven years were with ARVND. Prior to joining ARVND, he held pivotal positions across industries and worked with well-renowned brands like TH, CK, Louis Philippe, Arrow, Esprit, and fashion retailer Pantaloons
 **Mr Anurag Pandey** **CEO of the footwear business division**	As CEO of the footwear business division at ARVINDFA, Anurag is responsible for strategizing, building, and growing the footwear and accessories business for group brands (USPA, Arrow, FM, and Cole Haan). He has more than 20 years of experience in the fashion and lifestyle industry. Prior to joining ARVND in 2018, he spent over a decade in building and scaling successful footwear brands, where he held pivotal positions. He also worked with well-renowned companies and brands like Hush Puppies, Bata India, ALDO India, and ABFRL. He joined ARVINDFA in 2018
 **Mr Nidhi Raj** **CEO, Flying Machine**	Mr Nidhi Raj is the CEO of FM at Arvind Youth Brands Pvt. An Alumni of National Institute of Fashion Technology, he has over 21 years of experience in the fashion and lifestyle industry. This fashion design graduate has held various leadership positions in design, visual merchandising, sourcing, and product management during his long stints in ColorPlus and ABFRL. He was working as Brand Head, Peter England Girls & Boys before joining FM in 2021

Key Management Personnel	
Person	**Position**
Mr. Shailesh Chaturvedi	CEO and MD, Arvind Fashion
Mr. Sanjay S. Lalbhai	Chairman and MD, Arvind Ltd.
Mr. Girdhar K Chitlangia	Chief Financial Officer
Mr. Kulin Lalbhai	Vice-Chairman and Non-Executive Director

Shareholder's Name	% of Holding
Promoter Group	36.8%
FIIs	**16.6%**
Plenty Private Equity Fund I Limited	5.7%
Plenty Ci Fund I Limited	2.7%
Ellipsis Partners Llc	2.3%
DIIs	**8.0%**
ICICI Prudential Various Mutual Funds	7.1%
Public -	**38.6%**
Akash Bhanshali	5.5%
Ashish Dhawan	4.9%
Bhupendra M Shah	1.8%

Appendix

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Industry overview of retail market in India

The India retail market was valued at INR37 lakh-cr in FY15, grew substantially to INR60 lakh-cr in FY20, a CAGR of 10%. By FY22, it was valued at INR68lakh-cr. It is expected to clock ~11% CAGR and touch INR1,13lakh-cr by FY27.

In FY22, the Indian apparel market was valued at INR4lakh-cr. It is anticipated to clock ~21% CAGR over FY22–27 and touch INR11lakh-cr by FY27, led by factors such as heightened brand consciousness, increased digitisation, greater purchasing power, and expanding urbanisation.

While the overall apparel market is expected to clock ~21% CAGR, both branded apparel/organised retail is forecasted to experience a faster growth rate of 26%/29% over FY22–27. The share of organised retail in the apparel market has risen to 35% in FY22 from 23% in FY15 and is expected to surge to 48% by FY27.

This shift from unorganised to organised sector is set to benefit players like ARVINDFA.

Men/women/kids' apparel constituted ~41%/37%/~21% of the total apparel market in FY22. Ethnic wear accounted for 30% of the total market and was valued at INR1,244bn. The remainder comprised western wear at INR3lakh-cr. In women's wear, ethnic wear contributed ~67%, emerging as the fastest-growing segment. In the case of men and kids, the significance of western wear is notable.

Exhibit 42: Key player in the men's wear market

Brand	Stores	Cities present
USPA	405	145
TH	98	40
CK	72	30
Arrow	226	110
Flying Machine	250	150
Sephora	26	13
Mufti	379	213
Levis	357	170
Indian Terrain	182	113
Killer	382	257
Allen Solly	204	90
Pepe Jeans	250	120

Source: Technopak Analysis

Following Killer and Mufti, ARVINDFA holds the third-highest presence in cities across India, spanning more than 170 locations and expanding its influence on prominent e-commerce platforms. As of March 31, 2023, it manages a network that exceeds 1,100 brand stores, oversees more than 5,000 counters within departmental stores, and boasts a significant presence in over 11,000 MBOs.

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Exhibit 43: Share of players in the mid-price branded men's casual western wear segment in FY22

Brand-wise share	Estimated market share
Mufti	1.28%
Levi's	1.72%
TH	1.12%
Spyker	1.02%
Indian Terrain	1.04%
Killer	1.11%
Flying machine	0.99%
USPA	3.81%

Source: Technopak Analysis

USPA commands a robust market share of ~4% in the men's casual-led western wear segment.

Exhibit 44: Categories served

Format/brands	Casual shirts	T-shirts	Jeans	Pants	Joggers	Shorts	Jackets	Sweat shirts	Sweaters	Blazers
USPA	34.2%	38.4%	10.4%	5.9%	1.5%	0.9%	5.8%	0	2.7%	0.2%
TH	31.8%	32.8%	7.6%	0.4%	3.3%	2.5%	4.3%	7.5%	7.8%	1.9%
CK	16.6%	36.7%	18.7%	1.6%	4%	2.9%	7%	7.2%	5.4%	0
Mufti	47.5%	16.8%	24.6%	3.3%	0.3%	0.3%	3.1%	2.9%	0.6%	0.6%
Levi's	25%	28.3%	27%	5.2%	0	2.8%	2.9%	7.4%	1.5%	0
Indian Terrain	14.3%	23.5%	8.2%	30.2%	1%	4.5%	5.7%	5.1%	6%	1.6%
Allen Solly	41%	19.3%	5%	15.6%	2.5%	3.6%	4.3%	4%	1.9%	2.7%
Pepe Jeans	23.3%	30.4%	25.4%	0.4%	1.2%	7.6%	5.4%	4.8%	1.5%	0

Source: Technopak Analysis

Differences in the business strategy of leading brands is reflected in their product offerings within sub-categories such as shirts, t-shirts, and jeans. The landscape across all sub-categories highlights a concentration of brands in the mid-premium and premium segments, with premium plus and premium brands like CK and TH specialising in three-to-four sub-product categories. In contrast, mid-premium and value-focused brands offer a broader range of products in various categories.

Exhibit 45: Number of SKUs and the price range for key players

Brand	Casual Shirts		T-Shirts		Jeans		Pants		Jackets		Sweaters		Blazers		Joggers	
	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range	No of SKUs	Price Range
Mufti	652	1799-3299	231	1199-2299	338	3199-4499	46	2999-4099	43	3999-6499	8	2899	8	7499	4	2899-2999
Levi's	403	899-2999	457	549-3599	435	1199-8999	84	1199-4749	47	2349-8449	24	1499-2499	-	-	-	-
Tommy Hilfuger	376	1749-4799	288	799-4599	90	2499-7999	5	2999-3999	51	5399-13999	92	2399-7999	23	4999-14999	39	2499-4899
Calvin Klein	104	2499-6499	230	1499-4999	117	4199-14999	10	2999-6999	44	5999-24999	34	4899-14999	-	-	25	2099-6399
Indian Terrain	219	999-2799	360	399-2294	125	1199-3499	463	1099-3499	87	1799-7699	92	3739	25	3999-7199	15	999-1499
Allen Solly	2057	825-2999	971	353-1974	253	1297-4449	785	1061-3999	216	1077-3919	93	979-2299	137	3114-8009	128	881-2499
Pepe Jeans	414	829-3299	541	499-2299	452	1439-7999	8	1399-2099	96	1849-3999	26	1099-1749	-	-	22	1099-3499
U.S Polo	2099	899-3099	2355	494-3199	637	949-4299	365	999-3299	355	1749-8999	163	1199-3499	13	2999-9999	95	899-2999

Source: Technopak Analysis

ARVINDFA emphasises premiumisation across brands, with a focus on innovation and product extensions, notably in USPA and Arrow. In USPA, it targets premiumisation in polo shirts and jeans by introducing products like liquid cotton polo shirts with a starting price of INR3,999. Arrow underwent premiumisation with the launch of the 1851 line, starting at INR3,599. TH and CK cater to the superior premium category, exemplified by TH's 'tailored line' starting at INR17,999. These initiatives showcase ARVINDFA's commitment to elevating the premium quality of its brand offerings.

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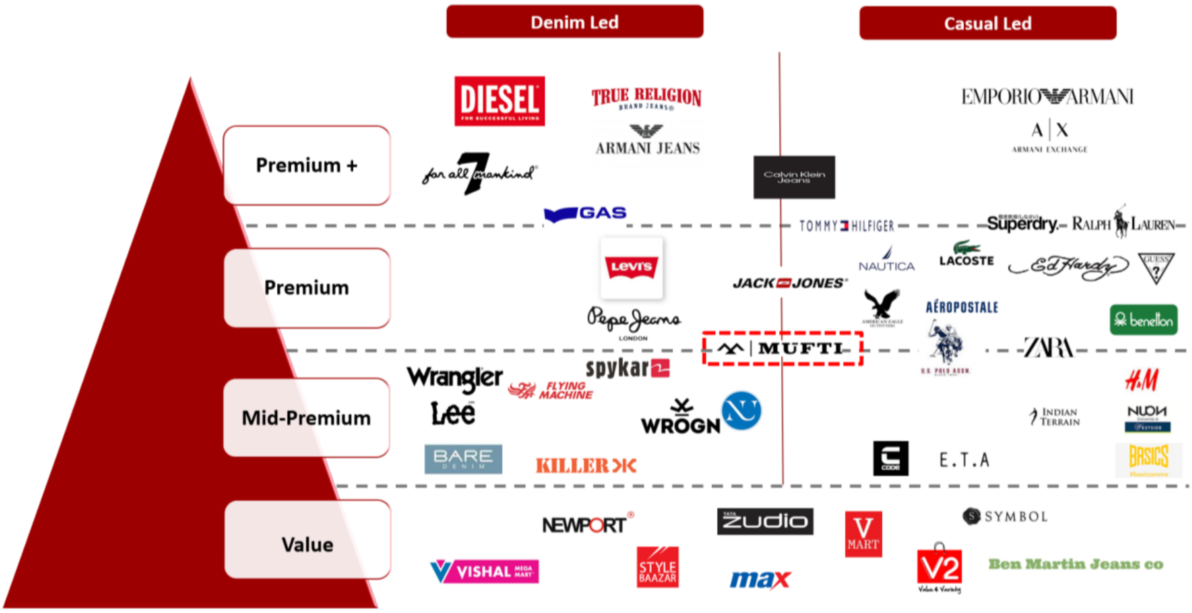
Exhibit 46: Key players in denim and casual wear



Source: Technopak Analysis

Exhibit 47: Apparel market segmentation across city types in FY22 (in INR cr)

Category	Amount
Top two	518,515
Next six and Tier I	577,774
Tier II	449,380
Tier III	923,451
Urban	2,469,121
Rural	1,648,379
Total	4,117,500

Source: Technopak Analysis

There is a significant trend noticeable in the apparel market. Around 40–45% of sales originate from Tier I cities, where the management's premiumisation efforts are concentrated on. The next leg of growth for ARVINDFA should accrue from expansion into Tier II and III towns.

Financials

Income Statement (INR cr)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	3,056	4,421	4,420	5,010	5,682
Direct costs	1,710	2,292	2,210	2,480	2,784
Employee costs	237	268	270	296	330
Other expenses	929	1,409	1,442	1,595	1,792
Total operating expenses	2,876	3,968	3,922	4,370	4,906
EBITDA	180	453	498	640	777
Depreciation and amortisation	233	239	243	271	304
EBIT	-53	214	255	369	472
Interest expenses	124	138	125	84	48
Other income	67	53	53	53	53
Extraordinary items	133	1	0	0	0
Profit before tax	-243	127	182	337	476
Provision for tax	-6	40	45	84	119
Core profit	-237	87	136	253	357
Profit after tax	-237	87	136	253	357
Minorit Interest	30	50	59	78	98
Share from associates	0	0	0	0	0
Adjusted net profit	-267	37	77	175	259
Equity shares outstanding (cr)	13	13	13	13	13
EPS (INR) basic	-10.1	2.9	5.8	13.2	19.5
Diluted shares (Cr)	13	13	13	13	13
EPS (INR) fully diluted	(10.1)	2.9	5.8	13.2	19.5
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	94.1	89.8	88.7	87.2	86.3
Depreciation	7.6	5.4	5.5	5.4	5.4
Interest expenditure	4.1	3.1	2.8	1.7	0.9
EBITDA margin	5.9	10.2	11.3	12.8	13.7
Net profit margin	(8.7)	0.8	1.7	3.5	4.6

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue	59.8	44.7	(0.0)	13.4	13.4
EBITDA	(11,430.8)	151.2	10.0	28.4	21.4
PBT	(52.3)	(152.3)	43.2	85.4	41.2
Net profit	(57.0)	(136.7)	57.0	85.4	41.2
EPS	(73.0)	(128.2)	103.7	126.2	48.5

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Balance sheet

As on 31st March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	53	53	53	53	53
Preference Share Capital	0	0	0	0	0
Reserves & surplus	697	857	934	1,108	1,368
Shareholders funds	750	910	987	1,162	1,421
Secured loans	502	598	0	0	0
Unsecured loans	0	0	0	0	0
Borrowings	502	598	398	268	118
Lease Liabilities	456	667	612	637	662
Minority interest	100	183	242	320	418
Sources of funds	**1,808**	**2,357**	**2,239**	**2,387**	**2,619**
Gross block	405	424	504	594	694
Depreciation	291	319	362	403	477
Net block	113	105	142	191	217
Capital work in progress	0	2	2	2	2
Right of Use Assets	388	608	553	578	603
Goodwill	111	111	111	111	111
Intangible Assets	49	41	41	41	41
Total fixed assets	661	867	849	923	974
Investments	63	62	72	102	132
Inventories	831	982	969	1,098	1,245
Sundry debtors	572	560	545	590	623
Cash and equivalents	105	200	163	153	265
Loans and advances	528	535	585	635	685
Other current assets	0	0	0	0	0
Total current assets	2,036	2,277	2,262	2,476	2,819
Sundry creditors and others	1,192	1,170	1,265	1,436	1,627
Provisions	10	7	7	7	7
Total CL & provisions	1,202	1,177	1,272	1,443	1,634
Net current assets	834	1,100	990	1,034	1,185
Net Deferred tax	411	412	412	412	412
Misc expenditure	-161	-84	-84	-84	-84
Uses of funds	**1,808**	**2,357**	**2,239**	**2,387**	**2,619**
Book value per share (INR)	57	68	74	87	107

Cash flow statement

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net profit	-249	44	136	253	357
Add: Depreciation	261	239	243	271	304
Add: Misc expenses written off/Other Assets	10	130	0	0	0
Gross cash flow	22	413	380	524	661
Less: Changes in W. C.	278	-96	73	46	61
Operating cash flow	300	317	307	570	722
Less: Capex	17	63	80	90	100
Free cash flow	**284**	**254**	**227**	**480**	**622**

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Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	-21.1	4.6	8.1	16.3	20.1
ROACE (%)	-3.2	12.8	13.5	19.4	22.6
Debtors (days)	68	46	45	43	40
Current ratio	2	2	2	2	2
Debt/Equity	0.7	0.7	0.4	0.2	0.1
Inventory (days)	99	81	80	80	80
Payable (days)	125	84	90	90	90
Cash conversion cycle (days)	42	43	35	33	30
Debt/EBITDA	3	1	1	0	0
Adjusted debt/Equity	0.5	0.4	0.2	0.1	(0.1)

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	(10.1)	2.9	5.8	13.2	19.5
Y-o-Y growth (%)	*(73.0)*	*(128.2)*	*103.7*	*126.2*	*48.5*
CEPS (INR)	7.5	20.8	24.1	33.6	42.4
Diluted P/E (x)	*NA*	*147.8*	*75.8*	*33.5*	*22.6*
Price/BV(x)	7.8	6.4	5.9	5.0	4.1
EV/Sales (x)	*1.6*	*1.3*	*1.4*	*1.2*	*1.0*
EV/EBITDA (x)	27.7	12.9	12.2	9.3	7.3
Diluted shares O/S	*13.2*	*13.3*	*13.3*	*13.3*	*13.3*
Basic EPS	(10.1)	2.9	5.8	13.2	19.5
Basic PE (x)	*NA*	*147.8*	*75.8*	*33.5*	*22.6*
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Nuvama Wealth and Investment Limited, Eight Floor 801 to 804, Inspire BKC G Block, BKC Main Road, Bandra Kurla Complex, Bandra East, Mumbai-400051

Sandeep Raina

Head of Fundamental Research

sandeep.raina@nuvama.com

SANDEEP ASHOK RAINA

Digitally signed by SANDEEP ASHOK RAINA
Date: 2024.01.09 11:50:13 +05'30'

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