ARVIND FASHIONS LIMITED
A MEMBER OF THE LALBHAI GROUP
Corporate Office: Du Parc Trinity, 8th Floor, 17, M.G Road, Bangalore – 560 001
Tel: +91-80-4155 0601, Fax: 91-80-4155 0651
Website: http://www.arvindfashions.com

May 22, 2025

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: Earnings call Transcript with Analysts and Investors for the fourth quarter and fiscal year ended March 31, 2025

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, beneath is the link of transcript of post results conference call with Analysts/Investors held on Monday, May 19, 2025 to discuss the financial performance of the Company for the fiscal year ended on March 31, 2025.

https://www.arvindfashions.com/wp-content/uploads/2025/05/Earnings-Call-Transcript-Q4-FY25.pdf

This is for your information and records.

Thanking you,

Yours faithfully,

For Arvind Fashions Limited
LIPI SITAKANT JHA
Digitally signed by LIPI SITAKANT JHA
Date: 2025.05.22 18:08:29 +05'30'
Lipi Jha
Company Secretary

Q4 FY2025 Earnings Call Transcript – May 19, 2025

CORPORATE PARTICIPANTS

- Kulin Lalbhai – Vice Chairman & Non-Executive Director
- 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 Q4 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: Thank you Avirat. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the fourth quarter and fiscal year ended Mar 31, 2025. I am joined here today by Kulin Lalbhai, Vice Chairman and Non-Executive Director, Shailesh Chaturvedi, our Managing Director and CEO and Mr. Girdhar Chitlangia, our Chief Financial Officer.

Please note that result press release and earnings presentation had been mailed across to you on Saturday 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'll commence today's call with Kulin providing his key strategic thoughts on our fourth quarter and full year's performance. Post that, we will have Shailesh, who will cover the details of business highlights and financial performance. At the end of the 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 Kulin to share his views. Thank you and over to you Kulin.

Kulin Lalbhai: Thanks, Ankit. A very good afternoon to you all. Thank you for joining us for the Q4 and full year results. FY25 marks another year in our journey of consistent financial and business performance. AFL delivered yet another strong year in spite of a difficult demand environment, where our revenue growth accelerated compared to the previous year to 8.5%.

Our efforts in expanding our retail network, along with reenergizing the brands through strong investments in marketing is clearly yielding results with an LTL growth of more than 5%. These investments have helped us gain market share across channels. All of these outcomes, coupled with our cost optimization efforts have helped drive an improvement in EBITDA margins by 100 basis points as we had guided at the start of the year.

As there is better visibility on profitability in one of the subsidiaries, we decided to move to a lower tax regime of 25%, which will be beneficial from a reported PAT, cash flow and ROCE standpoint going forward. This led to an exceptional DTA charge of INR 120 crores in quarter 4. Adjusting for this exceptional DTA charge, our comparable bottom line grew by more than 70% for the full year.

As all of you would recollect that we have consistently maintained in the past that the cornerstone of our strategy over the last few years has been to improve the return on capital employed. We are delighted to report that AFL crossed the milestone of generating more than 20% return on capital employed this year, and we hope to continue to improve upon this as we move ahead.

Moving forward, we hope that the demand environment should improve gradually on account of various measures announced in the financial budget and macroeconomic tailwinds. We expect to have an uptick in our growth rates compared to FY25 while continuing to stay committed on our mantra of profitable growth.

I would like to now hand it over to Shailesh Chaturvedi to take us through the specifics and more details about our financial performance.

Shailesh Chaturvedi: Thank you, Kulin. Good afternoon, Girdhar, Ankit and everyone on this call. I'll start with an overview of the full year FY25 and then move to quarter 4 result and will end with some commentary on way forward.

The key highlights of FY25, as Kulin just mentioned, has been achievement of 20% mark on ROCE. In the last 3 years, AFL has moved from small negative ROCE now to more than 20% ROCE mark. We've been able to also generate fair bit of cash in FY25, and there's a good reduction in debt of nearly INR 75 crores at both gross and at net level. The improvement in ROCE over last year is to the tune of around 400 basis points.

In FY25, AFL recorded NSV of INR 4,620 crores, an increase of nearly INR 361 crores with a growth rate of 8.5%. At the start of the year, we had guided that we would make serious attempt to go for higher growth, and we have seen growth move from 4.5% to now 8.5%.

There was also improvement in profitability where GP has moved up by 130 basis points to 53.5%, helped by reduction in discounting, sourcing efficiency and a richer channel mix. A large part of this gain at GP level has flown into EBITDA where annual EBITDA has gone up by 100 basis points to INR 637 crores, a growth of 17% in value over last year. FY25 EBITDA is now very close to 14% mark.

In the last 3 quarters of FY25, NSV has been more than INR 1,200 crores quarterly, and there has been large focus on revving up demand engine, which has resulted in double-digit growth for our key brands like U.S. Polo Association, Tommy Hilfiger, and Calvin Klein.

In quarter 4 also, all brands have grown double digit in revenue, except for BIS except for footwear, where there are issues with BIS, but which are getting sorted out and the growth in footwear also has gone up. Also, there was less emphasis on liquidation channel in quarter 4. Most brands have delivered double-digit growth in EBITDA in quarter 4.

I'm happy to state that Arrow and FM have moved to the next stage in profitability journey. These are encouraging signs. Both Tommy Hilfiger and Calvin Klein have also continued their stellar journey in FY25 with double-digit NSV growth as well as EBITDA growth.

At brand level, our efforts have been to offer differentiated products, high-quality shopping experience and premium brand experience through a 360-degree approach involving retail, online presence as well as heightened marketing investment.

Our focus has been on pushing revenue growth through direct channels of EBO retail and online B2C. Both these channels have grown handsomely in FY25. The retail growth in each of the last 3 quarters has been at a healthy teen percentage, and this growth is likely to sustain and hopefully improve further.

With good like-to-like growth of around 5% in the current market condition, a large square foot expansion of nearly 1.2 lakh square foot in full year and around 20% growth in revenue from adjacent category and along with premiumization drive and high-quality execution of shopping experience, this retail channel of around INR 2,000 crores value has very healthy momentum and is likely to grow at similar and higher pace going forward.

With good reduction in discounting and with leverage of this 5% like-to-like growth, retail channel profitability has also grown very well. The other growth channel of B2C online has also grown rapidly at a pace higher than 25%.

We have built significant capability on online B2C side, including websites, large omni coverage, development of analytics-driven online exclusive assortment, and with better cost control on discounting and on cost of doing business, we have seen very impressive improvement in channel margin for B2C online channel.

Both these direct channels have continued to take lead in growing AFL numbers towards this 12% to 15% growth aspiration. We have also continued our higher investment in marketing, and this investment has remained at more than 4% in the last 3 quarters. Let me focus on a huge tentpole event in early March we did in Delhi for our marquee brand, U.S. Polo Association.

This impactful event saw an exhibition of Polo game, a fashion show, and a stellar evening in Delhi in the presence of brand ambassador Sawai Padmanabh Singh of Jaipur Royal Family and Global CEO of USPA Association, Mr. Michael Prince. We got huge media coverage, which helped the brand remain top of the mind, enabling it to deliver market-leading business in offline as well as online channels.

Recently, we also had a marquee event in Bombay for our brand, Tommy Hilfiger, for which Mr. Tommy Hilfiger visited Mumbai. This was his first

India visit in last 11 years. This event saw a sailing event near Gateway of India and also an A-lister celeb evening party hosted by Tommy Hilfiger in presence of key celebrities like Sara Ali Khan, Ibrahim Khan, Aditya Roy Kapur, Karan Johar, Disha Patani, and cricketer Shikhar Dhawan, etc.

This also injected a strong dose of energy into the market-leading brand, Tommy Hilfiger, in India. We'll continue to invest strongly into marketing to keep the brand strong & salient, and we will continue to up the marketing investment as a percentage of revenue.

As a market leader, we want to take lead in marketing investments and ensure that our brand remains top of mind and high on the consideration set for immediate purchases. We are clearly seeing the trend of strong brands becoming stronger.

The pivot towards casualization is also helping like-to-like growth of our brands. You will recall that Q3 retail like-to-like was double digit at 11%, and it was 5% in both quarter 2 and now also in quarter 4 at 5.2%. In quarter 4 also, we have invested nearly 30 bps higher into marketing.

Coming to adjacent category buildup, we are seeing these categories reaching more than 20% of revenue share with healthy growth of around 20%. In quarter 4, footwear increased its growth to double digits as inventory buildup started to happen. As further improvement in inventory levels happen, we expect footwear business to reach 15% growth, and there is scope to further increase it and go back to the usual 20% growth in footwear business.

Innerwear has also grown in FY25 at more than 15%, with its momentum likely to continue on the back of strong performance in online channels. Women wear business of U.S. Polo has been growing at 100%. And with this high base, this adjacent category will continue to grow next year at around 50% or so.

All our key growth drivers, including square foot expansion, like-to-like growth, adjacent category growth, digital business, premiumization, renovation of stores, higher marketing spend are all in very good health and ready to further fuel higher growth for AFL in the next year.

Wholesale channel has recorded low single-digit in FY25, while the consumer sales had grown at a higher single-digit level. We are encouraged by this tertiary sales growth of high single digits, and we have continued to work hard, including on cleanup of inventory management in FY25 to ensure high freshness index and meet inventory norms without any unnecessary buildup of stock in the sluggish condition.

We have been maintaining strict hygiene norms and parallelly, sharpening inventory management for higher metabolism in wholesale channel in the near future. We are confident that with improvement in marketing condition, wholesale channel will go back to their growth levels in high single digits, while direct channels will take lead in growth, thereby helping AFL meet its aspirations of 12% to 15% revenue growth.

I also take this moment to look at 3-year scorecard for AFL since FY22, which we had indicated in our investor deck. We clearly see there is a consistent performance of AFL in the last 3 years, where revenue has grown by a CAGR of 18%. In the last 3 years, GP has grown up at an average of 275 bps every year and is likely to grow at a healthy pace that we saw in FY25, where GP went up by 130 bps in full year. In these 3 years, CAGR for EBITDA is 36% and with average 160 bps increase in EBITDA every year. We are confident of increasing margins by 100 bps every year going forward.

Coming specifically to quarter 4, AFL recorded an NSV of INR 1,189 crores, a growth of 9%, backed up by very healthy growth in direct channels and a like-to-like of 5.2% in retail channel, coupled with reduction in discounting of nearly 2% in retail. Retail channel grew 13% and gained 2% of revenue mix. Online B2C business also grew at more than 20%, with significant improvement in channel margins.

In Q4, GP was 53.9%, an increase of 270 bps over last year due to 2% discount reduction in retail. Discounting reduction of nearly 2% in retail, this is a key achievement of this quarter and is a reflection of the strength of our brand portfolio and the quality of execution. We deemphasized USS in winter because winter had set in early in November itself, and we sold off a lot of winter goods in October, December quarter at full price.

We also preponed spring goods because spring had also set in early in Feb, almost a month ahead of last year. This helped us to get better sales realization and lower discounting in retail by close to 2%. This has also led to healthy like-to-like growth in retail of 5.2%, delivering a 13% revenue growth in quarter 4 in retail channel with nearly 2% increase in revenue mix. The channel margin also went up handsomely because of the healthy like-to-like growth, along with reduction in discounting.

In quarter 4, GP was 53.9% with 270 bps increase over last year due to this 2% reduction in retail discounting, a richer channel mix, and a large gain from sourcing efficiency for spring/summer 25 season. Despite 30 bps increase in marketing, large part of GP has flown into EBITDA, which has grown by 15% in value in Q4 to reach INR 170 crores, an increase of 80 bps over last year.

The EBITDA stood at 14.3%. The gains in EBITDA have flown into PBT and PAT, which have grown handsomely at a healthy pace. Business has generated good improvement on FOCF and there is a reduction in debt of nearly INR 75 crores at both gross and net level. And with our asset-light mindset, capex has remained in the expected range of close to INR 100 crores.

We believe that with likely uptick in growth, continuous improvement in GP and EBITDA and with low debt levels, AFL business will generate significantly higher cash in the near term and its ROCE is likely to increase further. The key agenda in FY26 will continue to be profitable growth with expectation of higher percentage growth, supporting higher profitability.

While a lot of growth is linked to external market condition and business does get influenced by economic reality, we are confident of continuing uptick in revenue growth with even better like-to-like growth, higher square foot addition and fast pivot from online B2B to online B2C. Thank you.

I request Ankit to take forward.

Ankit Arora: Thanks, Shailesh. We can now open it up for question-and-answer session

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chetan from Systematix.

Chetan: I have two questions. First on adjacent categories. So, footwear, women's, kids and innerwear currently contribute over, say, 20% of revenue and are not a drag on overall profitability. Could you elaborate on the individual profitability profiles of these specific adjacent categories relatively to, say, our core apparel business? And are there any of these categories currently operating at significantly lower margins than the apparel business?

Shailesh Chaturvedi: On adjacent category, we've been very, very focused on our mantra of profitable growth. So, all the adjacent category, one of the expectations is to not be very margin dilutive. While we do sometimes increase a lot of marketing investment, but at a GP level, at a discount level, at a channel margin level, all the adjacent category are profitable.

In fact, categories like footwear are even more profitable than the apparel business and that performed really well. Also, innerwear, we have seen a big turnaround in profitability in the last 2 years, the pivot towards online business. The margin increase in innerwear has been very, very good.

Womenswear, we re-launched, we had shut down the earlier business and re-launched. We've been very, very watchful in terms of making sure that it remains very profitable. The growth is coming at profit at a comparable margin. While sometimes we do invest more aggressively in marketing. But at a fundamental at a business level, all the adjacent categories are fairly profitable and comparably profitable compared to the other apparel businesses, Chetan.

Chetan: That was helpful. Second question is on the new format stores. So, we have introduced and are expanding new formats like Club A, Stride, Megamart, etc. As of today, what is the store count of such formats? And what percentage of your planned 15% net square footage addition is expected to come from these distinct formats in the coming years?

Ankit Arora: Ankit here. So, the new formats are, of course, slightly smaller on scale as of now. So, Club A, we would have around 5 stores. Megamart, we would have about 50, but that serves a different purpose and Stride would be around 15. Of course, there is a very, very distinct plan for each of them. And probably I'll just ask Shailesh to kind of delve on the square foot expansion.

Shailesh Chaturvedi: See, I'll just give you a little more color on this new format. Megamart, now we have more than 50 stores. Last 3 years, we have really expanded. It's a point where it's growing very rapidly in terms of footprint as well as in terms of top line and the efficiency. So that business is really growing very well and rapidly growing.

Stride grown to more than 15 stores in a very, very quick succession. Over 3 years back, we had only 2 stores. Now we are close to 15 stores. We had this issue of BIS recently where the inventory became a constraint, otherwise, we would have opened a little more stores because we at times struggle to even feed the existing Stride stores.

But now BIS is in many ways is behind us. The inventory has started to come. So, in next 6 months, we are very confident that all the supply chain initiatives we have taken on the footwear business, the inventory availability assortment will reach its normal level. And then there's a huge scope to take the footwear business and also the Stride as a part of the footwear strategy to go forward because we want to double the footwear business in the next 3 years. So, Stride will also show that energy.

Club A, currently, we have 5 stores in South. We are still piloting the model. We opened recently in last fortnight a store in Hyderabad. So, we have stores now in Surat, in Bangalore, in Hyderabad. So that model is being still carefully piloted.

We see huge potential in that format, but we still want to see some data. Once we get the answer of data, we will then maybe in the next 6 months, if the model is green and we'll expand it rapidly. But other 2 formats, Stride and Megamart are already expanding quite rapidly.

Moderator: The next question is from the line of Manish Bhandari from Vallum Advisors.

Manish Bhandari: Good afternoon Shailesh and thanks for keeping up your commitment with the return on capital employed over these last 2 years. My question is related to the store additions. What I see and observe is that you have a lot of store opening and a lot of store closures in the last 2 years. So, net-net, we have just opened 27 stores on our base. So, I wanted to know about the breakup of the brand-wise store additions and deletion, if you can give me some idea?

Shailesh Chaturvedi: We've been aggressively expanding. In fact, just to Manish to say that we've added nearly 1.2 lakh net square foot in this year, which is one of the highest ever for AFL. So, in this quarter, we added 50,000 square feet, which is again a very healthy pace of expansion.

Also, Manish, in this year, we've added 120 stores gross. We also closed 70-odd stores, but to give you a final number, we opened net 50 stores of adding up 1.22 lakh square feet. In ideal word, maybe next year, we should look at 1.5 lakhs and higher than that.

We have also shut down because some of the stores were too small, not strategic. Their sell-throughs were not good, discounting was higher and also the margin profile of those stores were not, and we took a tough decision because we're always saying that our growth has to be profitable and healthy growth in that mantra.

But most of this cleaning up is behind us, Manish now. And we have closed across the brand stores which didn't make sense. And a lot of these were smaller size stores. The stores that we open are much bigger size. So, the numbers sometimes don't tell the story because we opened 50 stores, but the average size of those stores is much larger than the average size of the stores that we shut down.

So, the data that I'm looking at is FY25, we added highest ever square foot of 1.22 lakhs. We want to up it further. In FY26 in our view, should go up to more than 1.5 lakh square ft., and we want to look at a CAGR of between 12% to 15%, more like 15% for square foot expansion.

That's the plan. We have done a lot of back-end work. We've beefed up the team on business development, a new head is in the process of joining. So, a lot of efforts have been made in FY25 to clean up, increase the profitability of the retail channel. That's why the GP you see is growing very rapidly. That's why the discounting is coming down.

That's why our sell-throughs are going up. And then now we want to go ahead and focus on one single agenda of open store - open stores of larger size across the country, and sitting today, we feel very confident that we'll be able to take the square foot addition to close to 1.5 lakh square foot in FY26.

Manish Bhandari: Sure. Shailesh, my second question was related to last 2 years back, you embarked on the journey of repositioning Arrow brand and how successful we are for Arrow as well as for Flying Machine? And you have some profitability target in your mind, which you want to achieve?

And is the Flying Machine still work in progress or it's been done, and we'll see the results for both Arrow and Flying Machine in the next 2 years' time frame? Or maybe what time frame you could be very precise in putting up?

Shailesh Chaturvedi: Manish, I'm very happy with both Arrow and Flying Machine, the progress they've made on the profitability side in quarter 4. Also, when I look at the data for H2 for Flying Machine and Arrow, they've made good progress. So, we are happy with the progress because the profitability in these brands in the low single digit, we want to take it to the mid-single digit and the journey is on.

And if I look back at what we have achieved in H2 of FY25, it gives me a lot of encouragement that we are on the right path and a lot of cleaning up has happened. Even in soft market conditions, we have seen good improvement in EBITDA profile of these brands. And I'm confident that the short-term target of mid-single digit, we will be able to achieve for Arrow and FM. They're going in the right direction, Manish.

Moderator: The next question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta: Sir, just wanted to understand on your adjacent categories, innerwear, and footwear, what is the absolute revenues that you're clocking in each of these? And what is the contribution of online channel here?

Shailesh Chaturvedi: See, we have guided that the adjacent category revenue share is more than 20% of the company's revenue. And footwear has already crossed INR 300 crores mark. It's in the journey to reach INR 500 crores and we've stated this regularly. But for the BIS implementation, we would have been higher than where we are close to INR 300 crores.

But with the BIS behind us, all the supply chain initiative taken and now we are seeing assortment improving and availability improving. We will hit INR 500 crores target in footwear with largest part coming from U.S. Polo, Tommy Hilfiger, Calvin Klein also have a healthy footwear business.

And footwear was started as a online first mindset and it had a higher online share. It continues to be a very strong leader in all the portals like Myntra. So very high, healthy, very profitable share coming from online for footwear and that will continue. While we've also increased the physical footprint, the share from the U.S. Polo store has really grown handsomely. And now footwear is a very large contributor to the sale at the U.S. Polo stores and U.S. Polo is opening a lot of big stores and footwear is a big solution to a lot of these retail initiatives. And footwear will continue to grow both offline and online and with very strong presence in online.

Innerwear as a business, we are seeing it will cross INR 200 crores in near future. The pivot we have made from the largely wholesale business in MBO channel to now large online play. So again, this is another category where the online is very, very strong and the profitability of that business is healthy. So, in last 2 years, innerwear business has improved its profitability significantly, and it will grow rapidly in the U.S. Polo stores and in online channel, which is very, very strong. So that's the update on innerwear.

Women's wear, we re-launched and again, here, we started with a digital-first mindset. The business is largely online. And we've recently done a shop-in-shop for U.S. Polo women in around 30-odd locations across the country. One message I want to just give here is that online is turning out to be big - that's a nice way to initiate or launch new initiatives, test them before we go offline. Online is becoming very, very important in terms of initiation of new categories and new businesses for us. And it's a fairly strong channel. We get a lot of young customers. We get a lot of zip codes, which we normally don't service. So online channel and our strength in the online channel that we have achieved over the last 5 years is helping us to launch a lot of these new adjacent categories and grow them profitably.

Sameer Gupta: Got it, sir. Sir, the reason why I ask is that what we have seen in other brands is that online helps you grow to a level very fast. But beyond that, it just stagnates and then you have to do the hard grind of offline. So that's why I was asking the online contribution in these categories?

Shailesh Chaturvedi: You're quite right. And we've been also adding omni-initiatives and physical retail and also Omni connectivity in our physical stores. So, footwear, started largely an online play, then we opened Stride and we've opened U.S. Polo stores. Innerwear, we have done the same thing. And womenswear also, we started with online and now going offline. Our mantra is profitable growth. And our brands are quite strong. So, we get access to department store to malls to online players readily. And that's why we're very conscious that we wanted to have a multichannel and very profitable growth of our brands.

Ankit Arora: And just to add, Sameer, what Shailesh said, you are right. What we are really doing in a sense in summary is, in an omnichannel world today, we are testing the entire product range, new categories online first, ensuring unit economics come to a state where we would like, which helps us do that because we are able to service pin codes and service the demand very, very quickly. And then we have our entire close to more than 950 stores available for us to kind of really go out once the unit economics is set and have an omnichannel play to ensure the growth continues. But of course, it will start largely online to test the unit economics and do everything and then move to offline stores.

Moderator: The next question is from the line of Surya Narayan from Sunidhi Securities.

Surya Narayan: So just to understand that our square foot per store is rising. So, are we heading towards closer to 1,500 kind of figure per square foot on a long term? And to understand, whether larger format stores have more operating leverage than smaller ones in terms of managing admin expenses and all this? And thirdly, if you can give the per square foot data for the Club A and Megamart and Stride? That will help.

Shailesh Chaturvedi: See, there are a lot of layers to your question. So, the average size of the store varies from brand to brand and a format to format, even, let's say, take a U.S. Polo, if U.S. Polo is a kid, then we'll have a certain square foot ideally. When it has a pure accessory plus men largely, they'll have a certain size. And when we do women inside and kids inside and all the accessories, it is a couple of those mega stores that we open, which are around 4,000 square feet. So, it's difficult to say. But I can say one thing is that our focus is on 2 things. One is to represent our brand very strongly and the shopping experience should be worthwhile for a customer to park the car and come into our store and shop.

And that leads to certain minimum size. So, we can't have too many small stores where the assortment gets compromised and for conversion we need a certain assortment. So, the sizes are going up for each of our brand because we want to represent the brand in a correct way, in a very stress freeway.

Also, our categories are increasing for each of our brands. You look at U.S. Polo, look at Arrow, look at Tommy Hilfiger, look at Calvin Klein, each of our brand adding new adjacent categories. So, the size is to go up.

So, for all the logic, the square foot of our store, our brand for each of the format is going up. That's the reality, and we are encouraging that increase in square footage for each of our format. But, the second and important thing is that we also want a certain sales density, sales per square foot per day or per month because if we don't deliver that productivity, the profitability or the margin profile of the retail will not come through.

So, we always do a sort of a judicious mix that we need a certain minimum square foot, but we also want a minimum sales per square foot. And that based on these 2 lenses, we take a decision on the store. But it's a fact that average size is going up, and we are very keen to open larger size stores to put the might of our brand in front of consumers in a very strong way.

Surya Narayan: Perfect. And another question is that how do you judge a new store performance in terms of seasons? Whether 2 seasons or 3 seasons before you decide whether to close it or not?

Shailesh Chaturvedi: So that typical, the industry lens on sales density, on the conversion of the customers who have walked in, on the sell-through at full price, the stock turn. So, that remains the same and basically based on the consumer relationship and on the profitability of the capital asset that we have built. On those 2 grounds, then we take a call after a couple of seasons, whether to exit or to continue.

Surya Narayan: Okay. And currently, the adjacent are giving around 20% contribution. So, if we grow at least 9% to 10% minimum, so where we land up in maybe 2 years to 3 years? Will it be the same or it will rise?

Shailesh Chaturvedi: Growth is not 10% in adjacent category.

Surya Narayan: No, overall growth. I'm talking overall growth pie, whether this 20% pie will shrink or grow.

Shailesh Chaturvedi: See, in the short run, we want our AFL growth move up from current 8.5% for the year. Last year, it was 4.5%. So, we moved from 4.5% to 8.5%, and we are really working hard towards the double-digit revenue growth for AFL in the very near future.

And the adjacent category, the way the momentum they have, they will continue to grow at more than 20% and they are a very key reason of why the AFL growth will go up from 8.5% to maybe double digit and that. So, in the short run, I see that adjacent category will grow faster and will help AFL to grow maybe in the near term, that share might go up from 20% to slightly higher.

Surya Narayan: Okay. If you can give the Club A, Megamart and the Stride's average square foot?

Shailesh Chaturvedi: I'll request Ankit to take your details, Surya Narayan, we can send all the details to you.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: My first question is that you're talking about accessories and other than apparel items. I wanted to check, especially in your brands like CK and Tommy, besides innerwear, footwear, are there any other accessories that you look to add, like bags and belts and other accessories which are not there currently. Is there a scope to kind of increase your pallet to that extent?

Shailesh Chaturvedi: Naysar, Tommy Hilfiger probably is the best case in India of accessorization of a brand. And in our stores, which deliver very high sales density, the contribution of accessories is more than 20%. And the watches, for example, we sell very large number of watches of Tommy Hilfiger. It's a leading category for Tommy Hilfiger and the revenue, if I look at MRP it's into a few INR 100 crores.

It's a very, very large business for Tommy Hilfiger. We also do eyewear, and we are sort of top 3 brand for eyewear in India. We sell many lakh pieces of eyewear in India, less from our own stores, but eyewear has its own dedicated optician in the eyewear channel and online presence, and we sell from there.

We are the leader, in fact, in department store and other places for belts and wallets. We sell many lakh pieces a year of belts and wallets in Tommy Hilfiger, very, very large business. We also do luggage, which sells from the luggage MBOs and also from online channels. So very, very large business.

We sell kids wear - very well-developed kids line in Tommy Hilfiger. We sell socks, we sell perfume. The idea is that once a consumer, he or she walks into our store, it should convert. And every usage need casual, semi-formal, accessory. And we get a lot of young customers who can't buy expensive apparel come to buy accessories and they become our future customer.

So, Tommy is very, very large accessory, probably the best in the country in our industry, a very large business. Also, CK belts with a certain monogram of CK is very, very powerful category. Perfume, CK around the world is one of the strongest perfume brand, and some of its perfumes like Obsession, Eternity, CK One are global stars in the space.

Underwear, CK is one of the best brands for men's underwear and also for women's lingerie products in the country. We did a big campaign; we've been doing with Disha Patani. The underwear at the top end, CK, is the market leader in India. It's a fairly decent sized business. We do handbags, we do laptop bags. We do eyewear. So, in these brands, already very high level of accessorization has happened.

And also, U.S. Polo is the next brand where you are seeing a lot of new categories, adjacent categories coming and doing. And similarly, we are looking at for other brands like Flying Machine with the ties and the pocket square and the belts, and the wallet. So, each of the accessorization and the adjacent category growth is a very core growth driver for AFL. And in each of our brands, we'll continue to launch successfully adjacent categories.

Naysar Parikh: Got it. Just a follow-up, the things you mentioned like watches and eyewear, and luggage, and all that. So for that also, does the revenue flow to you? Because I'm assuming there are other franchisees who are kind of, I mean, looking at each of those, right? So, the revenues from them as well?

Shailesh Chaturvedi: Mr. Parikh, most of the time, we don't get the revenue, except for our own stores, the COCO stores for Tommy's small business. But there, the focus is on consumer relationships, and we earn the licensing income. So, it comes at the bottom line.

Naysar Parikh: Understood. So basically, you're saying, from your revenue perspective, what you are doing is what you will continue to do?

Shailesh Chaturvedi: In some of the categories, we do it ourselves. Kids wear, for example, Tommy, we do the entire business, we get the top line and bottom line. But a lot of categories in which we are not the experts, somebody else is. We license out like Titan does watches, and they get the revenue, and we get the royalty income.

Naysar Parikh: Understood. Okay. My second question is, especially for something like U.S. Polo, right, you reached INR 2,000 crores, which I think not many brands in India are at that level in apparel. So there now going forward, obviously, if we just look at the core business, keeping the fact that obviously, you're going to do more of innerwear, footwear, etc., but just the core men's apparel business, how do we see growth over there? What avenues will we be looking at? Is there scope in more Tier 4, Tier 3 towns? How do we think about the core U.S. Polo business, especially given the scale it has reached?

Shailesh Chaturvedi: In fact, a very good question. And we've always been saying first thing is to grow the core categories of a brand and then look at the adjacent category because the core business has to grow, and that shows the strength of the brand. And when we do the consumer track, we always check how is the response and affinity with the core categories, which are like Polo T-shirts or outerwear or jeans, and chinos, etc.

Now, you look at U.S. Polo, we see a lot of categories, core categories having a chance of growth, and we are doing it. And then there are distribution solution also on the product side. Look at bottom wear share, U.S. Polo Association has been largely a bigger top wear brand, very strong casual shirts, very strong Polo T-shirts. But we've been adding a much higher quality line of jeans, which are seeing very good traction with the consumer, and our share of bottom wear has gone up in the last 2 years significantly. Our team has done a very good job on the chinos and the jeans. Also, categories like round neck tees, we're seeing good traction. That's growing really well.

So, in the core category itself, we see large scope of growth share increasing the share of the wallet or share of the wardrobe for our core consumers. Also, there are scope for distribution, like you said. And the good thing is that at every tier, we see growth. So, in mega metros, we are opening this large size 4,000 square feet or moving from a 1,500 square foot to 4,000 square feet for a higher market share gain.

Second thing is that we are also going to the suburbs of the big cities because many, many opportunities. Like in Bombay, Vasai becomes important or Dombivli, and the airport comes in Panvel, Panvel become important. So, we are seeing traction in the suburbs of the big metros. And the third is the small tier town. Any retailer, any mall in a small town, or a department store going would want U.S. Polo as the first brand in its own box. So, we are fortunate.

Now for making sure this happens, the core categories grow, and we increase the share of wardrobe from the bottom wear, for example, or we go to all the tiers of distribution growth, we are making sure the brand remains very salient or top of the mind. And that's why you see in U.S. Polo, we have upped the marketing spend significantly. We are focusing on the demand engine so that our market share gains that we are seeing in the brand continue very smoothly. And to ensure that these core businesses grow, we are ensuring that marketing investment increases. And every year, we are increasing marketing as a percentage of sales, we are increasing that, and we're doing very large event. We did one in Delhi at the beginning of March for U.S. Polo, where the global CEO came down.

We had a lot of celebrities. We had a Polo game, which I mentioned in my opening commentary, we had an evening there. And a lot of efforts are to make sure the brand remains very salient, top of the mind so that both product-level growth of the core categories and also distribution side growth of the core business, which stays for a brand like U.S. Polo. And I think there's a huge opportunity for growth ahead for U.S. Polo.

Naysar Parikh: Good. Last question, if I may, just for Arrow and FM. Could you give us what was the sell-through last season? And what is it like looking like for this season?

Shailesh Chaturvedi: In fact, both brands we track certain KPIs for full price. And then after the first EOSS, the full season sell-through, we are quite happy across our brand, including for Flying Machine and Arrow, we're doing quite well. And we'll continue to focus on the sell-through so that our discounting comes down.

And when I say our retail discounting came down by 2%, it came down in Arrow and Flying Machine also. I mean, I said last quarter, quarter 3, our like-to-like growth in retail was more than 10% at 11%. But that time, Arrow and Flying Machine has also grown like-to-like at double digits.

So, Arrow and FM are doing well in their journey, just that they have a slightly smaller scale, and that leverage doesn't happen. And we are working on both solving the efficiency side of Arrow, FM and also the scale side, so that the brands become even more profitable.

Moderator: The next question is from the line of Jaymin from ARDEKO Asset Management.

Jaymin: You're planning to add 1.5 lakh square foot addition in FY26. So how is it going to split between your new retail format, Club A, Megamart, or Stride versus your mono-brand store?

Shailesh Chaturvedi: See, the bulk of the square foot will come from the existing brands and existing formats, mono-brand stores, what you call, right? So that's where the bulk of our expansion will happen. And we'll, like I said, Stride once the inventory gets, we are going to sort of ramp up further. Megamart is already, we have grown from 0 stores to now 52 large size, 4,000 square feet plus kind of a stores in the last 3 years.

But, the bulk will be the, what you call U.S. Polo store, the bulk will be the Arrow stores, Flying Machine stores, Tommy Hilfiger store, Calvin Klein stores. Those will be the core of the expansion. And a lot of our brands are subscale in terms of the EBO network compared to competition. And there are many high streets and many places, many towns where we are not present, and we have seen in some of our brands, the competition has stores, and we have the sense on the sales numbers of the competitors.

So, we have clearly bridged the gap and we will want to expand overall square foot and the new formats will be between 10% to 15% of the share and the remaining 85%-odd will come from the core businesses.

Jaymin: Okay. And second question on the adjacent category. I mean, on the U.S. Polo, it is around close to 25% of the revenue. So how are you going to ensuring that expansion into categories like footwear, innerwear, or women wear strengthen, rather than dilute the USPA core brand identity or even the premium positioning?

Shailesh Chaturvedi: No. I mean, your point is very valid, and we are very focused on profitable growth, making sure the adjacent category are relevant. We are not going into complete diversification of the brand. And we have the global sort of help from the global head office in Miami of U.S. Polo. They've done extension in some countries like US or some other countries where few have worked, few have not worked.

So, we are also learning from their global experiences, categories work. We are very, very careful, watchful. We only focus on a few 4, 5 categories and make them big because if you don't make them big, it will not be profitable. So, we are not trying to add too many categories and they become small, small and we don't get the margin profile.

So, we'll be very careful. But whatever we decide, we will go wholehearted and we will invest heavily behind the growth of those channels. We'll not shy away. So, we do a few things, but we'll go very deep in those few things.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Congratulations on good execution in FY25. Sir, my question is on Q1 till date, right? So Q4 has seen some like-to-like moderation. So Q3, we were double digit and now we're back to single digit, which suggest that demand environment is still sluggish. So, I wanted to understand whether the current trends are already reflecting the expectation of 12% to 15% kind of growth for FY26?

Shailesh Chaturvedi: Whatever we witnessed in the first 45 days of quarter 1, we have witnessed some uptick in our like-to-like and growth rates. Of course, it's early days, there's still a lot of quarter left, but we are quite happy with the way the Q1 is going till now. Also, to increase for the full year, the growth, we will need to open much more square foot, and we are working very hard to make sure that our square foot expansion crosses 1.5 lakh net that I spoke about earlier in the call.

We're also hoping that some of the government efforts on tax or on interest rates sort of work out and there is some tailwinds, which will help us so that we can improve our like-to-like growth. Last year was 5%. And if the market supports a little bit, it could be a little higher percentage, and that could also help us go.

We're also seeing the online -- this whole B2B to B2C pivot has become strong. B2C is growing really rapidly, more than 25%. So as the B2C gains continues to have that momentum, then the growth will go up.

So, we are very confident that if markets sort of support a little bit, we will hit our aspiration of 12% to 15% and surely, higher than 8.5% that we have delivered in FY25. That of course, it all depends on the market condition. We cannot guarantee. But with our efforts, we feel confident that we will be given the normal market and slightly better market, we will be able to take it 8.5% to double digit and then to 12% to 15%.

Devanshu Bansal: Very encouraging, Shailesh. So, another thing which I wanted to understand from a brand perspective. So whatever growth acceleration we are anticipating, is there any specific brands that should grow faster or the entire portfolio of 5 brands should grow more or less in line with the overall growth?

Shailesh Chaturvedi: I think every brand has its own dynamics. U.S. Polo has very strong momentum. It has very strong investment done in FY25. So, based on that strength of the brand and the investment, it should have the momentum, it should grow faster. Arrow and Flying Machine have a lower scale. They are a little subscale. So, this offer a little more opportunity for a faster growth on those brands.

Tommy, CK continued to grow at double digit in the last so many years. They are market leaders. The consumers continue to love them. So, each segment, each brand has its own dynamics. But I think overall, our businesses all will grow. And we have these 5 brands, focused brands, and we want to invest wholeheartedly in the demand generation for each of our brands and grow towards our aspiration for 12% to 15%.

Devanshu Bansal: Understood. Sir, lastly, I wanted to understand you have given growth acceleration from top line perspective. Margin improvement of 100 bps is also very encouraging. Can we also see some improvement on the working capital front? Do we have some target from that perspective also?

Shailesh Chaturvedi: I think we have made a huge progress on balance sheet item, our inventory levels turns of 4. We moved from 3 turns to 4 turns consistently, if you look at last many quarters. So, from where we are on inventory, for example, further increase will happen, and we are looking at all the analytical tools, the core business, the vector supply chain project.

So, some improvement for sure will happen, and we are very ambitious and hungry for that, but it won't necessarily be in the same proportion. It won't go from the way it went from 3 to 4, it will not go to 4 to 5. It will be much harder working strategy from our side. We are putting shoulders to the wheel.

But I must guide you that the balance sheet side, the improvements have been so, so stark and so good that the progress from here would be good, but it will be at a slightly slower pace, our debtor level. Look at our NWC has been consistently below 60 days.

And from there onward, improvement will happen, and we are confident we'll be able to get some better inventory turn. But we'll have to do some more transformation, and we are working on some of those thought processes to see how we can improve further.

Moderator: The next question is from the line of Soumya from Insightful Investments. Please go ahead.

Soumya: Yes. Sir, my question was regarding Arrow and Flying Machine, you said something about mid-single-digit growth? Or was it mid-single-digit EBITDA margin that is expected?

Shailesh Chaturvedi: What I said was that these brands have low single-digit EBITDA. And in the short term, our idea is to take them to mid-single digit EBITDA margin because eventually, long-term goal is that all each of these brands have to be double-digit EBITDA. And when I say EBITDA, it’s pre-Ind AS, I'm saying. So pre-Ind AS EBITDA level, what I had meant was a low single-digit

EBITDA, which our game plan is to take them to mid-single-digit EBITDA and then hopefully further increase.

Soumya: Understood. And sir, so you have achieved already 8.5% of revenue growth this year. And you spoke about double-digit growth in the near term. What timeline are we looking at for the double-digit growth?

Shailesh Chaturvedi: I think in FY26, our game plan is to hit double digit and why not 12% also. But we'll need some support from the market because, some of the channels have been subdued like wholesale. But our online direct channels and our direct channel online B2C and retail are growing really well.

And if you look at the traction, retail last 3 quarters has been growing closer to 15% and square foot expansion, like-to-like growth, premiumization, all those drivers are helping. Also, on B2C, the growth has been higher than 25%. We build a lot of capabilities ahead of the time. launching new websites, increasing the Omni coverage, more stores, the whole focus on online exclusive based on analytics, a lot of good work has happened there. So, we are confident that these direct channels will continue to really accelerate and grow.

And we are hoping that some of the slightly slower channel like the wholesale channels, whatever we have done, correction in the inventory and a little bit of improvement in the market condition, then they should go back to the potential of high single digit. And if the wholesale channel moves towards the higher single-digit growth and with the continued growth of retail and online B2C, we should hit 12% revenue growth for AFL.

Soumya: Okay, sir. Understood. And just one last question. You've spoken about how to ensure your assortment and more categories and brands increasing to have larger sized stores. Will you continue to have like FOFO stores? Or will the company also have COCO stores for increased sizes?

Shailesh Chaturvedi: See, I've said this in many investor calls that our mindset is asset-light. And we want to remain very asset-light in terms of the capital deployment. So, most of our store expansion, the first preference always is a FOFO model with the franchisee investment. And we have figured out, we are very sort of motivated high-quality franchisee in our network. With these partners, we want to grow and we want to increase the square foot addition.

The only brand where we have been doing COCO store is Tommy Hilfiger because that business generates very large amount of cash. And as a part of the cash allocation, we are realizing that the IRR on investment in the Tommy store is very, very healthy. So, we've taken over more than 70 stores of Tommy on a COCO basis.

But other than that, one format, most of the other formats are preference is for a asset-light FOFO model. Sometimes based on uniqueness of property or landlords wish or some specific instance, we do COCO store, but that's not a strategy. The focus is on asset-light expansion.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand the call over to Mr. Ankit Arora for closing comments.

Ankit Arora: Thank you, everybody, for joining us on the call today. If any of you have any further questions, please feel free to reach out to me separately, and I'll be happy to answer them offline. Thank you and have a good day.

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