Q4 FY2024 Earnings Call Transcript – May 22, 2024

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 FY24 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Arora – Head, Investor Relations & Treasury at Arvind Fashions Limited. Thank you, and over to you, sir.

Ankit Arora: Thanks Manuja. 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, 2024. I am joined here today by Mr. Kulin Lalbhai, Vice Chairman and Non-Executive Director, Mr. Shailesh Chaturvedi, MD and CEO and Mr. Girdhar Chitlangia, Chief Financial Officer.

Please note that result press release and earnings presentation had been mailed across to you yesterday and these are also available on our website www.arvindfashions.com. I hope you had the opportunity to browse through the highlights of the performance. We will commence the call today with Kulin providing his key strategic thoughts on our third quarter's performance. He will be followed by Shailesh who will share insights into business highlights and financial performance. At the end of management discussion we will have a Q&A session.

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

AFL delivered a strong Quarter 4 financial performance and continued on its mantra of profitable growth, even though the macro-economic environment continued to stay subdued. We ended the year with our quarterly sales growing by 4% aided by a healthy LTL of 4%, resulting in a retail channel growth of more than 10%.

In line with seasonality, we had shifted our wholesale channel sales between Q4 and Q1, which negatively impacted our growth this quarter. We delivered on our commitment of expanding EBITDA margins for yet another quarter with an improvement of 150 basis points to 13.5%. This was achieved despite our continued higher investments in advertising of around 100 basis points on a year-on-year basis.

On a full year basis, FY24 has been a year where we have delivered differentiated results, with sales growing by 5% led by sharper focus and execution across the retail channels even though we saw a large de-growth in the online B2B business. EBITDA grew by 15%, with an improvement of almost 120 basis points. Another significant achievement has been a robust improvement in our return on capital employed by 400 basis points to more than 16%. Over the last many quarters, we have undertaken multiple strategic interventions and initiatives to improve this metric, and we stay well on track to achieve a 20%+ ROCE in the near term.

As we enter into FY25, we are pleased to see demand trends improving in the current quarter and expect growth to witness a strong uptick compared to Quarter 4. We significantly invested in multiple growth drivers and expect to benefit as consumer demand bounces back, backed by the strength of our marquee brands. We will continue to stay focused on our priority of accelerating the sales growth through an innovative retail format and a higher network expansion coupled with further improvement in profitability and return on capital employed.

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

Shailesh Chaturvedi: Thanks, Kulin. Good afternoon everyone. My pleasure to take you through the details of AFL's Quarter 4 Results.

We will cover the Q4 results, full year FY24 results and also some points on the way forward. We saw continuation of subdued market condition and revenue of this quarter can be split into two parts. Part one is about the EOSS business in January and February and the part two is about wholesale business of spring summer season supplies in Feb and March. We had delayed end of season sale in December because winter had not set in by December and we did not want to discount so early. We did not discount winter wear till mid-Jan. And because of that peaking of EOSS happened in January and February. And in Q4 our retail sales grew by a healthy, more than 10% number.

There was full absorption of discounting in this quarter. Whereas last year some discounting had happened in December as well. We achieved our full-season sell through of fall-holiday 23 season, with very good like-to-like retail growth of 4% in this quarter. Given the delay in onset of winter and then of summer, we also adjusted our primary billing of spring summer goods for wholesale channels in-line with seasonality and saw lower billing in MBO channel and department store in Quarter 4. This will get hopefully realize in quarter one with shift between Q4 and Q1. After a few quarters of destocking online, Q4 saw healthy growth in online business both online B2B as well as B2C. Overall revenue growth for AFL was 4% in Quarter 4, with the highest ever Quarter 4 revenue of Rs.1094 crores and a two year CAGR of 15%.

With higher retail channel mix, backed by cost efficiencies EBITDA grew to Rs.148 crores a growth of 17%, 150 basis point increase, despite our wholehearted 100 basis point higher marketing investment. PBT for Quarter 4 was Rs.54 crores, which is a third continued quarter with PBT in the range of Rs.50 to Rs.55 crores. With this, AFL revenue had scale close to Rs.4300 crores in full year FY24 where share of healthy and important retail channels has gone up by nearly 3% with growth in early teens. Similarly, online direct channel B2C marketplace has also gained nearly 3% in revenue mix, the full year EBITDA reach Rs.544 crores, 120 basis point improvement through better channel mix, 300 basis point improvement in gross margin backed by annual retail like-to-like growth of 4%. The growth in EBITDA is 15%. This was despite 100 basis points higher invest in marketing in FY24 which was needed to keep our brand top of mind and very salient in market.

At brand level. Our efforts have been to offer differentiated products and premiumized brand appeal. In Quarter 4, both Tommy Hilfiger and Calvin Klein have delivered record performances, both in terms of top line and bottom line. US Polo Assn has continued its leadership journey with impressive growth in EBITDA in Quarter 4 fueled by strong performance in retail channel as well as in online B2C channel. The focus of USPA has been to strengthen its leadership with higher investment in marketing and in retailing. FY24, saw very impressive Legends campaign in USPA, including the mega event in Bombay.

The brand has moved forward in its journey of opening very large size multistoried flagship stores across the country, which showcase all categories of the brand including men’s wear, women’s wear and kidswear. Adjacent category like womens wear is showing good promise in USPA, also existing adjacent category like footwear, innerwear, kidswear are all poised for stronger growth forward.

FY24 saw a good growth is Arrow across channels, despite muted condition in the market and remained profitable at low single digit EBITDA. Going forward, we expect Arrow business to scale up further and reach mid-single digit EBITDA soon. These are early days of reenergizing FM brands and SS24 season has been fully developed new avatar of FM including new cool merchandise for Gen-Z and millennial consumers with a new logo, backed by rollout of a new store identity. The performance of FM in competitive MBO channel and value department store and in few dozen odd, renovated FM stores in spring summer 24 season now has been encouraging. While these are early days of improvement in FM, there is a visibility of early green shoots. We have clear improvement priorities ahead on FM in the next few seasons.

On working capital front, Q4 saw stable GWC days with continued tight control on inventory and debtors amidst soft market conditions. Debtor days were lower by 2 days Y-o-Y and stock turns remain close to four. As we discussed what is ahead, let me refer to the three year forecast that we have put out in the investor deck. In the last three years, we have created a powerful platform of these five strong marquee brands with fantastic team, new standards of shopping experience, with new store identity, high visual merchandising standards and international way of storytelling. These are the ones which are driving like-to-like growth in recent times and will continue to drive like-to-like growth in future as well. And we have done this with increased marketing spend and keeping very strict hygiene on working capital and ensuring focus remains on profitable growth. EBITDA margin has improved by 150 basis points in the last year and by 370 basis points vs FY22.

With the backing of this strong platform, the key priority for FY25 is to up revenue growth, our brands remain top of consideration set, ready and prepared and they benefit whenever market improves. Going forward, our aim is to put energy behind each of our top growth driver including retail network expansion, like-for-like store growth, online B2C build up and growth of adjacent categories.

Let me just touch upon two drivers here, starting with retail network expansion. FY24 saw a gross addition of nearly 146 new stores into our network, also there was a onetime correction in terms of closure of large number of unproductive small stores to fuel profitability further and maintain healthy working capital. We expect the net addition of square foot in FY25 to be in 15% to 20% growth over the current base. And with annualization of business of the stores that we opened last year in FY24, we expect higher revenue growth. It will all surely depend on the market condition, but we remain surely hopeful of stronger growth ahead from where we are at Q4 FY24. Adjacent category expansion is another key driver of growth ahead. This is a higher than Rs.500 crore profitable business for AFL across all five brands. And it's growing double digit. Footwear, kidswear have already gained scale of close to Rs.200 crore reach. Once market condition improve adjacent categories offer potential of growing more than 15% and we can reach and these can reach 20% share of revenue in medium term.

I must also add that in FY24 in stock market conditions we saw annualized like-to-like retail growth and online B2C channel have also grown at a very brisk pace. A lot of growth obviously is linked to external market conditions and business does get influenced by economic realities. But from 4% growth in Q4, we are confident of a strong revenue growth ahead.

Ankit Arora: Thanks, Shailesh. Manuja we can open it now 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 Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Hi team, fantastic performance on the operating side. My question is on, Shailesh, can we get some perspective on individual brand performance for the full year, not for the quarter, maybe in terms of growth and profitability has there something drastically moved versus last quarter if that can be highlighted would be great.

Shailesh Chaturvedi: When it comes to the brand wise, the picture is very similar to what we discussed in the last investor call. Tommy, CK with the focus on premiumization and market continue to deliver very good top line, bottom line and USPA had a very good Quarter 4 in terms of EBITDA. In annual level, some brands have got impacted by bit of a slowdown in online B2B business. But US Polo delivered fantastic EBITDA and like we said it's a brand that is growing retail, it's growing marketing investment, it's growing adjacent category. I am very happy to share and what we didn't discuss in the last investor call is that we open five odd marquee flagship stores in the last quarter. These are like full building multistoried 4000 square feet stores of US Polo and they house the entire line of US Polo from menswear all the division, women's wear we have now started working on, so we have started after good response online, we have started selling it in offline in our stores also, we are testing a little bit of shop in shop in offline channel there. Kidswear is a big focus it has grown really well in Quarter 4 and we are pushing that category forward. In addition to that, the footwear has got really impacted because of the BIS is in confusion right now, the government policy has changed. So currently in the footwear, the whole industry has little bit of lower inventory and assortment is impacted. So that is a short term blip, but if I compare to what happened in the previous investor call, I would say expansion of flagship stores is a big thing in US Polo. Arrow, very similar to what we said, it's gaining scale, brand has got good traction, the product lines are doing well. Premiumization is happening. We are launching new stores, the EBITDA is low single digit and from here we are hopeful that as the market sort of grows and we open more square foot, our platform is ready. And as a marketing improves, Arrow will also benefit and should reach mid EBITDA, what we said in the previous call also frankly. FM, I just mentioned that, now this season first time, whole new avatar of FM has reached market and we are happy with what we are seeing in terms of the growth and the appeal with the channel and with the consumer. But very early days, we have couple of more seasons to bring more energy behind Flying Machine. So, markets remain subdued, our platform, our brands are very salient and whenever market improves, we have seen our brand grows really well. So that's the sort of sum total of what has happened in Quarter 4.

Priyank Chheda: Perfect. I will reflect back on the Arrow, when we started this one year ago, we were very confident on the whole of the corrective action plan that we had set for Arrow to at least reach a good sizable, EBITDA contribution coming from this brand, it's a sizable revenue brand. But yet the EBITDA performance has been slightly muted versus what we had thought, so any sense exactly what has gone, what has not performed well and what requires further to rectify that?

Shailesh Chaturvedi: No, I would say we are fairly pleased with the way Arrow is moving forward. Yes, markets have remained tough. That outside of our control, but if you go to some of the new Arrow store, let's say example there's a mall in Bangalore, Mall of Asia, you go there and look at the quality of Arrow store, the merchandise we added auto press, 1851 premium line. The consumer traction on Arrow is very good. We are just waiting, improvement in the market condition. The rank in department store has improved in formal category. So, there is nothing to worry about Arrow, it's gaining scale, it remains profitable. And as the market improves and as we open more stores, it will reach the stated, quarter-to-quarter there is no sort of disappointment or change in the Arrow. And we are as upbeat about Arrow as we were in the last quarter investor call.

Priyank Chheda: Correct. So nothing to do with quarter-on-quarter, what I am asking is, the consumer cohort or the segments where we operate. So our consumer income would be fairly stable, our consumer record salaries are getting created in India, what we are witnessing, so why would we say that the market condition is muted for our consumer which is towards kind of a premium end. It's something which we are not able to map it out.

Shailesh Chaturvedi: I'll break down your question into two parts. I would say the journey of Arrow that we set it up, it's going forward. Whatever we said about exciting the consumer with a brand its happening as we see. Now it's a reality that in that price point that Arrow operates in and the competitor and we have seen the result there is a market slowdown. We are gaining market share I have seen in the department store rank in the formal trouser and shirt, Arrow has now become the top brand in both the key department store. So, I would say that Arrow progress has been good. Still not mid-single digit EBITDA but that's a process it will happen. I'm sure it's going to happen very soon.

Priyank Chheda: Sure. Now on the innovative store format with you have highlighted if you can further talk on what would be the total investment that we plan on this, all of these formats and then your observation on to the Megamart versus Club A seems to be very similar format, only difference being Megamart seems to be having an upfront discount from day one. So is that not diluting your brand, just wanted your clarity. Why would we try out so many multiple formats versus a very exciting Club A kind of a format?

Shailesh Chaturvedi: Good, you asked this question because, in your question there was some clarification required. See let's first look at what is our objective, we want to drive the business of these five marquee brands and profitability, the profitable growth of these five marquee brand is the agenda, we don't want to get distracted, we don't want to do new things, we want to focus on growing the business of these 5 brands profitably. And retail is a very good opportunity, our platform is ready, we understand this quite well. Now, in our business, we need to have an outlet model, the whole entire old merchandise was sold through online channel, and we saw opportunity, our competitors were doing very large outlet business, and we were not present in that format largely. So we opened and also High Street needs a big format so that you can get car parking and consumers come into large format. So we created a multi brand outlet, also the size wise, single brand you get shortage and in multi brand you get your size in some brand or the other. So we opened these Megamart and in last two years it's really scaled up, also it gives us opportunity to liquidate in a better realization and much faster cash realization. So that's one format called outlet of these five brands called Megamart is in the areas where the outlets are present and there are these outlet markets across the country so it’s already there and we open a large number of that store and it’s working really well. Then we also saw that in, especially in high street, we see a need for again a very large format. These are the premium high streets like the Indiranagar of Bangalore, where the wedding consumers go, where special occasion consumers go and they are very important high streets of every city and we didn’t have a presence. So, we created this premium, it is like a super-premium format where brand like Tommy Hilfiger, Calvin Klein, the better part of US Polo, Arrow, Flying Machine are there. So this is a completely different model it’s got nothing to do with Megamart. Megamart is in the outlet localities in a look and feel cost of retailing and everything is a very, very outlet driven. Club A is a very premium format, here we don’t discount, we don’t sell old merchandise, a full price, for a special occasion customer. And we tested in one store in Indiranagar in Bangalore, and we found very good traction and we see a lot of premium customers come, very nice parking, the 40 feet frontage, its a whole building very, very impressive. Post that now, we have decided based on the trial we did in Indiranagar Bangalore, to now put money behind this and we will expand it. So this is a completely different format and third format is a footwear format called Stride which is largely a footwear and accessory like handbag and we see the traction in those categories for brands so we sell handbags, and footwear in US Polo, Tommy Hilfiger, in Calvin Klein, etc. So that’s a completely a largely currently mall business, in the accessories zone and the footwear zone of the mall, so it’s a separate format. Coming to the investment level, the questions that you asked, our mindset remain very asset light, and most of the stores that we want to expand are with the FOFO model. And once we have done the trial, and most of the expansion of these innovative formats will be with asset light mindset largely with FOFO model, and these will be the fuel the growth of adjacent category and the main categories of the existing five brands.

Priyank Chheda: Perfect. Just the last question, with a very overlap of this outlet model, are we planning to really scaled down the MBO channel and then, how should we read 2% decline in whole of the year for this channel. Have we lost out some market share in this MBO channel too? How do we balance out both the formats at the same time?

Shailesh Chaturvedi: Let me just first clarify that see the MBO channel is a full price channel, outlet is a old merchandise discount channel. Now, if you go to, let's say Agra, Bachoomal which is a key MBO, the top customers of Agra go there especially for the shopping for the wedding occasion, etc. So they are not a discount retailer, all the key MBO, Jade Blue in Ahmedabad or similar, I can keep taking the names, they are all the top retailers of that city. And we are very proud to be present in a very large market leading way inside their stores across the country and it's an area of strength and we are building the full price business, the full season business of our brands with them, all our five brands and it's a full price business and here we have been very, very strict with hygiene and collection and inventory management. So that's one business. So let's not confuse, it is not an outlet model so this is not a cannibalization or outlet is not a cannibalization for MBO channel. That channel has grown in high single digit in the FY24 and it will continue to grow, at its own pace, but we will be very strict with the hygiene of that channel. So, outlet is not cannibalizing MBO business, it's a separate business. Now coming to your question on the growth of the wholesale channels, like we said that we have been very, very watchful on stocking and especially in the department store, we have been very careful in inventory level, we are not over stocking that channel and that's why reason our primary is to, that channel have been little slow and this quarter, it will switch over to the quarter one. So if you look at the quarter one data also and overall spring summer, there will be a small growth in that channel also, so let's not confuse between the outlet channel and the MBO channel, they are completely different distribution, different cities. And, MBO can go to many large number of cities, outlet we don't go into so many large number of cities.

Priyank Chheda: Perfect, very clear, thanks for answering all the questions. Just on the feedback discussion that we had last quarter. We have to yet improve on the basic disclosures like brand wise, store counts or maybe pre-IndAS EBITDA numbers. If that happens, it would be very good. Thank you all for the answers.

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

Palash Kawale: Thanks for the opportunity and congratulations on the good set of results. Sir my question is related to category. So what is the size, if you could give some data about what is the size of the categories like footwear, kidswear, innerwear and men's wear and what kind of margins are we making there?

Shailesh Chaturvedi: See, two of these categories have already become more than 200 crore each that's kidswear in US Polo and we do kidswear in Tommy Hilfiger. US Polo in its segment is the market leader and Tommy kidswear in its own super premium category also is a market leader. And there's an opportunity to open many more exclusive stores of US Polo kidswear and we will put energy behind that. So that has already crossed 200 crore mark, it's a market leader in its segment. It's a fairly profitable and close to double digit EBITDA there, so it's a fairly good business. Kidswear also, post COVID they were closure of lot of kidswear local brands and that opportunity came up and we in India, the way the family structure, it's secular growth going forward. And we want to capitalize on the growth opportunity in the kidswear segment and we are very well placed brands in US Polo and also Tommy Hilfiger, that's one part. Second piece of footwear where our Company invested really ahead of time and we have really benefited from that focus on a dedicated footwear business, we have a separate team, and that business now is also reaching close to 300 crore mark and it's close to double digit EBITDA. Again, a market leader both in the online space, with its Stride format we are going aggressively behind offline distribution. In our own stores of US Polo we do a fairly good share of revenue from the footwear and very profitable business for us. We also do footwear business in women's wear just launched last year, it's showing good promise. We also done small trial of Flying Machine footwear which is again showing good promise. Also, Tommy and CK in their own super premium way, they do a business of footwear in their stores. Currently, footwear is a bit of under challenge on supplies because of the new government regulation BIS which need certification. So there is a bit of confusion right now and inventory levels and the distribution online, offline is a bit challenged, but I'm sure this will sort of pass in the next couple of months and this business will continue to grow at very, very high growth going forward and then we also have other accessories like adjacent category like innerwear and we also have small handbag, etc. So we will continue to expand those categories women's wear has been the recent introduction, which is showing good promise in US Polo, in other brands like Tommy, CK we do fairly good business or handbag and apparel. So, these are the four categories where we are putting a lot of efforts, which is footwear, innerwear, kidswear and women's wear. Overall, this is higher than 500 crores business, and it is growing in double digit and currently the share is more than 15%. And as the market improves and the growth accelerates, and we open more distribution, this in the medium term has a potential to reach to 20% of our AFL revenue share.

Palash Kawale: Thank you for such a detailed answer. So, my next question is related to FM brand. So, what kind of margins are you making there and how do you see margin shaping out in next two years?

Shailesh Chaturvedi: For margin shaping up in next two years, currently Flying Machine is in a like I mentioned in my comments it's a new avatar, this is a season we have actually launched with a new cool merchandise, new logo, we have seen encouraging response, the growth, in the current market condition also the growth rates are fairly good. Beyond that, we don't want to give you too much of brand color. But this is a brand where definitely you want to see better margins in the next two years.

Palash Kawale: Okay, thank you for that. And the de-stocking in online B2B is done or there is still some room there?

Shailesh Chaturvedi: See what has happened from the peak of the COVID business. There is a realignment happening in the online world and the industry is moving from wholesaling to the portal, what we call B2B towards what is known as a marketplace B2C, where the whole shopping experience is controlled by us where we hold the merchandise, we decide the assortment, we do the online exclusive style, and we deliver it at the prices that we want and not a heavy discounting, etc. So there's a sort of healthier business and a long term business so, not just us, the whole industry is moving from B2B to B2C. Currently, B2B is a slightly bigger revenue business than B2C, but we do see showing a lot of promise and the business has almost doubled in FY24 is showing very good traction. And we will continue to transition the business from B2B to B2C, the way the industry is also doing. So in the next couple of quarters we will continue to see this transitioning of B2B to B2C.

And overall, we expect that the online business will stabilize and grow further, because when I look at a long term view, there is a set of consumers who will go there, their first choice of discovery and shopping is online. And that new customer, whether it's a millennial, or Gen-Z customer will eventually buy online. So we will stay heavily invested within the online channel, but we transition to a better version of online business.

Palash Kawale: Okay, thank you for that. Sir just last question on book keeping. So what is the ad expense for whole year?

Shailesh Chaturvedi: Our advertising, so we are close to 4% of our sales in advertisement, which is almost 100 basis points higher than what was in the previous year.

Palash Kawale: Okay. And how do you see it going forward, it could remain around 4% or will it increase?

Shailesh Chaturvedi: It will remain stable at this level and I would say that we will not leave any stone unturned if we need to invest more, but the kind of visibility I have in the next year, it will remain stable close to where the current numbers are.

Moderator: Thank you. The next question is from the line of Shreyans from Svan Investment. Please go ahead.

Shreyans: First of call, congratulations to the team on the good set of numbers. Sir my first question is more to Kulin and Shailesh. So we start FY25 on a clean slate, we have five brands, most of the cleanup is now done with are ending with about 16%-17% ROCE, 0.5x debt equity. So, we're in a fairly comfortable position now and you also highlighted in your presentation that you have seen growth rates better than Q4 to come in from next year onwards. So just wanted to pick your brain on how do you look at the overall market, we were earlier guiding for 12% to 15% of top line growth. And most consumer companies that we talked to are also seeing some green shoots in consumer demand. So we have brands that play across both value as well as premium. So, internally how are you guys looking at FY25, FY26, now that all the cleanup that we are talking about is done. Thank you so much.

Kulin Lalbhai: Right. So thanks for the question, last year has been a year where we have really built a very exciting platform to scale up our growth to the next level, we have made the investments in the brands, we have really up the game in terms of the retail experiences that we want to offer in all of these brands. And we have an extremely strong balance sheet with very high level of newness and freshness in inventory. So, the hard work has allowed us now to really look forward to a stronger growth cycle in the coming year. And as Shailesh mentioned earlier, once all these formats are scaling up, our square footage edition comes in. And, as the adjacent categories also scale up and we didn't talk about it too much today, but I personally believe the productivity engine of the Company is in very, very good shape. So in a very bad market, we have been able to give an LTL growth. So, in a neutral / slightly positive market, I feel LTL is also a lever very much poised for a much higher level of delivery. The markets have remained weak, as we said. So, with all of these things coming together, you will see in FY25, a significantly better growth than in FY24. And once the market conditions become a little bit more neutral, I'm very confident that the higher range of that 12% to 15% growth targets is very achievable with the portfolio that we have and the growth drivers that we have mentioned.

Shailesh Chaturvedi: You want anything else I can add sort of supplement?

Shreyans J: No, that helps. My second question is sir, like now retail has grown by 300 basis points. So just wanted to understand going forward, what is the kind of mix that we look at in terms of channel. Do you think retail has more scope, can it become 50% of our business and online 25% and MBO 25%. So what is the number that we are targeting because clearly retail sales have from my understanding better ROCE for us. So, that is one question. The second part to it is, just in terms of some understanding if you could give us in terms of ROCE which channel is better for us in terms of ROCE if you could rank them?

Shailesh Chaturvedi: First question, yes retail is definitely a very healthy channel for us, higher GP, from brand side also very right, cash conversion also quite right. So we believe in it and in the last two to three years, a lot of investment like Kulin mentioned, we have put behind to improve our productivity, like-to-like growth and even in the tough market, we grown last year at 4%. Now, the strategy for channel going forward is what we said direct to consumer, so we want to continue to focus, even last year if you see the two channels have really grown and both have added almost 3% revenue share, one is the retail that you mentioned. And the other one is the online B2C which has almost doubled and is also in share and we believe that in both the channel, we see the white of the eye of the consumer and it gives us an opportunity to directly influence the consumer choices through good shopping experience, through assortment that we can control, we can use the machine learning to throw out the right merchandise to the consumer on the front end. So, we are very clear that these direct channels, the retail in offline and B2C in online, part of the priorities and already if you see last year also both the channels have added share of mix and grown handsomely and also both are having very good margin improvement for the Company. So these channels will continue to be focused and our mindset is asset light so, we will sort of grow the retail channel and all these innovation that we are talking about largely through the franchisee route FOFO model and then ROCE and those channels are very, very healthy.

Shreyans J: So could you just help us understand which format gives us the best ROCEs in terms of order?

Ankit Arora: So, I will not be able to really exactly tell you, because that is something which is what we don't disclose, but to give you some sense, of course MBO and retail are the best channels for the ROCE %, but please understand the absolute Rupee EBITDA which is what you get in retail channel is the highest because you are able to drive the full price business and with a higher gross margin. So from that standpoint, that is why we are focusing a lot more on retail with a significant higher amount of controls in retail and on the working capital and a better inventory management. Our capital employed remains under control and that's where you see ROCEs going up and that's where the investment is, what Shailesh also spoke about.

Shreyans J: Okay, thanks. And my last question would be on PVH. So what is the kind of revenue EBITDA and PAT that we would have done for this year FY24. And similar to that would be, what are the PAT losses in Arrow, if you could just help us understand that number now that the whole year is over?

Ankit Arora: Shreyans, so we don't really give exactly revenue, EBITDA, PAT, ROCE all of these metrics brand wise, but to give you some sense, of course PVH being in on the premium side of it, as to what Shailesh mentioned, would have grown slightly better than, of course the Company wide average, and they are benefiting from the entire premiumization trend. However, as to what Shailesh said on all the other parts of business US Polo also continues to do extremely, extremely well. Of course, there is a way to go on Arrow and Flying Machine. Arrow losses have significantly come down over the last few years, and you are seeing the entire benefit on margins and ROCEs getting better because all of these focused efforts is what they are yielding.

There is of course an internal target and journey to go, but of course we need external environment support, but we stay confident of moving all our metrics, what we have delivered over the last three years continue to inch upwards as we look out for FY25 and 26.

Shreyans J: Okay. And my last question would be to Kulin. So Kulin, the kind of growth that we are seeing in, the premiumization happening in India, you look at companies like Ethos delivering 20% growth every quarter. So just wanted to understand in terms of Tommy, CK, obviously we have had some baggage in the past and maybe that's why we have been a little conservative on the growth aspect. But do you think, now you push the pedal a little more higher in terms of Tommy, CK, where there is an aspiration there, we were seeing numbers of The collective in ABFRL, they are posting strong numbers. And the whole market also seems to be favoring premiumization as a story. So, just wanted to understand, are you being a little conservative on that aspect on Tommy, CK is just and being a little conservative or do you think now is the time you capture that growth that is there too, for you to take you have such strong brands on your side?

Kulin Lalbhai: North Star as a Company is to drive profitability, we want to make this a very high return on capital employed Company, a Company where the growth comes alongside extremely strong cash flow generation. And your question is, if you have to choose between heavier growth and dilution of cash flows and ROCEs, that is something we will not do. Now, coming to your question on Tommy and CK, these brands have had industry leading growth, a very interesting fact is that the size and scale of a Tommy, CK is possibly four times larger than any other brand in their class, in terms of the price point and the bridge to luxury segment. So, they are examples of an exceedingly large dominant franchise, and I don't think on any dimension, we have a lack of ambition, the number of stores and square footage which have been added the way, Tommy is now the most searched brand in the Lifestyle space online. So these are all numbers which clearly show that there is no lack of imagination or ambition. We will not push the growth of these formats, any of our five formats beyond what we believe to be the healthy way we need to grow these brands.

Shailesh Chaturvedi: Even look at our investor deck we clearly mentioned there that their record year both in terms of top line, bottom line and both the brands have grown across the channel, whether it's in online space or own retail channels, shop in shops. There's no lack of ambition, the performance has been outstanding in Tommy, CK. So, yes these are the leaders in the market.

Shreyans J: Okay. And just last question sir, what is the kind of store addition that we envisage both in Tommy and CK and my question was, was because last four years we have seen about 10, 12 store addition in Tommy and CK combined, and that business is about 100% ROCE for us. So, that question was more on that bit.

Shailesh Chaturvedi: So, let me first say that the overall AFL strategy that we want to add close to 15% space from where we are today, and, and there will be also some reduction because 3% to 4% of cleaning up our distribution happens every year, it's a healthy so, that's the overall strategy at AFL. Coming to Tommy, CK, they are in super premium space, they are already present in very large number of cities, both are present in more than 70 cities of India. Very few international brands of that quality and prices are available in so many cities. And as and when the new city emerges or new distribution emerges, we will expand, also a brand like Club A, is a very good opportunity to expand high street distribution of Tommy, CK along with other three brands. So, again I am saying that we leave no stone unturned in the successful market leading brands, but, it has to be done like Kulin said in a quality way, we will not compromise just for the sake of expansion, but it has to be done in a quality way and we are leaders because over the last 18-20 years we build it in a very high quality and that will be the hand writing going forward also, we will not compromise.

Moderator: Thank you. The next question is from the line of Rajiv from DAM Capital. Please go ahead.

Rajiv: Regarding PVH, this brand because this is largely asset light barring the stores you have bought last year, the margin structure is largely stable is it or there is operating leverage still there?

Shailesh Chaturvedi: So, the margins are quite healthy, we are very happy with the EBITDA percentage, but there is a scope further as we sort of scale the brand forward, further efficiency is possible. So, there is a surely leverage possible in these brands also.

Rajiv: So, in your opening remarks you mentioned that PVH has done record profit, that was for the full year not for the quarter?

Shailesh Chaturvedi: For the quarter also, they had very good numbers combined if you, the performance of Tommy, CK have been very, very good in Quarter 4 also.

Rajiv: But this minority interest number we see there is a Y-o-Y decline right?

Shailesh Chaturvedi: So, it also includes Flying Machine. So Tommy, CK has done really well, Flying Machine is a business like I said that we are reworking and quarter-to-quarter there could be data there, so overall when you focus on Tommy and CK, they had a very good Quarter 4 also and they had a very good full year also.

Rajiv: Sure. And regard to this Ruf & Tuf and Newport which was held for sale and you brought from ALBL to AFL, are we looking to revive these two and what is the idea here?

Girdhar Chitlangia: So, just to give you a perspective, this is just a moment between the subsidiary and the holding Company. This is largely being done to optimize tax and cash flow purposes, you will realize that there is no impact on the consolidated financials. At this stage, I would just like to reiterate that our focus is to keep working on the five marquee brands and keep working on them to improve our performance and profitability.

Rajiv: Perfect. And on the wholesale business, is it possible to specify how much is SOR now, what percentage of the wholesale is SOR?

Ankit Arora: So, Rajiv we will not be able to discuss the financials on a business model wise numbers. But as to what you can see our focus is continuing to drive the retail channel which is where we have tightened the controls and of course making the entire working capital a lot more efficient over the last three years and doing the entire bit on stock turns and debtor days as well.

Rajiv: No, so I was just wondering because if you are moving away from SOR, the inventory number which you share on the deck versus this thing, there is an increase on that bit which is an SOR inventory?

Ankit Arora: It is just an accounting representation, Rajiv. The way we look at our business is essentially the entire whole universe of inventory, whether it's lying at our doors or inventory which potentially can get returned from the doors where it is lying ecosystem and allowance in terms of customers. So it's the right prudent way when we report into our presentation. But it's only the thing, the differential number is shown as other current assets which is as part of the balance sheet, it's just an accounting thing. But for all practical purposes, the way we look at our inventory is, including that returnable asset, which is shown as other current assets on the balance sheet. And that's the number of totality is what you see in my investor deck when I share.

Rajiv: No, I understand that my only thing is the delta number has increased.

Ankit Arora: So, don't read too much into it Rajiv, you should look at that number on a full year to full year basis, because there will be some channels, there will be some billing which is what we will shift, there will be some seasonality which is what we will be playing. So, you should look at that number on a full year to full year, as a percentage of sales, that number would have largely remained stable. I don't have the exact number for the full year as a percentage, but that number wouldn't have meaningfully changed for the FY24 versus FY23.

Rajiv: And is it possible to comment on the health of the inventory, how much is let's say a season old, how much is a year old inventory in your system?

Shailesh Chaturvedi: We are very happy with the inventory quality. Also, Kulin in the earlier comment mentioned that we have never had a fresher round of inventory. And, the freshness index in our inventory is very, very good. And we have been very selling inventory close to the market. And that's why one of the reasons you have seen the Q4 to Q1 shift is happening. We are very watchful and our health of inventory is very good and bulk of our inventory is less than one year old.

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

Jatin Sangwan: As I can see in Q4, we have reached an EBITDA margin of 13.5%, now going sequentially Q1, which is like the lowest for us, are we confident of maintaining the similar margin in Q1. And also what kind of margin improvement are we looking for FY25 and also in the medium term, let's say in the next three years?

Shailesh Chaturvedi: See, as far as quarter-to-quarter EBITDA comparison. We are very seasonal business. So sequential, EBITDA percentages don't make like we have a quarter which is more wholesale, there are quarter two where we have more end of season. So when we look at the EBITDA of quarter one, we will compare it with the quarter one of last year because that will be the right way to look at it, rather than comparing it with the current 13.5% in the Q4. Second, point is that, what is the guidance on EBITDA, we have been saying that we want to increase the EBITDA by at least 100 basis points, or good times even a higher stretch of 150 basis point. Now, if you look at our journey of last three years, and the scorecard that we have put out, our EBITDA increase is much higher than that. Even in the last year, despite the current market condition, we have seen a 120 basis point improvement in FY24. So EBITDA improvement and a profitable growth, so while we keep or priority after revenue growth from where we are in Quarter 4, but we will never lose sight of the profitable growth. So the EBITDA improvement, continues to be our mantra of profitable growth and we hope to continue on this journey of close to 100 basis point improvement, yes there are some time markets are very bad, sometimes markets can be very favorable also, but the attempt will be to grow EBITDA by at least 100 basis points.

Jatin Sangwan: Got it, thank you. And as I can see employee expenses have increased on Q-o-Q and both on Y-o-Y basis, were there any one off in the employee expenses?

Shailesh Chaturvedi: See, don't please look at quarter data on employee if I look at the annual data for a Company with EBITDA increase of 15%, our employee cost have only gone up by 7%. And this is what really minimum required to be competitive in the space to be a good employer. Also, when we look at this cost in the last quarter, we have seen good saving on the overhead front the travel cost, etc. So overall, we remained very efficient on the employee cost plus the overhead cost that we have. So, I won't think there's a need to read too much into the employee cost. Please look at the annual increase of 7% in FY24.

Moderator: Thank you. The next question is from the line of Niraj Mansingka from Whitepine Investment Management. Please go ahead.

Niraj Mansingka: I just one question, can you share about the category performance how the various categories performed during the quarter and the year?

Shailesh Chaturvedi: See earlier in the call, we did say that adjacent category, different categories we have built, in the core category also if you look at the core focus, bulk of our business comes from t-shirt, shirts, jeans, chinos, etc. and winter wear it goes, our sell through have fall all the way reach whatever our target was for the full season so, we remain very focused and whenever we got the feedback on a product line and our roadshow has been very encouraging so we are very happy with the product engine and the category engine that's working for us and we will continue to make our categories very relevant and modern.

Niraj Mansingka: I was more looking for footwear versus innerwear and kidswear and where is the growth in percentage and what is the share right now, some color?

Shailesh Chaturvedi: Sure. So, in this very same call we had tried to answer this question well more in detail and I am again repeating that we have these four businesses kidswear, already crossed 200 crore mark, very market leading business, growing in Quarter 4 growth is more than 20% in that business and on a regular basis this business can grow close to 15%, we have another big business which is more than 250 crores business which is footwear across US Polo, men, women, Flying Machine we have done a little bit of trial. Tommy and CK have a footwear business. Currently that business has not grown in the short run because of the BIS confusion and we are not able to import inventory so there is a short term issue there but that business has grown more than 20% if you look at the last three years, and once the BIS confusion gets done and the new policy gets implemented we will be able to bring in the new inventory and sell it so that, if I take a medium term lens this business will continue to grow close to that 20% and then we have the business of women's wear we launch overall the adjacent categories are more than 500 crore, with that mid-teen share could become 20% in the medium term and they are growing more than 15%.

Niraj Mansingka: Okay. Can you share something about the US Polo women wear and what is the experience we have till date?

Shailesh Chaturvedi: Let me qualify, very early days of that business. A couple of seasons only and very, very early days, we started that business with online first mindset. We want to test it with the young modern consumers on online place and we saw good traction, we saw good promise so now we have started, actually not even a season, rather few weeks in the offline channel we added few shop in shops. We are now putting it in our flagship stores, showing very good promise, good performance but it's very early days to read into it.

Niraj Mansingka: Okay. and Sir FM when do you think will break even on EBITDA?

Shailesh Chaturvedi: See, as far as the Flying Machine is concerned, the improvements have just started and we will need a couple of more seasons to reach a point where we can talk about it, but performance will improve for sure that we are very confident of, where it will reach a point where on profitability, the time will tell very premature of me to put a guideline or a date but we are focused on putting the right inputs right now. So we are going all out to put the right input behind the brand Flying Machine.

Ankit Arora: And Niraj, just to add what Shailesh said, please also note that Flying Machine is our single most brand where it has a significant dependence on online and of course that has seen a significant de-growth in this year. So of course Flying Machine would have had a slightly more than its wallet share compared to all of the brands impact of that, it's all external led. However, what Shailesh said is, we have done everything whatever is in our control, whether it's new retail identity, new product architecture, pricing, newer stores with newer retail identity. So all of that whatever is in our control, we have made adequate investments and investment behind the team in this year. So, we are seeing green shoots of our efforts and we are seeing the improvement for sure and are reducing of our dependence over online and driving that business in line with other brands which is what we want to do through retail format. So that's where is what how I would put it, you should read about Flying Machine.

Moderator: Thank you. The next question is from the line of Gautam Rathi from CWC. Please go ahead.

Nishit Rathi: Great set of numbers and really appreciate all the efforts you guys have put in. Just wanted to understand this cash flow that we have generated this year, we have generated more than 200 crores of operating cash flow. So on that lines, is there any further scope for us to work around and are we, so the question is, are we at the optimum level in terms of in terms of inventory and debtor days or do you see is there any further scope for you to improve that number here?

Ankit Arora: So, thanks for the question. See we still believe, of course the low hanging fruits of this entire efficient working capital management is in the bag. However, if you ask us, as Shailesh and Kulin also mentioned briefly is, the entire retail engine and the retail transformation journey over the last three years, we have traversed a long way. Of course, is there a significant room for us to kind of even take the channel mix higher, absolutely yes and will that have a positive impact on working capital, absolutely yes. So having said that, of course, we have our internal targets far more higher in terms of improving the stock turns, even from a current level we have, of course we are at probably amongst the top quartile companies in having the four times inventory turns, but can we improve, we believe we can and there are a lot of initiatives & strategic intervention which is what we are driving internally. So cash flow, the way you look at it, yes there is a room for us to drive even more efficient working capital. But you will need to look at in the line of the fact that, there will be times where we need to invest in behind the brands and the working capital to chase growth. But we will be very, very prudent and you have seen the hygiene over the last few years will not compromise on any of those parameters going ahead. And as the growth comes back, we see our cash flow, even getting better from the current levels, which is what you have witnessed in FY24.

Nishit Rathi: So the point out there was, so you are saying one of the vectors for you to improve working capital will be from the increasing mix of retail, is one vector. I'm just trying to also understand or the entire exercise that was done with the Vector, has all the benefit of that flown through or is there a bit of it yet to, can we see more benefit out there? The question is, are there some other has, all the part of the low hanging fruits have come through, or is there some bit of it, which is still yet to come through this year, apart from just the retail mix shift?

Shailesh Chaturvedi: So, you have rightly said that retail mix improves the debtor, the cash conversion is faster. So that's true and we have sure aspiration to increase the share of revenue further, for all the reasons that we have discussed. Coming to the Vector part, there are these transformation needed, because we are now already at four turns. And now from four, every 0.1, 0.2, is it requires transformation in thought process, working on the merchandising in a new way, doing shorter lead times, etc. Coming specific to the vector project that project is on and we are very happy with the progress of that. But, I would still say that it is not the end of the gains from that project, I see we are greedy about it. And we see a lot of scope of benefits coming from that in the next couple of years further. So it's not the end of the road, it is definitely opportunity to grow further and improve the stock turns further from that project.

Nishit Rathi: So, related to that Shailesh when do you see us becoming a debt free Company?

Shailesh Chaturvedi: I want to be cautious. Let me answer it in a way and probably if you want a date, we can give a date also. But the point is that the business is throwing a certain amount of cash, we have an asset like mindset, we don't have large capital being sucked into stores or through technology or any of those things acquisition, so their entire cash flow whatever, after the working capital needs for growing the business wholeheartedly, we will pay down the debt. So that for sure is going to happen and it will happen as we go along. So today, where we are another two to three years, probably why not we could become a debt free Company, the journey is on depends on the market conditions. So, I don't want to say if markets are tough, it may take longer, if markets are way more positive, it can happen faster, but the journey is on and whether it happens in X years, or X+1 year that time will tell, but clearly that journey is on.

Nishit Rathi: No, I fully appreciate that. And one last question was just, on the women's wear side, I just visited one of your stores, and it looks like a fairly decent amount of space which you have dedicated and the thing that you are trying, so how fast can this become a very relevant category for us, because it's in your core category, it doesn't have to be adjacent. So how do you think about that as a vector for growth because it is something where you don't need the markets to grow, just would love to get your thoughts on how you are thinking about that category is that going to be a bit more gradual or could there be some surprises out there in terms of growth in that category?

Shailesh Chaturvedi: See where we are today, we are very early stage. So if I have to say a couple of, one more season, two more season, it will be gradual, because we want to be very data driven, and in a very scientific in our thought process, see the data and grow that. Now the point is, wherever we put the line, we will give a full representation. So the store you went to, you would have seen a good representation because unless you offer choice to the women consumer or any consumer they will not buy. So just sort of a token space in some store won't help, so wherever we go we will give wholehearted representation, but we will not expand it very fast. We will do it sensibly. But the day we see that our KPIs have met we can go very aggressively thereafter. We've done something similar in footwear we took time to test it out, we saw different channels. Stride we opened in small town, big town, high street, once we saw it was meeting our expectation, now we are putting a lot of money behind it and expanding very rapidly and same thing will hopefully happen with women's wear. It will take some more time for us to check out everything and then we will expand.

Nishit Rathi: This is good. All the best to you guys.

Moderator: Thank you. Due to paucity of time of the management, that will be the last question for the day. I will now like to hand the conference over to the management for closing comments. Over to you sir.

Ankit Arora: Thank you everybody for joining us on the call today. If any of you have any further questions or any follow up, please feel free to reach out to us and we would 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. Thank you.